

5 Things  
Professional  
Traders Do That  
Most Retail Traders  
Don't

The logo features a circular design with a white background. Inside the circle, there are four overlapping triangles pointing towards the center. The triangles are colored dark blue, light blue, teal, and orange. Below the triangles, the text "ENVIRONMENTAL TRADING EDGE" is written in a bold, sans-serif font. "ENVIRONMENTAL" is in dark blue, "TRADING" is in dark blue, and "EDGE" is in orange.

ENVIRONMENTAL  
TRADING EDGE

# House Keeping

# Disclaimer

## **Environment Trading Edge LLC. and Members are NOT a Broker Dealer or Investment Advisor.**

Environmental Trading Edge LLC. and Members engage in trader education and training. Environmental Trading Edge LLC. offers a number of products and services via the internet at EtradingEdge.com. Environmental Trading Edge LLC. offers web-based, interactive training courses on demand.

## **The webinars and seminars given by Environment Trading Edge LLC. and Members are for educational purposes only.**

This information neither is, nor should be construed, as an offer, or a solicitation of an offer, to buy or sell securities. You shall be fully responsible for any investment decision you make, and such decisions will be based solely on your evaluation of your financial circumstances, investment objectives, risk tolerance, and liquidity needs.

## **Options, futures and currencies involve risks and are not suitable for all investors.**

Prior to buying or selling an option, a person must receive a copy of Characteristics and Risks of Standardized Options. Copies are available from your broker, by calling 1-888-OPTIONS, or at [www.theocc.com](http://www.theocc.com). The information in this presentation is provided solely for general education and information purposes. No statement should be construed as a recommendation to buy or sell a security or to provide investment advice. You are fully responsible for any investment decisions you make. Such decisions should be based solely on your evaluation of your financial circumstances. Such decisions should be based solely on your evaluation of your financial circumstances, investment objectives, risk tolerance and liquidity needs. Supporting documentation for any claims, comparisons, statistics or other technical data in this presentation is available at Environmental Trading Edge LLC. (Info@EtradingEdge.com).

## **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.**

Parameters relating to past performance of strategies discussed are not capable of being duplicated. In order to simplify the computations, slippage, commissions, fees, margin interest and taxes have not been included in the examples used in this presentation. These costs will impact the outcome of all stock and options transactions and must be considered prior to entering into any transactions. Multiple leg strategies involve multiple commission charges. Brokerage firms may require customers to post higher margins than the minimum margins specified in this presentation. Investors should consult their tax advisor about any potential tax consequences. Simulated trading programs are designed with the benefit of hindsight. No representation is being made that any portfolio or trade will, or is likely to, achieve profits or losses similar to those shown.

All investments and trades carry risks.

## **For personal use only. All information in this presentation is for your personal, non-commercial use only.**

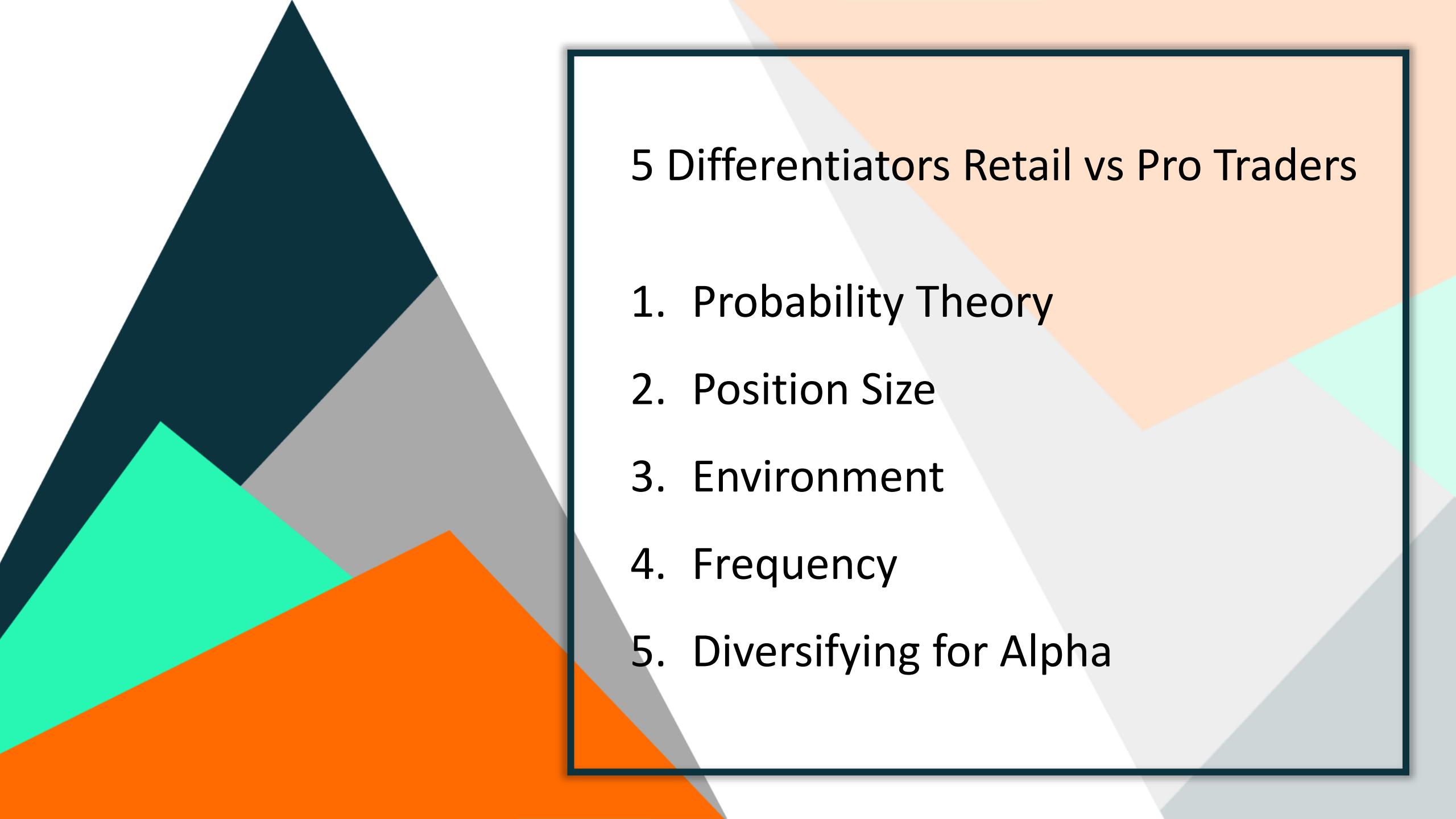
Commercial use requires the written permission of Environmental Trading Edge LLC. and may involve licensing fees.



# Who

- Wayne Klump
  - Managing Partner- Environmental Trading Edge LLC
  - Creator of The Sleep Well Portfolio & A.W.A.K.E.
    - Co-Creator of ADAPT Options
  - Professional Prop Trader and Strategy Developer
  - Vision – Make professional portfolio management principles accessible and concise





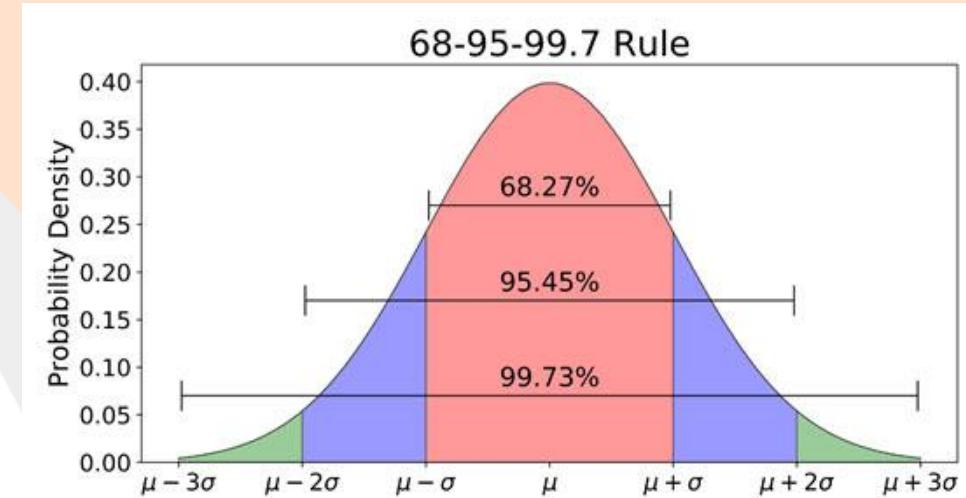
## 5 Differentiators Retail vs Pro Traders

1. Probability Theory
2. Position Size
3. Environment
4. Frequency
5. Diversifying for Alpha

# Probability Theory

# Probability Theory

- Outcomes cannot be guaranteed
  - One investment or trade holds little weight (Big Data)
  - Potentially is king
    - 0%-100%
  - One trade outcome has no effect on the next without a proven relationship
  - Knowing our probability before entering a trade that based on historical data is an edge
    - Important to know collinear variables (Environment)



