



CHOOSE YOUR BATTLES WISELY

I was intrigued and impressed when for the first time came across “Choose your battles wisely” – said by C. JoyBell C. How profound are these four words when understood in the right perspective.

Trading is both an art and science and that is what makes it unique. One needs to come to one’s own ratio for mixing both so that one can turn out to be a successful Trader. In the process of doing so I am listing down certain experiential points that can be helpful:

CHOOSE THE RIGHT INSTRUMENT

The trader needs to select the instrument depending upon the study, understanding, observations, back-test, desired risk-return payoff, expected draw downs, return on capital expectations, margins applicable, hedging options available, volatility, liquidity, frequency of regulatory action etc.

Trading in commodity is quite different from trading in currency or equities for that matter. Similarly, trading in cash segment (equity) entails different set of variables compared to futures.



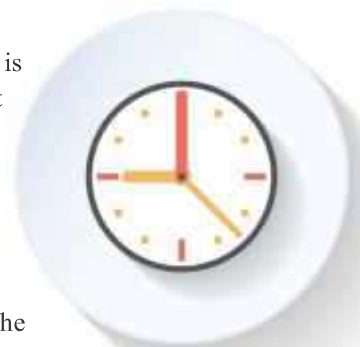
Option trading is entirely different from trading in futures / cash. Moreover, ITM, ATM and OTM offer different inter-alia risk - return. Not to mention the probability matrix for Options Buy and Options Sell are like chalk and cheese. Weekly options and monthly options add to the stark contrast that already exists.

CHOOSE THE RIGHT TIME

Selecting the right time-frame is of utmost importance. The most often suggested solution here is to zero-in on the time-frame that suits the most be it intra-day, daily, weekly, monthly and quarterly and so on.

However, when to initiate the trade and when to square up is also part of selecting the right time. E.g. For option buyers 2:30 pm to 3:15 pm is a sweet spot in Bank Nifty Weekly Options towards last three days of the expiry. Similarly, for cash segment participants the price relative to its daily range during 3.20 pm to 3.30 pm is an indicator subject to satisfaction of other parameters.

Seasonality influence is also part of choosing the right time. Calendar month seasonality in stocks is a well-known phenomenon. Certain studies related to Day of the week also offer minor edges.



CHOOSE THE RIGHT STRATEGY

Strategies can be broadly divided into two – Trend following and Mean reversion. The mind-set required to excel in Trend following if replicated in mean-reversion



will not yield the desired result. Another division could be discretionary and non-discretionary. Here too, contrast in approach is quite evident.

For a retail trader trading is nothing less than guerrilla warfare. To fight against big institutions and win consistently is practically impossible. Therefore, in order to win trade only when you find odds in favour. History is replete with examples where the weaker king knowing fully well that his army was no match against the opponent would force the stronger opponent to initiate the fight in a strategic location like a narrow mountain pass.

CHOOSE PATIENCE OVER TEMPTATION



Waiting for the right set-up (instrument, time and strategy) is difficult as human brain prefers action over boredom. A long wait pushes one to accept trades that offer mediocre return. One also tends to believe that opportunities are being lost waiting but one should wait at least till the maximum time period between two trades in the back test that is being followed. **Impatience is handy only when we have to deal with losing trades as cutting losses quickly keeps us in the game.** In other scenarios patience results in striking just when needed culminating into superior returns over longer period of time.

Believe it or not, each trade that you undertake saps you of time, energy and resources and none of these we possess in infinite quantity. Hence the logical thing is to be selective and save these for the really important ones. In other words – Choose your battles wisely!

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About the Author

Himaanshu Kansal is a proprietary Trader and Investor. He has been actively involved in the markets from the year 2002. He started as a fundamental investor and developed interest in Technicals from the year 2007 onwards. A Chartered Accountant and PGDM by qualification he is also the founder-member of Advanced InvesTrade Forum.

