

IBKRWEBINARS.COM



June 13, 2023

Enlightened Stock Trading

Survival, Risk Management and Systematic Trading Methods for Bear Markets

Adrian Reid

Founder
Enlightened Stock Trading

Exchange and Industry Sponsored Webinars are presented by unaffiliated third parties. Interactive Brokers LLC is not responsible for the content of these presentations. You should review the contents of each presentation and make your own judgment as to whether the content is appropriate for you.

Interactive Brokers LLC does not provide recommendations or advice. This presentation is not an advertisement or solicitation for new customers. It is intended only as an educational presentation.



Disclosure:

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled [Characteristics and Risks of Standardized Options](#) by calling (312) 542-6901.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit interactivebrokers.com.

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers LLC's Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

- IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.
- Interactive Brokers LLC is a member of [NYSE](#) [FINRA](#) [SIPC](#)

Survival, Risk Management & Profit: Systematic Trading Methods for Bear Markets

Adrian Reid
Founder – Enlightened Stock Trading



AMS Trading & Investments Pty Ltd t/a Enlightened Stock Trading (ACN: 624 401 332) is a Corporate Authorised Representative (001301745) of Network Influencer Pty Ltd (AFSL: 282288) (trading as FZeroZero). Under these authorisations, Enlightened Stock Trading is authorised to provide general financial product advice in respect of certain classes of financial products, which include Securities and Derivatives. Any financial product advice provided is general advice only and does not take into account your personal objectives, financial situation and needs.

Risk Warning: Enlightened Stock Trading provides educational courses, this may include the supply of factual information and general advice about Securities and Derivatives. Securities and Derivatives trading involves a high level of risk and may not be suitable for all investors. You should obtain investment advice from a licensed investment adviser before making any investment decisions. Advice on physical crypto trading is conducted independently of the authorisation granted by Network Influencer Pty Ltd. Network Influencer Pty Ltd is not responsible for Enlightened Stock Trading's conduct when engaging in these activities.

Hypothetical Performance Disclosure: Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown; in fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk of actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all which can adversely affect trading results.

Do you want positive returns no matter what the market is doing?

Do you want to be able to trade with confidence without worrying about potential market downturns?

Session Overview

- Threats To Your Survival
- Bear Market Risk Management
- Positive Returns From Bear Market Behavior

Session Overview

- Threats To Your Survival

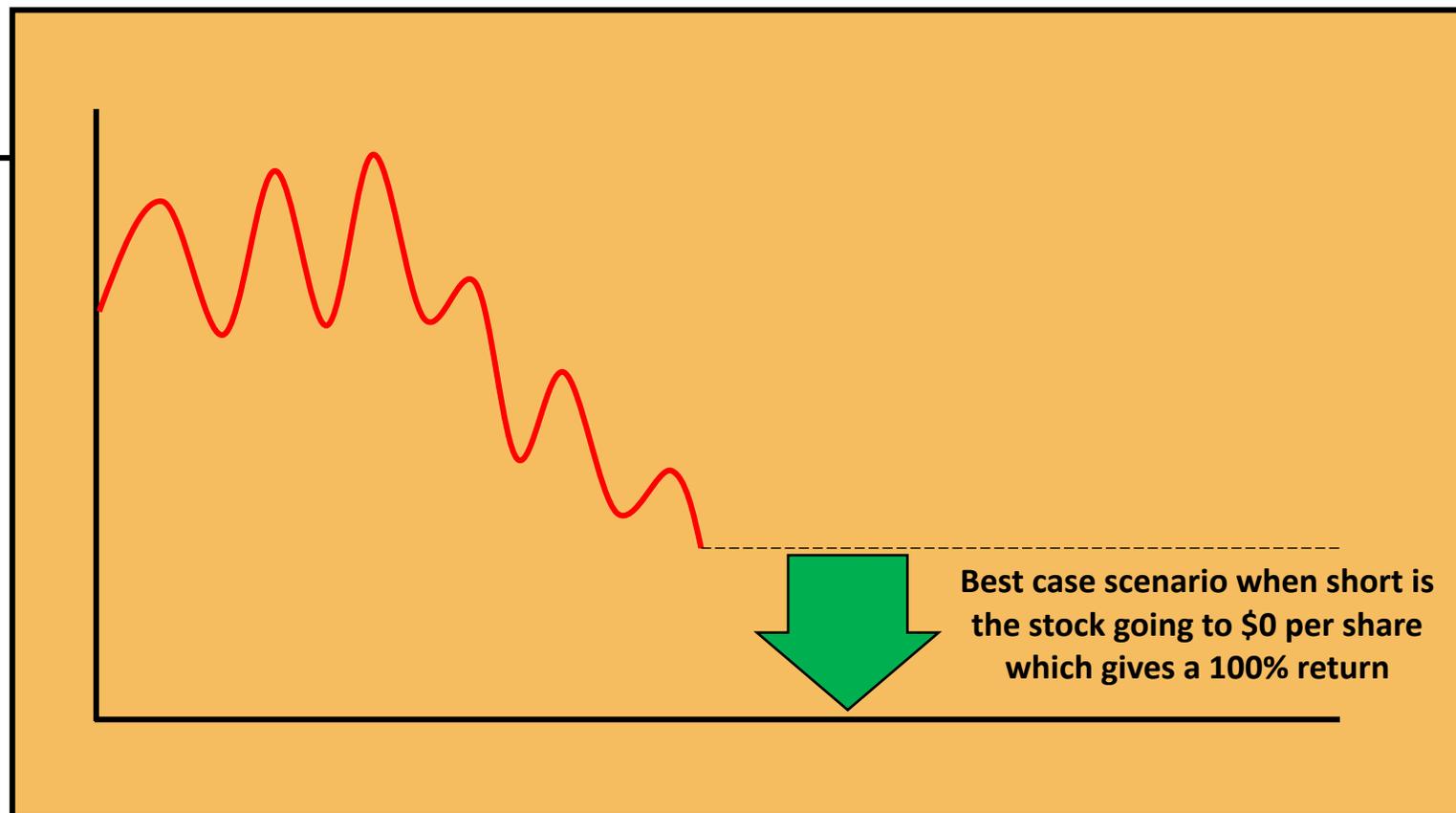
- Asymmetry
- Liquidity
- Rallies
- Large Updays
- Correlation
- Acquisitions
- Short squeeze