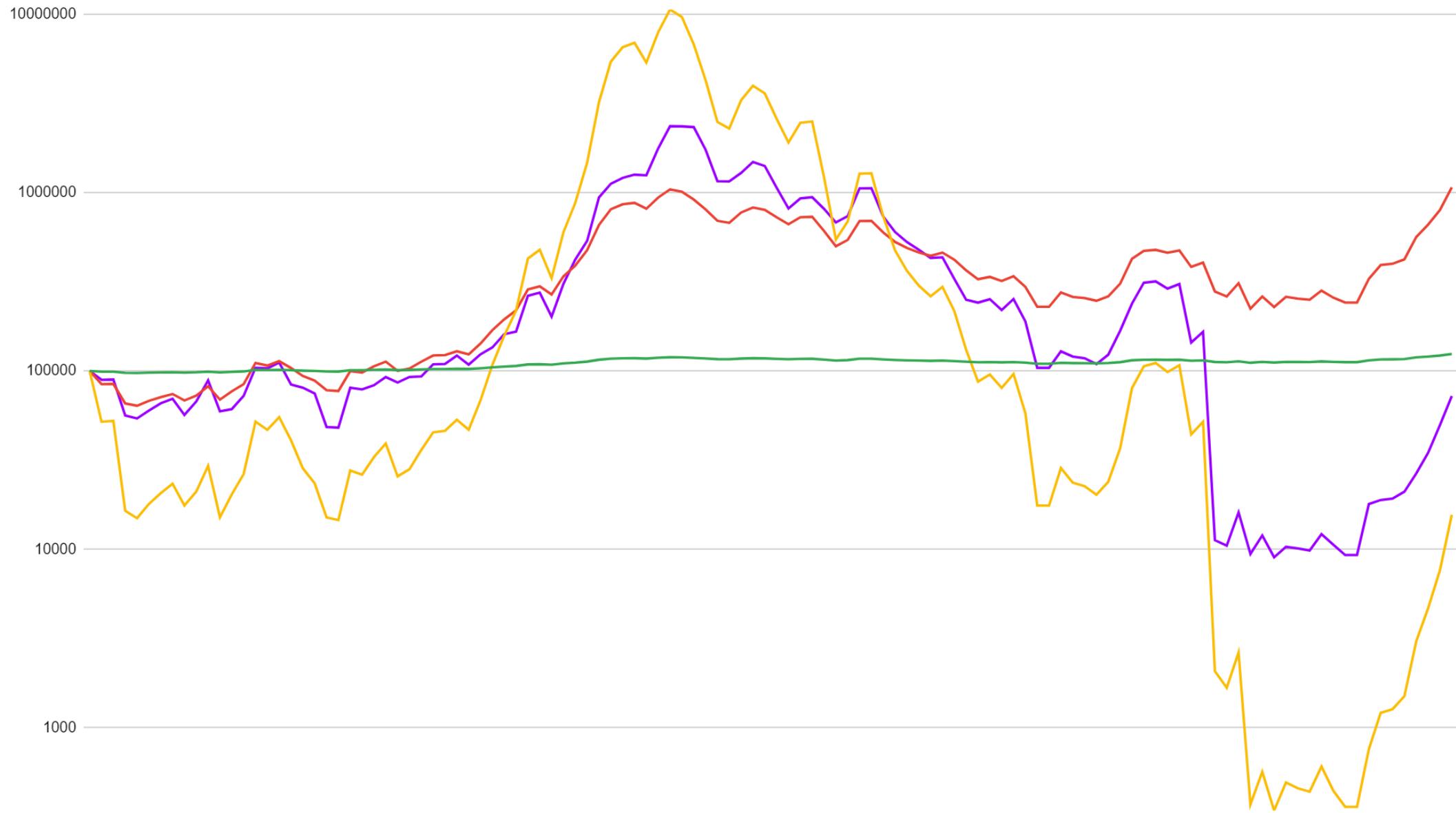


# Position Size/ Allocation Size



Not All Trades Are  
Created Equally

Randomly Allocated   Optimally Allocated   Over-Allocated   Under-Allocated



# Position Sizing

- Ways to positions size
  - Volatility
    - Risk Parity
  - Kelly criterion
    - Single max position

$$F = P_W - (P_L / (\$W / \$L))$$

where

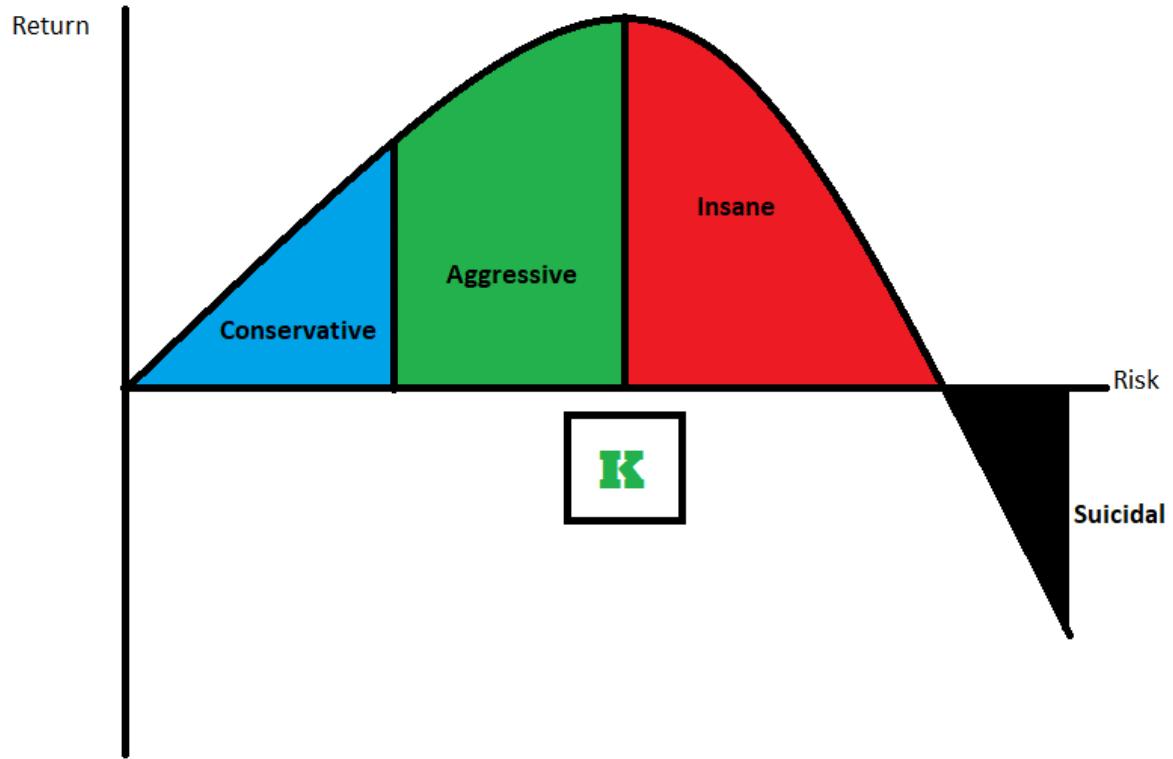
$F$  = Kelly Criterion fraction of capital to bet

