



UAR

IS THE NAME — — OF THE GAME

Strange are the ways of the market....

- The ruling party loses in its heartland but the market refuses to make a lower low
- Big question mark appears on the return of ruling party in the next general elections which are hardly 5 months away but market wants to move up. I was fed all along that markets do not like uncertainty. Similarly, I was fed that market discounts the future. Really? This way ?? (Mind you GDP growth dropped and so have the estimates by the best analysts, EPS growth of Nifty 50 is pretty marginal since a long time)
- One can defend by saying that majority were bearish and as consensus does not work, so the markets went up. But, remember for every buy there is a sell and for every bear there is a bull.
- Daily newspaper Dainik Bhaskar reported that 60 % of the exit polls have been wrong in the last 5 years (32 elections in this period). Who can accurately predict what the mob (masses) is going to do be it riots, elections or markets? I respect the scientific methodologies followed by the psephologists to extrapolate the results based upon their sample but a failure rate of 60% is striking and actually fortified my view.

In my humble opinion market movement is not only Unpredictable but Random as well. For brevity I will refer to it as **Unpredictable and Random (UAR)**. There is no particular order of up-trend, down-trend or sideways market because such an order is Random and the extent of up-trend, down-trend or side-ways move cannot be predicted unless it is over. However, with keen observations, practice and experience some are able to anticipate the order and extent slightly better than the others. How consistently can they do it is anybody's guess which strengthens my belief of UAR.

Now, if it is so, what about Trend? We apply and practice Technical Analysis. We have been bombarded with Trend, Anti-Trend and similar information. My thinking is that the beginning and the timing of start of the Trend is

UAR though one can use cycles to anticipate. However, it takes a lot of study and evolvment to reach that stage. Moreover, cycles sometimes work and sometimes do not. After looking at innumerable Charts, I have concluded that, the Trend begins with no logic and similarly ends with none. However, successive higher bottoms in an uptrend to explain its identification and relevance come later not when it begins. Similarly, price climaxes, volume climaxes and similar studies just point towards a probable reversal and are nothing more than an intelligent guess. In the long run they are accurate as many times as they go wrong. The best of Technical Analysts agree that there is no sure way of predicting the level and time when the Trend / Trend reversal would kick-start. Logical explanations start pouring in only once the event materializes. That, I think is nothing but hindsight bias.

In hindsight all that has happened appears to have happened as it should have. On Charts, we start seeing patterns that completed. It is hard to identify those which were abandoned just after start or mid-way. Watching the Charts you exclaim in excitement "Wow, I should have bought at that point" because you see an uninterrupted up-move later on in the same Chart. In order to free yourself of the hindsight bias, try this - Hide the right hand side of the Chart and see if you can exclaim the same. Gradually, candle by candle reveal the right side of the Chart to yourself. I bet, in half of the cases you will be relieved that you did not Buy! That is just another example of prices being UAR.

So, am I saying that Technical Analysis is Voodoo, eyewash or ineffective? No, certainly not.

Technical Analysis is extremely useful if you are ready with your algo, set-up / strategy, instrument / scrip, levels, risk-able amounts, exits and plan of action (Plan A, Plan B and sometimes Plan C too). Again, If I may say here, Price movement is UAR. The good part is that, I believe, you too can profit from both the elements of UAR. Here, in my view is how you can do so:

Develop patience

Act (on break-out or support) only when price reaches a stage from where if it reverses, you will be out after incurring a small loss. Wait, wait and wait for that price and moment to come. **UAR can make your set-up fall into place or fall apart anytime.** Be vigilant and wait to enter. Otherwise, your order / trade on each and every price tick will lead to depletion of Trading capital due to Over-Trading.

Selective Set-ups

Markets generate plenty of data every second. Some look for Open, high, low, close etc. Some others interpret Open Interest. Yet others look at block deals / bulk deals etc. Few depend upon indicators. Different participants use different set of data to initiate the Trade. Use whatever you like. Make sure what you like and follow always offers you a positive edge. **A positive edge will go a long way financially in combating UAR.** If you are serious while you are exploring a potential set-up, back-test in depth. Your understanding of that set-up will improve but remember Back-Testing is no guarantee of success. Record-keeping of your Trades executed (including Trades missed for whatever reason) will keep you abreast of the latest edge that you are enjoying.

Flexible Mindset

Be ready to take a small loss and change sides (from bullish to bearish or vice-versa), if need be. Also, be ready to re-try in the same direction provided your set-up is still valid. **This is one of the biggest psychological attributes to manage UAR.**

Start small

As price is UAR you do not know if it will continue in the anticipated direction. So on the invocation of your set-up, take a small position. Scale it big, only if it starts going your way. **Price being UAR will not move your way most of the time but whenever it does so the rewards ought to be handsome.**

In other words, it is waste of time and effort predicting and anticipating. Calculating targets too is a futile exercise. Instead, concentrate on finding your set-up. Assuming all other conditions are met, just act with equanimity. Once in the Trade, you will either be stopped out or you will be get a chance to trail / book profits.

Precisely because the markets are structured on the footing of UAR it gives each market participant an equal chance. Imagine the plight if the market would have been the opposite. Everybody would have been making money if the prices were Predictable and Orderly. In fact, there would be no market in the real sense if the prices would be Predictable and moved in Order. Each individual would be a winning Trader besides owning big yachts and castles in paradise. However, that does not happen. This reality furthers my belief that prices are UAR.

To sum up my view, the problem is not that prices are UAR but the real problem is that the amateur Trader has not developed the Discipline and Mental strength to navigate the UAR. The crux of the matter is that the prices may be UAR but your Equity Curve should not be. The first step in keeping your Equity Curve positive is accepting the fact that prices are UAR. As the saying goes "Big journey begins with a small step". Good Luck!!

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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.