- Bear Market Risk Management

- Positive Returns From Bear Market Behavior

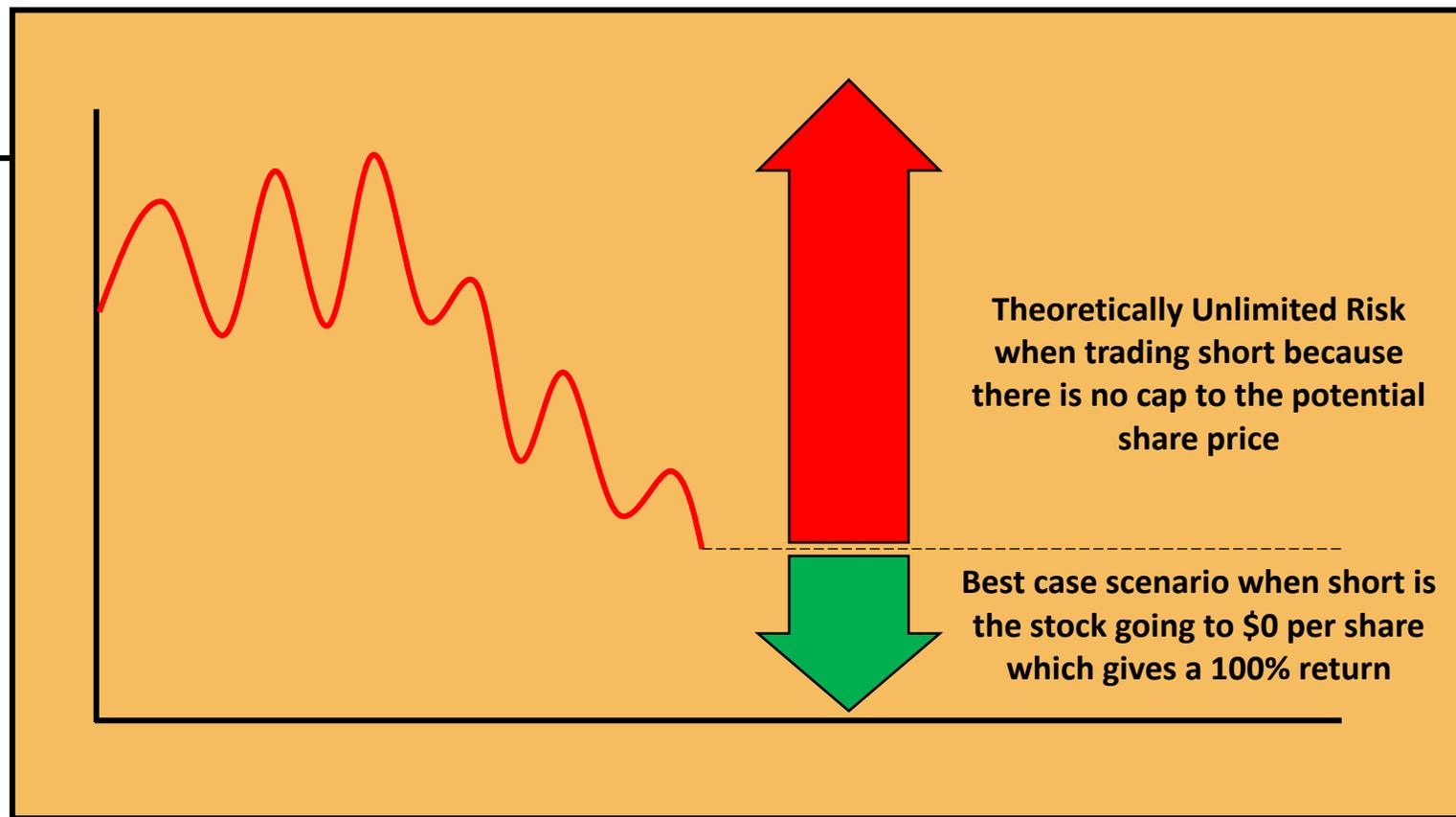
Threats to your survival

- **Asymmetry**
- Liquidity
- Rallies
- Large Updays
- Correlation
- Acquisitions
- Short squeeze



Threats to your survival

- **Asymmetry**
- Liquidity
- Rallies
- Large Updays
- Correlation
- Acquisitions
- Short squeeze



Threats to your survival

- Asymmetry
- **Liquidity**
- Rallies
- Large Updays
- Correlation
- Acquisitions
- Short squeeze

	Buyers	Sellers
\$2.35		22,000
\$2.30		16,000
\$2.25		12,000
\$2.20		8,000
\$2.15		10,000
\$2.10		5,500
\$2.05		1,000
\$2.00		3,500
\$1.95		2,500
\$1.90	2,000	
\$1.85	1,000	
\$1.80	2,000	
\$1.75	1,500	
\$1.70	8,000	
\$1.65	5,000	
\$1.60	15,000	
\$1.55	10,000	
\$1.50	20,000	

Many Stocks have tight spreads in bull markets

Threats to your survival

- Asymmetry
- **Liquidity**
- Rallies
- Large Updays
- Correlation
- Acquisitions
- Short squeeze

	Buyers	Sellers
\$2.35		10,000
\$2.30		6,500
\$2.25		5,000
\$2.20		3,000
\$2.15		1,000
\$2.10		900
\$2.05		750
\$2.00		500
\$1.95		
\$1.90		
\$1.85	300	
\$1.80	600	
\$1.75	500	
\$1.70	800	
\$1.65	2,000	
\$1.60	1,500	
\$1.55	6,000	
\$1.50	5,000	

But in bear markets these spreads can widen and the volume at each price level can drop

Threats to your survival

- Asymmetry
- Liquidity
- **Rallies**
- Large Updays
- Correlation
- Acquisitions
- Short squeeze



Threats to your survival

- Asymmetry
- Liquidity
- **Rallies**
- Large Updays
- Correlation
- Acquisitions
- Short squeeze



Threats to your survival

- Asymmetry
- Liquidity
- Rallies
- **Large Updays**
- Correlation
- Acquisitions
- Short squeeze



Threats to your survival

- Asymmetry
- Liquidity
- Rallies
- **Large Updays**
- Correlation
- Acquisitions
- Short squeeze



Threats to your survival

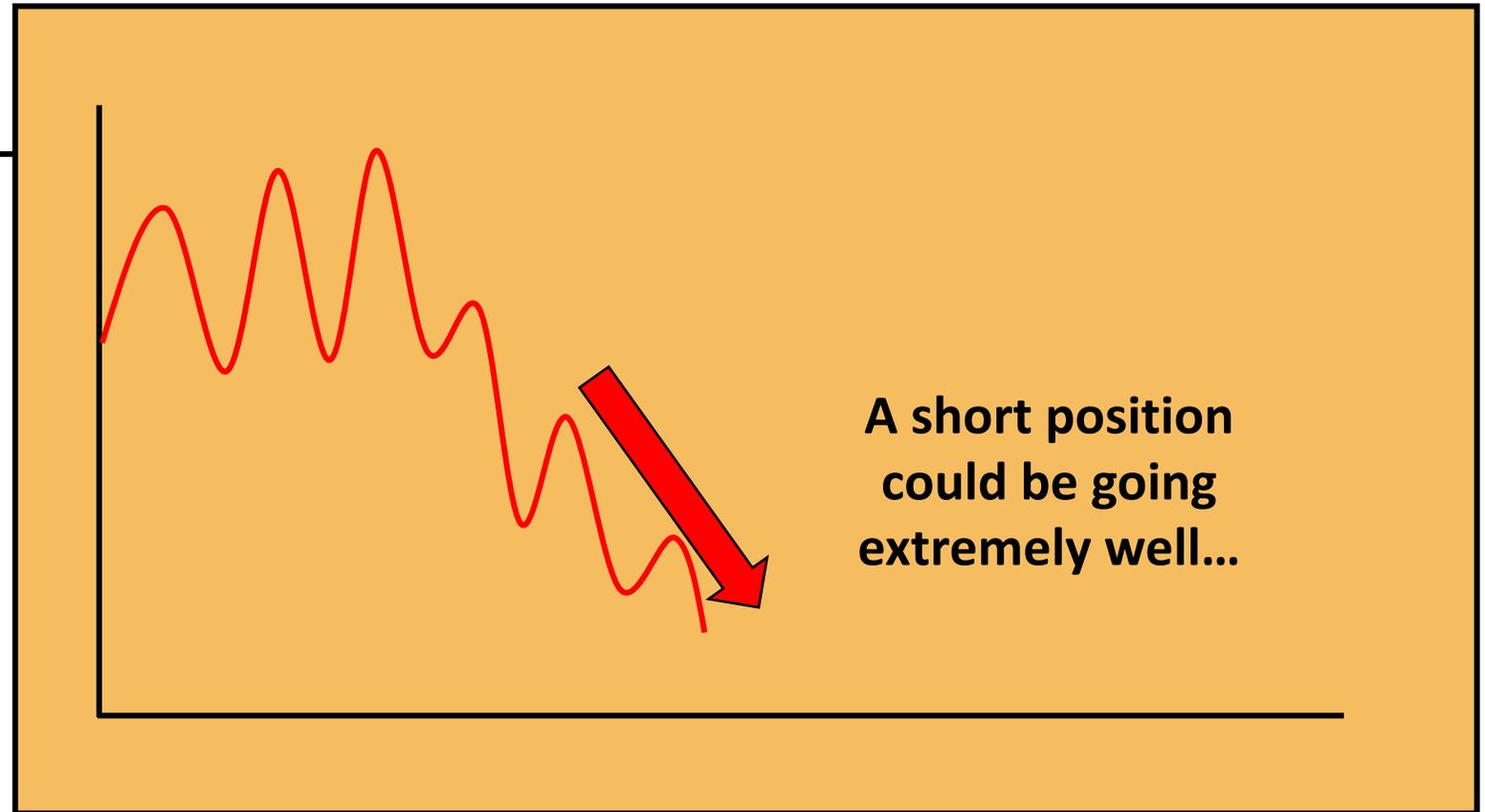
- Asymmetry
- Liquidity
- Rallies
- Large Updays
- **Correlation**
- Acquisitions
- Short squeeze



Many stocks become highly correlated in a bear market... Diversification can lose its effectiveness

Threats to your survival

- Asymmetry
- Liquidity
- Rallies
- Large Updays
- Correlation
- **Acquisitions**
- Short squeeze



Threats to your survival

- Asymmetry
- Liquidity
- Rallies
- Large Updays
- Correlation
- **Acquisitions**
- Short squeeze



Threats to your survival

- Asymmetry
- Liquidity
- Rallies
- Large Updays
- Correlation
- Acquisitions
- **Short squeeze**

If a stock has very high short interest, a small rally can cause a cascade of buying...



