Twitter Thread by Pankaj DP



Pankaj DP
@voPAtrader

Friends,
I am planning to write Stock mkt related thread (/writeup) on..

WHY STUFF WORK?

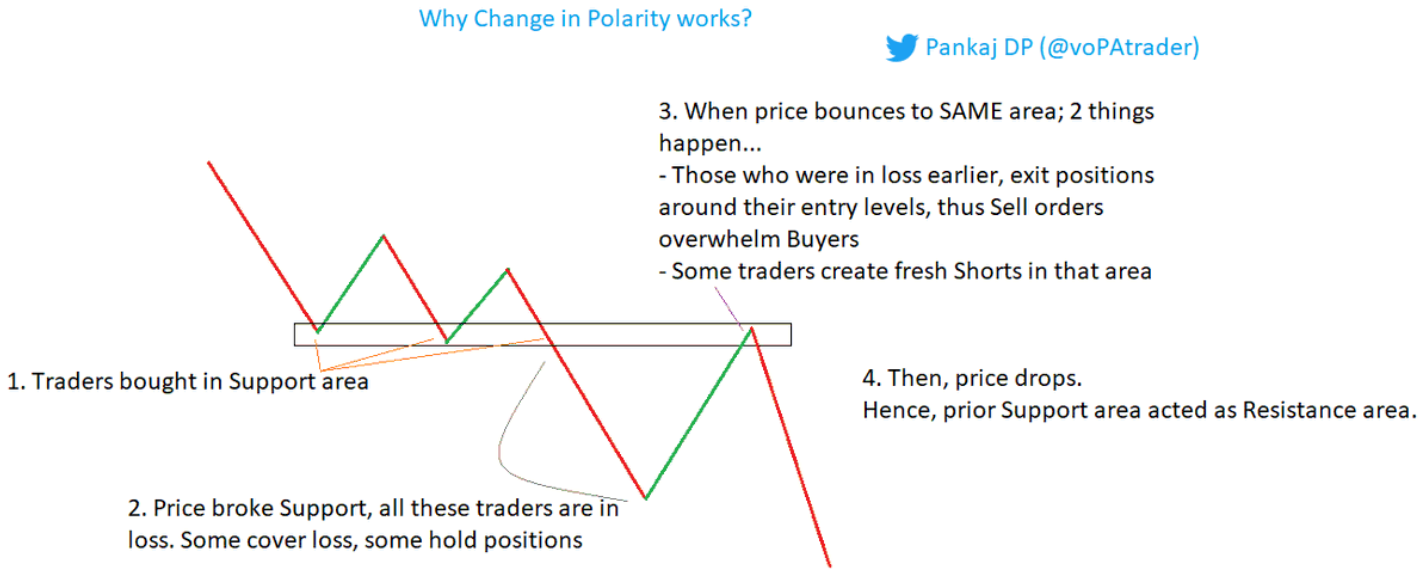
E.g. Why prior Support acts as Resistance?
If u have such questions related to Data/ TA, DM me. If possible, I shall incorporate reasoning for that as well.....
#learning #stocks

Friends,
Here we go.....

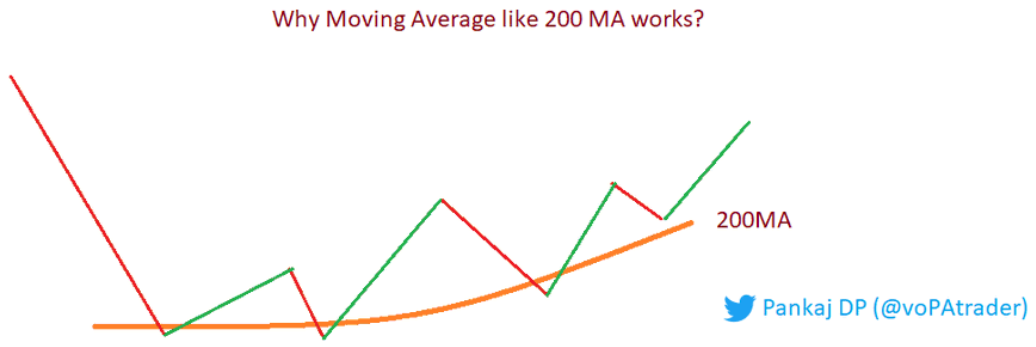
In this running thread, I shall explain my understanding/ observations on WHY aspect of Trading/ Investing/ Market analysis..

