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MASTER CLASS ON CAPITAL PRESERVATION

How not to lose your Capital while investing

a tutorial by
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IF YOU'RE READING THIS

There is a likelihood that you want to become a better trader or you lost a lot of capital recently and have decided to get better.

Congrats, you're already on a good path.

Losses will occur, no matter what you do but if you don't have an active loss prevention plan, you will lose your Capital.

"...note that none of it is ever carved in stone. I firmly believe, though, that the more a trader adheres to a strict set of entry and exit rules, the less likely he is to fall prey to the challenges of the emotional kind." - J. Murphy

The difference between a skilled trader and a profitable trader is that the profitable trader has the skills and the humility to learn from the losses.

Murphy emphasizes on **STRICT** and Set Entry and Exit.

And says that Emotion is the biggest enemy of trading.

Many people say
"*Investing needs no emotions*"

But what are emotions?

Examples below:

1. Hoping for Price to go up or down.
2. Hoping for Price to reverse.
3. Listening to others who have the same opinion has you to assurance.

Hope in trading is the emotion.

Skills are easy, using skills to generate profit is difficult.

I have lost my capital over and over again, even though my trading system was good, I would blow-up my account. The same experience was faced by Salsa Tekila as he has many times described.

The truth is, if you're raising lambs, wolves WILL come to attack you. Have a system in place to survive that attack.

I have lost my Capital a lot of times and there's nothing nice about losing 70-80% of your Capital or life savings for fun.

HODL doesn't mean to hold against the trend, HODL means to hold in the trend and buying at the right time. Your entry price and time decides the trend. Trend refers to market cycle with regards to your entry.

Eg. If you bought Bitcoin at 100 Dollars, there's no need to even think about managing a think. But if you bought it at 40-50K, there are things to decide.

If you agree that you don't want to lose 80-90% of your Capital in the HOPE to breakeven after 3-4 years, then read on.

Please know that I am trying to describe a lot of topics that Welle Wilder Jr. has tried to describe, but I will try to describe it in a simpler manner.

You will get a lot of question while reading the following and a lot of it will not make sense and you'll start questioning the teachings of Larry R. Williams , but still with it, you will get it all in the end.

Remember, when you hold a position in 80% Loss for 4-5 Years:

1. You're holding an asset that MAY never get to your breakeven point.
E.g. Many People bought XRP at 3.30 dollar and are still waiting for about 4 years to hit a break-ever.

2. You're holding an asset which you can ONLY HOPE to get back to your breakeven.

3. There's no guarantee if your price will come back to those levels.

All of the above might sound too harsh but when you look at the bright side, it will be clearer to you.

Answer the following question:
Which one feels right to you?

- Holding a 90% drawdown for 4-5 years and hoping for 900% pump to break-even. (A 90% Draw-Down needs a 900% pump to breakeven) in the chart below:

Loss	Increase to recover loss	Recovery / Loss
5%	5%	1.1
10%	11%	1.1
15%	18%	1.2
20%	25%	1.3
25%	33%	1.3
30%	43%	1.4
35%	54%	1.5
40%	67%	1.7
45%	82%	1.8
50%	100%	2.0
55%	122%	2.2
60%	150%	2.5
65%	186%	2.9
70%	233%	3.3
75%	300%	4.0
80%	400%	5.0
85%	567%	6.7
90%	900%	10.0
95%	1900%	20.0

- NOT enduring the pain of the above by managing Risk and losing only a little and then looking for other trades in ANY direction.

The most common question that people ask is:
'Why should we sell at a Loss?'
'Why should we sell when the price can reverse?'

Both the questions are absolutely legitimate but here is the answer- but to answer the question, “Why should we sell when the price can reverse?” consider another question:

"WHY SHOULD WE BUY IF THE PRICE CAN REVERSE?"

Shouldn’t the question be valid for both directions?

Here is what John Murphy has to say about having an exit plan.