$P_W$  = Probability of winning the bet

$P_L$  = Probability of losing the bet

$\$W$  = Dollars won if bet is won

$\$L$  = Dollars lost if bet is lost

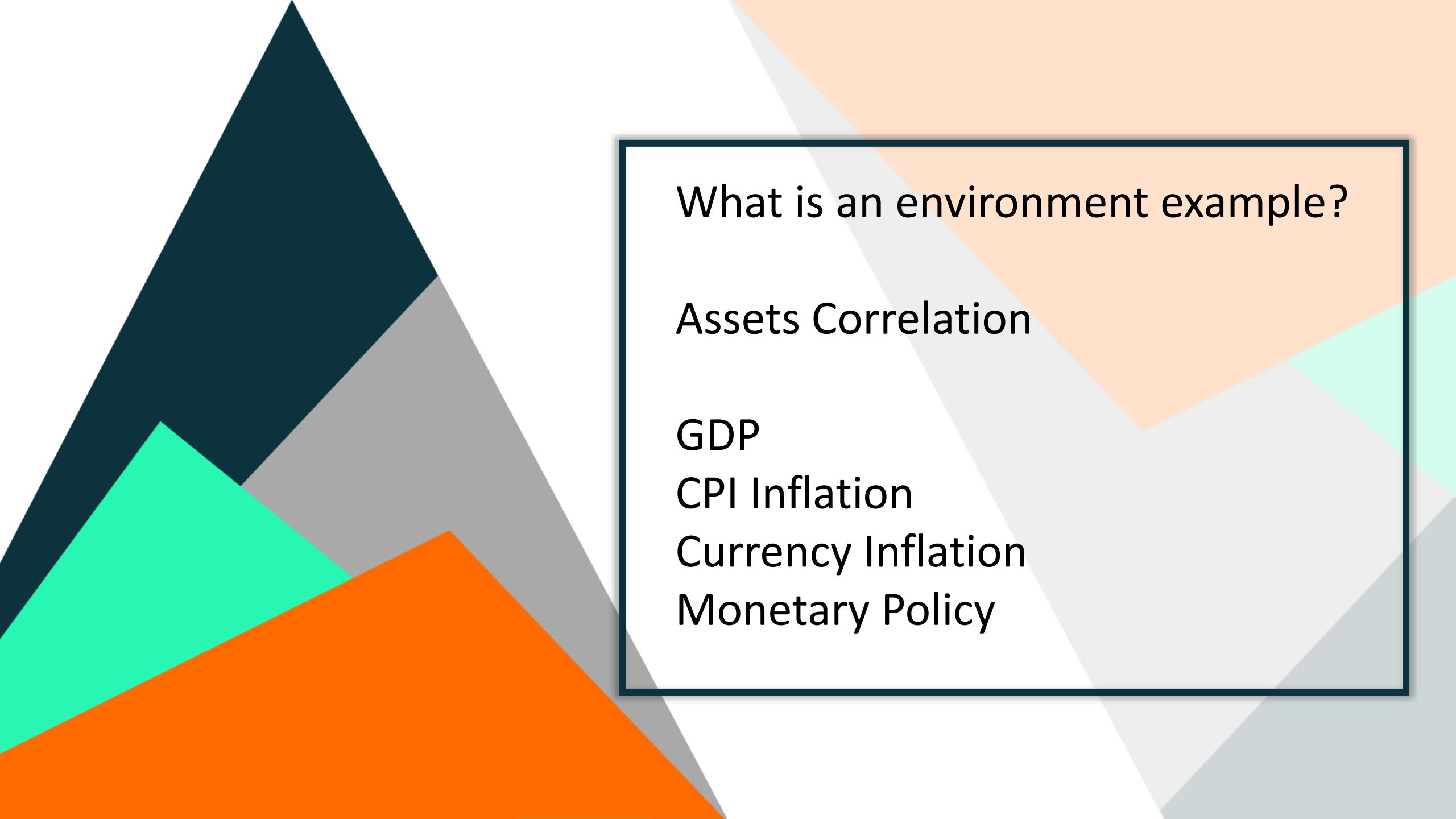




# Trading/Investing For the Current Environment

## What is an environment?

A trade environment is a measurable set of variables that fundamentally impacts trade/asset performance.



# What is an environment example?

Assets Correlation

GDP

CPI Inflation

Currency Inflation

Monetary Policy

Percent Change from Year Ago



Shaded areas indicate U.S. recessions.

Sources: S&P Dow Jones Indices LLC; U.S. Bureau of Economic Analysis

[fred.stlouisfed.org](http://fred.stlouisfed.org)

# Macro Relationships

- CPI Inflation
- Bonds are positively correlated to accelerating CPI
  - Investors demand more yield as inflation rises and inflation accelerates
- Bonus!
  - If no new money is created... What happens if bond yields are dropping with decelerating inflation in a slowing GDP environment?
  - Where does the money come from and where would it like to go
    - Think of money as an opportunistic animal looking for maximum short-term gains

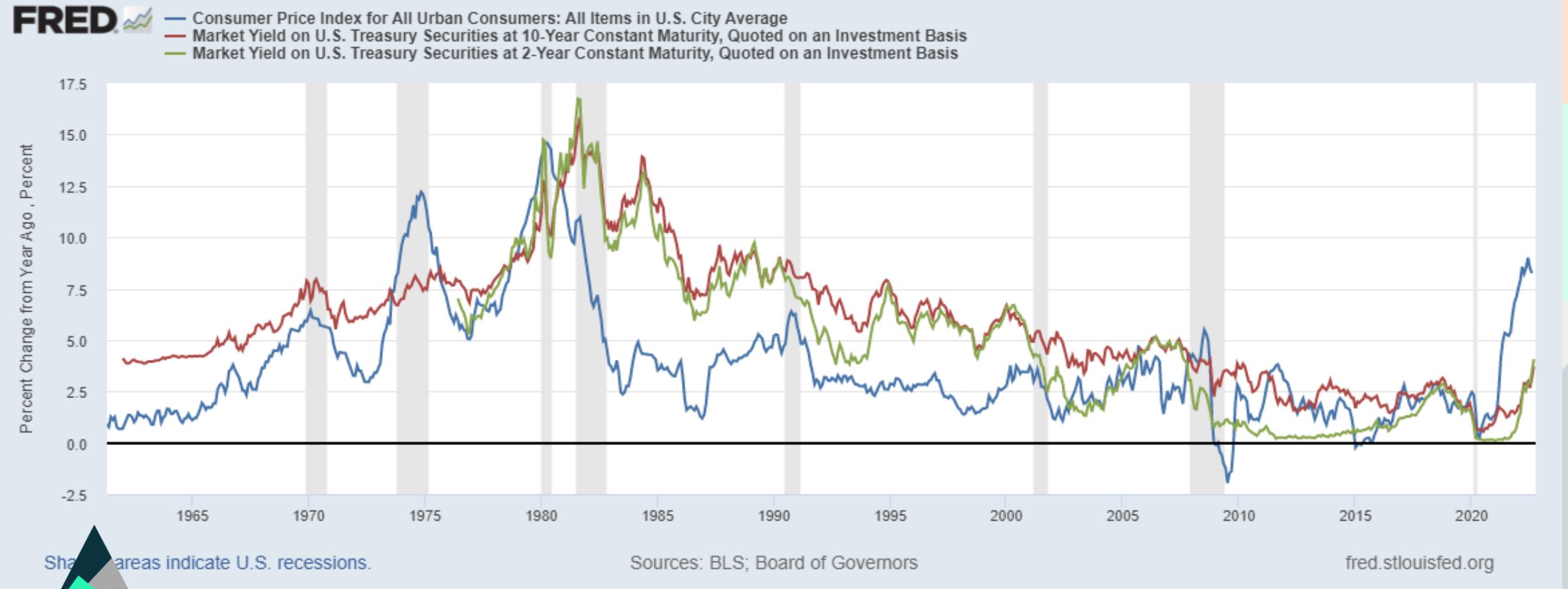


# Macro Relationships

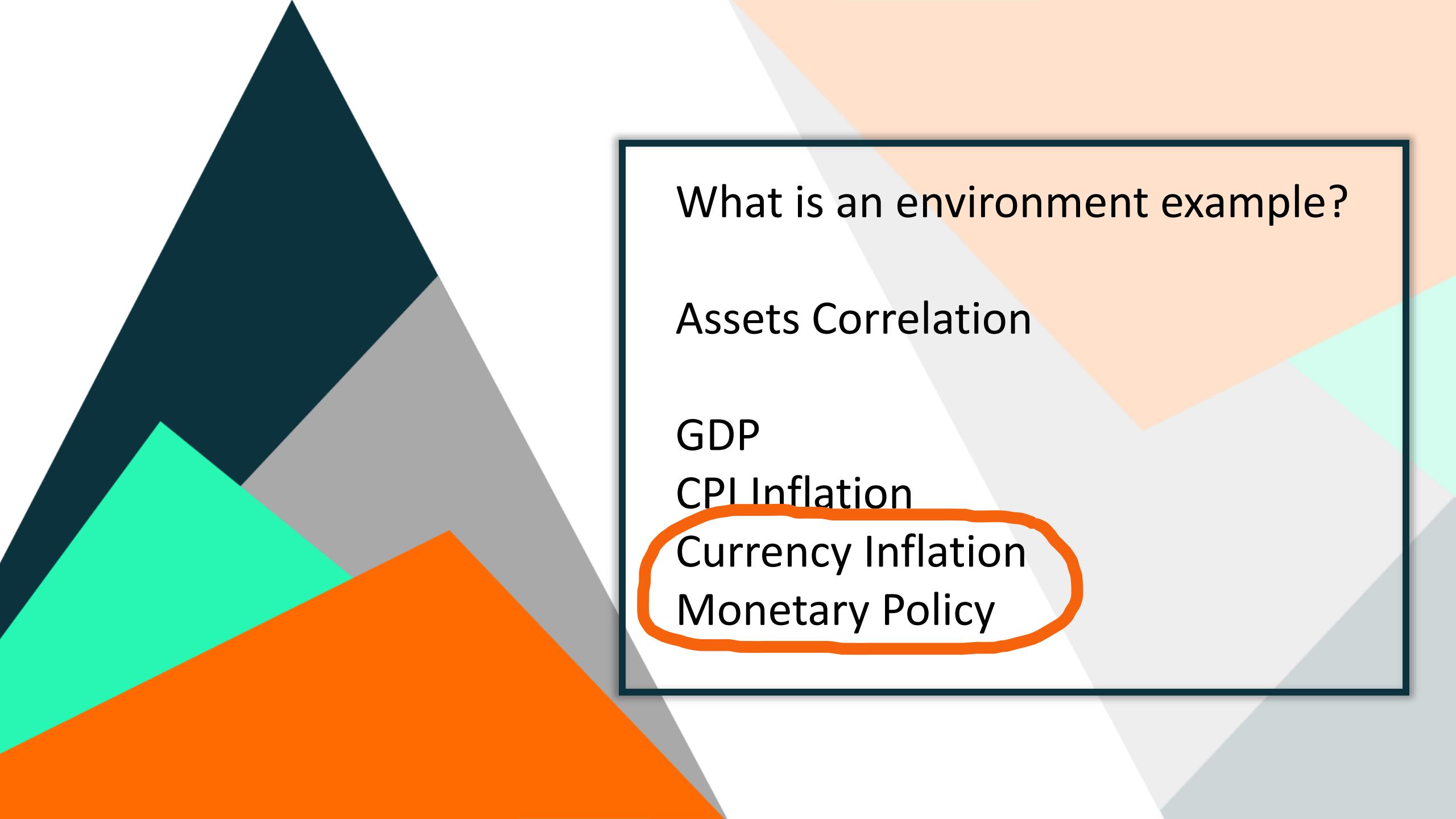
- CPI Inflation
- Bonds are positively correlated to accelerating CPI
  - Investors demand more yield as inflation rises and inflation accelerates
- Bonus!
  - If no new money is created... What happens if bond yields are dropping with decelerating inflation in a slowing GDP environment?
  - Where does the money come from and where would it like to go
    - Think of money as an opportunistic animal looking for maximum short-term gains