#trading #StockMarket

1. WHY Support turns Resistance and vice versa....



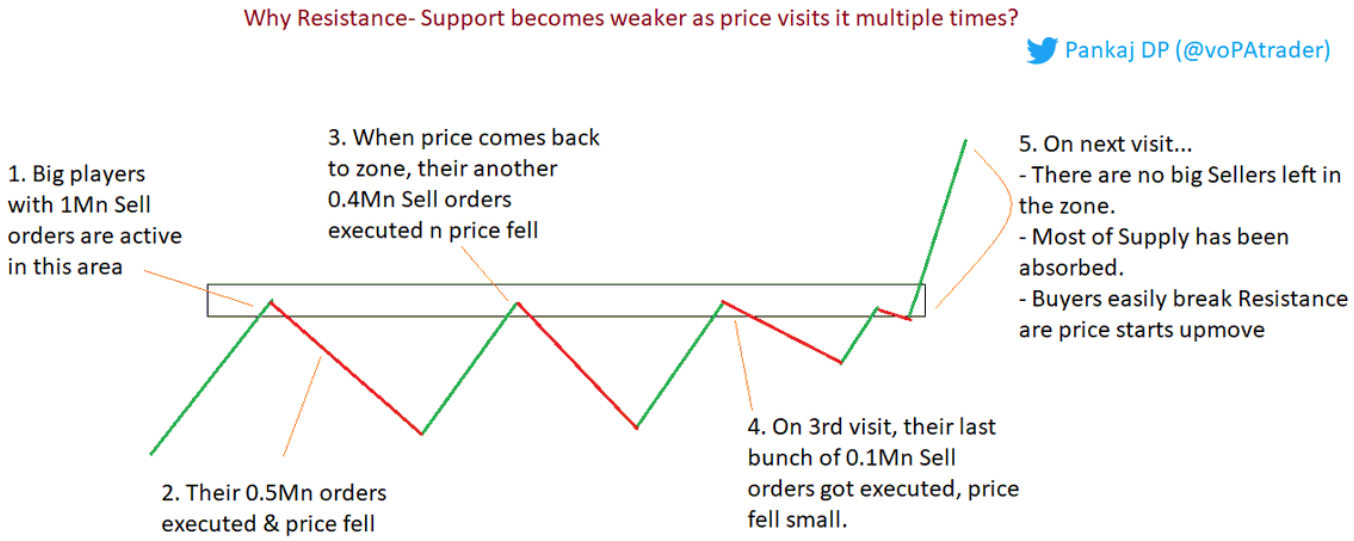
2. WHY few MA (like 200) work, sometimes?



Self fulfilling prophecy:
Any MA in itself does not have power to predict market moves or act as Support-Resistance.
But, prominent ones like 200/ 50 MA, are followed by large number of market participants. If price drops towards MA and those participants believe MA will act as Support, they buy. As more and more participants buy, area around MA acts as Support and price bounces. (Vice versa for Shorts)

Such MAs work better on higher timeframes, as big players might use it as filter & have longer term view.

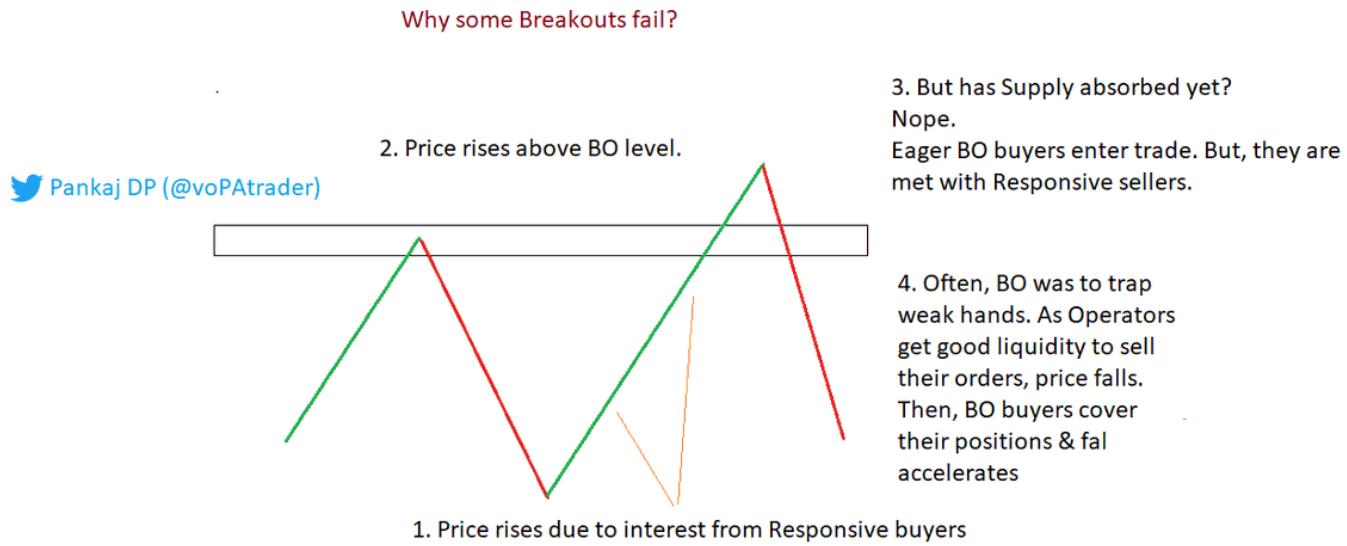
3. WHY Support/ Resistance are more likely to break after multiple visits?



