

## 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**

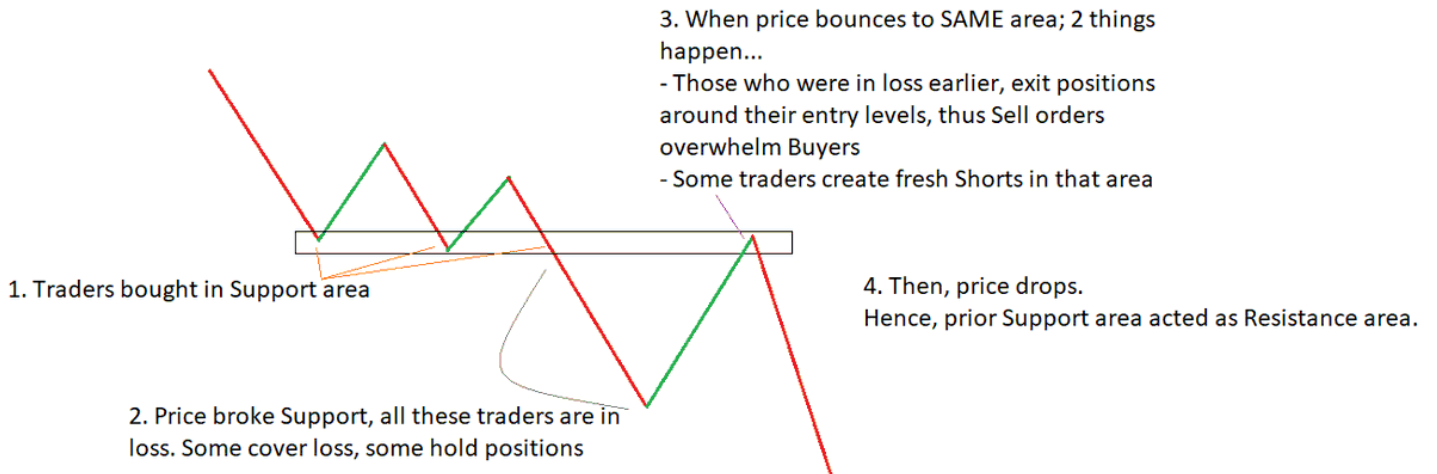
Friends,

Here we go.....

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

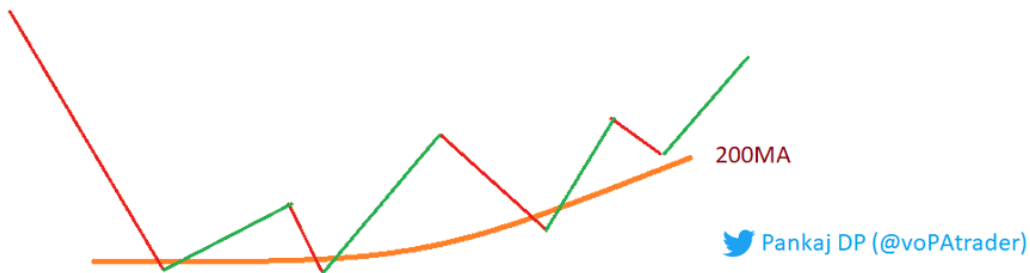
#trading #StockMarket

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



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

### Why Moving Average like 200 MA works?



#### Self fulfilling prophecy:

Any MA in itself does not have power to predict market moves or act as Support-Resistance.

