

TRADER PETRI.

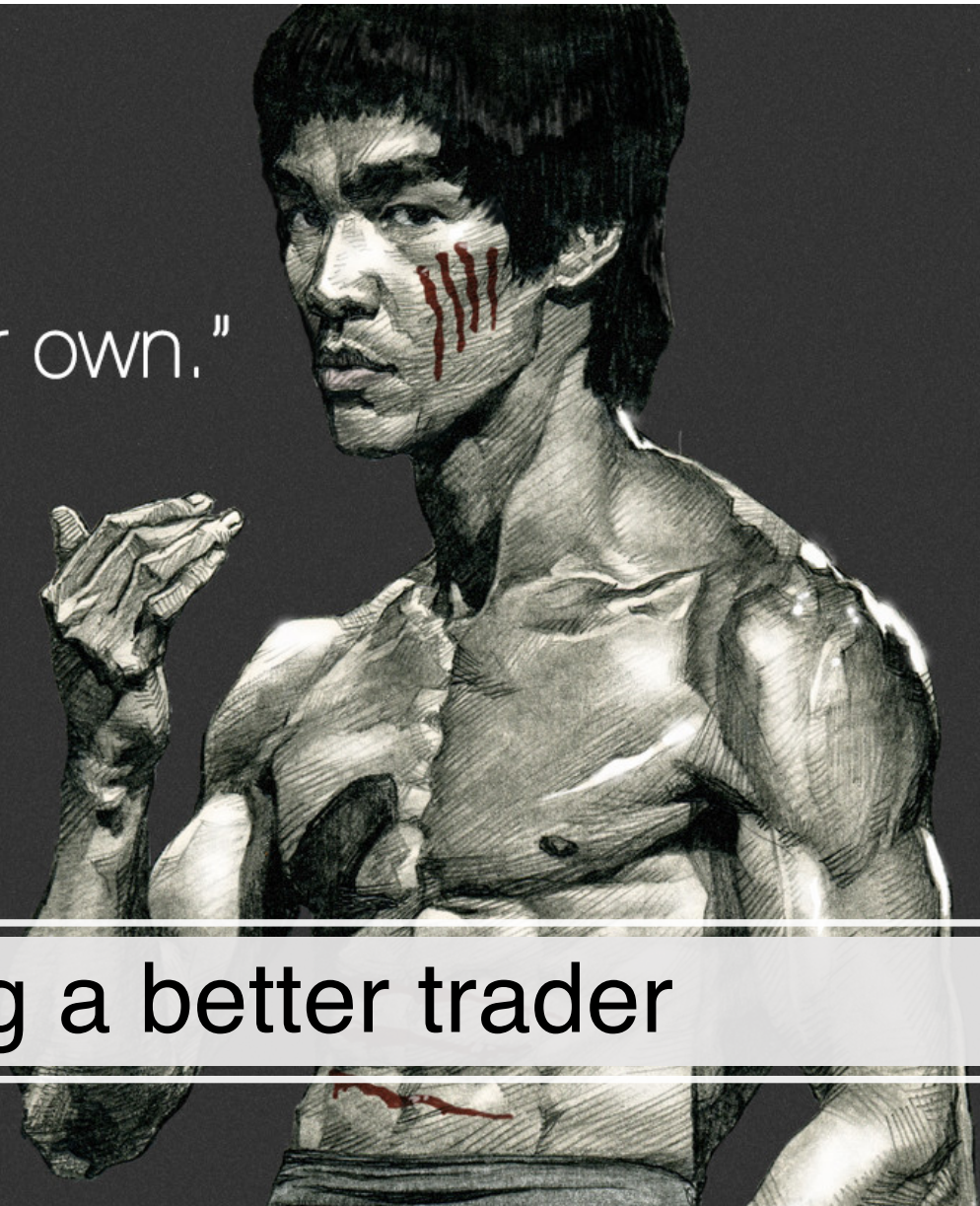


Petri Redelinghuys // @TraderPetri

"Absorb what is useful,
Discard what is not,
Add what is uniquely your own."

- Bruce Lee

Becoming a better trader



The first step is persistence

- You're still at it, well done!
- 90% of traders lose all their money and fail...
- 10% of traders fail and fail and fail and fail, and eventually break through
- It only gets more interesting

- Learning must be the focus

Personal note:

- October was a really difficult for me to navigate
 - Best environment to learn in
 - Market always changes and learning never stops

- I shared my own trading journey (so far)
- Many years and many lessons still ahead
- This time around I am going to look at the next step in your trading journey

Self education

- There is no degree or course that you can do that will make you a successful trader
- The only thing that is going to get you there is relentless pursuit of self education
- Where to start?

