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July 22, 2021

The Small Exchange

The Mechanics of Day Trading

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Chief Commercial Officer
The Small Exchange

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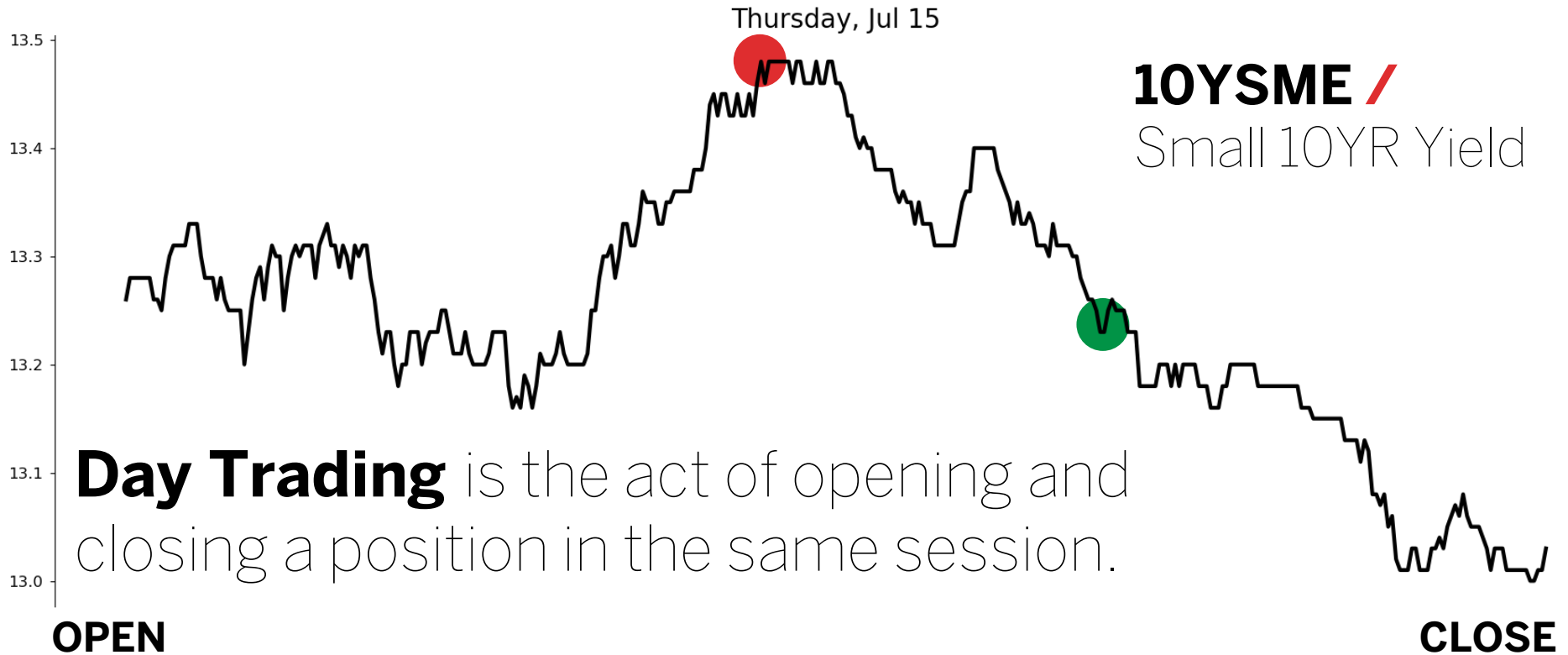
The Mechanics of Day Trading





Disclosure Time:

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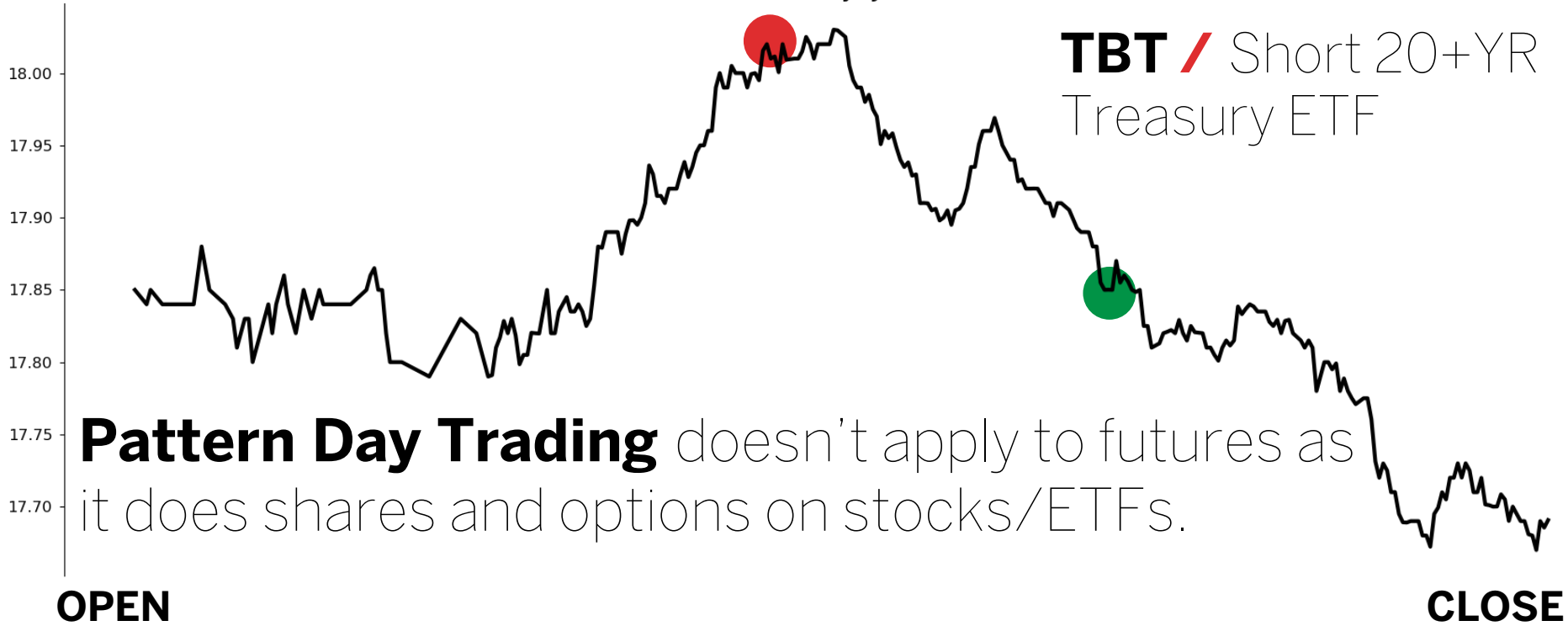


Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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Thursday, Jul 15