> target (9). Since few trades will reach destination without suffering at least a little setback on the way, it's best to stay calm when this happens and just wait for the trade to recoup. Of course, never pleasant is to see a pullback suddenly eat back all the open profits on a trade and then even go on to challenge the stop. But it is vital to accept that this is an inevitable part of the trading game and best taken in stride. Cleverly pulling away a stop in the hopes of a favorable bounce (at 10?) *may* occasionally save a trade from annihilation, but it is a terrible practice to engage in and a losing proposition on the whole. Regardless of style and technique, one of the first tasks in trading, for any trader, is to learn how to take a loss gracefully.

Have invalidation points. Stick to them. Moving them, wishing for something else upon reaching them will lead to further misery. This is an expensive lesson if not learnt. Please read the above paragraph By Murphy very carefully.

Cutting losses doesn't mean selling, cutting losses means exiting when the market structure Changes.

Remember this: *if you don't change your trade when the market structure Changes, you're riding against the Wave.*

Eg. If you are riding sailing a boat, you would want to sail it in accordance with the direction of the waves for much ease. However if the Wave direction changes, you don't want to trade against the Waves.

Hence the need for change in direction of trading, cutting losses arises once the market structure Changes.

This is the sole and the only reason to cut losses, Change in Market structure.

Now, many people define market structure differently. Some people define it as the formation of higher highs and higher lows for a bullish trend. Formation of lower lows and lower high in a bearish trend.

Here is an example of new Lows being formed in a market structure.

Howsoever you define it, the truth is that you're defining a range to define a Market structure. Whether the price is going to or down or sideways, price is always inside a pattern, a Range.

Example of a horizontal Range below.

So from the above what we have concluded is that:

1.Market always forms a structure, it could be not obvious but it’s evident.

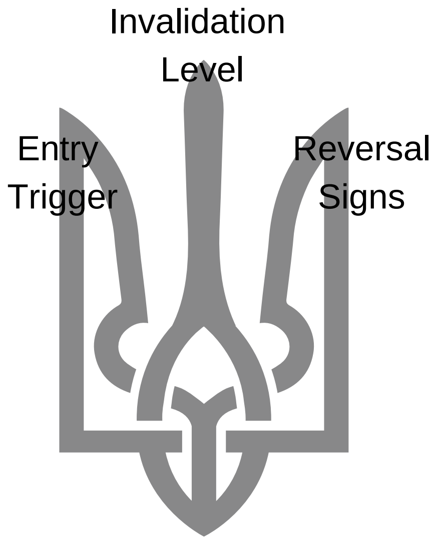
2.Trading in the same direction when the market structure change is not wise.

3.Market Structure can be formed by price forming HH and HL or LH and LL or a constant sideways movement.

When should you enter a trade?

The Trading Trident: Only enter when you have a clear "Trading Trident"

1. Entry Triggers as per your trading technique
2. Established invalidation levels (Stop loss)
3. Defined reversals (Profit taking)



Larry Williams said that it’s not important to buy the bottom or sell the top, but always know where and when to exit. PLEASE keep in mind that all of these statements are true for both Long and Short entries.

The premise of entering a trade is always, always at the range low or high. This applies for BOTH long and short trade.

Ranges can occur on ANY time frame, from weeks to Seconds.

Don't enter at the middle of a range.

What to look for?

Look for confluence.

Confluence

Confluence means more than one condition in favour of a trade.
This is where you enter on getting any kind of volume support.

The confluence can be of Volume Area High, POC, Fibs, horizontal supports or any other confluence.

We will learn about Volume Area High, POC in volume Profile.

How much should you enter with?

This is the most important part and please read this very carefully.

How much you should enter with always should be a constant percentage of your Capital. **E.g. 3%**

Many authors suggest 1% per trade but let's stick to 3% for example.

You might think, WHY Should I trade with Just 3%?

3% is the amount of Risk you're putting in.