Educational resources



The basics - where to start

- Just One Lap
 - IG Bootcamp and Master Class
- The process of Googling what you don't understand
 - investopedia.com will teach you plenty
 - Search for things that you don't understand
 - Will teach you a ton of theory

What's good

- YouTube channels
 - Learn Liberty - market economics
 - Bionic Turtle - technical insights and mathematical stuff
- Trading books - technical analysis books, psychology books, memoirs (on Herenya blog)
- Blogs
 - tradingwisdoms.com
 - JustOneLap.com/TraderPetri/
 - peterlbrandt.com

What to look for?

- Look for things that are practical and that you can use
- Things you don't understand
- Things that you are interested in
- Things that you could perhaps apply

- Play around in excel and test a lot before implementing new theory based models
- Chart patterns, indicators, Fibonacci retracements, moving averages

Avoid at all costs!

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start with

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MILLIONAIRE
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Different
trading styles



- Usually traders that are trading from within member firms
- They need to be qualified traders in terms of JSE requirements as they trade as their own stockbrokers
- For that reason their trading costs are super low and they can take on very large exposure for very little cost
- Trades are not settled – therefore they must be in cash at end of day or they must settle the trade by either booking it over to a derivative, or taking up the equity

- Only trade with what they can afford to lose
- For people who have a lot of time on their hands, and also for those who have a lot of discipline to stick to stops
- 15 min charts or faster – tick charts and price action really (if equity)
- Smaller moves, higher gearing

- Try get in cash each night, or seldom carry overnight
- Probably the most difficult as you are most susceptible to the pitfalls
 - Over trading, revenge trading, trading too big, fear and greed, no plan, boredom, not predefining risk

- You need to be decisive - once a choice is made, you must live with it - cut losses before they hurt you too much
- NOT INVESTORS
- Provide liquidity to markets by facilitating trade between longer term participants

- Very difficult to give you a set strategy for how you can do this
 - Very reactionary and event driven trading
 - Tend to not fight the trends and watch levels very closely
 - In other words, they keep an eye on daily and weekly charts to keep track of where price is now in comparison to what the stock has been doing in the past
 - Fastest fingers first!
- This is what all newcomers dream of, although in truth, it is likely not suited to 90% of traders
 - Day traders are important for the proper functioning of markets, but it is really the tip of pyramid
 - One should start with slower, longer term trading and then work your way up to day trading
 - A lesson I learned the hard way

- Aka trend trading
- More investment than trading really usually no gearing
- Fundamental approach to stock picking
- Immediate return is not the goal - long term growth is
- Dividend income
- Trade identification and entry

Trade identification

- Buying undervalued companies
- Buying dominant companies – very low levels of competition
- Low P/E stocks, high D/Y stocks
- Growing HEPS – 20% and up each reporting period for 2 years
- ROE of 15% or higher (20% is ideal)
- Recent analyst upgrades
- Long-term trend changes