# Macro Relationships







# What is an environment example?

Assets Correlation

GDP

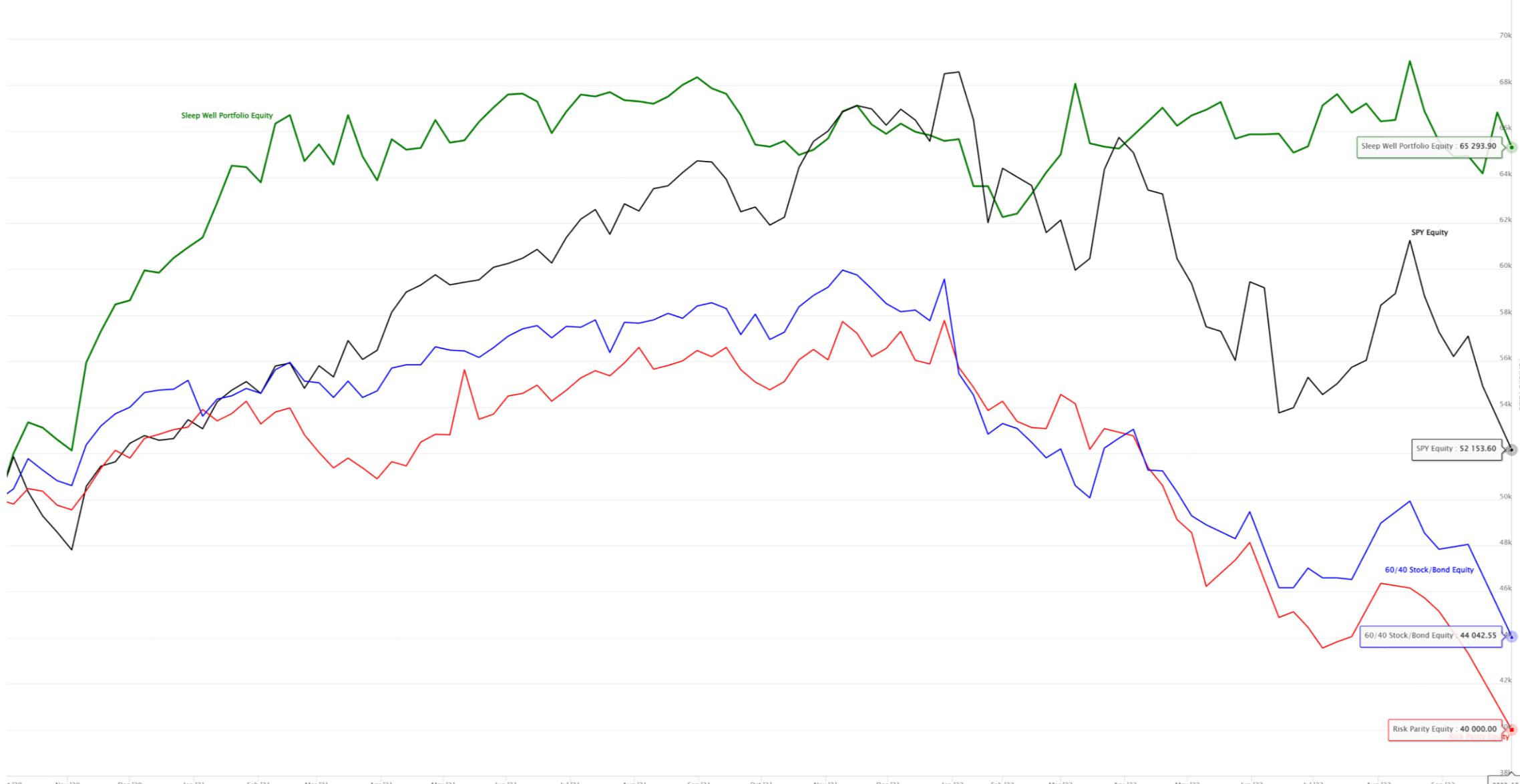
CPI Inflation

Currency Inflation

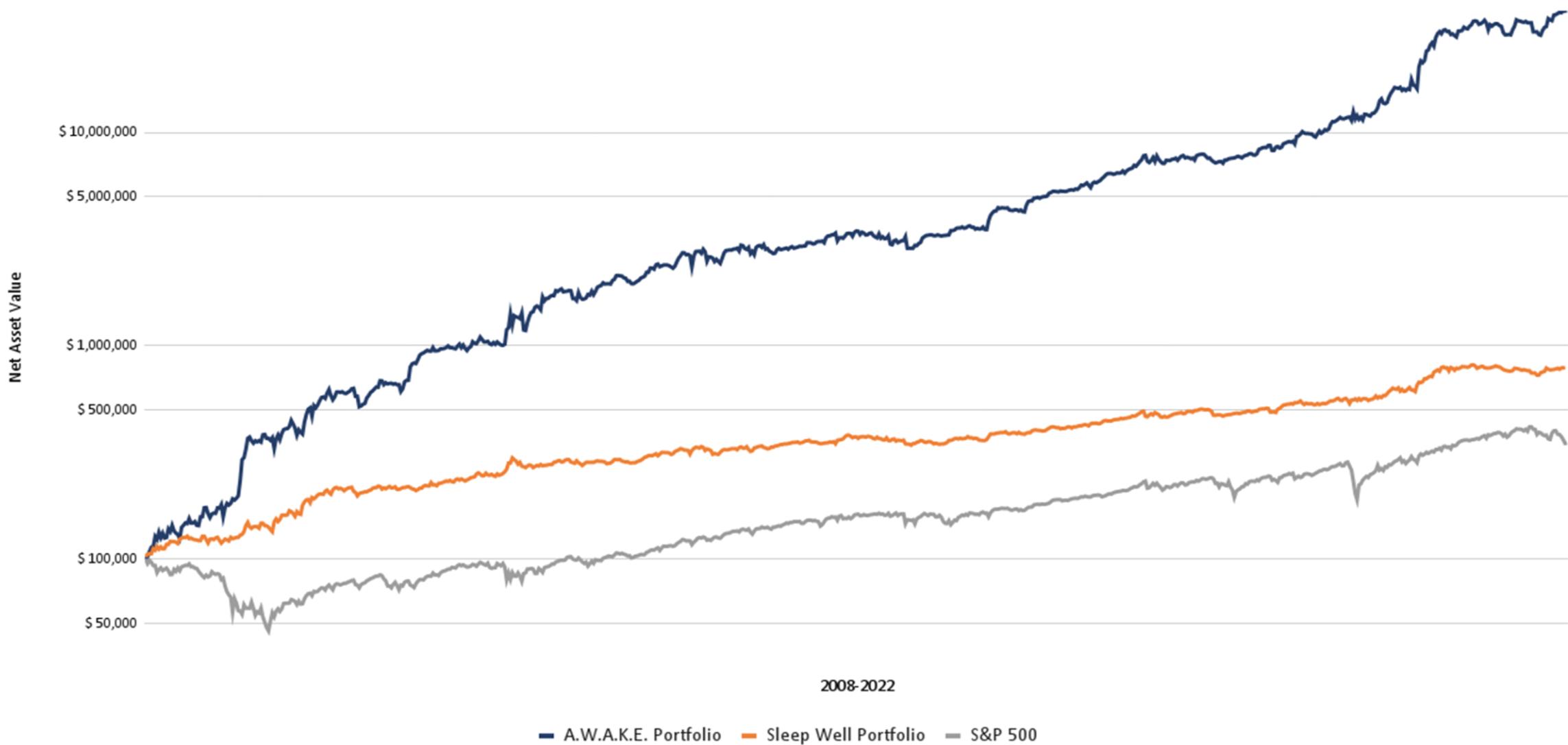
Monetary Policy

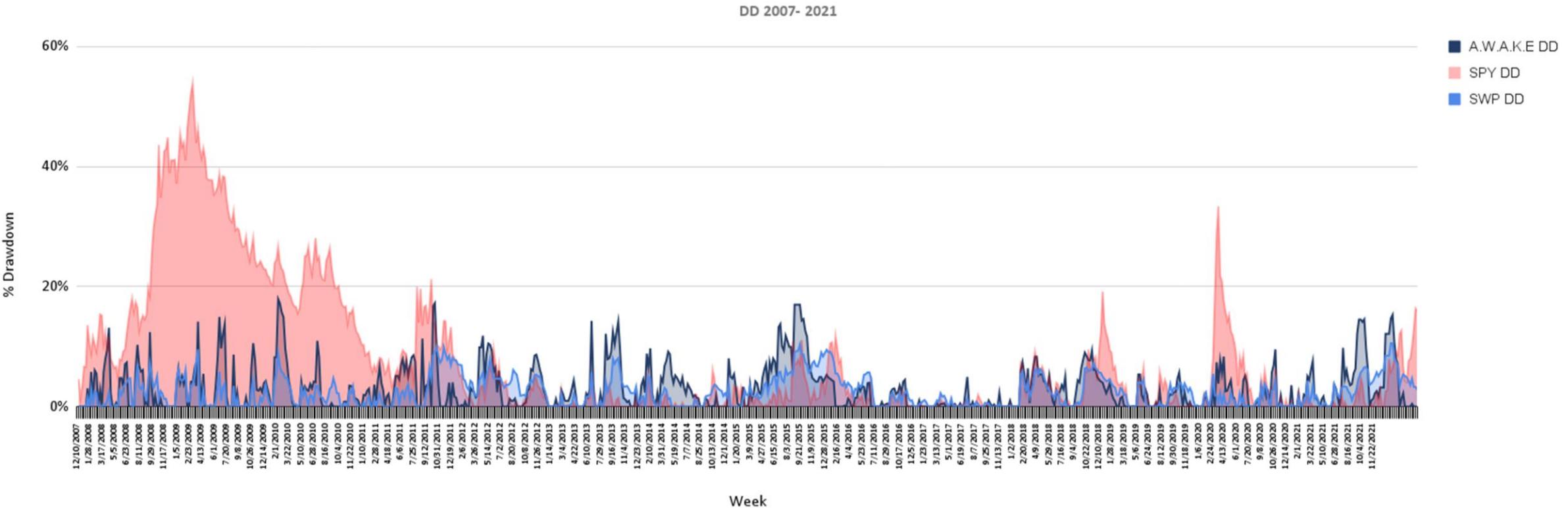


# Adaptive Macro Portfolio Results



## A.W.A.K.E. vs. Sleep