Your Position size will depend on WHERE THE INVALIDATION level is.

To re-iterate, let's say you have 100K dollars and choose to risk 3%.

That's 3K Dollars.

IF your invalidation point allows you to have a 25x leverage, you can trade with a position size of 75K Dollars.

So the Trading size that we enter is 75K, risking just 3K.

Even if the worst situation arises, given if we're in an isolated position, we WILL ONLY LOSE 3% instead of 70-80% AND still trade with such big position size.

I know a lot of you still have a lot of Questions but keep reading, it will be answered.

Choosing Position

How to choose the position size or the leverage? And WHY only risk 3%?

Choosing Position size depends on the invalidation point, i.e. at what point the market structure change and the market will change its movement structure.

An invalidation level is where the market structure for the trade could potentially change. Remember, you trade in the direction of the market structure.

Market structure Changes, the trade should end. Simple?

The positioning of invalidation level depends on how you interpret the Market.

Here we will try to understand the same in charts

I will try to explain this using the recent fake-Breakout which lead to a lot of Loss for a lot of traders recently.

Entry would be at a re-test of the triangle. There are many places to place the stop loss, depending on how you're trading.

I prefer horizontal levels since it's to study them on the Order-Book. I am choosing the previous Breakout level to be my invalidation.

If the Price goes below this level, the market structure will change for me; we're no longer breaking out and are back to the same range.

The distance from the entry and Invalidation level (3%) in this case helps us determine the position size to be used.

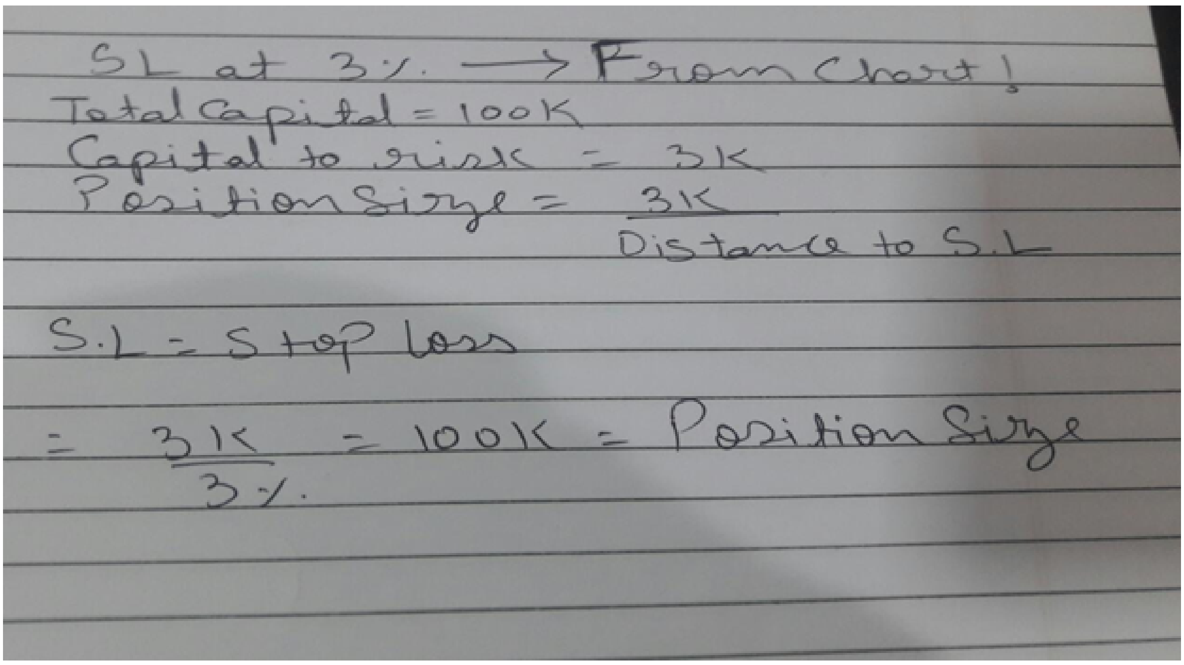
For example, let's say our Trading Capital is 100K Dollars.