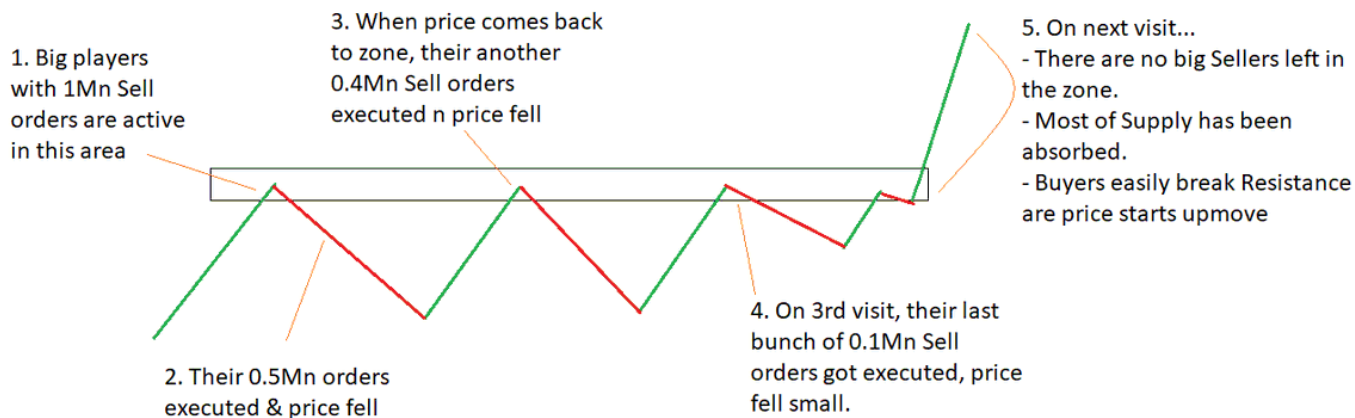
But, prominent ones like 200/ 50 MA, are followed by large number of market participants. If price drops towards MA and those participants believe MA will act as Support, they buy. As more and more participants buy, area around MA acts as Support and price bounces. (Vice versa for Shorts)

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?

## Why Resistance- Support becomes weaker as price visits it multiple times?

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

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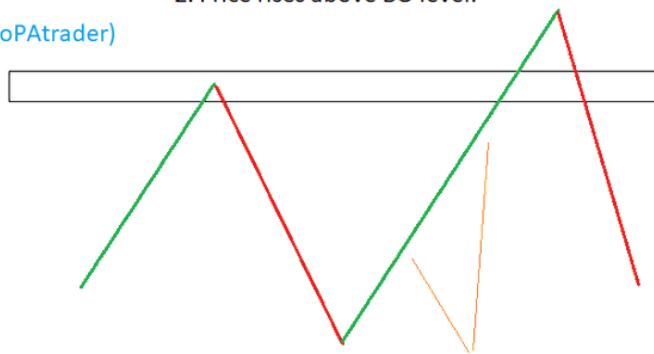
### Why stock falls after Good news/ event?



## 5. WHY some Breakouts fail?

## Why some Breakouts fail?

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2. Price rises above BO level.

1. Price rises due to interest from Responsive buyers

3. But has Supply absorbed yet?

Nope.

Eager BO buyers enter trade. But, they are met with Responsive sellers.

4. Often, BO was to trap weak hands. As Operators get good liquidity to sell their orders, price falls. Then, BO buyers cover their positions & fall accelerates

## 6. WHY some Breakout work better than others?

### Why some Breakouts work better than others?

Few handy rules

1. Longer price spends time in a range, stronger is BO. Why? weak hands gets frustrated and keeps exiting their holdings. Then strong hands take price up.

2. Tighter contraction before BO, better it is. Because, it shows Sellers are not strong enough to push price below

3. Strongest BO don't even pullback to BO level n just blasts off. Because, initiative buyers are so powerful, they absorb all supply from responsive sellers.

