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Trader's dilemma – picking up the pieces

The recent crash in the markets has left players dumb founded. Most of the participants I talked to were shell shocked beyond the point of normal reactions. Obviously, no body got a chance to offload long positions since markets opened " gap down ". There are lessons in it for us, so we do not relive history in the near future -

- There are three aspects to a trade – identification of a trade, initiation of a trade and management of trade. Initiating a trade is the easiest part, you just to call your broker and execute. The identification is slightly difficult. The management of a trade is the most difficult. Most traders shut their eyes after initiating a trade and leave things to fate – this is especially true in case the trade goes against them. The commonest mistake is to let a bleeding trade run till your margin account dries up and your broker squares up your trade. Money management is invariably the most important aspect of your trading strategy. Handling risk, threat to capital is where most traders are lacking. The mantra to profitable trading was aptly put forward by William F Eng – " successful traders control risk, and when they cannot control it, they manage it".

- Most of the players resort to leveraging of capital. While we initiate our trades with the concept of "going concern" assuming that we will make profits and continue to trade perennially, it makes sense to assess the downside potential **first**. Remember, in leveraged trades, profits and losses are magnified to the extent of leveraging. Most of the traders who lost money recently were those who built up excessive large trading positions. While "big" is a relative term, we must honestly asses our comfort level and trade within our own limits where we can trade in lots where the positions do not overwhelm us.

- The first reaction of any trader / investor is " how high will this stock go after I buy ?". Not many are prepared to think of the downsides. I feel the downsides should be assessed first, then different strategies should be adopted as per your aptitude. Traders should make provisions for mark-to-market payments till this lower level and investors may want to keep stop losses at a slightly lower level below the lower limit. In any case, an exit route must be mapped before the trade is initiated. As a rule of the thumb, your provision for mark to market pay outs must be 1**.**50 times your initial margin payouts – if not higher. Which simply means that only players with deep enough pockets should leverage their capital. Even players with deep pockets must never "bet the house" on their trading positions.

- Understand the concept of relative strength comparative and beta (volatility). There will be scrips which fall **less** than the indices and rise **more** than the indices in bear and bull markets. These are known as market "out-performers" and boast of a high relative strength comparative oscillator reading. These are counters suitable for investors. For traders, choose counters that rise **faster** than the markets and fall **faster** than the markets, these are high beta (volatility) counters. **As a measure of safety, never leverage your hard earned capital on high beta counters**. They are the first to let you down during phases of adversity. Also asses your trade before you initiate it – is it a short term trade or is it an investment ? Most traders convert a losing trade into a long term investment to avoid facing the short term pain of losses. In the bargain, they buy long term pain – at a big premium.

- Stock markets are the epitome of capitalism and players are hard core capitalists. In their zeal to earn maximum profits in double quick time, traders tend to deploy most or all their capital in one go. No room for a rain check is left whatsoever. There is nothing that sounds as sweet to a bargain hunter in markets like ours currently, like money in the bank ! Spare cash is your freedom to trade and also the ability to buy when there is "blood on the street". When markets bounce back (which they do!), such savvy players laugh their way to the bank, whereas others manage to break even at best!

- Every trader must make it a point to keep his ears to the ground and monitor various signals emanating from the markets – f&o numbers, FII figures, advance decline ratios and rising interest rates and initial margins by exchange authorities. Unless the markets tumble on external factors and without a warning, like they sometimes do, most of the times, advance indications are available to diligent players so that they can safeguard their capital. I feel the biggest enemies of a bull market are war and tightening money supply. We have seen rising interest rates and higher initial margins imposed by exchanges slowly tightening the noose around the bulls' necks in the recent times. Money supply was also curtailed by imposing restrictions on brokers funding their clients. While these are safety measures in their own right, the upward momentum is arrested by such moves.

- Trading is primarily a mind-over-matter activity. Your mental make up will be a dividing line between success and failure. As a trader I make it a point to **not** handle or count my profits or losses. That way, I don't get unduly excited when I make money, nor do I take a big emotional jolt when I lose money. I let my family handle the cheque books and the petty cash. Your job as a trader is focus on the serious business of managing your trades. Period. A down to earth, calm and composed trader will be better equipped to handle a crisis than a stressed out player. Some of the most profitable traders I have had the pleasure and privilege of meeting appear very simple and free from the trappings of success. They focus on the job – trading for a living.

- Form good trading habits like reading works of international professionals and upgrading your skills to match that of the fast evolving markets. Attending seminars and trading workshops is another good investment for your long term trading success.

While most of us are under duress currently and are swearing to quit the markets for keeps, may I remind you – "**Ships are safest in the harbor, but that is not what they were built for**"

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