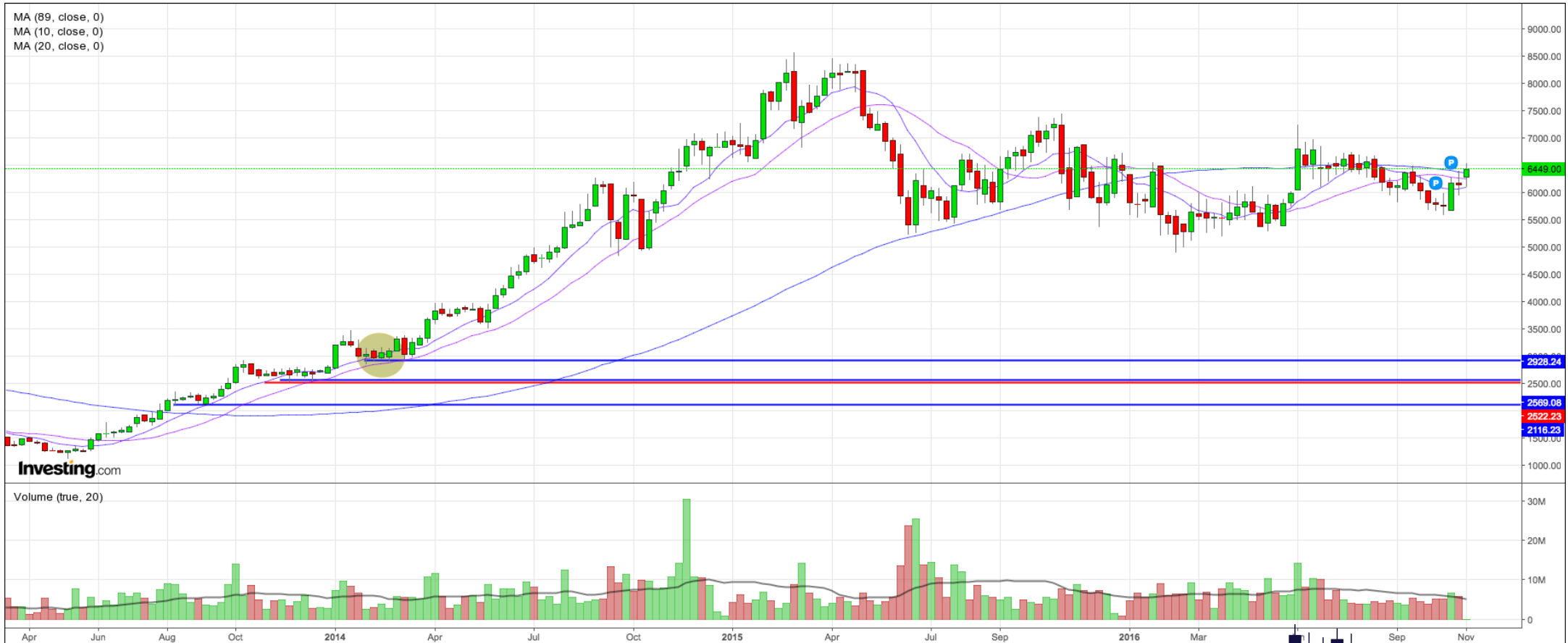
Longer-term trading



Longer-term trading



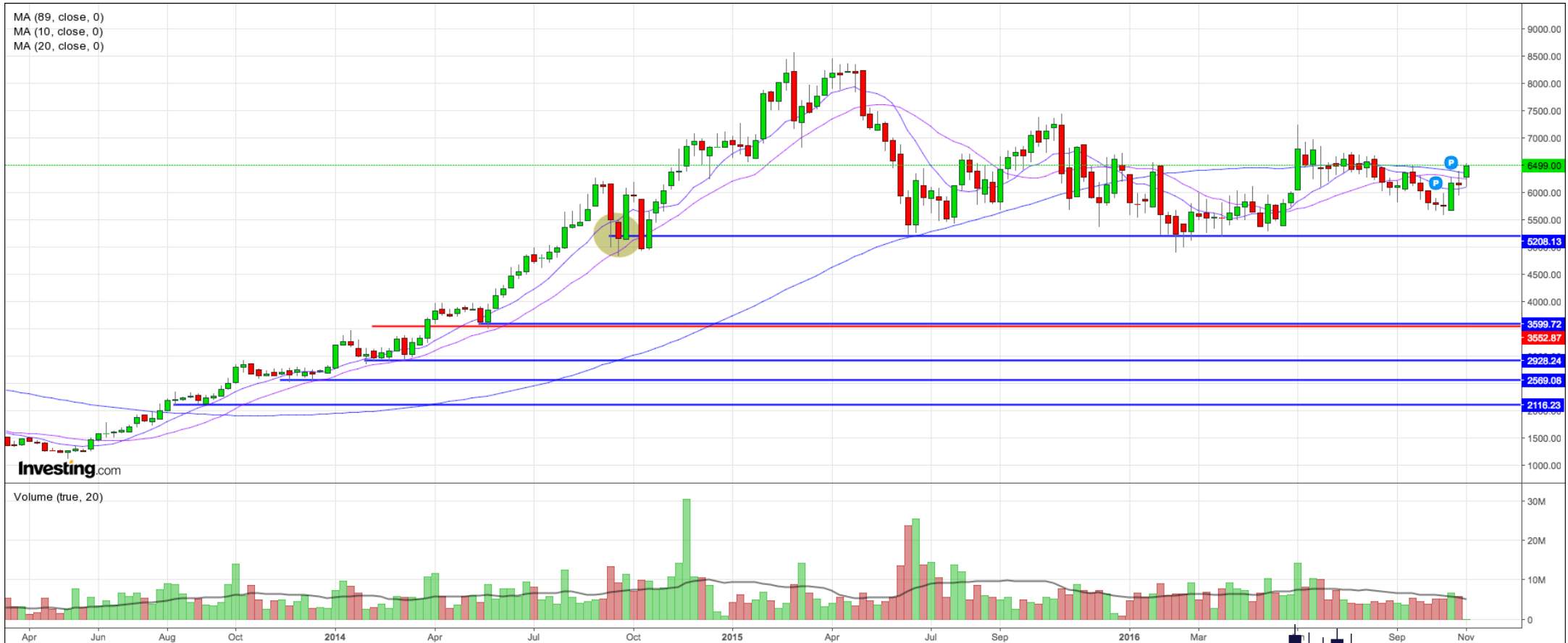
Longer-term trading



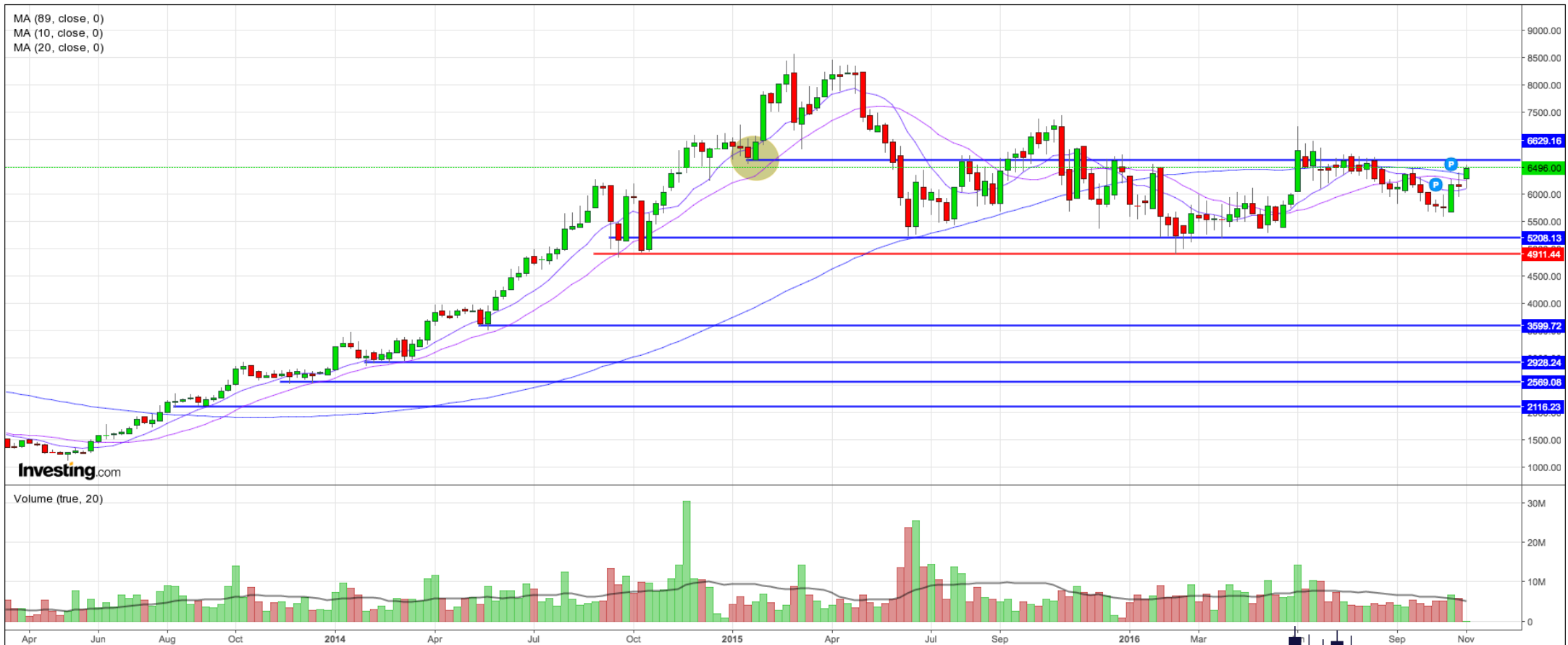
Longer-term trading



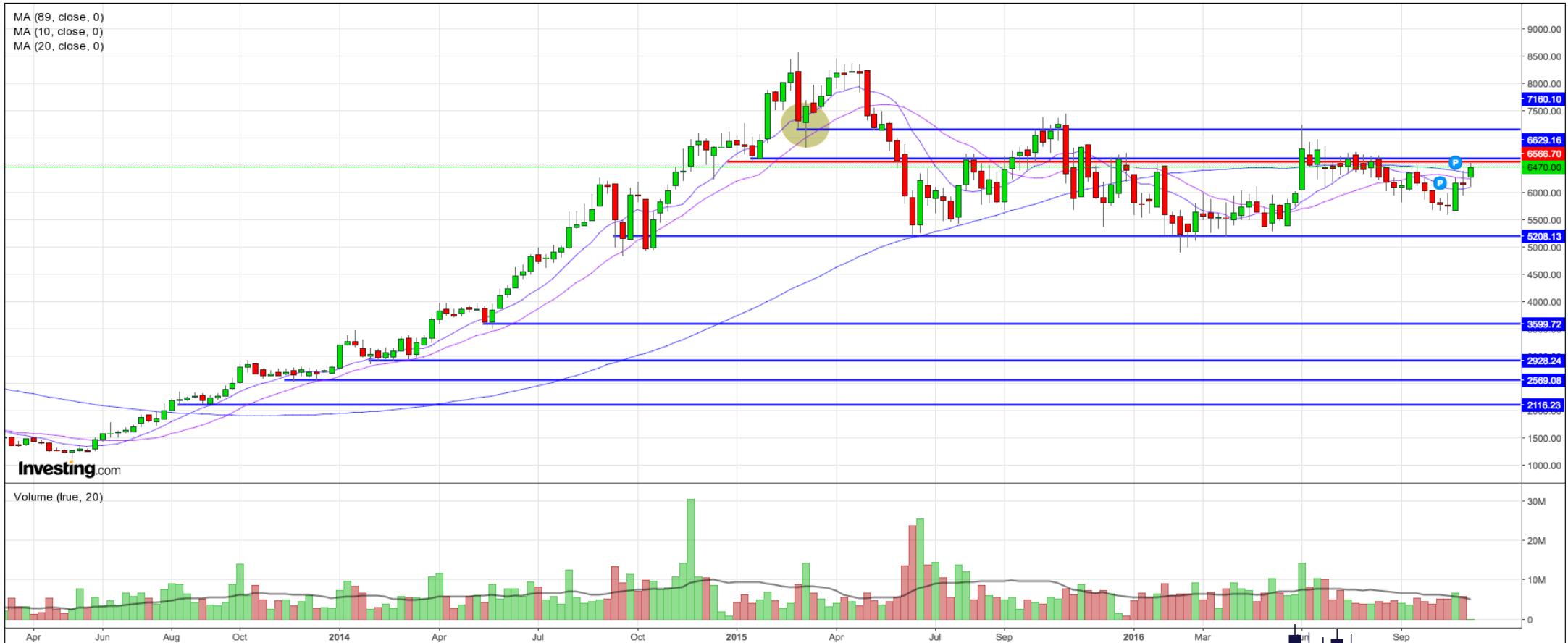
Longer-term trading



Longer-term trading



Longer-term trading



Longer-term trading



Halfway between long term (trend) trading and intra-day trading

- Call it short-to-medium term trading
 - Trades last 2 hours to 2 weeks (sometimes longer)
 - Technical trading principles, mixed with some fundamentals – try to trade within a fundamental or technical universe of shares
 - Looking for short and medium term trend changes that you can ride out
- Better to not watch it every second of the day, although needs a lot more attention than long term trading
 - Clear stop loss rules