TBT / Short 20+YR
Treasury ETF



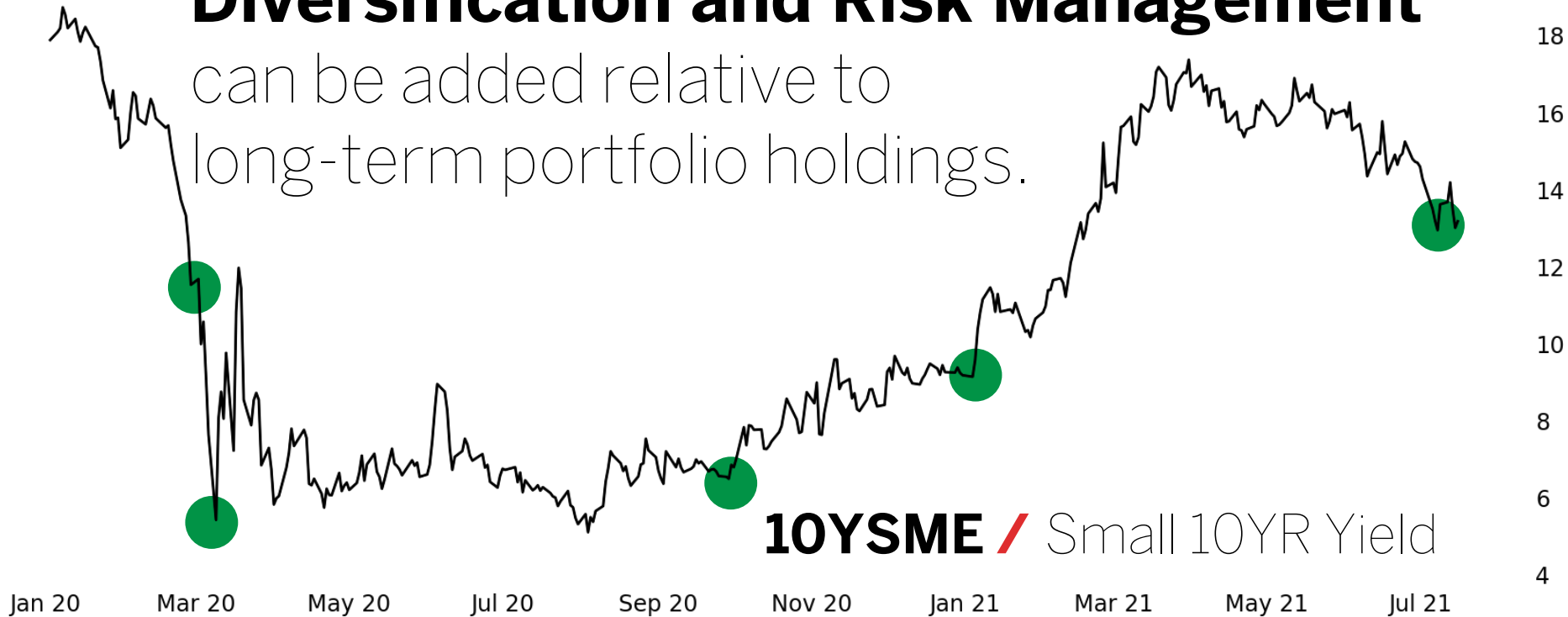
Pattern Day Trading doesn't apply to futures as it does shares and options on stocks/ETFs.

Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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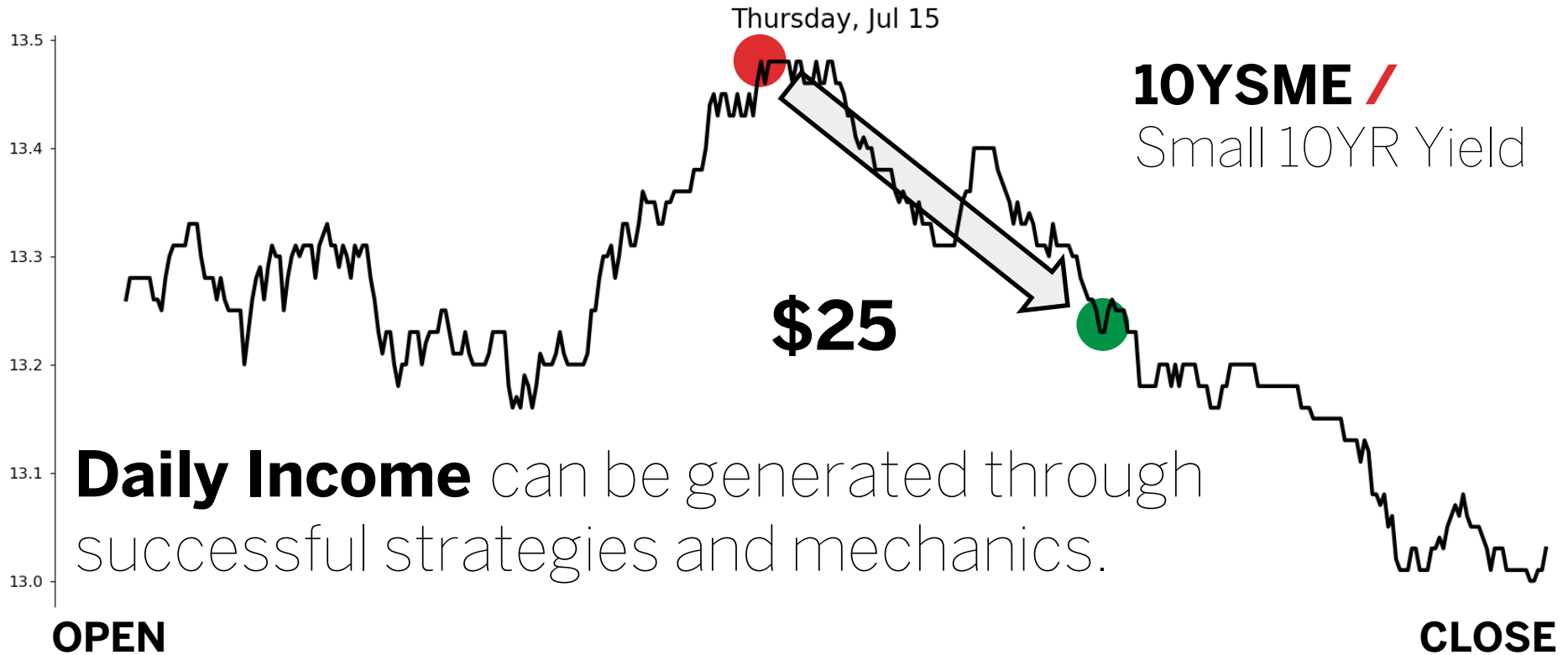
Diversification and Risk Management

can be added relative to long-term portfolio holdings.



