

5 Idiotic Retail Trader Mistakes

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Global Webinar

Institute of Trading and Portfolio Management

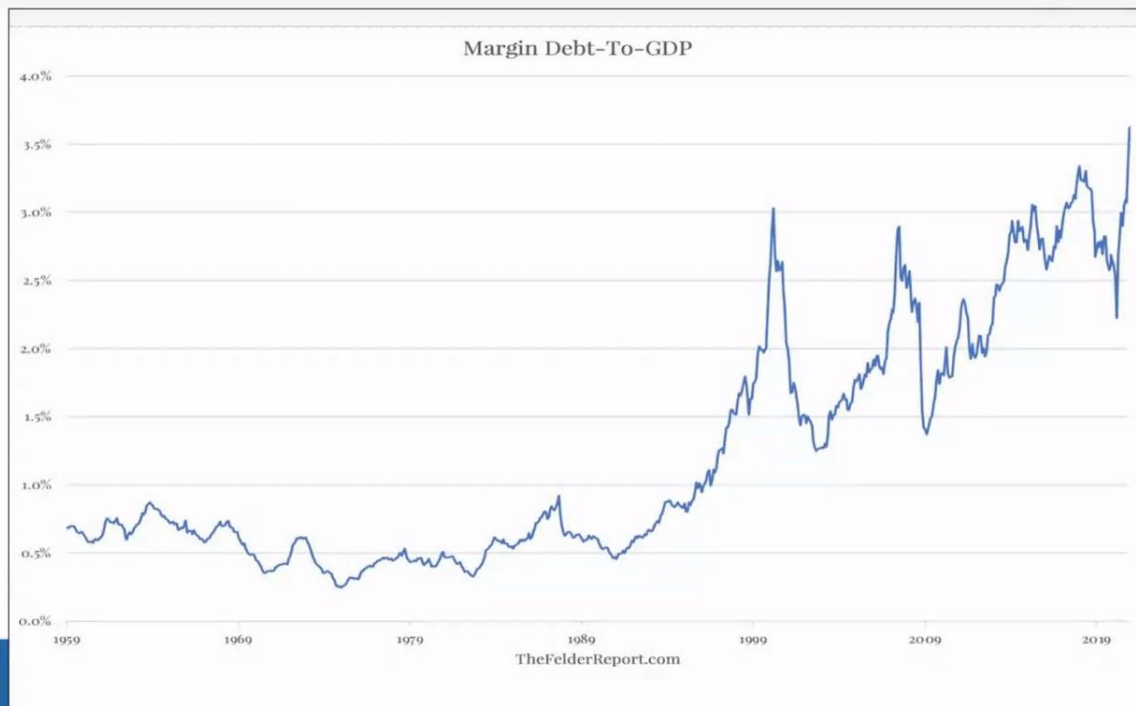
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2. CHASING BUBBLES?



CHASING BUBBLES?



WHY DO PEOPLE CHASE BUBBLES?

"Hacks" – Short Cuts and Hacks to extreme wealth

FOMO – Fear Of Missing Out

Joining "Hot Stocks" Chat Rooms. Host will have multiple Chat Rooms to diversify risk of blow ups and negative information being spread about the Host.

Following recommendations from Social Media Charlatans / Marketers who engage in pumping narratives.

Pump & Dump – One of the oldest tricks in the book.

Reading blogs etc i.e. Copy Trading and chasing MSM & Social Media narratives – Most recent example Wall Street Bets (Reddit)

The essence of YOLO - By the time it's in the news or being pushed, you are the fools that are buying.

I buy first, the "Plebs" (Plebeians) buy next, I sell my position to the last bunch of "Plebs."

How do you make \$ out of this? The greater fool theory...(this is not a process!) - You are being manipulated so the 1st guys can get out

Complicit Financial System – Retail Brokerage platforms (infrastructure) that are designed to facilitate Bubbles

WHY DO PEOPLE CHASE BUBBLES?

“Plebian” Definition

A member of the lower or common class of people in society.

The term originated in ancient Rome to describe a commoner of Rome who is unsophisticated and doesn't appreciate the arts.

