THE FACTOR REPORT

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Factor Member Webinar

November 2024
Member Questions
Recorded November 21, 2024

Outline

- Trading for a living vs. trading for a quick fortune
- Words from Enrico a Factor Member
- Q&A

Enrico Racioppi' speech at Peter Brandt webinar 21 November 2024

Good morning to everyone, and thank you Peter to have invited me in your webinar.

The main point of discussion will be risk and emotional balance.

2% to 3% bet size highly correlated with emotional DDs.

More than 2-3%, let say the 5%/10% range in highly correlated with account destruction and with big EDD.

The starting point of my discussion is the following:

There is an inverse correlation between risk and emotional balance, and I could do two example from two masters of trading like PTJ and SD. There are 2 major example of the EDD.

1-first example on PTJ:

during an interview if I am not wrong it was Paul Tudor Jones talks to former Goldman Sachs' CEO Lloyd Blankfein, it was last 18th june 2018;

I remember that during an interview PTJ said "you have to do at least 100%", now what 100% means?

Back on the envelop calculation, let say that Peter Brandt, best in class in his sector, produce an average of 50% with a 1% risk on those trades that deserve the 1% risk (or even less 0.07 and 0.08).

Do the math and 100%/150% means 2%/3% range fo risk.

On the 2%, 3% range it is only a question of time then you will have problem (and he had problem).

He described his investment style like a street fighter style, and his is referring on how aggressive you have to be in all the trading process.

Tony Robbins (eb coach) Has Coached Paul Tudor Jones for 24 Years and PTJ pays over $1m a year plus a % on performances and PTJ emails him (TR) every day.

Now this is clear on how much pressure PTJ is still having in his investment process, and how from my experience the EB routine should be an in house process.

2-second example is SD last interview:

during last interview SD talks to Nicolai Tangen CEO of Norges Bank Investment Management, it was last 5th November 2024;

First point - SD discussed how he took a sabatican year (travelling South Africa with his family and cutting to zero the interactions with the markets), when he was having a partnership with GS; due to his EDD.

Second point – SD compared himself to GS "In baseball terms I had a very high batting average, he had a much higher slugging %.

However he carry on saying exactly the opposite, describing GBP 1992 trade he said:

After that Duquesne Capital fund was 100% GBP short, SD he moved to NY to discuss with GS.

GS was described as a bold trader, GS said it is one way bet, GS said when you have conviction you should bet really big. So GS advice was to move the funds to 200% short GBP (for example for $1bn fund it means $2bn nominal value of futures trade for each $1bn nav of the fund), that actually never happened.

According to my humble opinion if you have 2 funds 1 at 100% and the other at 200% leverage on a concentraded bet, same win rate, on l/t (also s/t and m/t) the 100% fund will have a higher profit factor, thus the 100% fund will be the best in term of risk adjusted return, no mather what the size ego says.

Conclusion:

Each of you can do his own sensitivity, in reality we are trading a specific mathematical law that could mean -3% of notional, small pause, and another -3%, thus on a 30% marginated account means -20%, on a 20% marginated account means -30%, and here you are your EDD is served.

Bear in mind that the trust arrive when you are already -3% on the notional.

We are into a marathon environment, and maybe you could need 4/6yrs for tuition fees, 1/2yr for the yes I can do it and its fine tunning and 6/10 yrs in order to reach the professional level (net of taxes and family budget) that will put you in the professional field. Once you are luckily there the aim should be close to the 1% or less in term of risk, and try to improve your slugging percentage.

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November 16, 2024

Factor Prop Account Positions as of November 15, 2024

Prop account swing trades:	Weekly chart patterns – Trades separate from the Prop Account.
• Long 25% ETH spot/50% SOL spot • Long 30% BTC spot • Short 50% 2-Yr Note futures • Long 50% Cocoa futures • Short 100% Canadian Dollar futures • Short 25% KC Wheat futures	• Long 50% SOL
Markets considered for new initial positions (NIPs):	
• London Sugar futures • Crude Oil futures • Nikkei Dow futures	• German Schatz futures • NASDAQ futures

What is your trading goal?

A question I am asked the most is how my trading would change if I was just starting out again (given what I currently know about all aspects of trading). GREAT QUESTION – and it requires some background.

My goal when I started Factor Trading in 1981 at the Chicago Board of Trade was to run $88,000 into $1 million with a few years. I took huge risks in the early years – and was lucky not to wipe myself out. Periodic risks of 500-plus BPs were common with a few 10% bets.

Once I reached the $1 million mark my goals were to keep growing my account while at the same time allowing for withdrawals to support my family. Trading has been extremely kind to me financially. I have achieved a solid average annual ROR with only three or four DDs exceeding (-30%) and only five losing years.

It is no longer my goal to accumulate wealth via future market trading. Rather, I now trade mainly for income. I love the challenge of trading, but at my "spring-chicken" age approaching 80 years I no longer have the stomach for asset volatility.

This risk aversion is also reflected in my retirement/pension accounts wherein my major stakes are in dividend stocks, blue chip ETFs, several private equity deals and treasuries. The most volatile component of my overall portfolio is a designated Bitcoin portfolio (separate from retirement accounts and the Factor Prop Account).