 - Sometimes there are long waiting periods, can trade end of day – depending on the timeframe you have chosen

- Goal is to identify the overall (long or medium term) trend and take advantage of the shorter term swings in that trend
- Ideally trading with the trend and making use of technical methods to identify entry points and targets for shorter term, trend aligned trades within that bigger trend

- Fibonacci is very helpful here
- Price patterns also help a lot
- Support and resistance levels
- Trend lines and moving averages

Swing trading strategy example

Wave Trading (long only) - Hourly / Daily Timeframe

Rules:

- 25% exposure
- Swing trade based on ABC principle
- 'universe' shares only
- **Entry**
 - Kiss of a MA
 - Stochastic through 50
 - Break of resistance

- **Exit**
 - Pattern Target reached
 - Take out of stop
 - Fundamental change
 - Clear trend reversal
- **Stop-Loss:**
 - Slightly below B
 - 9/12 EMA or trend line trailing stop

Wave Trading (long only) - Hourly / Daily Timeframe

Must have:

- Validated Wave pattern
- Multiple timeframe trend
- Confirmed trend
 - Moving averages
 - Stochastic
 - Primary trend line
 - Fan lines
 - B to C move
- High probability setup (good Risk:Reward)
- Price target
- Relative outperformance of Top 40 (universe shares)

Swing trading strategy example

Nice to have:

- Bullish candle formation
- Bullish divergence
- 38.2%+ retracement
- Horizontal support
- Price formation / pattern
- Rising volume in up trend
- Bullish stochastic
- OBV above 89MA (or a bounce off 89MA)

Watch out for (can prompt exit):

- Significant resistance
- Bearish candle formation
- Distribution patterns
- Falling volume in up trend
- Bearish divergence
- Break of 50 EMA
- Rising volume in down trend
- OBV MA crossover