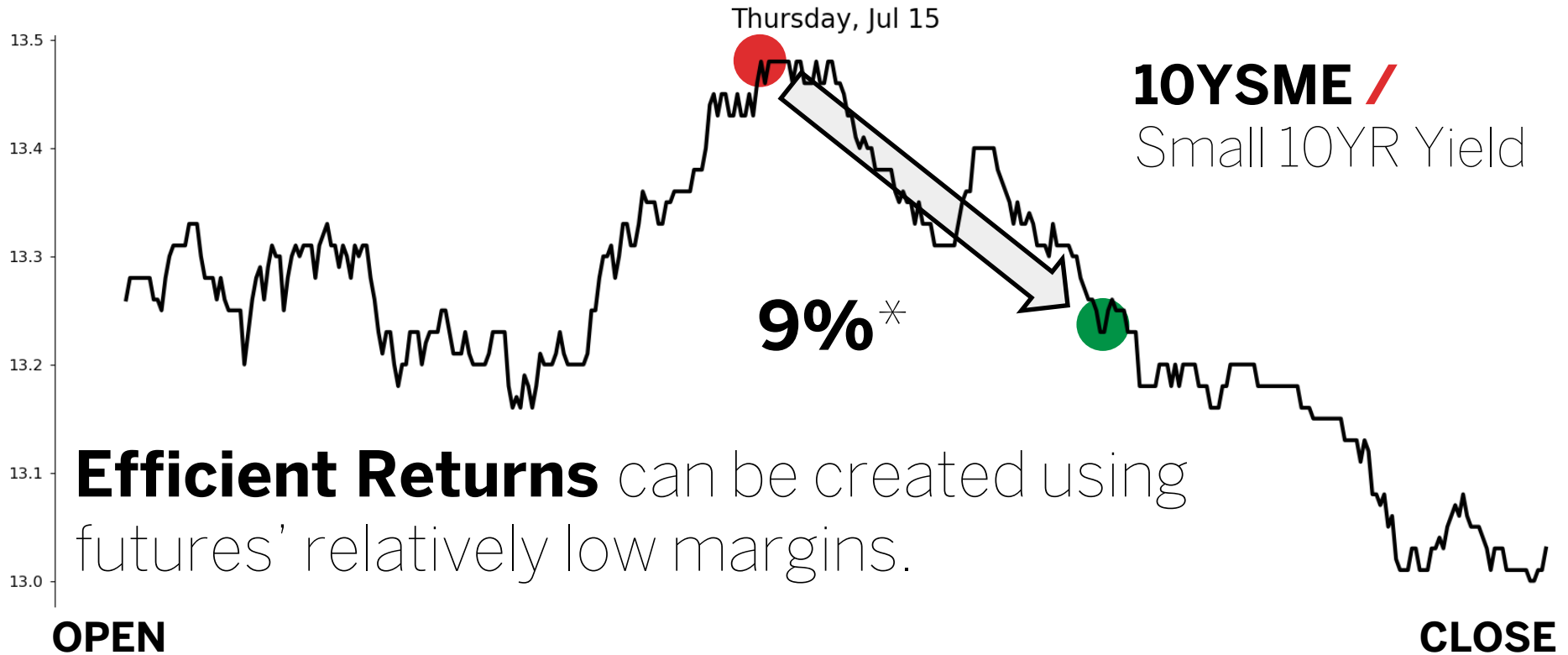
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*Calculated using \$25 example profit and \$225 initial margin as of 7/16/21

Source: dxFeed Index Services (<https://indexit.dxfeed.com>)

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Friday, Jul 16

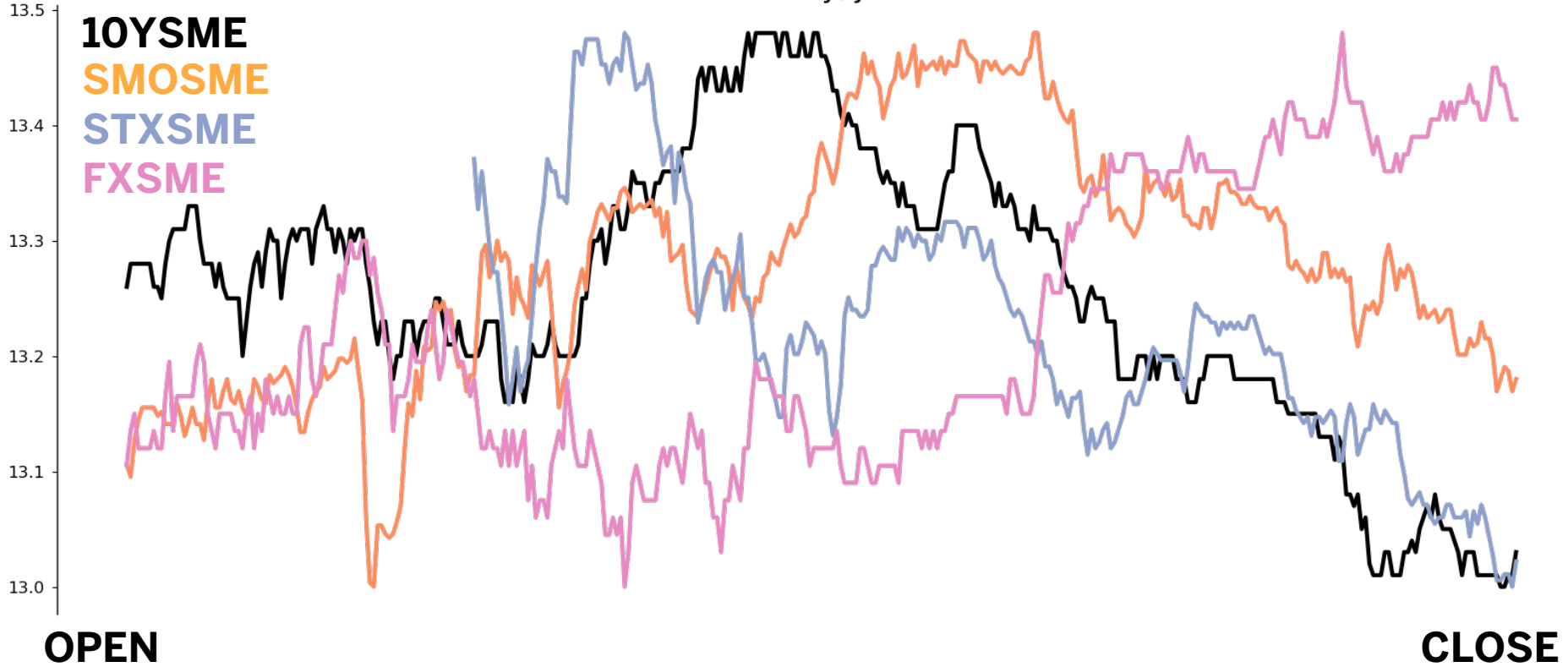
10YSME / Small 10YR Yield



Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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Thursday, Jul 15



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Wednesday, Jul 14

Day Trade Opportunity comes from large intraday movement.



Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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Thursday, Jul 15

10YSME /
Small 10YR Yield



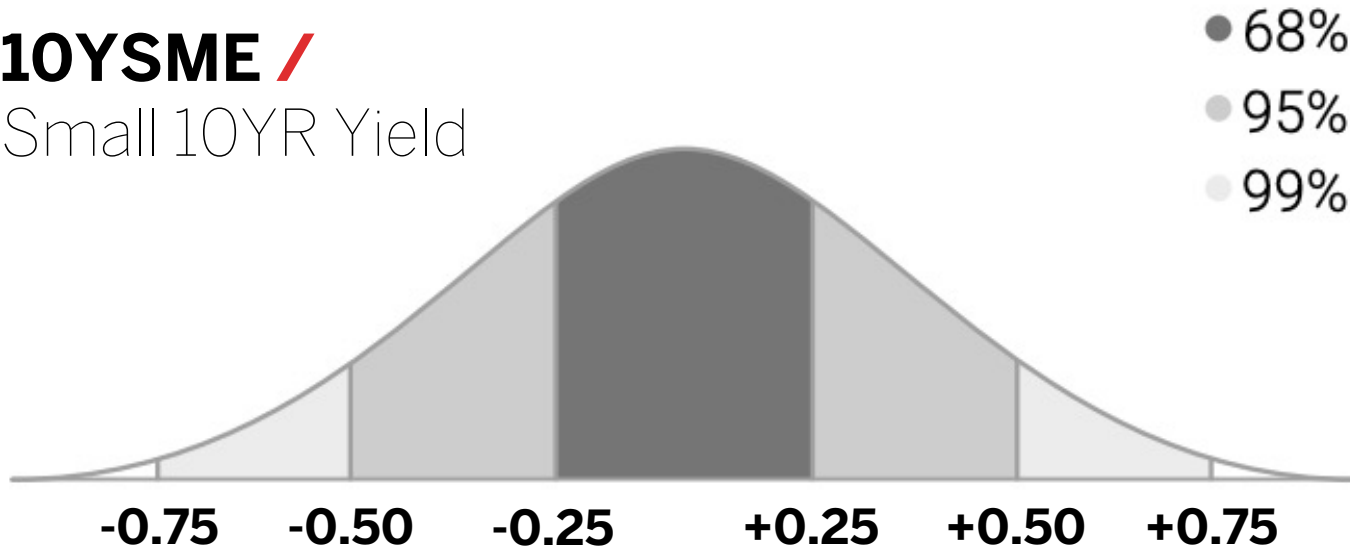
Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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A Day in the Life