Threats to your survival

- Asymmetry
- Liquidity
- Rallies
- Large Updays
- Correlation
- Acquisitions
- **Short squeeze**



Session Overview

- Threats To Your Survival
- Bear Market Risk Management
- Positive Returns From Bear Market Behavior

Session Overview

- Threats To Your Survival
- Bear Market Risk Management
 - Position Sizing
 - Scenario Planning
 - System Diversification
 - Capital Allocation
- Positive Returns From Bear Market Behavior

Bear Market Risk Management

- **Position Sizing**
- Scenario Planning
- System Diversification
- Capital Allocation

Short side risks are frequently 'catastrophic stock specific risks' (see previous section). Any position could be exposed to these risks

Bear Market Risk Management

- **Position Sizing**
- Scenario Planning
- System Diversification
- Capital Allocation

Short side risks are frequently 'catastrophic stock specific risks' (see previous section). Any position could be exposed to these risks

To manage catastrophic stock specific risk:

- **Position size using % of equity model**
(So catastrophic risk from all trades are similar)

Bear Market Risk Management

- **Position Sizing**
- Scenario Planning
- System Diversification
- Capital Allocation

Short side risks are frequently 'catastrophic stock specific risks' (see previous section). Any position could be exposed to these risks

To manage catastrophic stock specific risk:

- **Position size using % of equity model**
(So catastrophic risk from all trades are similar)
- **Keep % of equity small**
(5% of account or less)

Bear Market Risk Management

- **Position Sizing**
- Scenario Planning
- System Diversification
- Capital Allocation

Short side risks are frequently 'catastrophic stock specific risks' (see previous section). Any position could be exposed to these risks

To manage catastrophic stock specific risk:

- **Position size using % of equity model**
(So catastrophic risk from all trades are similar)
- **Keep % of equity small**
(5% of account or less)
- **Diversify broadly** (Hold 10-20 stocks or more)

Bear Market Risk Management

- **Position Sizing**
- Scenario Planning
- System Diversification
- Capital Allocation

We can't just rely on our stop loss – we need to limit total exposure per stock and across the portfolio to manage catastrophic risk

Short side risks are frequently 'catastrophic stock specific risks' (see previous section). Any position could be exposed to these risks

To manage catastrophic stock specific risk:

- **Position size using % of equity model**
(So catastrophic risk from all trades are similar)
- **Keep % of equity small**
(5% of account or less)
- **Diversify broadly** (Hold 10-20 stocks or more)

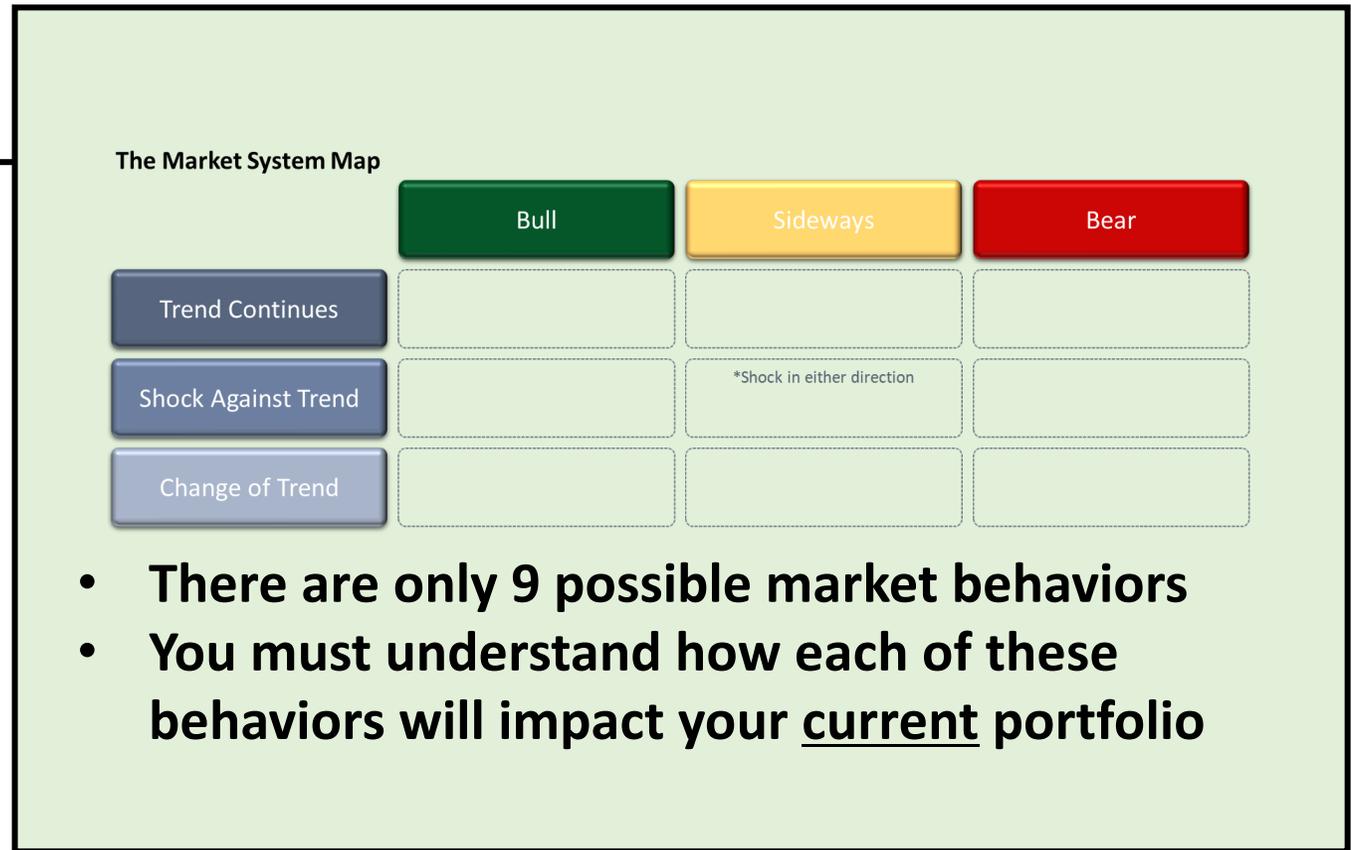
Bear Market Risk Management

- Position Sizing
- **Scenario Planning**
- System Diversification
- Capital Allocation



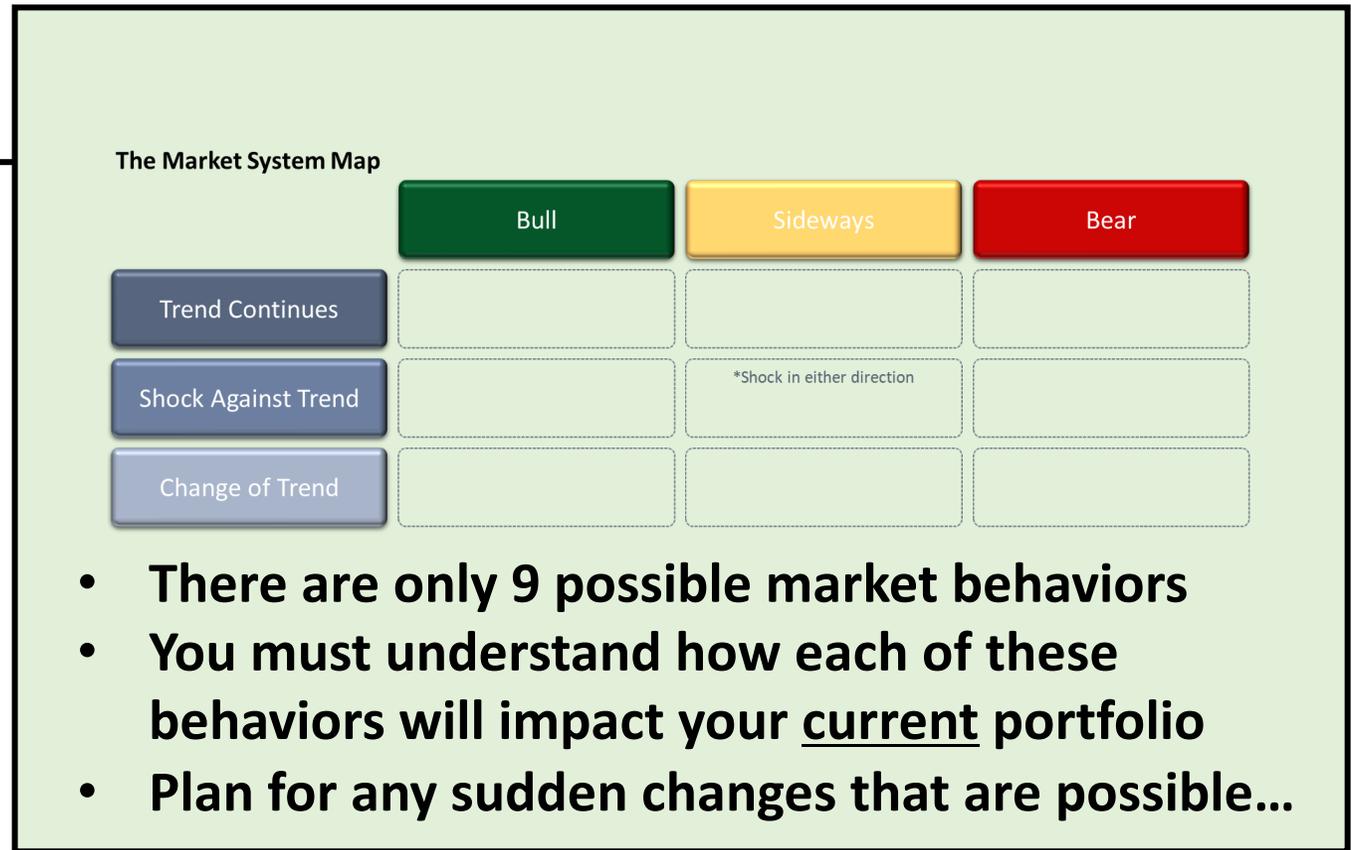
Bear Market Risk Management

- Position Sizing
- **Scenario Planning**
- System Diversification
- Capital Allocation