Swing trading strategy example



Swing trading strategy example



Swing trading strategy example



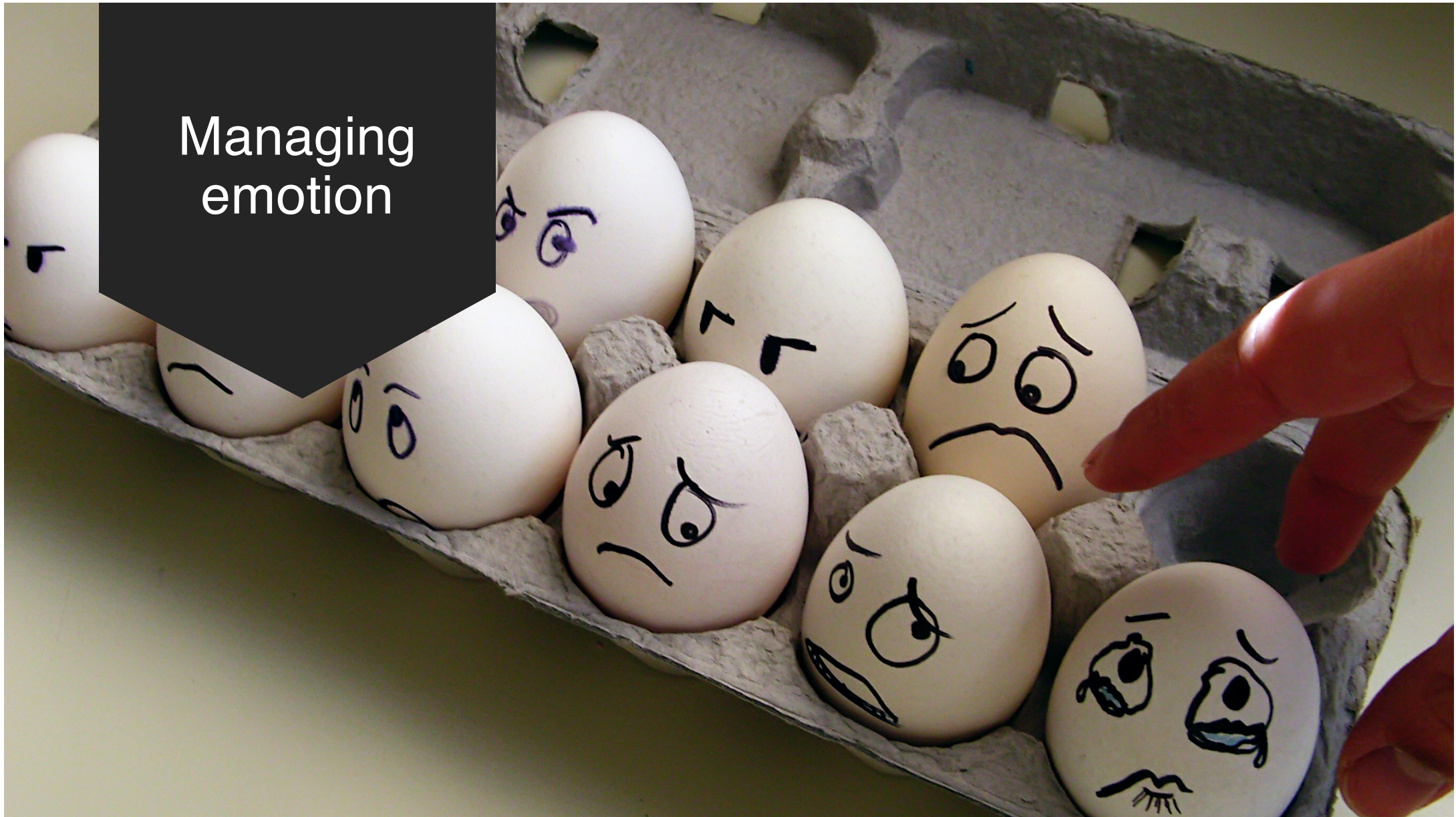
Swing trading strategy example



Swing trading strategy example



Managing emotion



Managing emotion

- Emotions are unavoidable and often a stumbling block for traders
- Self awareness
 - Being aware of the impact or influence you have on the people and environment around you, and/or
 - Being aware of your current emotional state, how that emotional state influences your decision making, and what has put you in that state

- The idea is to control fear and greed
- My biggest issue is how my trading changes once I have been on a winning streak - leads to losses - takes a long time to get my mind back to the right mindset to make money

4 A's of managing emotion

- Acknowledge
- Anticipate
- Accept
- Act

Acknowledge the emotion. *"I am feeling angry because I didn't take my stop loss", or "I am feeling confident because I banked a big winning trade".*

Anticipate the effects that the outcomes of a potential decision could have on your emotional state. *"If I took this next trade and I lost my entire month's gains if it didn't work out, I would be very angry with myself and feel rather crushed and hopeless", or "If I take this next trade and it also turns to gold, I will feel extremely confident and feel like nothing can ever go wrong".*

Accept these outcomes and try to understand how these new emotions can influence your decision making. *"I am on a hot winning streak and I am feeling supremely confident", or "I just banked a huge loss and I am feeling very scared of the market".*

Act in a rational manner. *You now understand your emotion, what has caused it, what could influence it and how it could change.*

Getting rid of the negativity

- Exercise
- Getting out, letting go
- Leaving the market alone for a while
- Remembering things that you are grateful for

- Keeping your eyes on the prize
 - The goal is to improve each day and be the best that you can be
 - Resilience – fairly intrinsic, but gets easier with practice

Managing risk



2% rule

- Never risk more than 2% of total account in any single trade
- Stop loss level determines position size
- Example
 - Price = 100
 - Stop loss = 95
 - Risk = 5
 - Capital = 250 000
 - 2% of capital = 5000
 - Position size = $5000 / 5 = 1000$ shares