Probability of daily net change inside these ranges

10YSME /
Small 10YR Yield

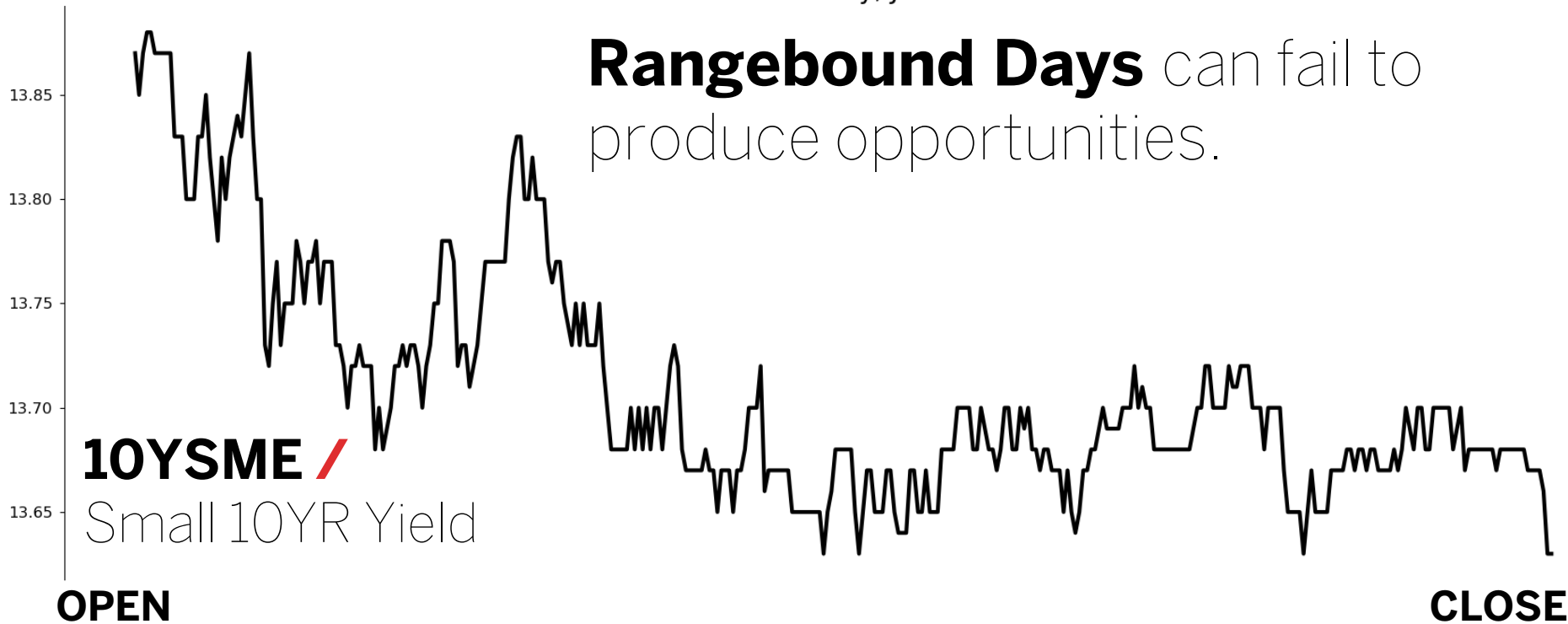


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Wednesday, Jul 14

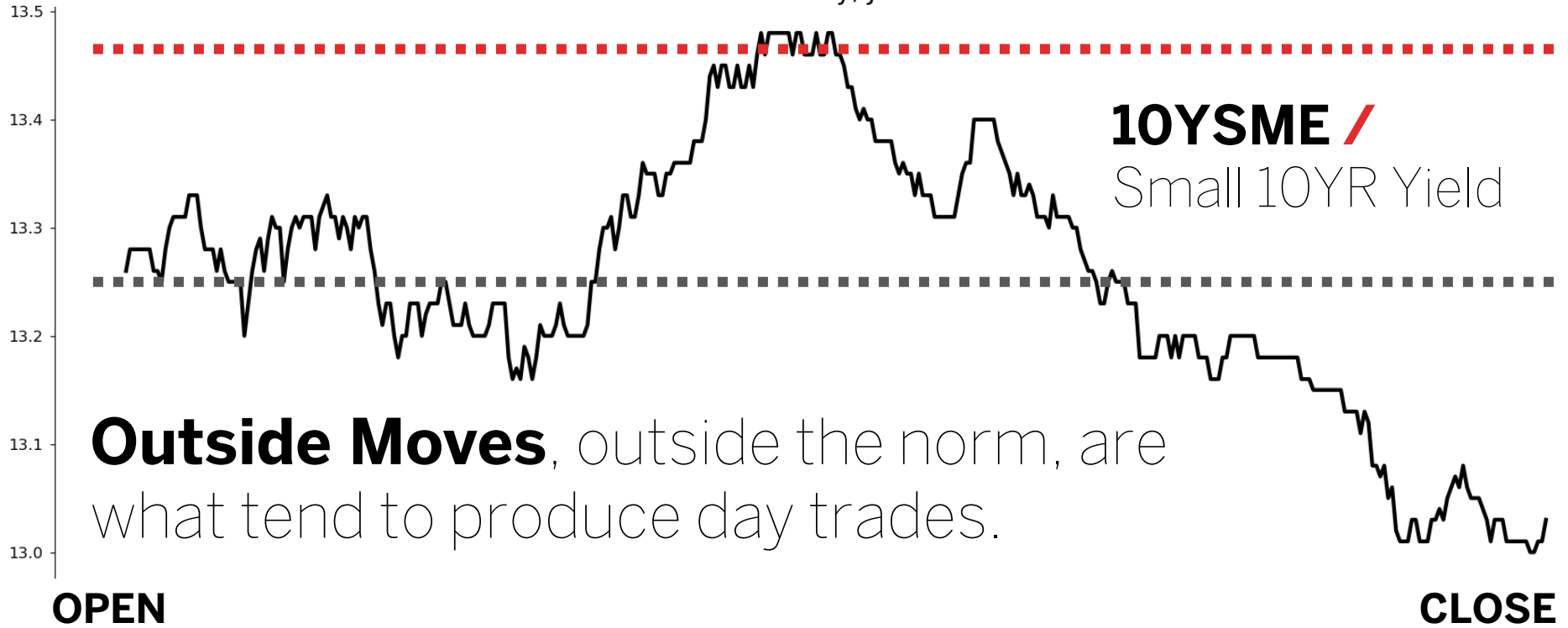
Rangebound Days can fail to produce opportunities.



Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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Thursday, Jul 15



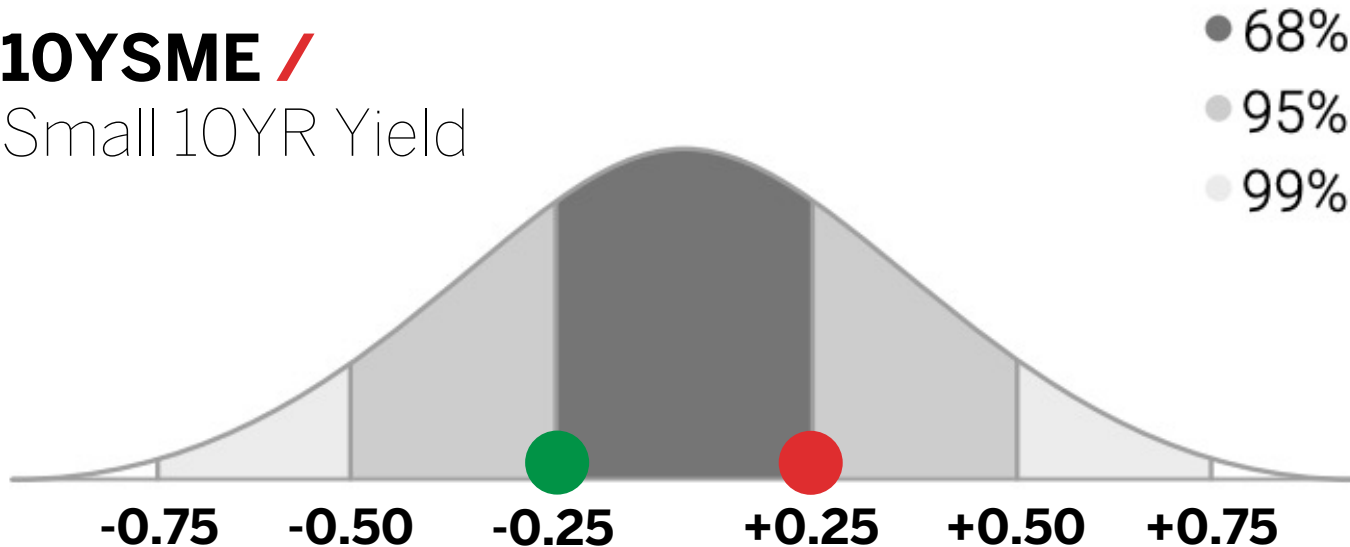
Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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A Day in the Life

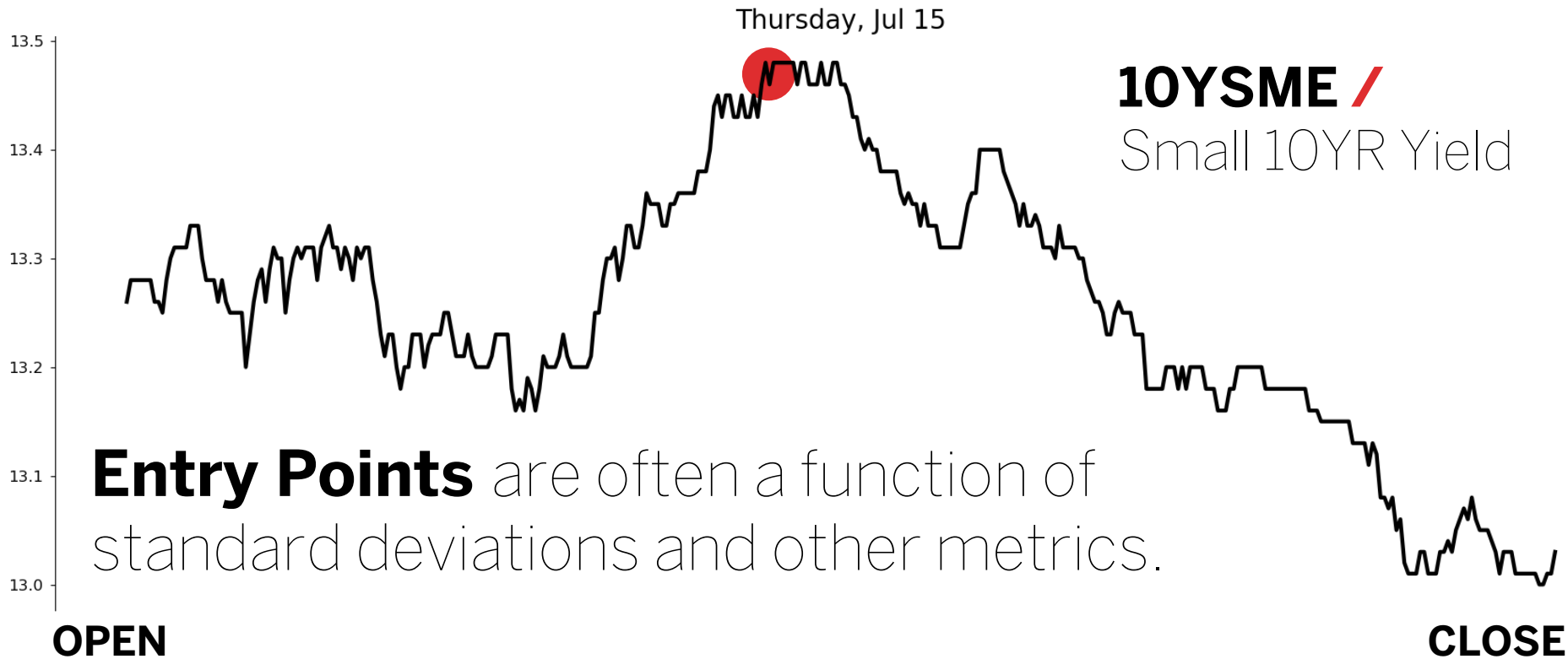
Probability of daily net change inside these ranges

10YSME /
Small 10YR Yield



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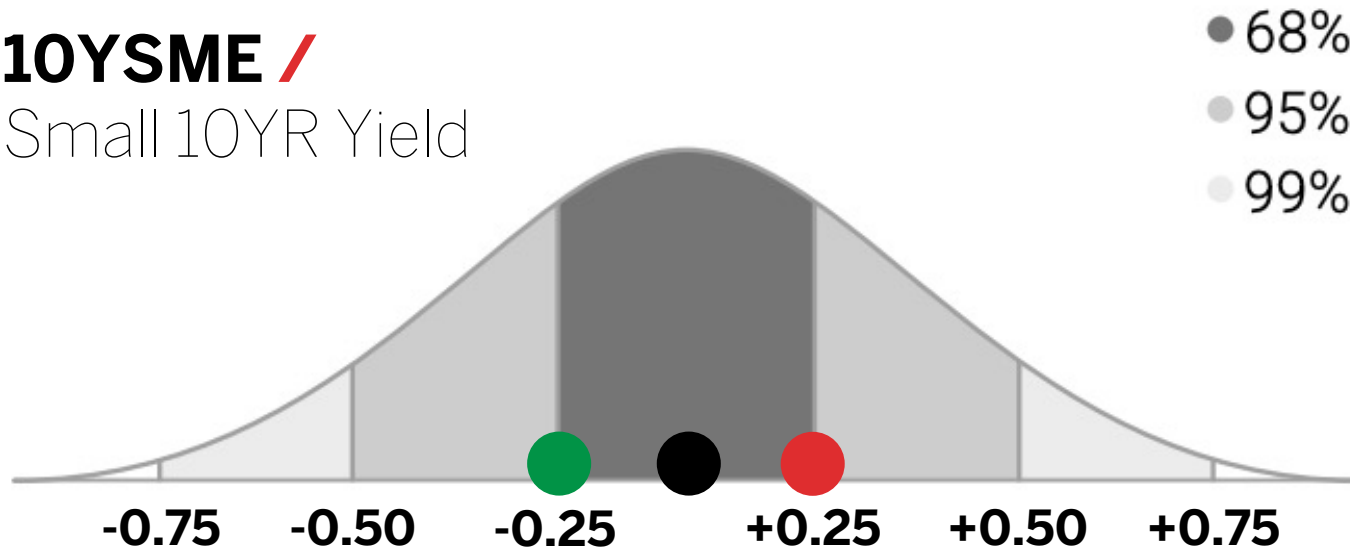
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A Day in the Life