In modern slang “Pleb” is a derogatory term used typically to describe lower / working class people who are unsophisticated at anything.

In Financial Markets it is frequently used by Wall Street to describe Retail Traders.

“let me know when the Pleb's are buying”

“are the Plebs selling yet?”

WHY DO PEOPLE CHASE BUBBLES?

The Set Up - Hacks, Short Cuts, FOMO, Pump and Dump, YOLO, Greater Fool Theory.

Distribution – Retail Brokers, MSM (TV, Newspaper, Web Clicks, Notifications), Social Media, Blogs, Chat Rooms, Copy Trading.

Conditions necessary for it to work;-

All of this is nothing new. Its been around for as long as markets have existed. It's just a different format!

Most important thing. You need millions of Plebs (Plebian) to buy into it!

Plebian Condition 1 = Must work a 9-5 job (when markets are open) or run a business and be short on time.

Plebian Condition 2 = They must prioritize family, friends, hobbies and interests above Financial Markets – again short on time!

Plebian Condition 3 = Must be full on or semi financially illiterate i.e. totally / partially unsophisticated

Plebian Condition 4 = Nice and trusting people with a positive World View and no Skepticism / Cynicism / Attention to Detail

Plebian Condition 5 = Must have at least a few hundred or a few thousand Dollars

WHY DO PEOPLE CHASE BUBBLES?

Professional Traders follow a Systematic Process

Unsophisticated Retail Traders (the vast majority) go from one narrative to the next... narrative follows price!

The narrative gets louder and louder the more the price goes up. Journalists, like most sports pundits, are behind the curve. They report looking backwards.

Professional Traders are forward looking animals, **NOT** trading the present or, even worse, the past

Looking ahead to work out what's coming via process i.e. Maths, Fundamentals & Probabilistic outcomes.

Questions to ponder:

How can you obtain consistency doing anything in life unless you have a consistent process?

What does "Winning" in the game of Trading actually look like?

How can you hope to become consistently profitable in trading if your trading process is random and changes every week / month?

3. LET'S TALK ABOUT INFRASTRUCTURE

Many of you will have heard of Robin Hood

Free trading app/platform catering to low \$ value retail traders

Robinhood saw 4.3 million Daily Average Revenue Trades(DARTs) in June 2020 - outperforming all the publicly traded, incumbent brokerage firms. This is the first time they published monthly trading data

Over the Wall Street Best fiasco in January they opened 600,000 new trading accounts!

Robin Hood Data also shows that traders were mostly trading the popular names (AMZN, TSLA, AAPL, etc.) during the 2020 and punting them around

The data showed the majority of Robin Hood traders lost considerable money even in this great trading environment and with commission free trading

If they don't charge commission how does this business make money?

INFRASTRUCTURE: THE ROBIN HOOD MODEL

Robin Hood gamifies trading & investing. It sends regular push notifications to users about their individual stock positions

When a user makes their first trade, digital confetti “falls” inside the app. It makes trading seem like another video game to play like Grand Theft Auto

The main pitch is that users can make unlimited free trades

Robin Hood charge an annualized rate of 5% on overnight financing or $5/365 = 13.7\text{bps}$ per day

This herds Retail Traders into very short term YOLO positioning and/or day trading i.e. close positions before market closes.

The vast majority of Retail Day Traders lose all their money 97% in first 12 months

Alternatively, it induces long YOLO Options positioning i.e. downside = premium paid

It is even more dangerous for Retail Traders when trading Options because most don't understand them.

INFRASTRUCTURE: THE ROBIN HOOD MODEL

SO HOW DO YOU MAKE \$ IF YOU DON'T CHARGE COMMISSION?

EASY! SELL YOUR ORDER FLOW

On a per trade basis RH makes approx. 45c per order. Therefore, the platform still makes \$ every time you trade

The buyer of the order flow makes \$ when they exceed 45c on your order

This is the very clear *****Conflict of Interest***** that has replaced the MAX revenue = (volume X price X comm rate) conflict

It's just a different way of profiting from encouraging you to trade as often as possible in losing strategies. Effectively someone else is paying the Commission for you but it still requires you, the Retail Trader, to trade as frequently as possible and lose so they make a turn!