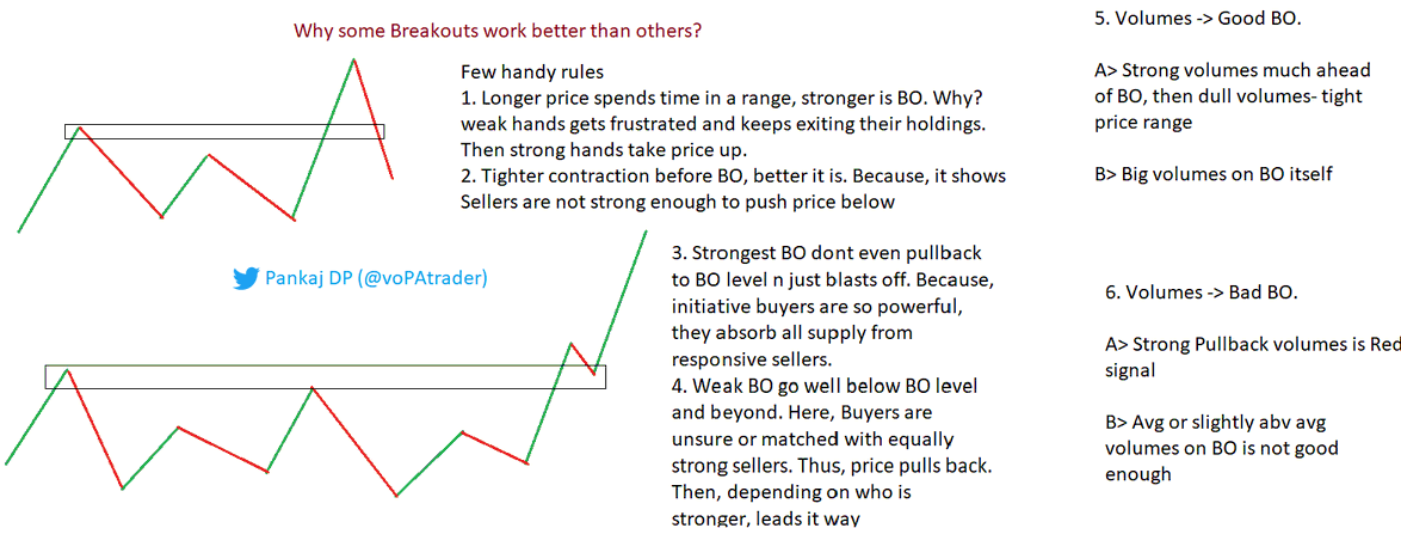
4. WHY scrip falls despite good news? (or rises after bad news)