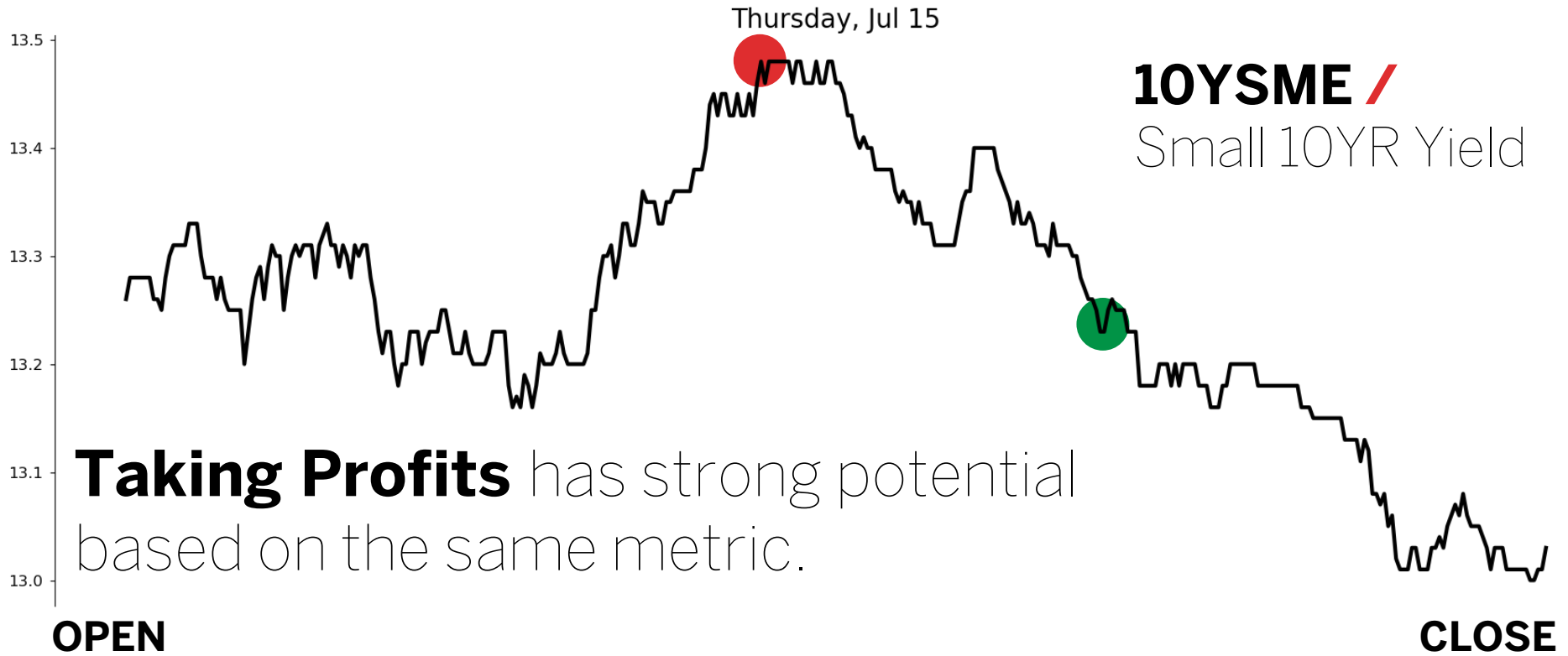
Probability of daily net change inside these ranges

10YSME /
Small 10YR Yield



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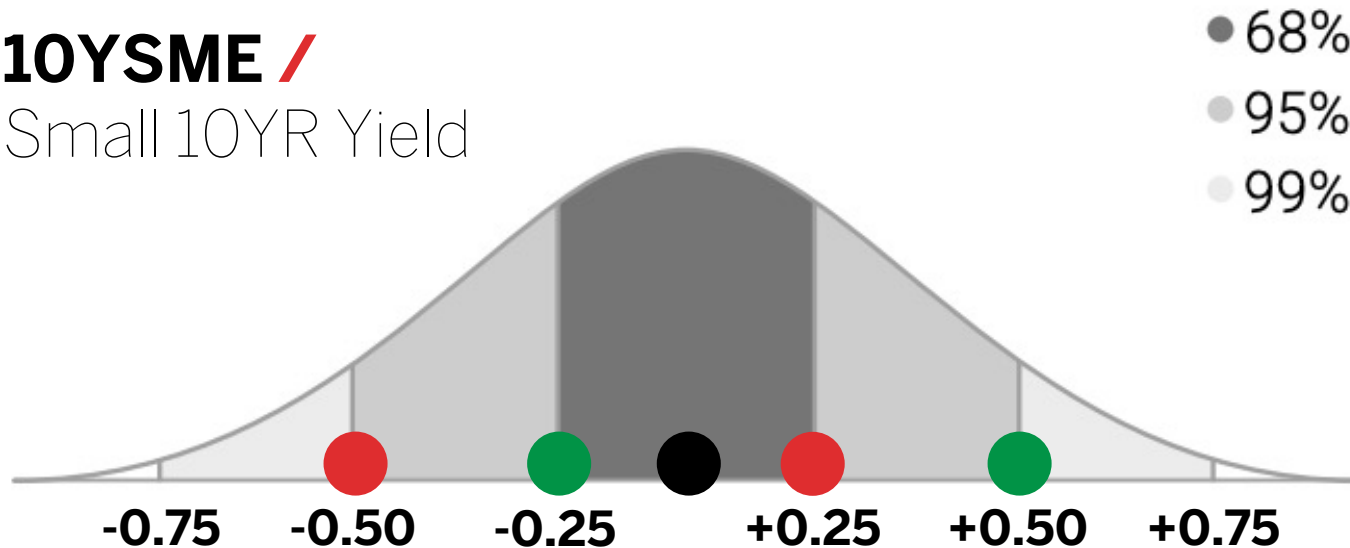
Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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A Day in the Life

Probability of daily net change inside these ranges

10YSME /
Small 10YR Yield



Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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Tuesday, Jul 13

Taking Losses can be an important part of mechanics for long-term success.