Again, **new variation of an old theme**

KEY TAKEAWAY: **the infrastructure is not there for you as a goodwill gesture.** It's there to generate profits from your trading. Selling the order flow has replaced the old comm/market-making model

Retail Traders fall for this nonsense time and time again because most are full on or semi financially illiterate, exhibit no skepticism (positive World View) and / or are short on time i.e. don't have the time to research the industry properly.

4. NO PORTFOLIO CONSTRUCTION

Building a portfolio is all too often completely neglected by Retail Traders

A typical Retail Trader account will typically display highly concentrated risk with zero diversification

To trade properly in the current infrastructure you need 8-12 high conviction positions Long & Short, with bullish and bearish Stock and Option strategies

YOLO trades are **the ultimate in bad portfolio structuring** – using 100% of available margin in the account on 1 or 2 bets (ideas) that Twitter “trading gurus” have fed to you and that you’ve done zero research on

One market correction will see the weak hands (YOLO Call Options buyers who are “all in”) get wiped out

Yes, of course, some trades make money.

The roulette ball does land on Black 31 occasionally. We know who wins that game in the end!

Buying YOLO lottery tickets isn't a consistent way to make \$. That's a strategy for the mathematically challenged!

NO PORTFOLIO CONSTRUCTION

You will only ever come across the unicorn stories online, not the horror stories

The majority of Retail Traders end up losing most or all of their money Trading.

NOTE: What do we mean by the definition of “Trading?” A Trading account specifically designed to speculate and make money from financial markets short term

NOT a 401K or IRA that engages in investing and / or a blend of investing / trading – This is NOT “trading”

Globally, millions of Retail accounts experienced **forced liquidations** in March 2020 as **all** asset markets crashed March 16th & March 23rd

If you want to succeed consistently and in the long term as a trader you **MUST** choose to learn properly how markets work. It's the long way round, instead of taking short cuts and hacks but it is the right way.

Commitment is required (Time & Effort), and of course Capital (unless you're a Central Bank there is no magic money tree)

Trade Ideas + Trade Structuring + Portfolio Construction + Risk Management

With \$25,000+ capital and the **correct training** it is probable to make 50%-100% returns pa, with a Sharpe Ratio (R/R) of 2-3.

We will teach you how to build portfolios with 20%-30% annualized risk, with Options to get leverage & **with no need to be concentrated**

5. FOLLOWING SQUIGGLY LINES TO GENERATE TRADE IDEAS

Generating trade “ideas” from the tea leaves/hocus pocus AKA Technical Analysis...

Question:

Do you honestly believe that the brightest and best Professional Traders globally generate their trade ideas across multiple asset classes and deploy billions of \$ into those ideas, based on the 200-day MA, RSI and MACD of a financial instrument?

Or perhaps \$20Bln Hedge Funds change their strategic positioning designed to benefit from a specific event(s) because the Ichimoku Cloud says their may be “Support” or “Resistance” at a particular level?

Answer: OF COURSE NOT! DON'T BE RIDICULOUS!