Well Portfolio vs. S&P 500



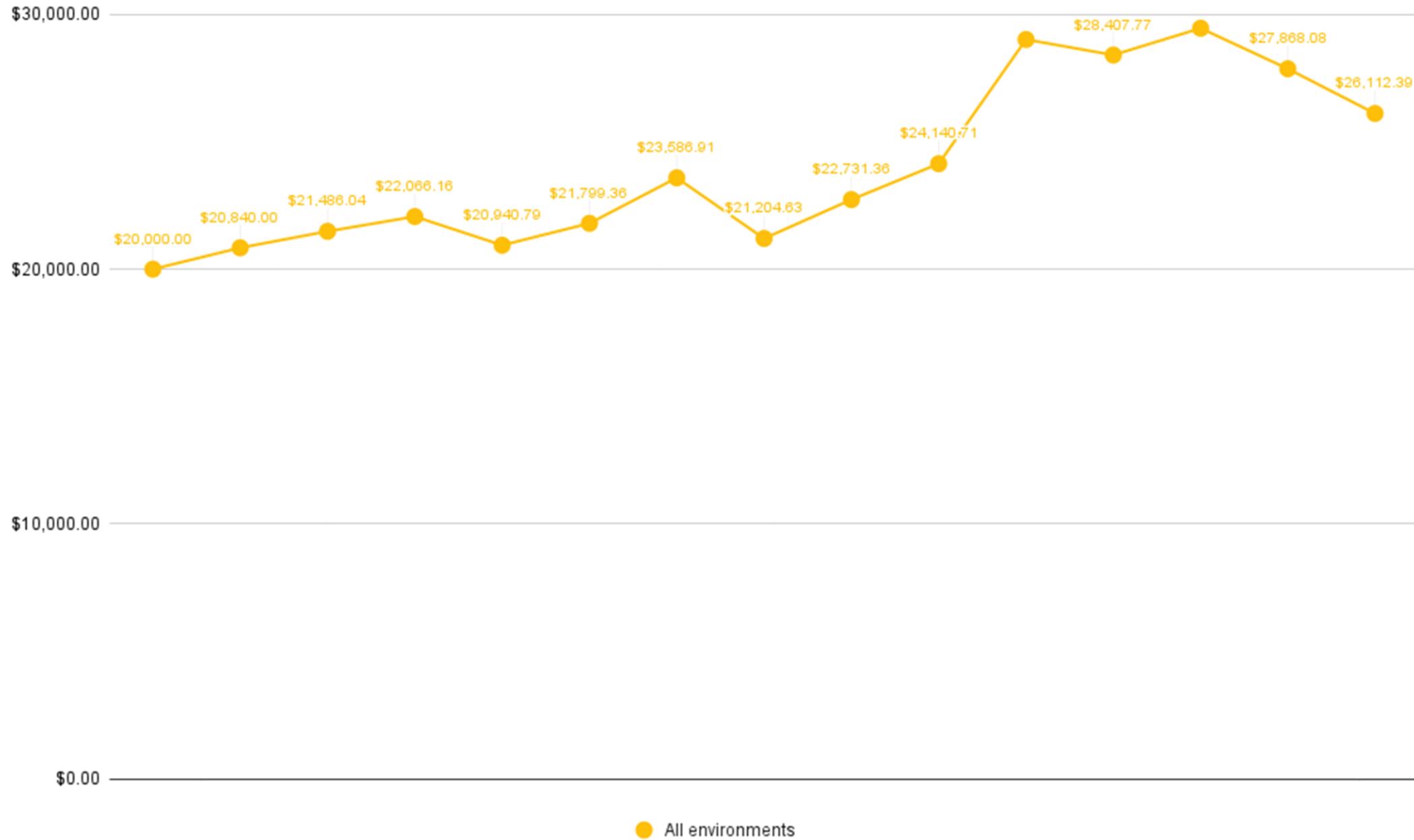


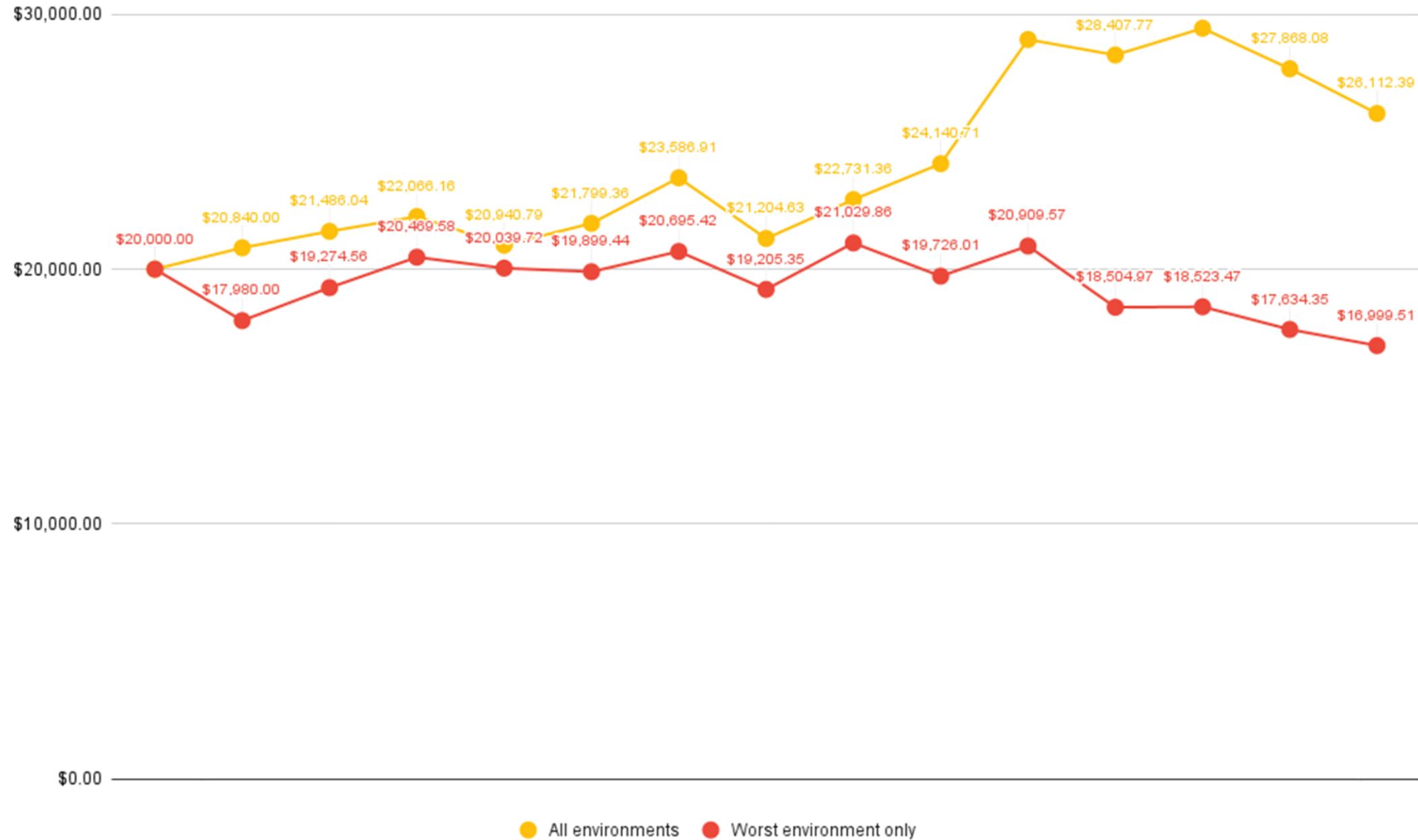


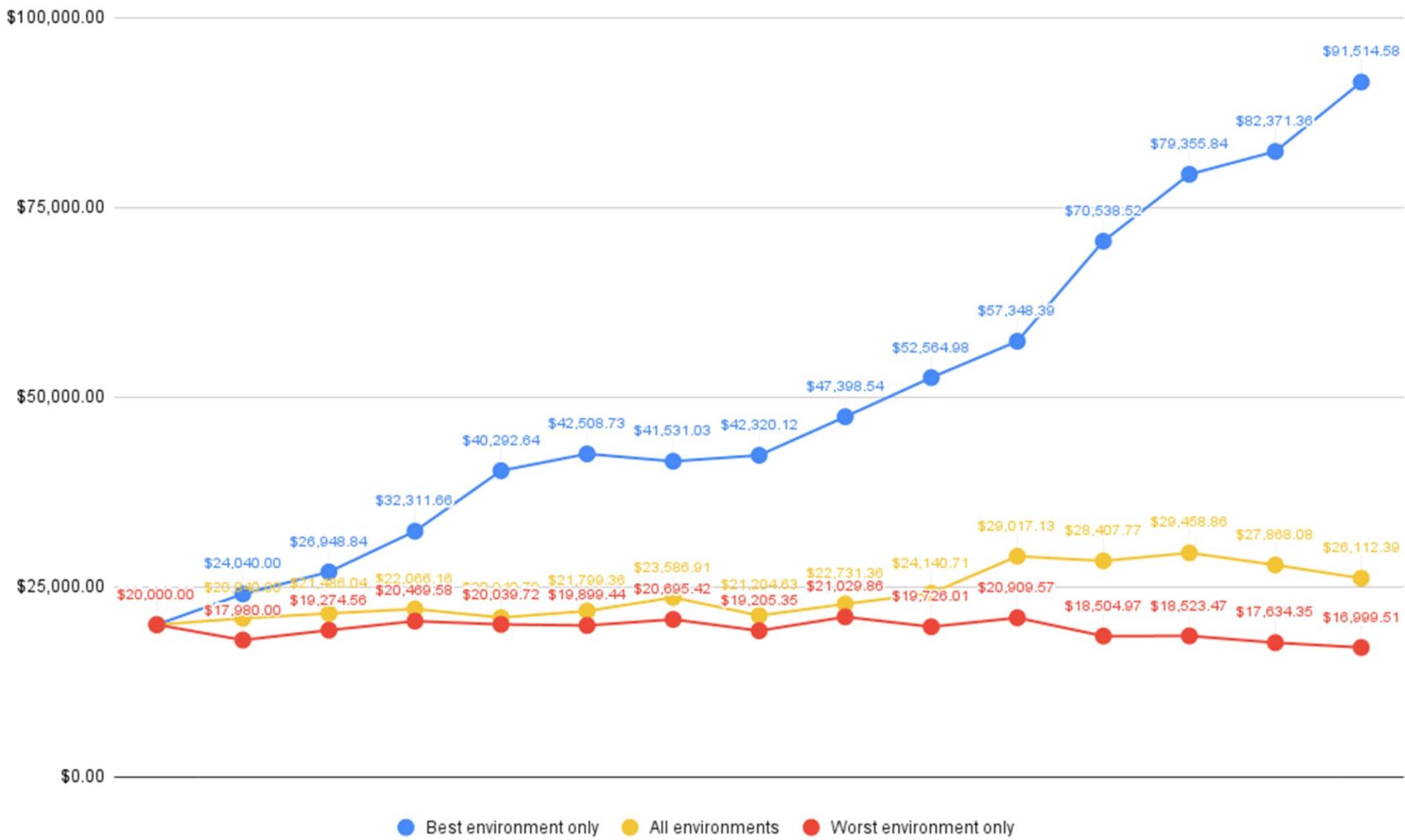
## What is an environment example?

### Trading

Directional trades have higher potential in higher volatility times vs lower volatility times