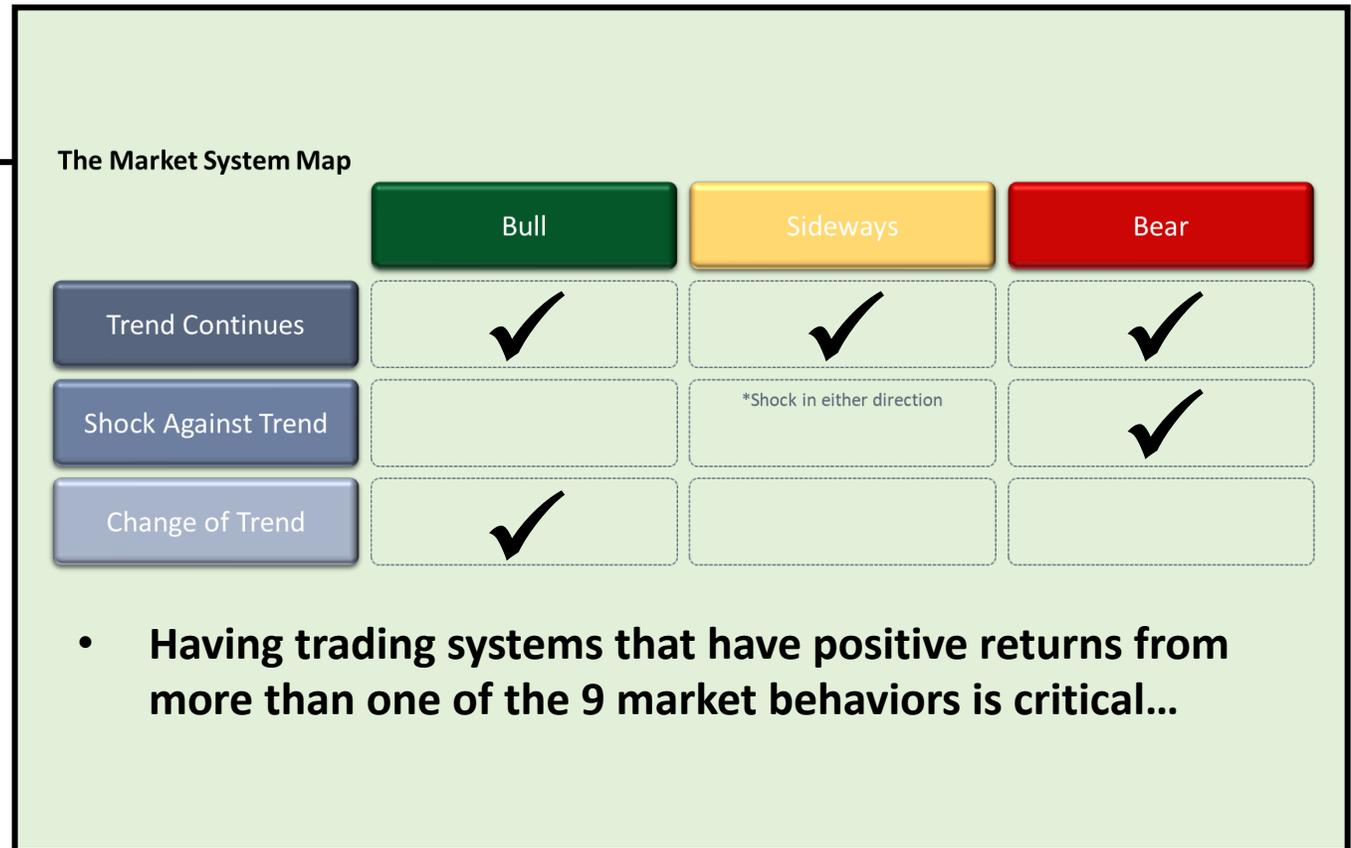
Bear Market Risk Management

- Position Sizing
- **Scenario Planning**
- System Diversification
- Capital Allocation



Bear Market Risk Management

- Position Sizing
- Scenario Planning
- **System Diversification**
- Capital Allocation



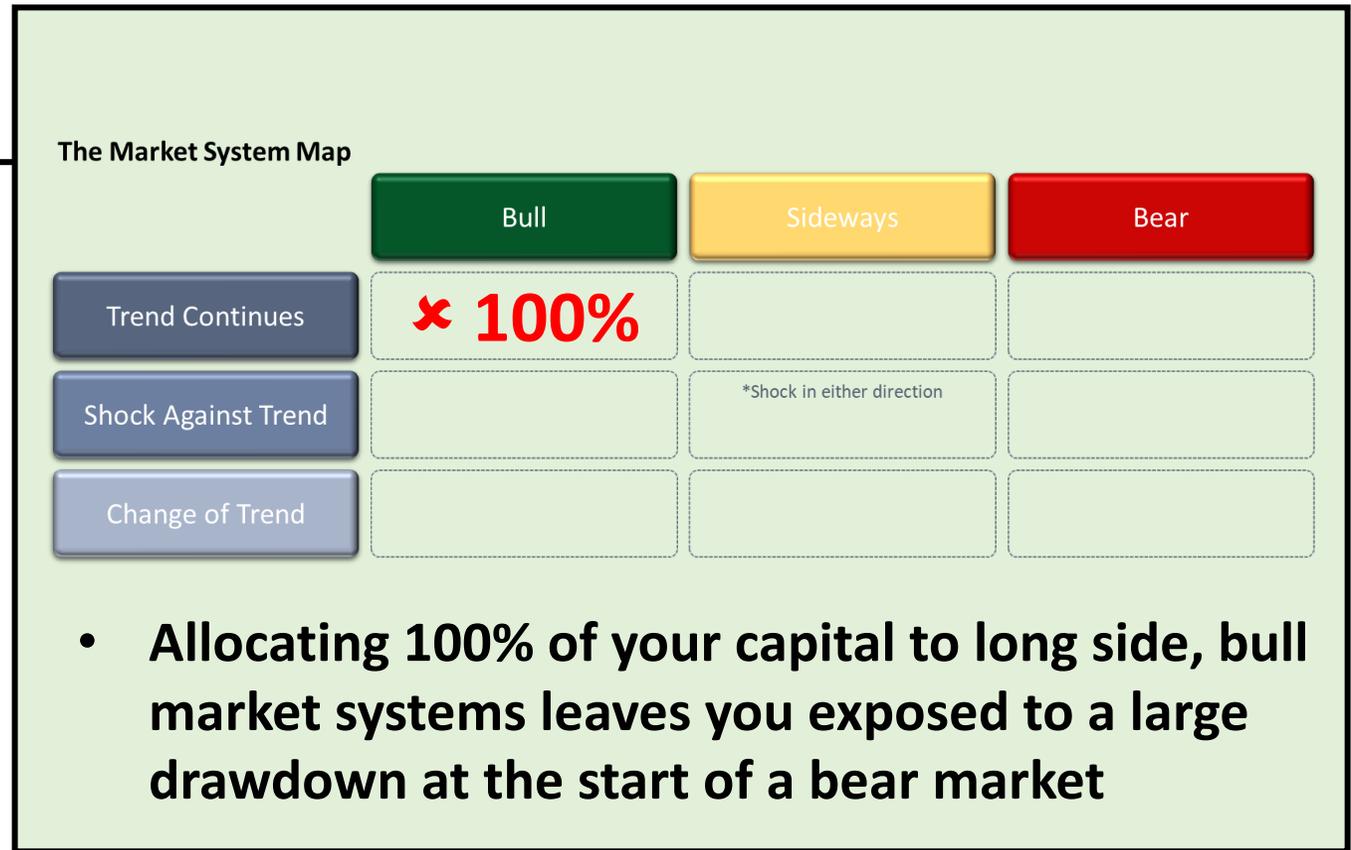
Bear Market Risk Management

- Position Sizing
- Scenario Planning
- **System Diversification**
- Capital Allocation