We want to risk a maximum of 3% in each trade i.e. 3000 dollars

The Position size is defined as below:

Risk Amount : Invalidation Distance in Percentage

Hence in this trade we can trade with 100K worth of Position Size BY ONLY RISKING 3K Dollars.



1. If you're entering, you MUST have a reason for entering on the Chart.

2. If you have a reason for entry, there SHOULD BE A POINT where the reason is no longer Valid, on the Chart.

3. If the reason is no longer valid, conclusively, the reason to continue the trade should no longer be valid either.

Hence, HAVE AN INVALIDATION POINT.

ANY Entry must have the Scenario for an Exit, the reason for Entry and a condition or a price at which the reason for the entry gets invalidated.

That's the point you exit.

So before you enter, as yourself, WHERE IS MY EXIT LEVEL. And Stick to it.

The same Exact rule is applicable for ANY trade, whether it involves leverage or not.

Even if you're Buying Bitcoin in spot:

- Look at the Chart
- Look for the reasons for entry.
- Fix your Invalidation level.

People will say
'What should we sell if the fundamentals haven't Changed?'

1. The thesis involves both long and short entry, So it's not about selling.
2. The Question is about exiting a trade, you exit because the market valuation of the asset has changed, leading to a change in the market structure.
3. Are you in for the fundamentals or are you in for making Profits?

WHAT IF THE PRICE REVERSES from that level?

What If it's a fake break down or a break Breakout.

1. Fake moves happen far less then organic moves. We get so involved in fighting the fake moves that we don't capitalize on the organic Moves.

2. If the market can reverse (taking in context to both short and long entries), just enter again when seeing it reverse?

What sounds better?
Exiting to cut losses and entering again on reversal? (if it occurs)

OR

Not cutting losses and hoping for a reversal to occur (Which doesn't show any signs on the charts)

Remember the Words of Jack D. Schwager:

"He doesn't use any other tools to plan his investments, his HODLs.

He relies only on TA."

Charts tell you when the fundamentals are weakening. WHATEVER be your thesis for an entry, you have to put Capital preservation at the top most priority.

Have an Invalidation level, which TAKES into account fake Breakdowns, liquidity sweeps and gives enough margin for spoof orders to prevent you from being eaten up by fake movements.

Liquidity sweep has been briefly explained in the Horizontal range chart above.

In conclusion.

The sooner you realise that Capital preservation is your main aim, the better you will feel.

The more money you will make and the less emotional you will be.

HAVE ZERO emotions while cutting losses because you know you've set an invalidation level and that's where the market structure Changes.

That's where you exit from a Market and look for a new entry.

To my readers,

I hope this PDF has been useful to you in explaining why I always call for an invalidation level.

Remember, you need to have Capital left to participate in the market. If you let your Capital erode, you'll be a non participant.
Having said all of the above, if you've lost money, I hope you realise that it's not easy.

You need a Plan of Entry and Exit and a fixed one.
Make a Plan, stick to it. If you are feeling scared or not sticking to it, it means you didn't plan enough.

I hope what I've written gives you new perspective. I wish someone had told me the exact same things years ago, I'd be far ahead in the market.

You have an option to make your own mistakes or learn from mine.

In My Telegram, I have a section for Reversals, Risk Management and other tools to help you decide the exits. Please read them.

Also, if you're choosing to become a trader, please know that you CAN'T do it alone.

Trading is a lonely profession of you're a retail trader. Your friends won't understand what you do so conversations would be difficult.

Please take the time to get closer to friends and family, build solid relations. This is the only thing which will keep you sane.

Always here to Help and love you all.

Yours,
Emperor.