## My Beliefs About Trading

**1.1.** Exchange trading or trading on stock markets (further – **«trading»**) – is a game aimed to get a prize in cash-equivalent item due to the change of market value of bought (
**«long position»**
) or sold (
**«short position»**
) stock asset, or both if the transaction balance is positive. This game presents negative mathematical result, because two participants who played at cross purposes and who didn't receive advantage will sustain losses in terms of commission rate, operating expenses and will pay a bank rate if they used credit resources. This is a kind of the financial pyramid where the participants staying in the game with non-renewable amount of finance, and will spend all in the long run.

**1.2.** Profit recipients in trading are: brokers boards, brokers, dealers and management companies – all of them get commission rate apart from the participation in trading of own means. Besides them – banks lending money to the market participants, it-companies – software designers, and also business owners who appear in market and propose the initial public offering (IPO) or additional share issues for participating in trade.

**1.3.** Besides the above mentioned subjects, there are so called investors who serve as a source of profit for the participants pointed out in 1.2., and they could pretend just to the short-term returns from the assets purchase in certain market segments in following cases:

1.3.1. Permanent flow-in of colleagues-investors in the market segment (bullish[1] trend, in the case of positive action «bubble»);

1.3.2. Manipulations in trading of other participants with an asset with more long-term aim;

1.3.3 Flow-in of credit means for the benefit of some high rollers (merging and acquisition (M&A) , initial public offering (IPO) of a company on the stock exchange);

1.3.4. Depletion of some resource temporary or historically (bad crop, oil);

1.3.5. Money flow-in after a bank crisis when credit demands are low and the liquidity is on the high level. Banks have to allocate funds with unusual risk on the stock market for getting income from the offered «saving» liquidity measures.

**1.4.** So far as conditions mentioned in 1.3 couldn't last forever (even oil could be replaced with an alternative energy source) any stock assets price rise will be followed with their fall.

**1.5.** Stable growth of the marketable value is partly possible only on primary goods, i.e. in trade – commodity futures. It means that it's possible only in the part of the price that is determined by the cost of alternative feedstocks (oil-gas, wheat-corn). Under inflationary tendency development in the world economy, the growth of the assets cost is partly conditioned by the devaluation of the world currency, i.e. inflation is served.

**1.6.** Trader for getting benefit has to take a dim view of any ideas of persons mentioned in 1.2. Properly speaking even third-partly specialist or quasi-neutral organization offering an opinion on some asset – in fact could be affiliated to the interested organizations. That's why so called **fundamental**
facts and factors are conceptually always unreliable; at the best case, they could be approached to reality. Of course, a conscientious research man could effectively analyze stock exchange information, but due to its unstable nature this is a very time-consuming work.

It is reasonable to use a simple economic appraisal of the organization activity in the cases when the question is about the alternative choice and actions with taking account of few months term. For example, trader aims to enter the market and the price behavior of some shares on the graphics is the same. In that case it worth to compare a leverage, an income level and available cash assets of the company, to take into account a staff quantity and business model. Usually after these figures research preferences become clear as the set of Altai Mountains in a sunny day. But unfortunately, accounts even with auditing are often shady.

**1.7.** Under conditions of the unreliable information flow and sad long-term perspective for getting a profit, in our opinion, trader has to act in the following way:

1.7.1. When getting as decision to rely only on so-called «**technical analysis**», i.e. on the price behavior and its interpretation as only reliable information search for estimation of the real asset process. As a rule both fundamental and news facts are already taken into account in current price. That was done by insiders.

1.7.2. With a small share capital to use short-term price variations as only way to get something from significant players and financial institutions. With growth of trading capital till six-figured item (in dollars) it becomes possible to use time lengths from an hour and a day to a week for getting trade decisions.

1.7.3. To use a short sale for increasing a chance to get a profit. It is necessary to take into account the difference of growing trend line from falling trend due to the growth phenomenon: doubled price – is a 100% growth. Halved price – is an equivalent of 50% fall. Short selling demands a financial service and a control of a well-timed exit. Unmarginal shares purchase often permits to stay in deal longer.

**1.8.** The first principle of a trader consists in introduction of clear strategic structure to market chaos. We suppose that the price movement could develop only in three ways: the first one has a direct character in the form of upward trend, the second one – in the form of downward trend and the third one presents a sideways trend within a corridor or a canal («a saw»). Trend permits to get a benefit: to buy cheaper – to sell more expensive in uptrend, to sell expensive – to buy cheaper in downtrend.  Trading in «saw» could be moneymaking in deals directed inside the horizontal trade corridor. Let’s name this principle strategic.

The second main principle of a trader is the choice of signal system for operating of successful moments in entering and getting out the deal, passing into position or overturn (changing tactics) according to the market price variation.  It means tactics.

The third principle of a trader that to our mind determines his success is the management of position size in each period of time. On the basis of the strategy and chosen signal system it is necessary to keep regular monitoring of means involved is deal considering a trading account size, time (of trade session) and personal aims of speculating subject.

**1.9.** Price behavior differs in time of growth and fall. As a rule, upward trends last longer than downward ones. They are more gradual and undulated, with corrections in expectation of moving average lines. It is typically for downward trends sudden abrupt price movements that last at the average one third of the growth tendency time. The fall is often accompanied by episodic abrupt price lift or «compression of the short».  The main point of that fact is the behavior psychology of the market participants: avarice pushes traders to purchase, fear – to sale. Avarice is stronger.

Exactly that fact and people's capability to forget is the reason of the mistake that markets will surely grow and the price will return to the top and it will be forever.

**1.10.** If the capitalization is not solid (for example less than 100000dollars) for increasing the profit in the frame of chosen strategy it is worth from time to time to shrink the position size during the price movement correction and to increase the position during the trend reactivation (pyramiding). These actions have an contretrend character in the frame of common price trend.

**1.11.** Using of stop-losses could help to be more assure and to have psychological resistance if the surprises take place during the high market volatility. It is recommended to fix risk limitation and to precise it daily. Limited level of loss fulfils a function of capitals management and

indirectly influences the position size counting. It is not worth to limit the profit.

I think that before choosing a trade instrument – for example a gold future as it seems to you that you know many facts about gold – it is recommended to learn the history of its transformation to a stock asset and to try to accumulate judgements of outside specialists. It is useful to think over the trade idea not only in terms of «to buy and to hold until the price will fly up on top» but to estimate when (in what economic and political circumstances) you will want to get rid of it. And only at last to look at weekly and daily graphics of futures price behavior for defining signals and levels of exit from deal if your idea doesn't work.

And also: ***my ideas could seriously differ from your opinion of market trade. A great part of the foregoing premises is difficult to prove or demands additional statistic research.***