Source: dxFeed Index Services (<https://indexit.dxfed.com>)

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THEORY OF LOSING

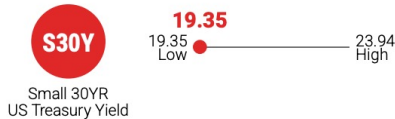
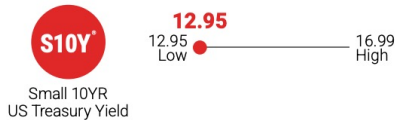
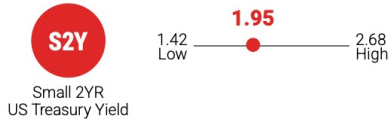
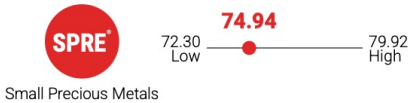
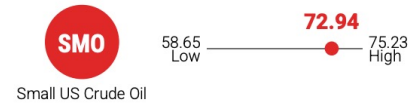
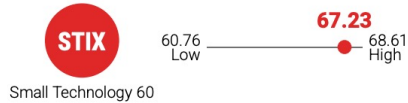
$$\left[\begin{array}{l} (\text{WIN RATE}) \times (\text{AVERAGE PROFIT}) + \\ (\text{LOSS RATE}) \times (\text{AVERAGE LOSS}) \end{array} \right] > 0$$

ONLY IF: Win Rate > Loss Rate
Average Profit = Average Loss

Our Weekly Newsletter Exclusively
for Community Members

Where Are the Smalls?

Current prices relative to recent highs and lows*



FEATURE

Increase Your Paths to Profits

In 2021, one idea simply isn't enough. It's not just McDonald's, but [McDonald's x BTS](#). It's not just Nike, but [Nike x Ben & Jerry's](#). It's not just Looney Tunes, but [Looney Tunes x HBO x LeBron James](#).

Pairs are the brand collabs of trading. In the same way that you might watch Space Jam for the Tune Squad even though you aren't a LeBron fan, spreading a short stock position off against long yields can win even if stocks move higher.

Blip or Tip (of the Iceberg)?

The stock market hasn't sold off significantly since the early part of 2020, but it's witnessed countless blips that have been bought up in the meantime. Could last week's fall finally be the start of a crash? Sure! But how do you know if this is the time to sell stocks?

SM75 \ Small Stocks 75 Index

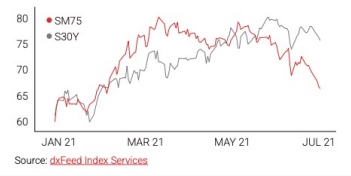


More Paths to Profits

Trading one market from the long or short side may have the same probability of profit as a pairs trade incorporating that market and one other, but the

permutations of positive results are much higher for the pairs trade.

SM75 vs S30Y \ Stocks vs Yields Indexes



For instance, you could sell equity index futures if you think stocks are headed lower. Or, you could do so while buying relatively cheaper but highly correlated yield futures. Now, instead of your only path to profits being lower in stocks, you can win in several scenarios.

Paths to Profits

-1 SM75
Stocks Lower

-1 SM75 +3 S30Y
Stocks Lower, Yields Higher
Stocks Lower, Yields Lower
Stocks Higher, Yields Higher

Though adding more angles to something may seem complicated or "extra," it can present you with more opportunities to either enjoy fast food or profit from a premonition.



Frank Kaberna \ Chief Content Strategist

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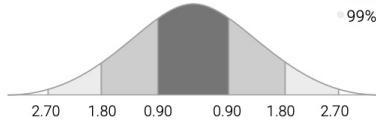
A Day in the Life

Probability of daily net change inside these ranges

- 68%
- 95%
- 99%

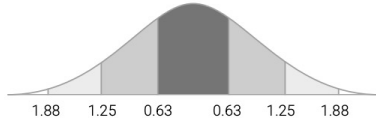
SM75

Small Stocks 75



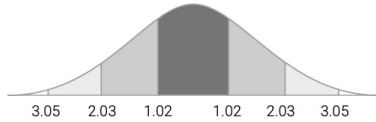
STIX

Small Technology 60



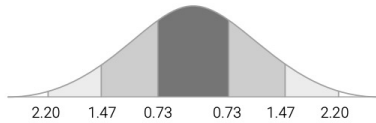
SMO

Small US Crude Oil



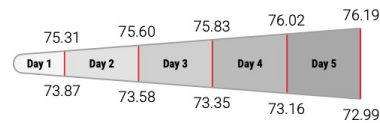
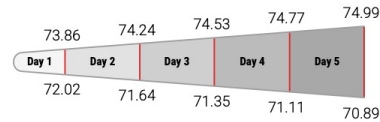
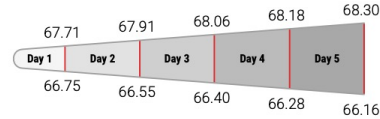
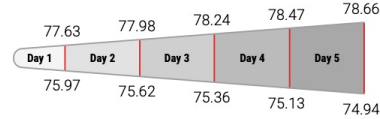
SPRE

Small Precious Metals



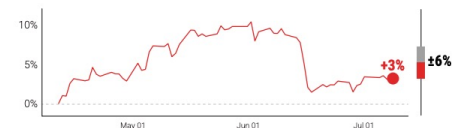
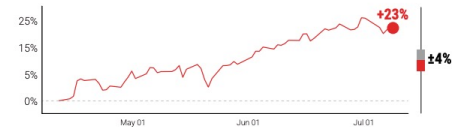
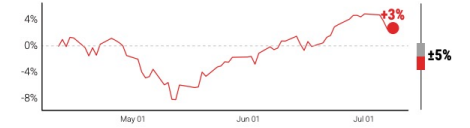
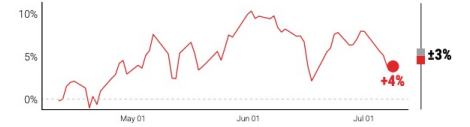
5-Day Forecast

Projected highs and lows for the next 5 days
(via realized volatility)



Recent Returns

Percentage path taken to current overall return



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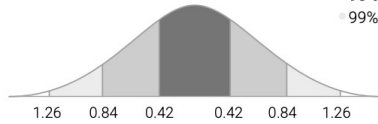
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A Day in the Life

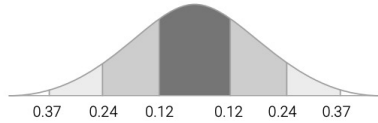
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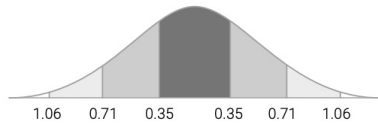
SFX
Small US Dollar



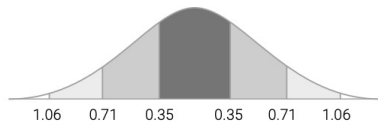
S2Y
Small 2YR US Treasury Yield



S10Y
Small 10YR US Treasury Yield

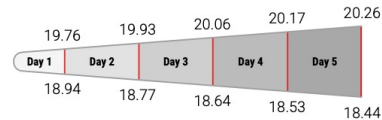
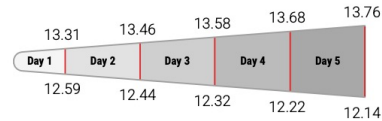
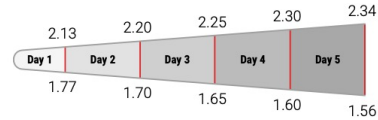
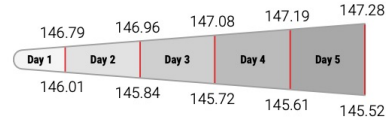