If I were to start the journey all over again to build turn let's say a $200k account into $2MM, here is how I would approach futures:

- ***Much more specific trade set-up criteria aimed at limiting trades to an average of 20 to 30 per year (these criteria are a subject for another day if enough Factor Members are interested)***
- ***Risk of 200 to 300 BPs per trade***
- ***Selected pyramiding***

With all the modeling we have done with statistical probability sequencing, I am convinced that risks of 5% to 10% per trade only produce destruction.

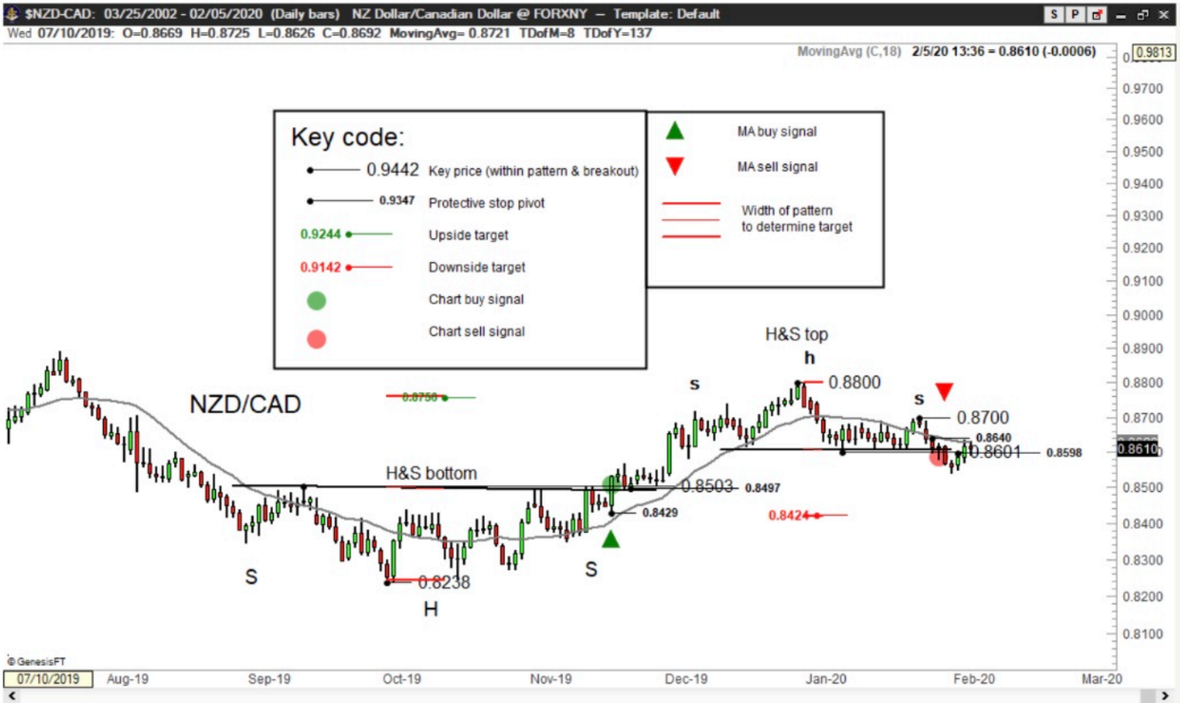
Deciphering Factor Charts

Most price charts with importance to The Factor will carry the following standardized notations. (1)

Notation	Example
Symbol	NZD/CAD (New Zealand Dollar/Canadian Dollar
Possible or completed chart pattern (if applicable)	Two H&S patterns in this example
Key price level	Large black font, extended right ●-----.8601
Protective stop pivot history (based on active and aggressive trade management practices (2)	Small black font, extended right ●-----.8640
Date/price marking chart pattern completion	●Buy ●Sell
Moving average signal, daily chart (as appropriate)	▲Up ▼Down
Price targets (3)	Upside. Small green font, extended right .8755●----- Downside. Small red font, extended right .8424●-----
Target measurement (4) – determined by width of pattern	______________ _______________ ______________

Notes:

(1) Charts casually considered by The Factor may not carry standardized notations
(2) In order to keep a chart simple, only the most recent protective stop pivot might be listed
(3) Depending upon completed chart construction, multiple price targets might be implied. Further, price targets might be modified during the course of a trend.
(4) A set of three red vertical lines will market the width of a chart construction, projecting a target price an equal distance to the width.


$NZD-CAD: 03/25/2002 - 02/05/2020 (Daily bars) NZ Dollar/Canadian Dollar @ FORXNY — Template: Default
Wed 07/10/2019: O=0.8669 H=0.8725 L=0.8626 C=0.8692 MovingAvg= 0.8721 TDofM=8 TDofY=137
MovingAvg (C,18) 2/5/20 13:36 = 0.8610 (-0.0006)
Key code:
0.9442 Key price (within pattern & breakout)
0.9347 Protective stop pivot
0.9244 Upside target
0.9142 Downside target
Chart buy signal
Chart sell signal
MA buy signal
MA sell signal
Width of pattern
to determine target
NZD/CAD
H&S bottom
H&S top
S
H
s
h
0.8238
0.8503
0.8497
0.8429
0.8800
0.8700
0.8640
0.8601
0.8598
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Aug-19
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Mar 2020

Thank you!

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