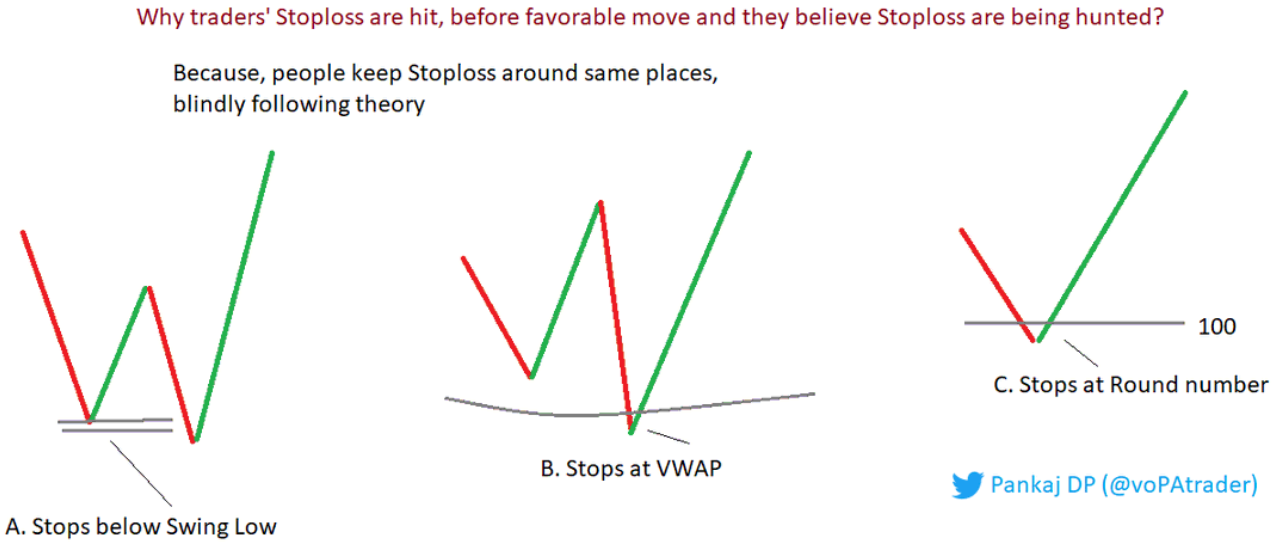
5. WHY some Breakouts fail?



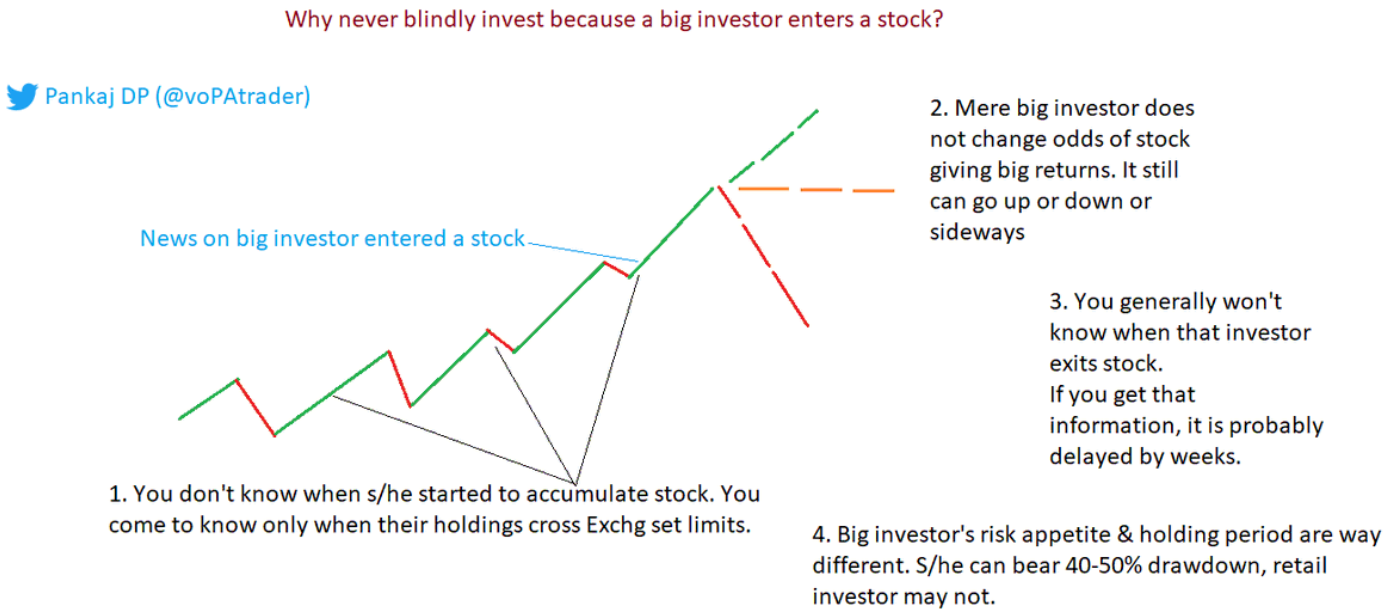
6. WHY some Breakout work better than others?