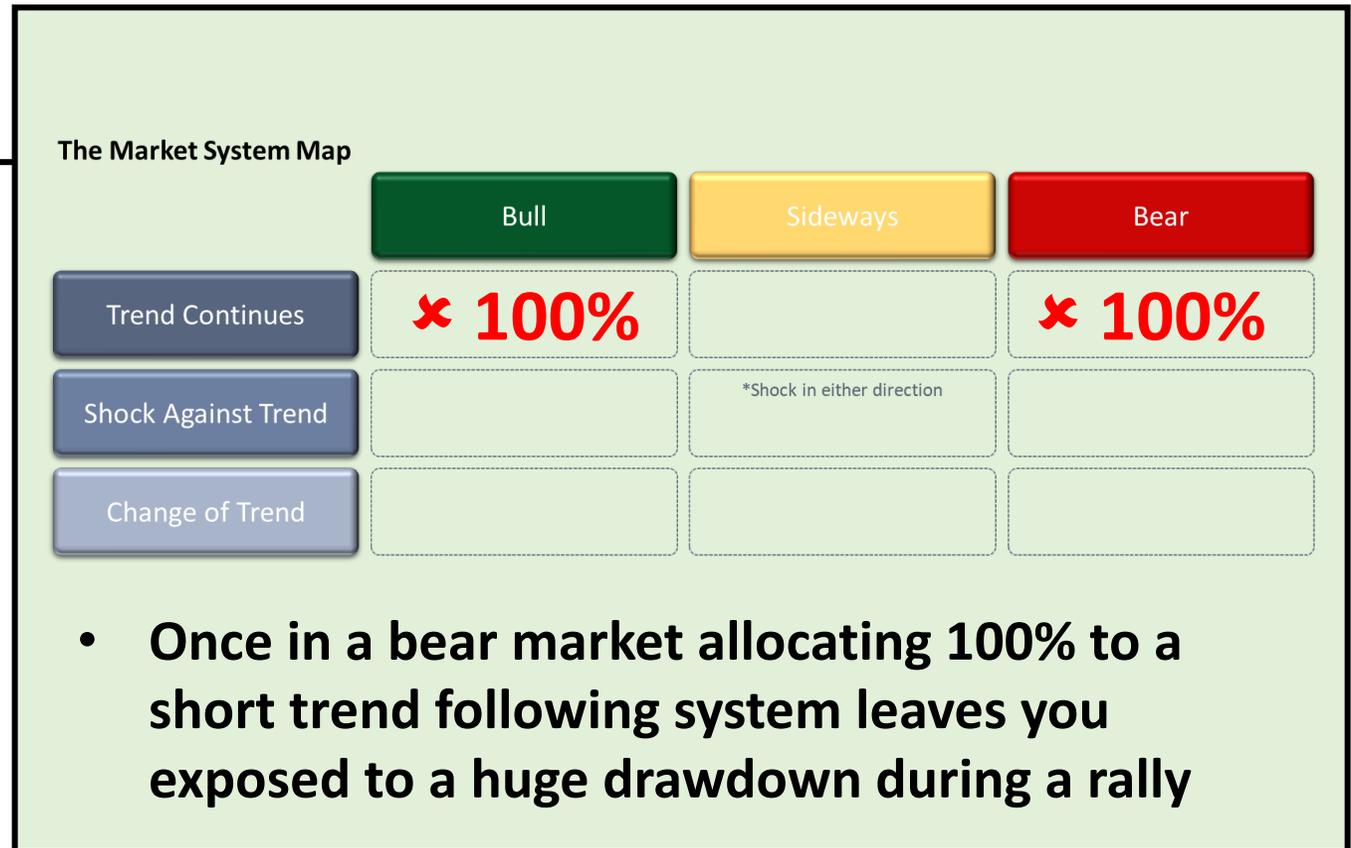
Bear Market Risk Management

- Position Sizing
- Scenario Planning
- System Diversification
- **Capital Allocation**



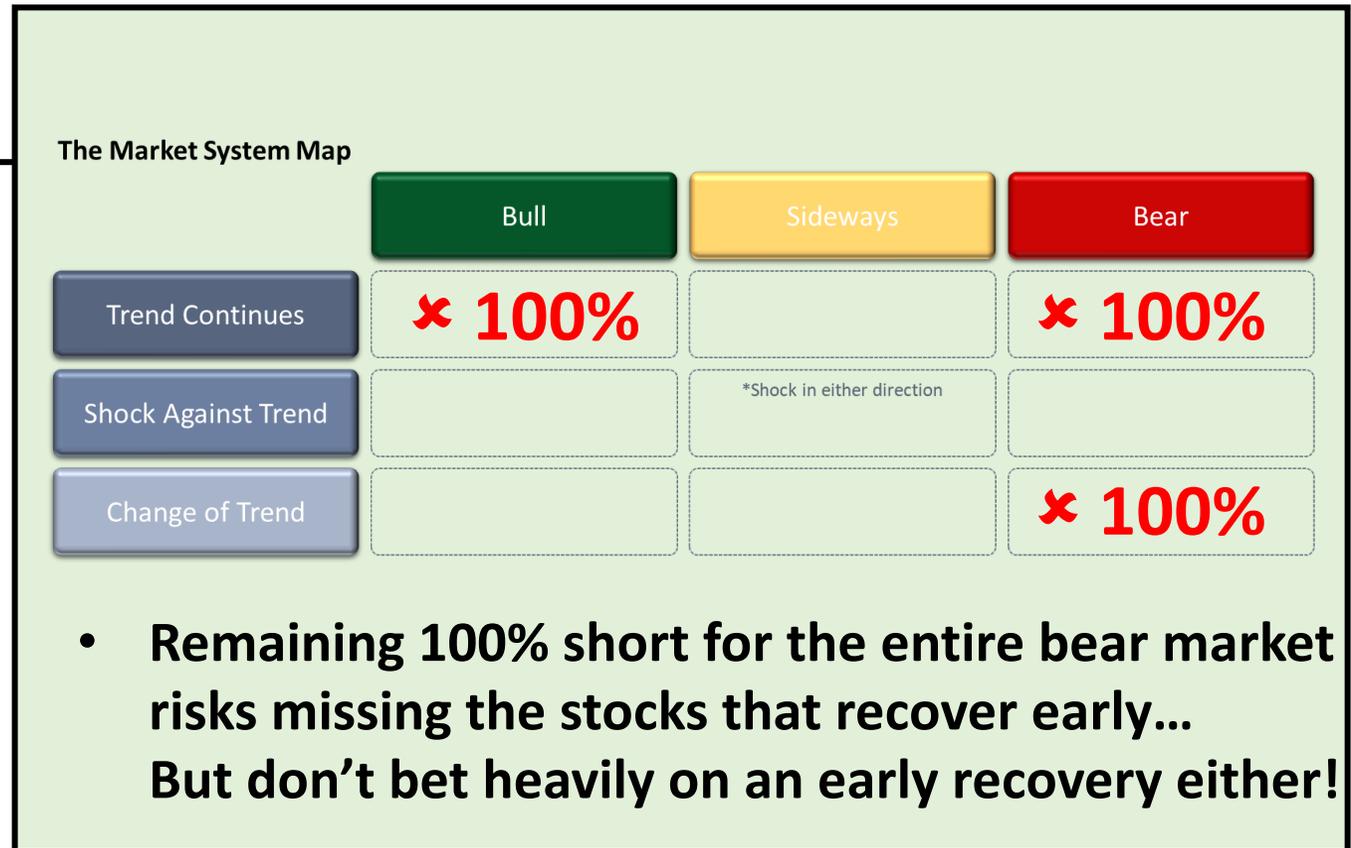
Bear Market Risk Management

- Position Sizing
- Scenario Planning
- System Diversification
- **Capital Allocation**