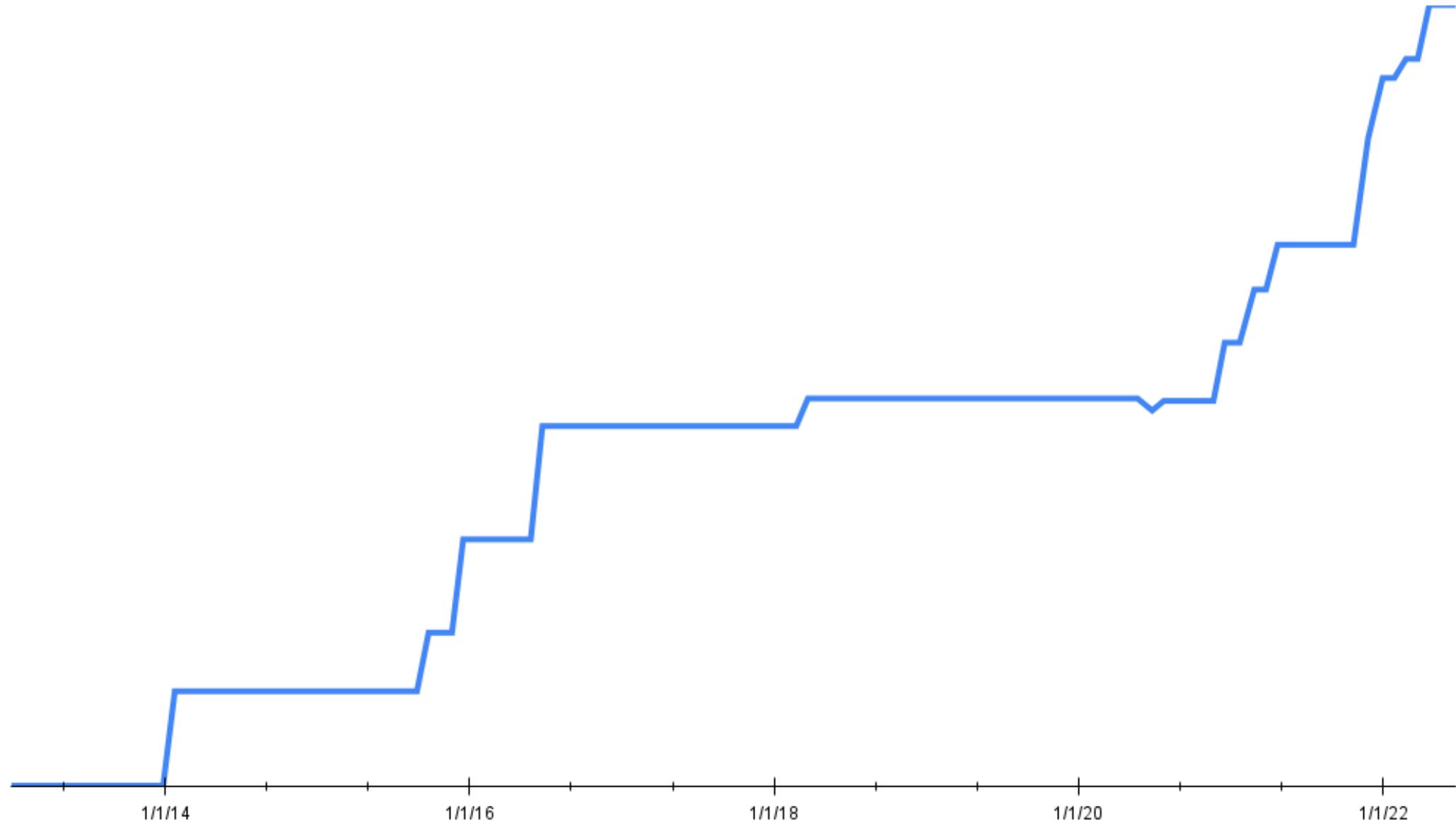






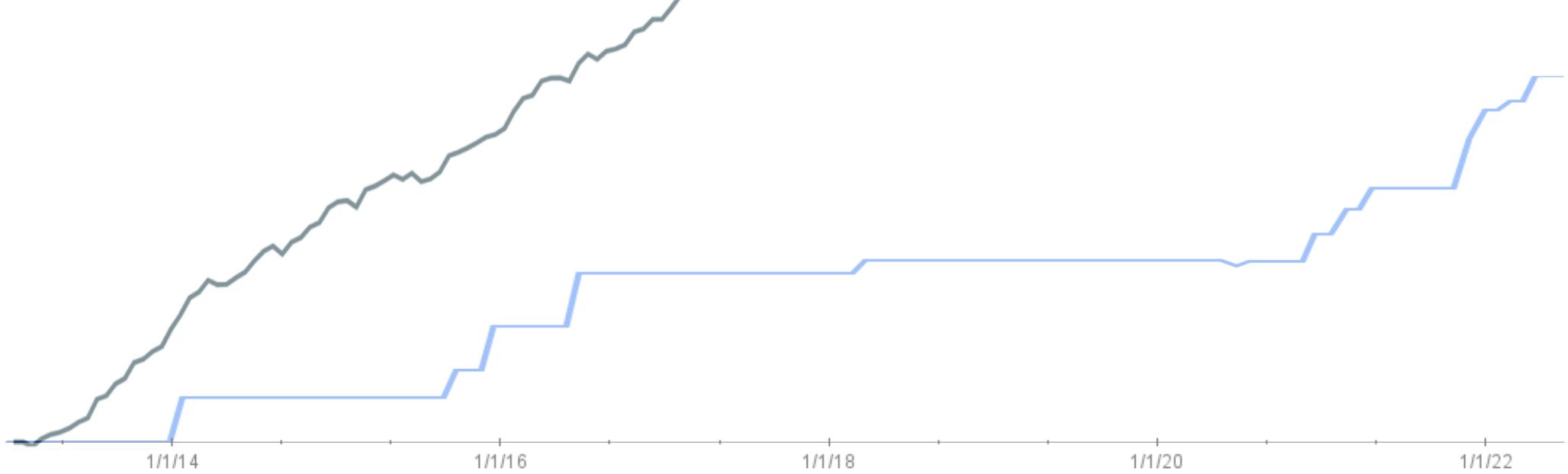
Less Frequency  
Creates Opportunity  
to Trade More