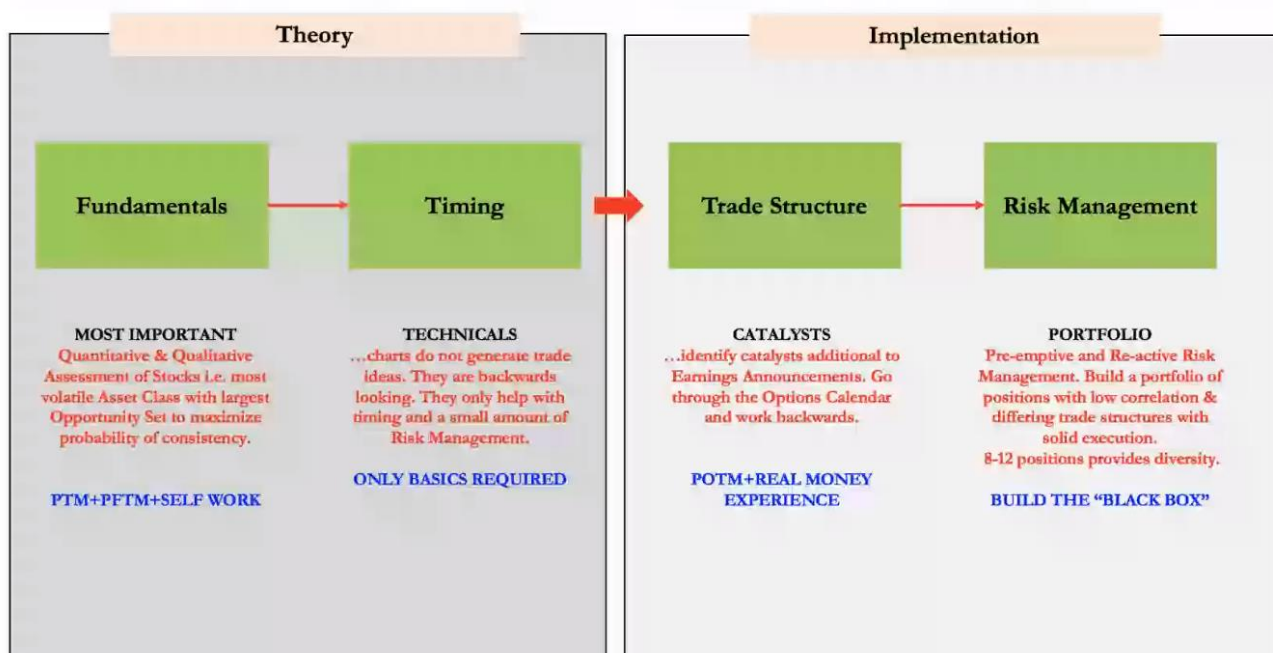
Technical Analysis is not a tool used by Pro's to generate Trade Ideas.

There is a place for Technical Analysis but **it is most definitely not** part of the Fundamental Trade Idea Generation process

The role of TA is minor and comes at the end of the Trade Idea generation process, as an aid that may (or may not) help to time entry/exit of positions slightly better.

Again this is BS that's sold to Retail as a solution i.e. a hack or short cut, preying on naivety, financial illiteracy and laziness.

Pro' Trader Systematic Process / Long Short Portfolio Management 20-60 days Time Horizon



The Competency Hierarchy

The 4 Steps of Learning Applied to Trading The Competency Hierarchy

PROFESSIONAL TRADERS

Unconscious
Competence

I can do it right by applying the knowledge and making money without thinking about it too much.

Conscious
Competence

I know how to do it right but I may need help and real world practice implementing the knowledge.

Conscious
Incompetence

I now know I'm doing it wrong. I have the right information to enable learning and application.

RETAIL TRADERS

Unconscious
Incompetence

I've got no clue what I'm doing but I think I do (delusion / denial / lies).

5 Idiotic Retail Trader Mistakes

- | | |
|--------------------------------|-------------------------------------|
| 1. Dependency / Copy Trading | - no process |
| 2. Chasing Bubbles | - no process |
| 3. Infrastructure Naivety | - financial illiteracy |
| 4. No Portfolio Construction | - no process + financial illiteracy |
| 5. Believing in the Tea Leaves | - TA is the symptom not the cure |

Which is the worst and why?

What you should take away from today;-

- i) Stop running around in circles forever chasing your tail
- ii) Buying a ticket to the inside is costs a lot less than being on the outside
- iii) Do what is necessary to become a consistently profitable trader and Win!

No Short Cuts!

Today's Deals;-

PTM Video Series 12 months for \$1,195

Saving = (\$2,999-\$1,195) = \$1,804

PTM + POTM Video Series 12 months for \$2,495

Saving = (\$2,999 X 2) - \$2,495 = \$3,503

PTM + POTM + PFTM Video Series 12 months for \$3,595

Saving = (\$2,999 X 3) - \$3,595 = \$5,402

***All new subscribers to these deals will receive a War Room ticket for \$200 saving \$600**

Deals expire on Sunday Feb 28th @ midnight EST

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