7. WHY often traders experience Stoploss are hit & then move happens?



8. WHY should not we follow any big investor, blindly?



9. WHY price moves big, despite average prior volumes?

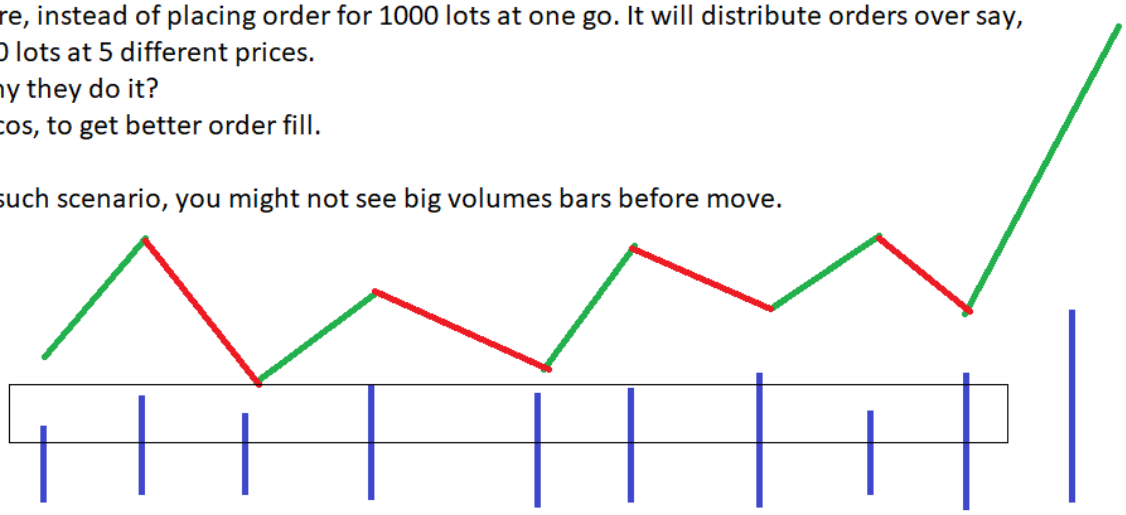
Why price moves sharply, even if scrip had average volumes over many candles?

- Generally sharp price move are preceded by big volumes. But, this is not valid all the time.

Pankaj DP (@voPAtrader)

Specially in trading, Algos use something called Volume Slicing.
Here, instead of placing order for 1000 lots at one go. It will distribute orders over say, 200 lots at 5 different prices.
Why they do it?
Ofcos, to get better order fill.

In such scenario, you might not see big volumes bars before move.



10. WHY Bid- Ask spread is critical part of any trading system?

Why Bid- Ask spread is important for traders?

Pankaj DP (@voPAtrader)

Check these 2 examples.
NIfty- Banknifty Options are extremely liquid and often has spread <1% of premium.
But, Stock Options have wider spread. Often 2-3%, sometimes even 5%

	Banknifty	XYZ
Lot size	25	1000
ATM Options premium	200	20
Spread	**1%**	**3%**
Lots taken	4	1
SL in system	180	18
Actual exit	178	17.5
Expected loss	-2000	-2000
Actual loss	-2200	**-2500**

In this example, because of better Spread, you save Rs.300 by trading BNF vs XYZ stock.

When Spread is higher, and your Stoploss is hit, you will have higher slippage.

In this example, SL in system was 18. But got executed at 17.5

Thus 2500-2000=500. This much money lost due to slippage.

We can not eliminate this cost. But we can trade only those scrips which are liquid.
While backtesting, always incorporate Spread costs specific to instrument you are testing.

11. WHY taking variable risk is better approach than uniform risk?

Why taking variable risk is better approach than fixed risk?

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Suppose you can bet on India winning in each scenario

Sr no.	ODI match	Scenario	Odds?	In Trade parlance, setup is..
1	AUS vs IND	IND chasing 350 at Perth	Very low	Falling knife
2	AUS vs IND	IND chasing 250 at Kotla	High	Good
3	ENG vs IND	ENG chasing 300 at Lords	50-50	Average
4	ENG vs IND	IND chasing 180 at Pune	Extremely high	Ace

Does it make sense to bet same amount of money in all 4 scenarios?

I do not think so....

What will I do, in above scenarios?
Scenario 1. Risk 0.25% of capital or better, No trade
2. Risk 1%
3. Risk 0.5%
4. Risk 2%

In long run, performance will be better than, risking same amount in each scenario.

Note: For this approach to work, you must know which of your setups work best, in which market scenario. Trading journal/ log can help you there.

12. WHY chart patterns work sometimes and completely fail other times?

Why sometimes chart pattern work, other times don't? (E.g. H&S, Pennants)

1. Remember, chart patterns are like footprints. They indicate which way deer has gone & likely headed. But they can not direct deer to change direction.

2. More prominent the pattern, less likely it is to work. Remember, if you and I can see the pattern, so can Operators/ Algos/ Pros etc



3. Than getting fixated over chart patterns, understand sentiments behind their formation, in current market context.

4. Use chart patterns, to identify better Reward/ Risk trade setups. But not to predict market

5. Odds of any pattern working remain.... 50-50.