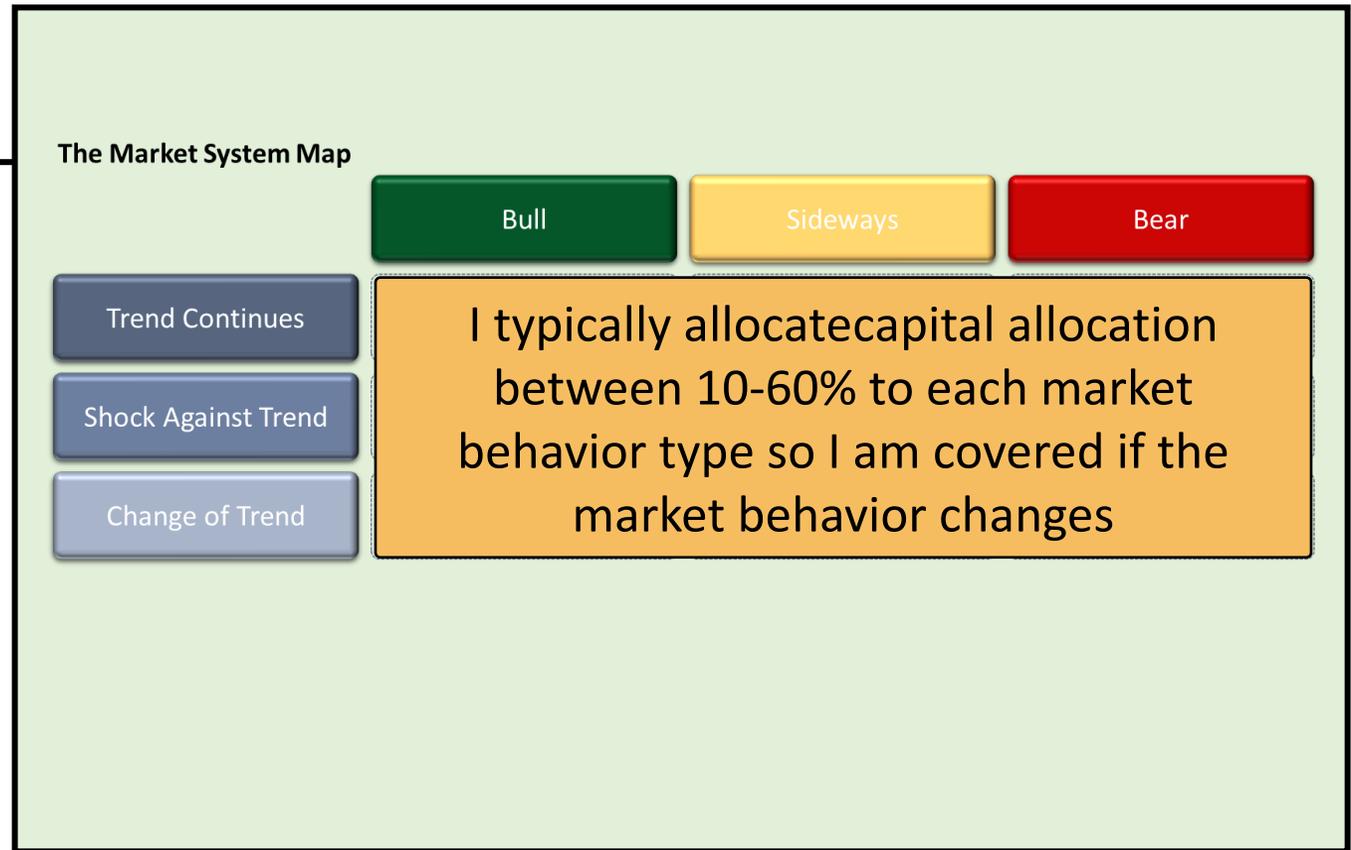
Bear Market Risk Management

- Position Sizing
- Scenario Planning
- System Diversification
- **Capital Allocation**



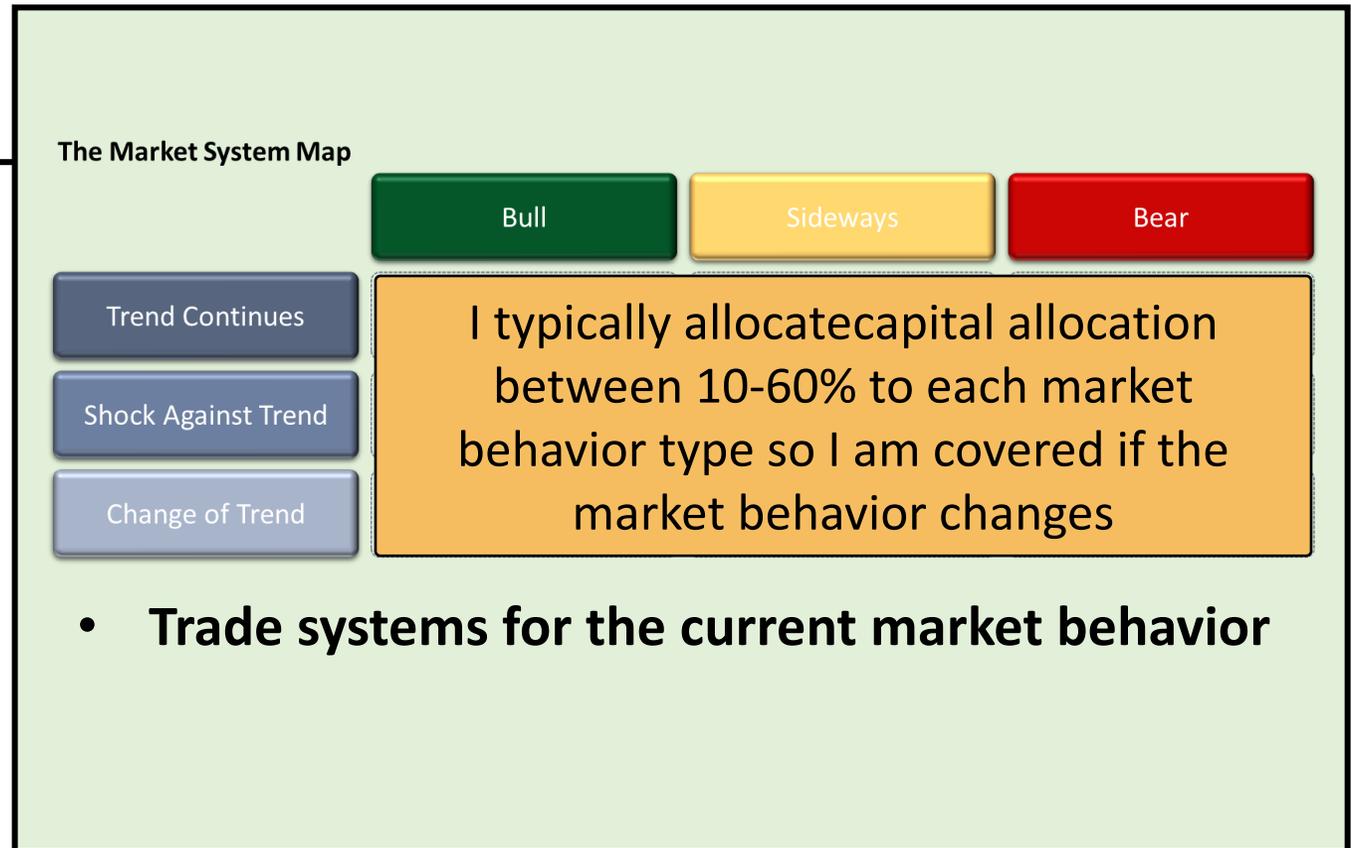
Bear Market Risk Management

- Position Sizing
- Scenario Planning
- System Diversification
- **Capital Allocation**