Pros

- Can easily manage risk
- Lots of room for error
- Helps keep you very objective

Cons

- Gearing can get very big
- Too many trades open can hurt you rather quickly

Exposure rule

- Each trade is a set % exposure vs capital (20% or 25%)
- Multiple trades make up 1 position (4 entries)
- Maximum of 1x gearing per position
- Maximum of 5 positions
- Max gearing increases as market falls
 - Market within 5% of All Time High = 1x gearing
 - Between 5% and 10% down = 2x gearing
 - Between 10% and 20% down = 3x gearing
 - Between 20% and 35% down = 4x gearing
 - Between 35% and 50% down = 5x gearing
- Still have to use high probability levels to determine stops
- Add on trend aligned swings / entry points

Working out gearing

- 20% exposure = 0.2x gearing = 2% margin used in account (typically)

Pros

- Prevents you from being blind sided and taking multiple 2% losses in one go
- Keeps you mindful of the amount of risk you are taking on
- Steadier equity curve

Cons

- Variable loss sizes in terms of % of capital
- Deep drawdowns
- Stop outs can hurt a lot (12.5% max of capital in back testing)

Exposure rule example



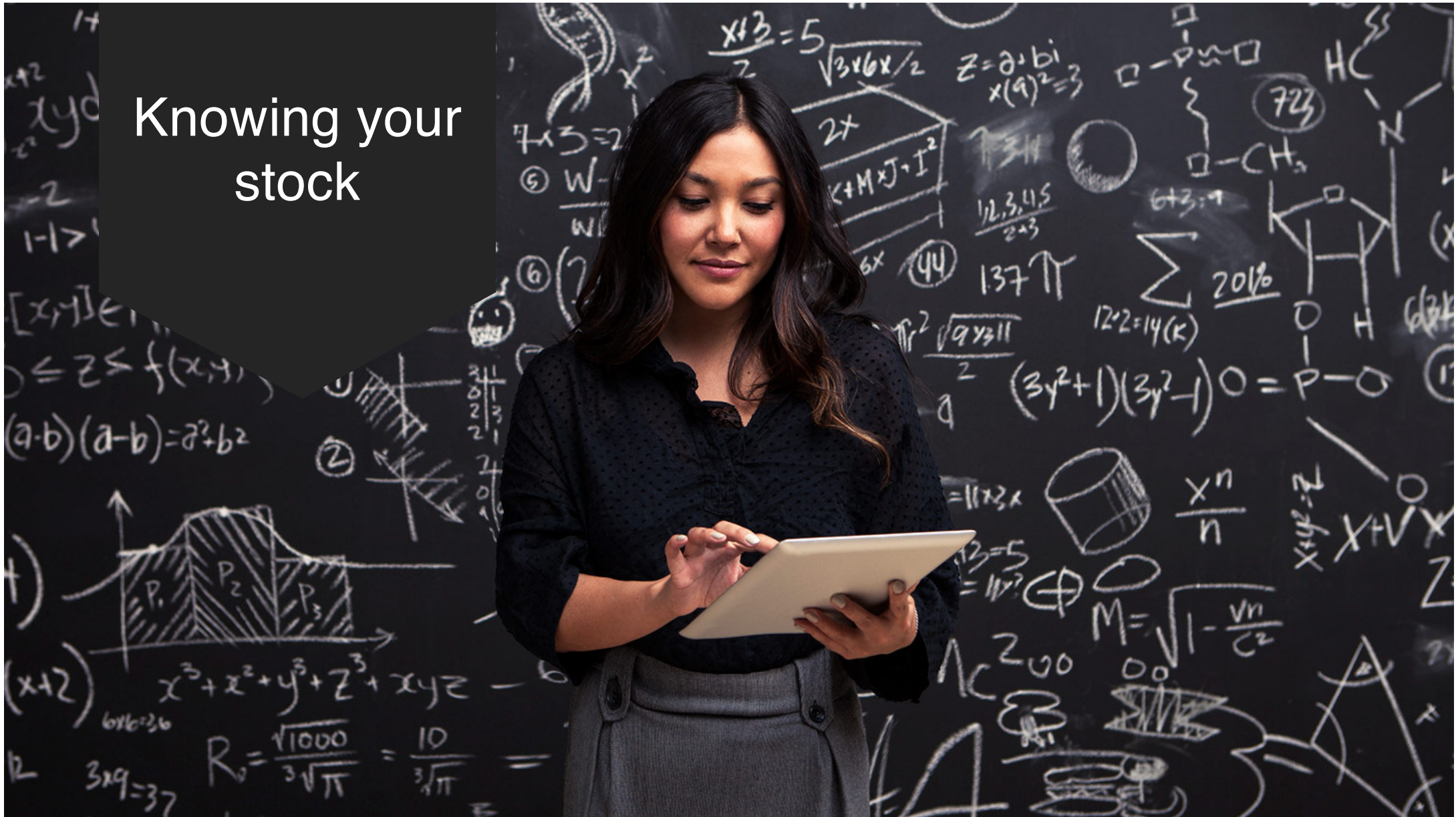
Keeping
discipline



Keeping discipline

- Keeping discipline is a derivative of managing emotions
- When you are self aware, you are able to keep yourself in check and remain objective, which makes it easier to follow the rules
- Rationality about what the facts are make it easier for you to walk away from trades that have the potential to hurt you more than what you are able to handle - knowing your limits
- The truth is that you must take control of your own financial destiny and that there is no way that you can hand control of it over to someone else when you decide to do this - you must make sure that you are ok with the consequences of mistakes
- Writing out your strategy helps you define it and helps you stick to it – having rules is the first step to following them
- A good trade is not necessarily a profitable trade, a good trade is a trade in which you followed your rules to the ‘T’
