Dealing with Volatility – Trading Coaches Playbook 10/13/23

<u>What is volatility?</u>

Historic/Statistical Volatility – Chart, past price movement

Implied Volatility – Expected price movement in the future

Increased Volatility = Bigger price moves in the future – Larger profits and larger losses

<u>Measuring Volatility</u>

ATR – Average True Range – Measure of volatility

Range – the distance between the high and the low

True Range - the distance between the high and the low including any gaps from the previous trading session

In a strong trend, usually 60 to 80% of the ATR will be with the trend

<u>Volume</u> = number of contracts traded.

<u>Open Interest (OI)</u> = The number of contracts in existence, OI starts at zero, only when the contract is first available to be traded. Volume starts at zero every new trading day.

- Increases – Someone Sells/Writes a new contract to open a short position, and they sell to a new buyer who is creating a long position. Volume will increase.
- Stays the Same – Trader with a long position sells to exit. The buyer is opening a new long position. The interest, contract, has been transferred. Volume goes up.
- Decrease – A trader with a long position sells their contract to exit, and the buyer is closing an existing short position in the contract. Both parties are closing positions. Volume will go up.

<u>Risk Management</u>

We can only control how much we will lose in the markets

To increase reward, you must increase risk. You cannot have one without the other.

1. Size – Larger contract or more size = higher risk
    a. Types of contracts – Standard, Mini's, and Micros
    b. Minimum Volume for day trading > 20,000 contracts
    c. Minimum Volume for Swing Trading > 5000 contracts
    d. You choose the number of contracts to trade – more contracts = greater risk
2. Frequency – Number of trades taken
    a. We should be selective in trading

    b. Take only high-quality trading opportunities
    c. Judge and jury – You make the decision to trade or not to trade, weigh the evidence
    d. You are also both attorneys. You present the evidence for the trade, and why you should not take the trade.
3. Duration – Length of the trade
    a. How long are you in the market for the position?
    b. Directly related to what timeframe charts you use.
    c. If your charts are less than 60 minutes, you are likely day trading
    d. Risk reduced
        i. If you don't hold overnight
        ii. The zones are smaller on smaller time frame charts, so you enter closer to your stop loss

Scalping – short intraday trade

1. Duration = low risk, holding period for the trade is small
2. Frequency – higher risk because of more trade opportunities
3. We can control risk from the size selected

Day Trading

1. Duration = low risk, holding period for the trade is small & overnight risk is eliminated
2. Frequency – higher risk because of more trade opportunities
3. We can control risk from the size selected

Swing Trading

1. Duration = medium to high because you are holding overnight or over the weekend
2. Frequency – there are fewer trades than daytrading
3. We can control risk from the size selected

Position Trading

1. Duration – Greatest risk
2. Frequency – Low because there are fewer trade opportunities
3. We can control the risk best from size