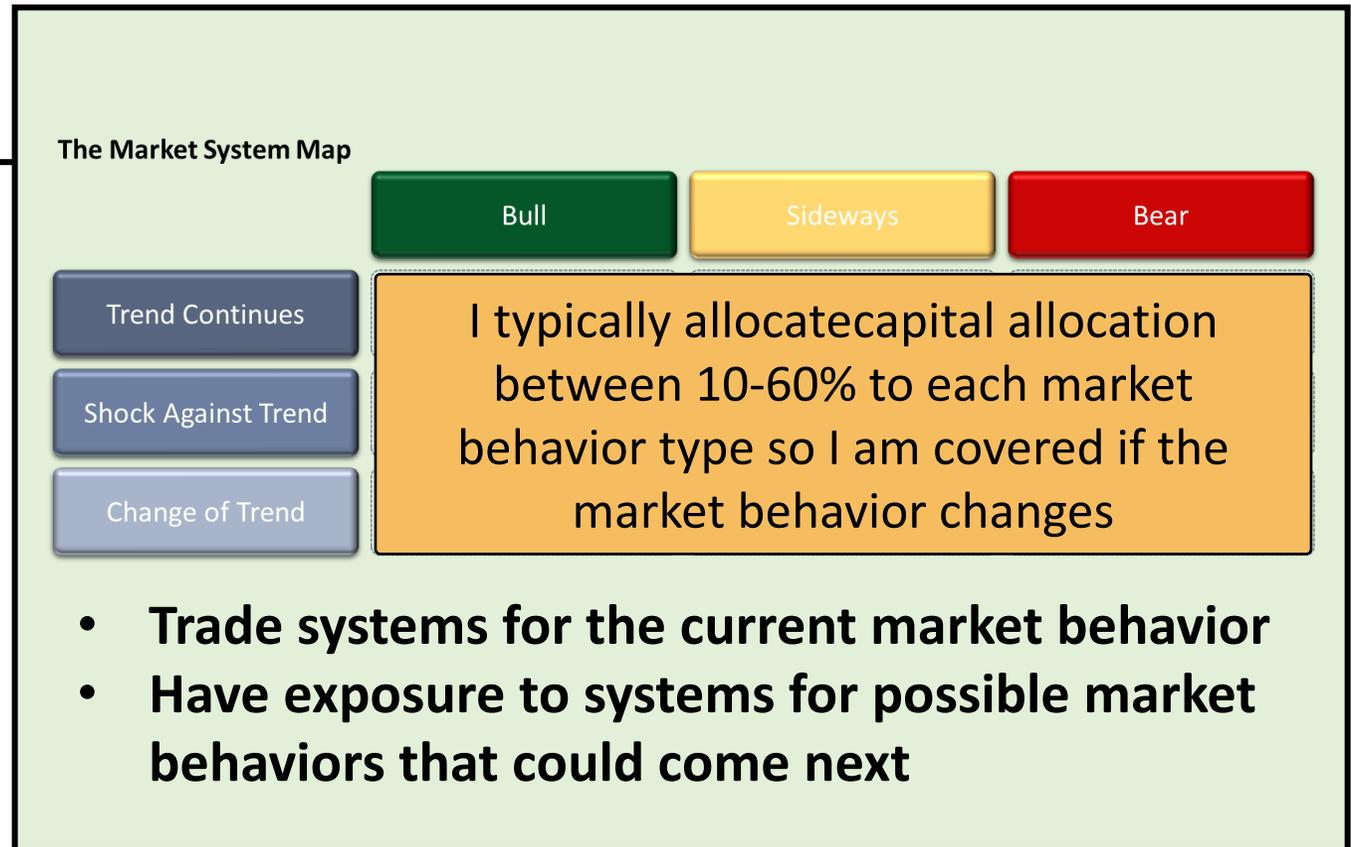
Bear Market Risk Management

- Position Sizing
- Scenario Planning
- System Diversification
- **Capital Allocation**



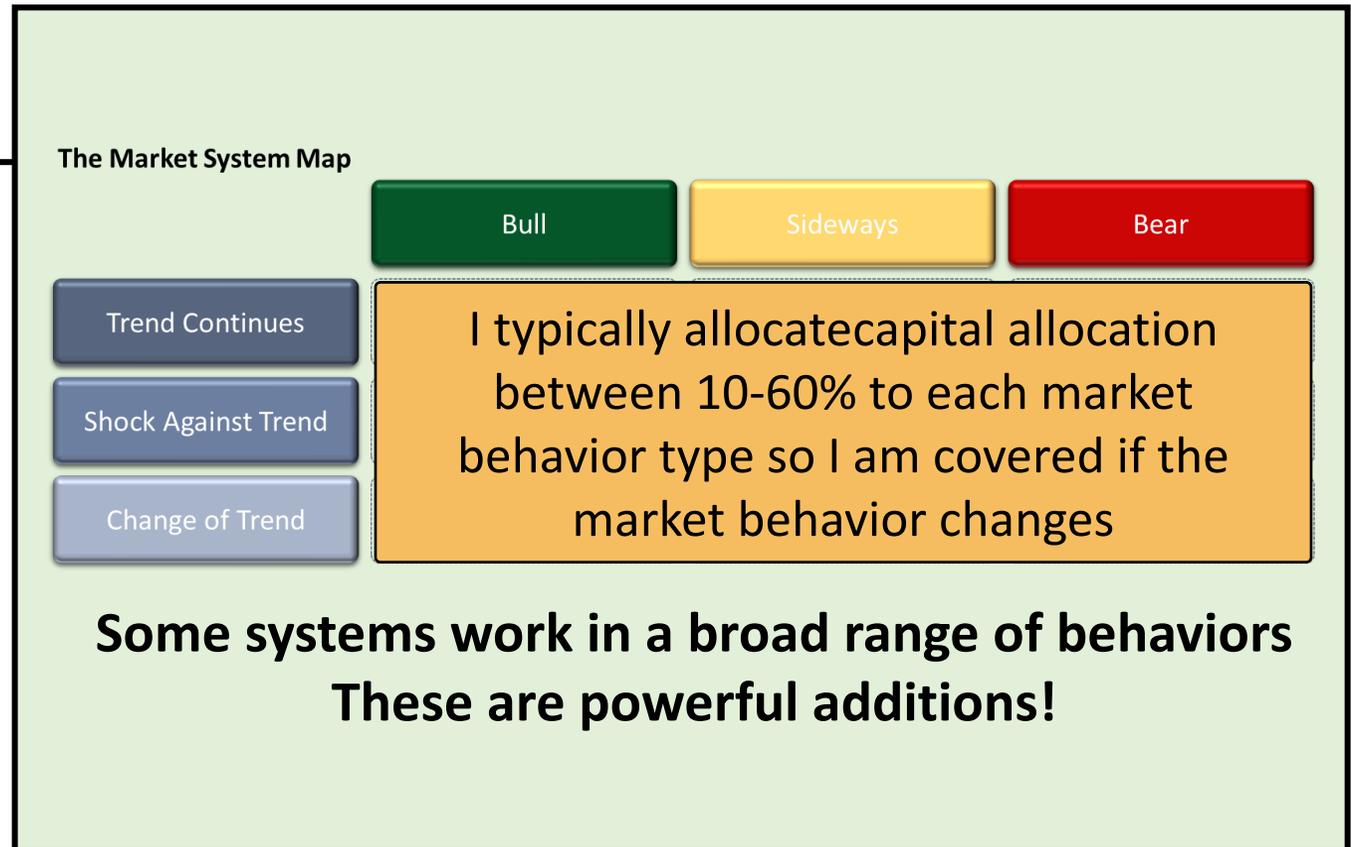
Bear Market Risk Management

- Position Sizing
- Scenario Planning
- System Diversification
- **Capital Allocation**



Bear Market Risk Management

- Position Sizing
- Scenario Planning
- System Diversification
- **Capital Allocation**



Session Overview

- Threats To Your Survival
- Bear Market Risk Management
- Positive Returns From Bear Market Behavior

Characteristics of Trading Systems That Work

- **Simple: Use a small number of parameters and rules**

Characteristics of Trading Systems That Work

- Simple: Use a small number of parameters and rules
- **Real: Based on observable market behavior (not datamined)**

Characteristics of Trading Systems That Work

- Simple: Use a small number of parameters and rules
- Real: Based on observable market behavior (not datamined)
- **Liquid: Trades only high liquidity instruments because it is hard to short small caps without a lot of slippage and high borrow costs**

Characteristics of Trading Systems That Work

- Simple: Use a small number of parameters and rules
- Real: Based on observable market behavior (not datamined)
- Liquid: Trades only high liquidity instruments because it is hard to short small caps without a lot of slippage and high borrow costs
- **Robust: Works over a broad range of parameter values**

Characteristics of Trading Systems That Work

- Simple: Use a small number of parameters and rules
- Real: Based on observable market behavior (not datamined)
- Liquid: Trades only high liquidity instruments because it is hard to short small caps without a lot of slippage and high borrow costs
- Robust: Works over a broad range of parameter values
- **Conservative: Small position size and low leverage to keep you alive**

Characteristics of Trading Systems That Work

- Simple: Use a small number of parameters and rules
- Real: Based on observable market behavior (not datamined)
- Liquid: Trades only high liquidity instruments because it is hard to short small caps without a lot of slippage and high borrow costs
- Robust: Works over a broad range of parameter values
- Conservative: Small position size and low leverage to keep you alive
- **Nimble: The best short systems exit quickly because rallies in bear markets are brutal on shorts**

Characteristics of Trading Systems That Work

- Simple
- Real
- Liquid
- Robust
- Conservative
- Nimble

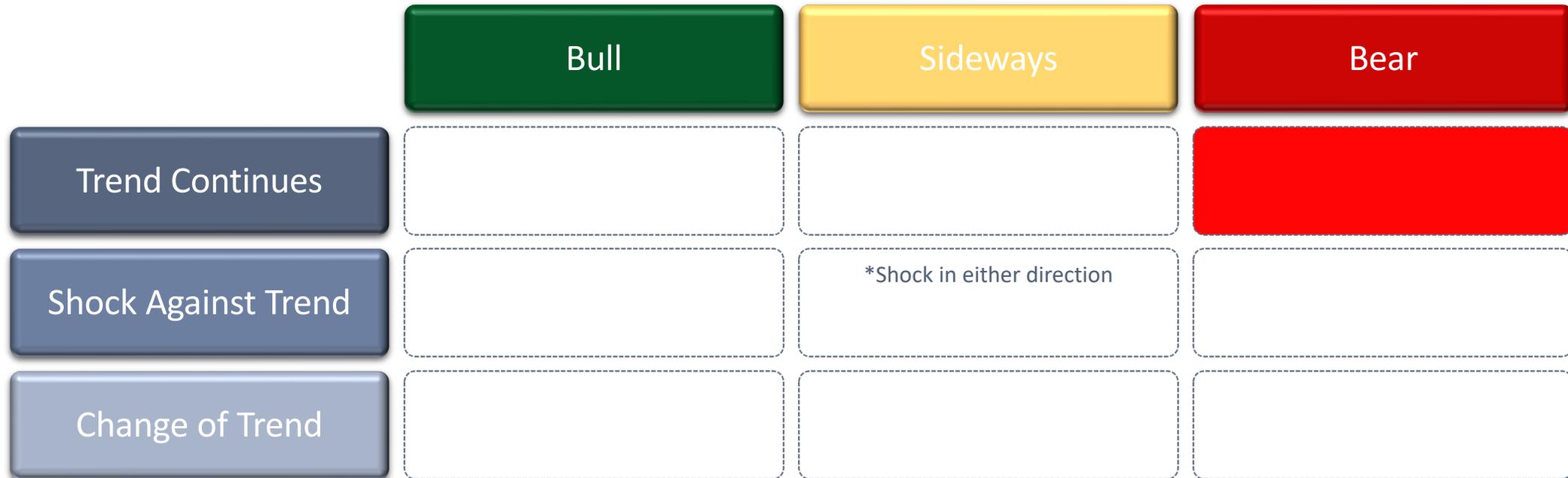
No matter what happens in the 'real world'... the market can ONLY do one of 9 things