S30Y
Small 30YR US Treasury Yield



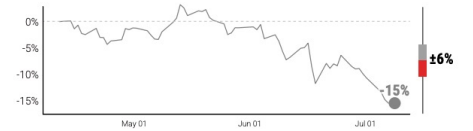
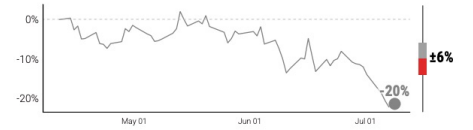
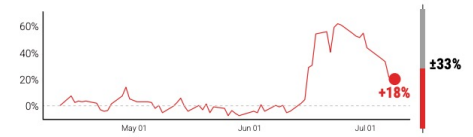
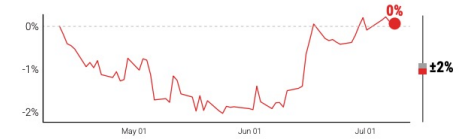
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(via realized volatility)



Recent Returns

Percentage path taken to current overall return

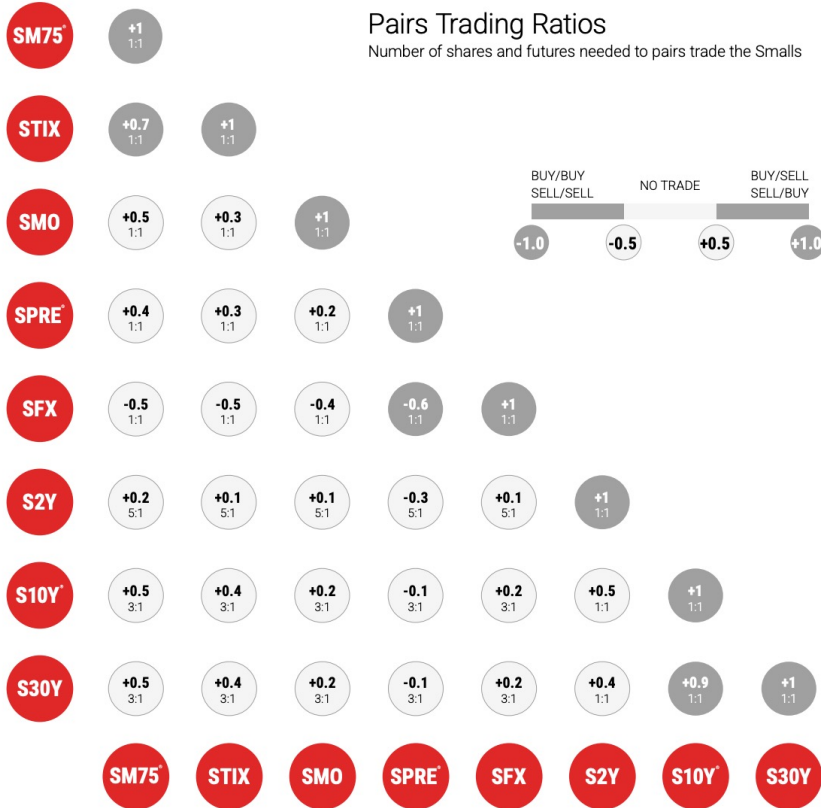


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Pairs Trading Ratios

Number of shares and futures needed to pairs trade the Smalls

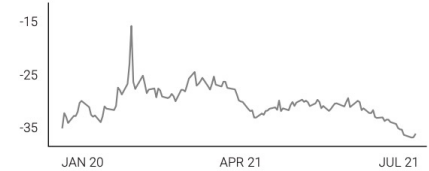


PAIRS OF THE WEEK

Long Pot, 30YRs, and Metals

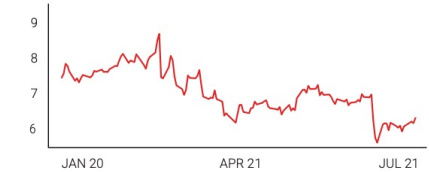
S420-STIX \ Pot Stocks vs Tech Stocks

Though some downside was seen last week in tech stocks, they are by far the outperformers relative to other equity sectors. Pot stocks pose a decent value compared to their tech counterparts on a 3:1 basis.



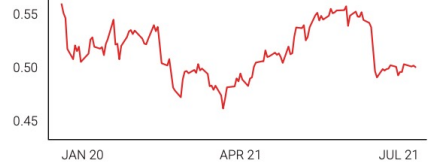
S30Y-S10Y \ The NOB Spread

While yields themselves have seemed to only trend lower, the yield curve spreads have been good for some back and forth. A steepener (+1 S30Y -1 S10Y) could be a good way to get in on the yield curve action without more long rate exposure.



SPRE/SFX \ Hedging Metals w/ USD

Gold and silver have been beaten up in recent trade, but they are nowhere near lows for the last couple years. Hedging a long metals play with long USD on a 1:1 SPRE:SFX basis could calm that gold and silver exposure.



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Hedge \ the Smalls

A Buddy System for Your Portfolio

	Candidates Top 3 most correlated markets			ETFs # of Shares :: 1 Small			Futures # of Smalls :: 1 Contract		
SM75*	+0.8 S&P 500	+0.5 Nasdaq	+0.9 Russell	20 SPY	25 QQQ	35 IWM	3 Micro ES	3 Micro NQ	2 Micro RTY
STIX	+0.8 S&P 500	+0.9 Nasdaq	+0.6 Russell	15 SPY	20 QQQ	30 IWM	3 Micro ES	3 Micro NQ	2 Micro RTY
SMO	+0.9 Crude Oil	+0.5 Energy Sector	+0.5 Oil Stocks	150 USO	120 XLE	75 XOP	10 CL	5 QM	3 Micro ES
SPRE*	+0.9 Gold	+0.9 Silver	+0.8 Gold Stocks	50 GLD	300 SLV	200 GDX	3 Micro GC	3 Micro SI	3 Micro ES
SFX	+0.9 US Dollar	-0.9 Euro	-0.9 Pound	600 UUP	100 FXE	100 FXE	1 Micro 6E	1 Micro 6B	1 Micro 6J
S2Y	-0.9 2YR Note	-0.6 10YR Note	-0.5 30YR Bond	500 SHY	25 IEF	5 TLT	5 ZT	40 ZN	100 ZB
S10Y*	-0.6 2YR Note	-0.9 10YR Note	-0.9 30YR Bond	3000 SHY	125 IEF	30 TLT	1 ZT	8 ZN	20 ZB
S30Y	-0.5 2YR Note	-0.9 10YR Note	-0.9 30YR Bond	3000 SHY	125 IEF	30 TLT	1 ZT	8 ZN	20 ZB

Hedging with the Smalls

Use your investment value and Small's price to find the number of contracts needed to hedge your chosen percentage.

The Formula

$$\frac{\text{Investment Value} \times \text{Hedge Percentage}}{\text{Small Price} \times 100} = \text{Number of Smalls}$$

The Example

$$\frac{\$50,000 \times 25\%}{62.50 \times 100} = 2 \text{ Smalls}$$

REMEMBER

Using 100% Hedge Percentage creates a pairs trade.

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Futures are financial contracts to buy or sell an asset at a set price on a set date in the future. Exchange-traded funds (ETFs) are tradable products made up of securities, such as stocks. A stock is a security that represents an ownership position in a corporation.

The Smalls

help make
futures trading
more accessible
to more people.



Small Crude Oil

\ **SMOSME**



Small Metals

\ **PRESME**



Small US Dollar

\ **FXSME**



Small Technology 60

\ **STIXSME**



Small Treasury Yield

\ **10YSME**



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