4. Weak BO go well below BO level and beyond. Here, Buyers are unsure or matched with equally strong sellers. Thus, price pulls back. Then, depending on who is stronger, leads it way

5. Volumes -> Good BO.

A> Strong volumes much ahead of BO, then dull volumes- tight price range

B> Big volumes on BO itself

6. Volumes -> Bad BO.

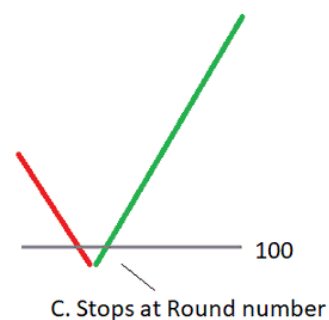
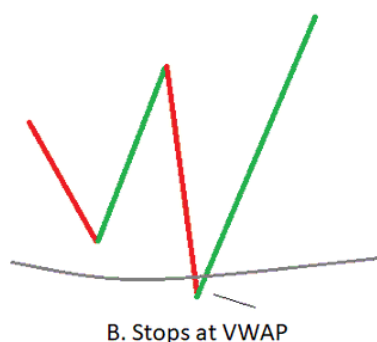
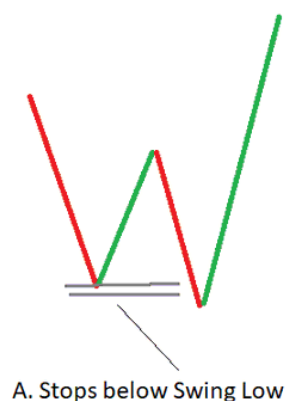
A> Strong Pullback volumes is Red signal

B> Avg or slightly abv avg volumes on BO is not good enough

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

### Why traders' Stoploss are hit, before favorable move and they believe Stoploss are being hunted?

Because, people keep Stoploss around same places,  
blindly following theory



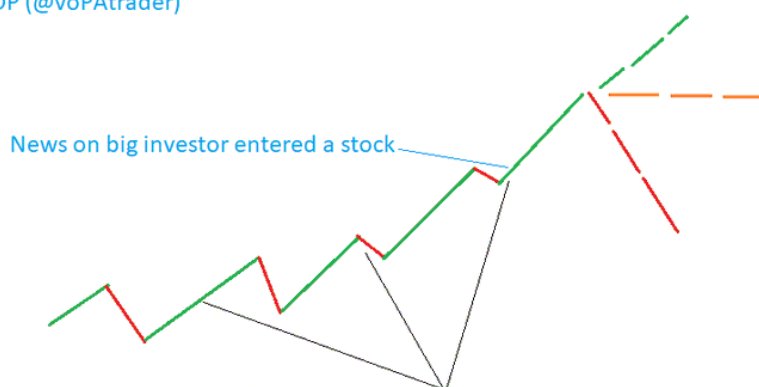
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Don't keep Stoploss at obvious places.

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

#### Why never blindly invest because a big investor enters a stock?

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1. You don't know when s/he started to accumulate stock. You come to know only when their holdings cross Exchg set limits.

2. Mere big investor does not change odds of stock giving big returns. It still can go up or down or sideways

3. You generally won't know when that investor exits stock. If you get that information, it is probably delayed by weeks.

4. Big investor's risk appetite & holding period are way different. S/he can bear 40-50% drawdown, retail investor may not.

### 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.

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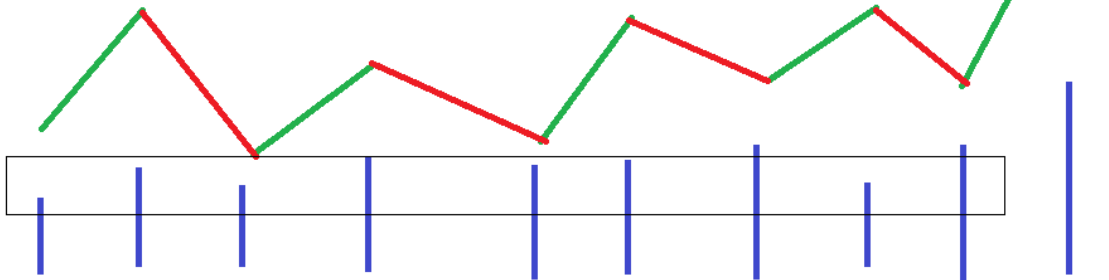
Specially in trading, Algos use something called Volume Slicing.

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?

Check these 2 examples.

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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.