- Celebrate your good trades – doesn’t have to be a party – will help keep you motivated too

Knowing your
stock

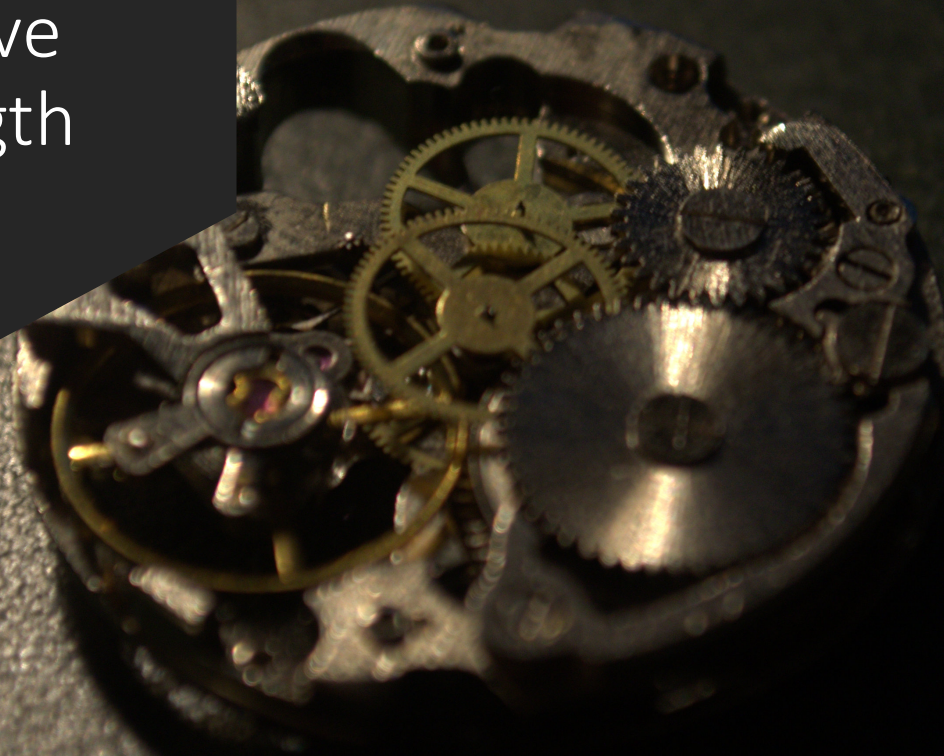


Knowing your stock

- Pick 5 stocks
- Read their last 5 years financials - will help you understand how their business has changed over the last couple of years, how they make money, and which macro factors impact their earnings
- Study the chart - look back in history and look at how the price reacted under different circumstances - bad earnings vs good earnings... how were the next few months? ... allows you to build expectations (only expectations, anything is possible)

- The best traders do not know or even care what is happening in the overall market, but they can tell you everything there is to know about the stocks that they trade in

Correlation/
relative
strength



Correlation

- A mutual relationship or connection between two or more things
 - Natural connections between stocks or instruments
 - Can be positive or negative
- Correlations change all the time

Relative Strength Comparison

- Means of measuring when that correlation pulls apart and opportunities exist
- Pair trading

Pair trade example



Pair trade example



Finding your
own way



Finding your own way

- People can't just give up their jobs and have a go
- Takes time to find what works
- Dreamed of being a certain type of trader, now though, I am a different type of trader to what I wanted to be, simply because what I had envisioned (largely due to lack of knowledge) did not work for me

- Each person must mess around with each type of trading to see where their strength lies
- Objectives are important
- Resource allocation
 - Time
 - Money
 - Mental resources

My own company

- Trading accounts
 - IG South Africa
 - Pro Trader (Velocity Trade)
 - Elite Stockbroking

List of some good books on the blog

HCA trade ideas

- 5 contributors
- 4 markets
- Best ideas
- Discount code: JSE

Thank You

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