The Market System Map

	Bull	Sideways	Bear
Trend Continues			
Shock Against Trend		*Shock in either direction	
Change of Trend			

'Bear Markets' are the periods where the markets are clearly going down

The Market System Map



In these markets, many stocks are highly correlated and move down quickly together

The Market System Map

	Bull	Sideways	Bear
Trend Continues			
Shock Against Trend		*Shock in either direction	
Change of Trend			



- Down swings in a bear market occur extremely quickly
- Traders don't have time to wait for confirmation because the majority of the move can occur in just 1-5 days
- Downswings in a bear market are usually rapid and over quickly
- Positive returns can be made extremely quickly in these phases, however traders must be nimble with entries and exits
- This is just one phase of a bear market

An example trading system for this is The Slippery Dip... a short side momentum from The Trader Success System



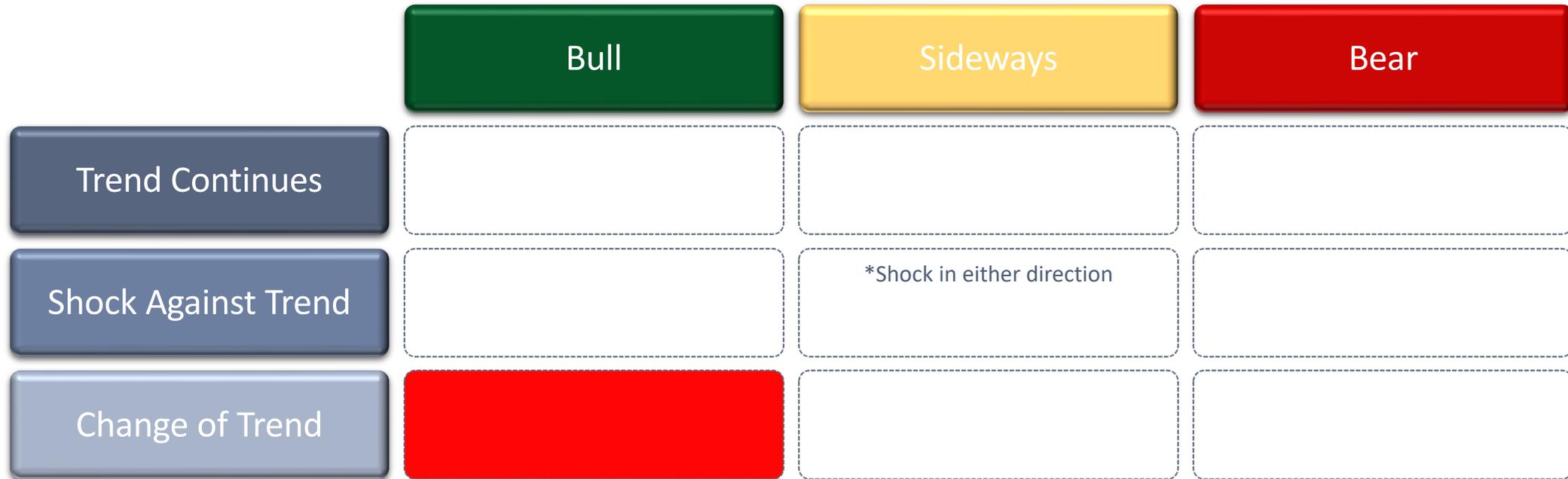
- This trading system shorts weak stocks when the index enters a downtrend or when an index rally in a downtrend fails
- Shorts a broad cross section of weak stocks and exit trades before the decline is exhausted.
- Exits on weakness in a down trend to avoid getting hurt by steep bear market rallies
- Exits quickly if the stock rallies
- Medium term system with average trade duration around 1-2 weeks
- Note strong returns in US stocks in March 2020 and in Hong Kong stocks in 2022 and 2023

Key Message...

When trading bear markets you must be nimble and exit during the down swing (before the rally)

The change in trend from Bull to Bear is where many traders lose a lot of money

The Market System Map



We need short exposure leading into the bear market to achieve positive returns in the first phase of the down trend

The Market System Map

	Bull	Sideways	Bear
Trend Continues			
Shock Against Trend		*Shock in either direction	
Change of Trend			



- Most traders are heavily long at the end of a bull market
- The market downturn is often considered to be ‘just a pullback’ until it is too late
- Trend following systems have large open winning trades and give back a lot when the market finally turns
- Bull markets are long and human memories are short... don’t forget the bear is coming!
- Short positions have been punished for many years and are typically abandoned by the end of the bull market

Key Message...

Trading long only is dangerous because unexpected market collapses hurt your account

Short exposure with a positive expectancy is important!

Enable this by trading a short system across several markets (not just US Stocks) to give you short exposure as soon as the weakest market turns

Bear markets can also end abruptly causing drawdowns for traders who are heavily short on the way down

The Market System Map



We need to position ourselves early in the strongest stocks that lead the recovery from the bear market

The Market System Map

	Bull	Sideways	Bear
Trend Continues			
Shock Against Trend			
Change of Trend			



- Bear market recoveries can occur suddenly and may initially look just like a bear market rally...that continues into the next bull market
- Not all stocks recover at the same time
- The strongest stocks lead the recovery and can generate positive returns on the long side even while the broader market is still declining

An example of this is The Freight Train... a long side trend following system in The Trader Success System



- This trading system enters strongly trending stocks on a new breakout when the broader index starts moving up
- Holds stocks until the trend has clearly changed
- Lets winners run >> Very Large winners
- Cuts losses short >> Small losses
- Long hold times

Key Message...

Stocks don't all recover simultaneously. As the bear market progresses a system that buys the market leaders that start trending up can generate positive returns

There is always something that COULD happen in the world... but the market can only do one of 9 things:

Bull

Sideways

Bear

Trend Continues

Shock Against Trend

Change of Trend

To achieve positive returns more consistently you simply need trading systems that cover more of the 9 behaviors!

Stock Trading Approaches for Bear Markets

Stock Trading Approaches for Bear Markets

1. Don't be leveraged long only late in a bull market when a downturn could occur

Stock Trading Approaches for Bear Markets

1. Don't be leveraged long only late in a bull market when a downturn could occur
2. Shorting weak stocks when the market collapses

Stock Trading Approaches for Bear Markets

1. Don't be leveraged long only late in a bull market when a downturn could occur
2. Shorting weak stocks when the market collapses
3. Fading rallies in a well-established down trend
(Not covered today due to time constraints)

Stock Trading Approaches for Bear Markets

1. Don't be leveraged long only late in a bull market when a downturn could occur
2. Shorting weak stocks when the market collapses
3. Fading rallies in a well-established down trend
(Not covered today due to time constraints)
4. Buying the leaders as they recover and break out to new highs as the bear market slows

Next Steps

Next Steps

1. Take stock... Are you trading with multiple systems?

Next Steps

1. Take stock... Are you trading with multiple systems?
2. Diversify... Do you have systems for each market behavior?

Next Steps

1. Take stock... Are you trading with multiple systems?
2. Diversify... Do you have systems for each market behavior?
3. Grow...

Get ***The Trader Acceleration Bundle*** FREE
to discover how you can quickly grow towards
your trading goals!

Next Steps

Do you want to improve YOUR trading systematically?

- Get The Trader Acceleration Bundle... FREE!
 - **The Millionaire Trader Code:**
Course that shows you the path consistent trading results
 - **Trading Systems Confidence eBook:**
Discover how to build the confidence to launch and follow your trading system
 - **Portfolio CPR Cheat Sheet:**
Step by step approach to resurrect your portfolio and position yourself for growth
 - **Daily Trading Process Cheat Sheet:**
Learn my simple daily trading process that takes just 20-30 minutes per day
 - **Trading Mistakes Cheat Sheet:**
Quickly increase your trading results by eliminating the most common trading mistakes
- Go To bit.ly/estacceleration and enter your details now (It's Free to download)

SCAN ME