## Frequency



Frequency

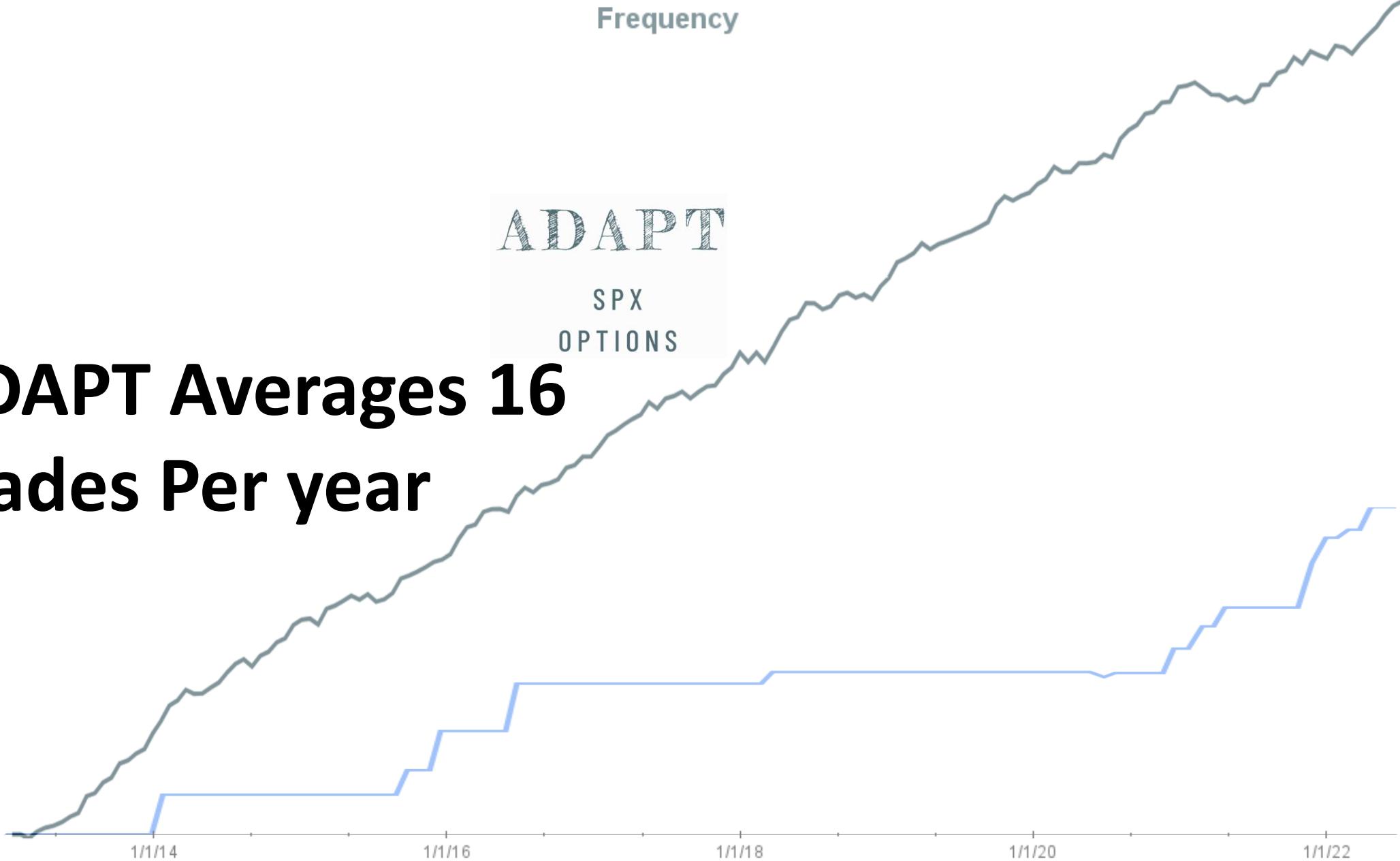
ADAPT  
SPX  
OPTIONS



# ADAPT Averages 16 Trades Per year

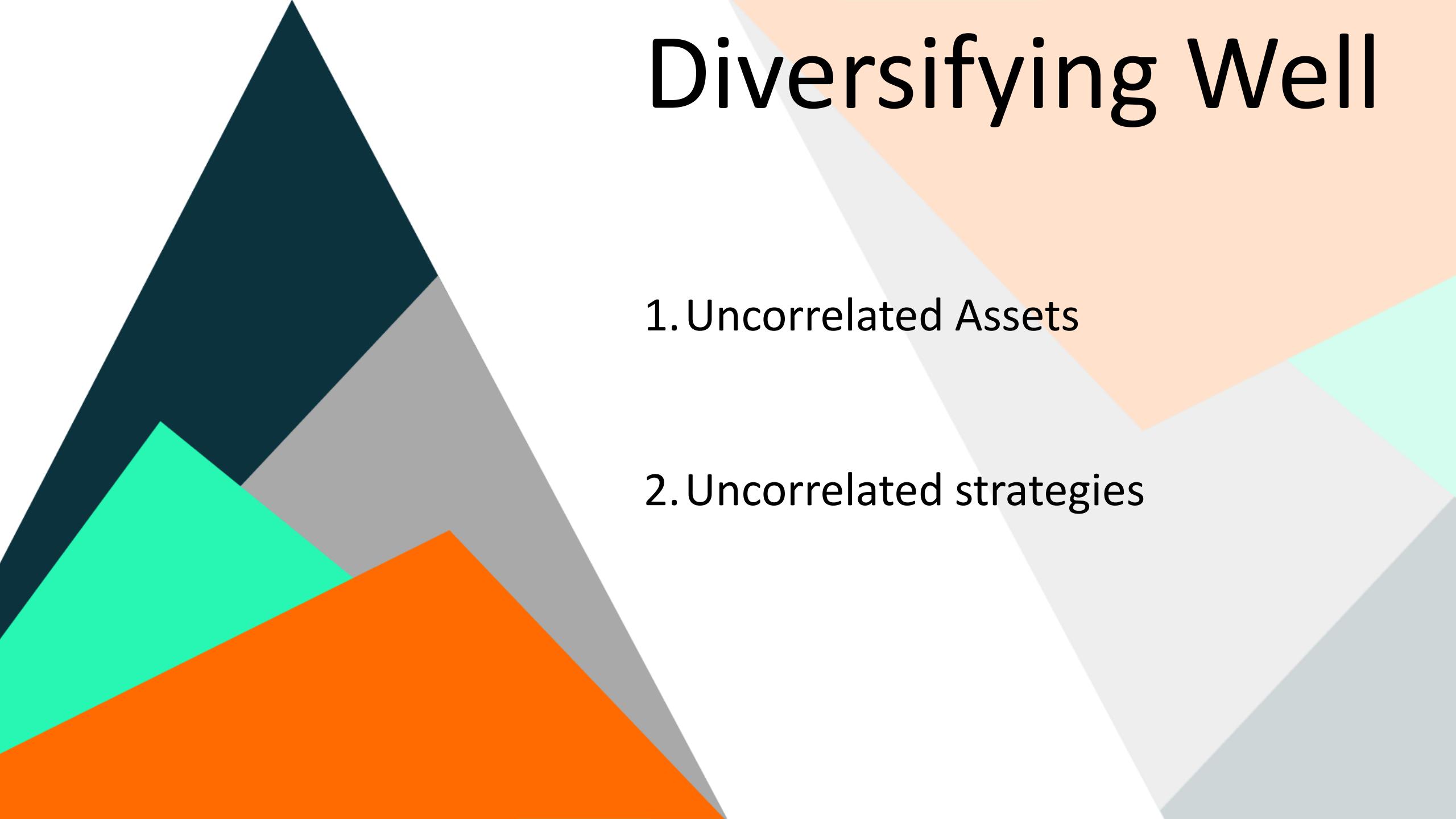
ADAPT  
SPX  
OPTIONS

Frequency



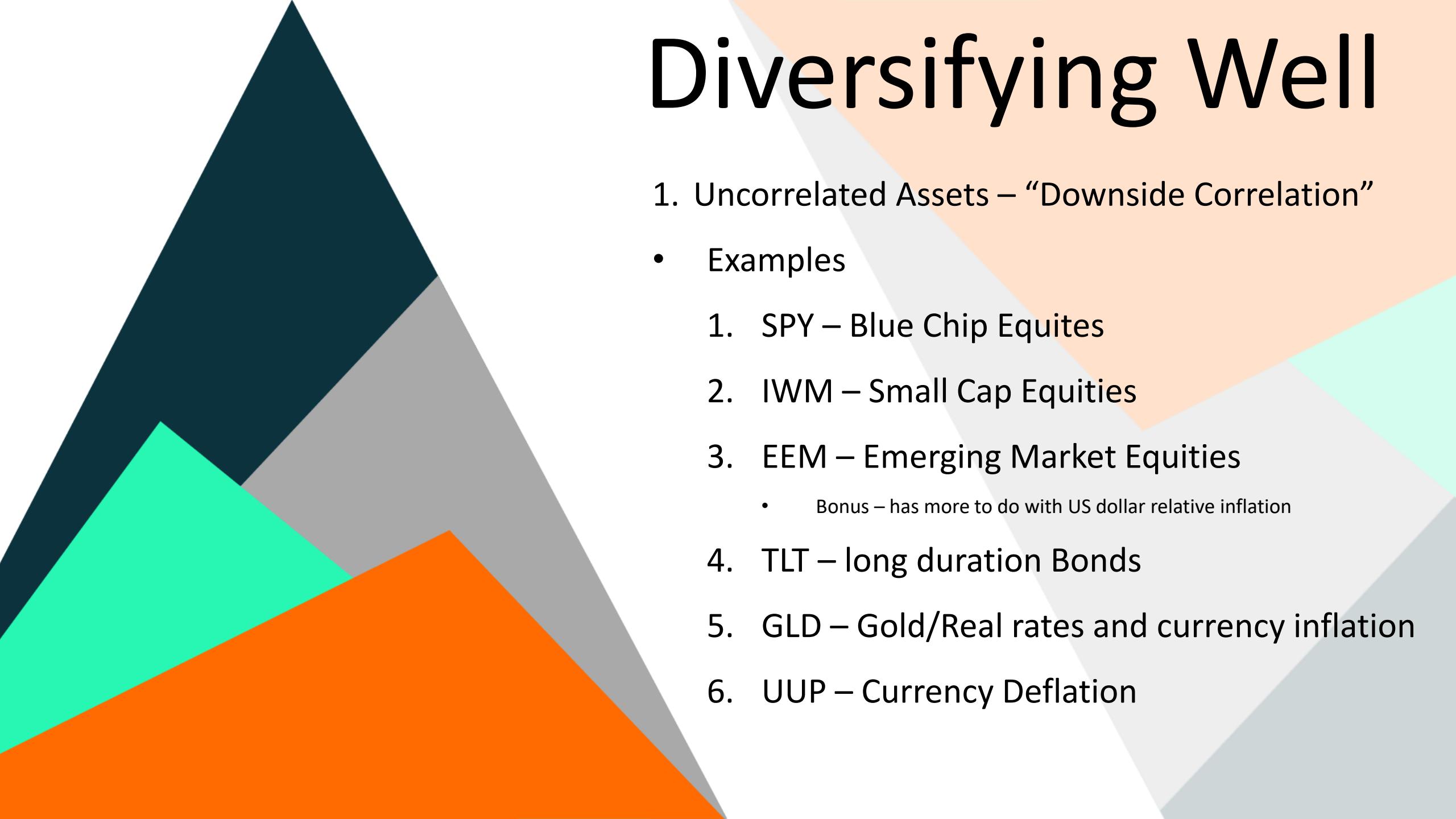


# Diversifying Well



# Diversifying Well

1. Uncorrelated Assets
2. Uncorrelated strategies



# Diversifying Well

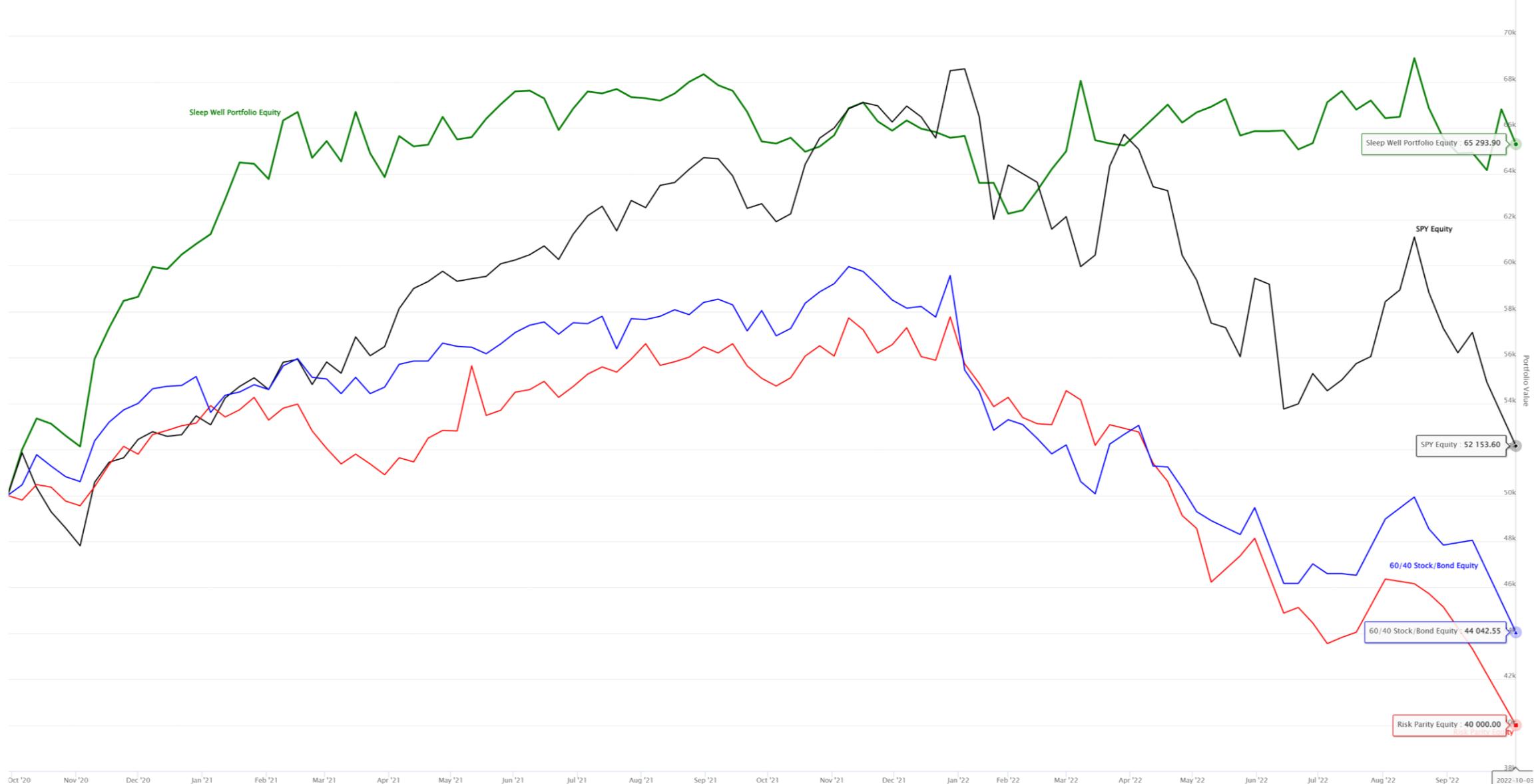
1. Uncorrelated Assets – “Downside Correlation”
  - Examples
    1. SPY – Blue Chip Equities
    2. IWM – Small Cap Equities
    3. EEM – Emerging Market Equities
      - Bonus – has more to do with US dollar relative inflation
    4. TLT – long duration Bonds
    5. GLD – Gold/Real rates and currency inflation
    6. UUP – Currency Deflation

### Sleep Well Portfolio versus SPY, Risk Parity and 60/40 Portfolio

Source: <https://aeromir.com/sleepwell>

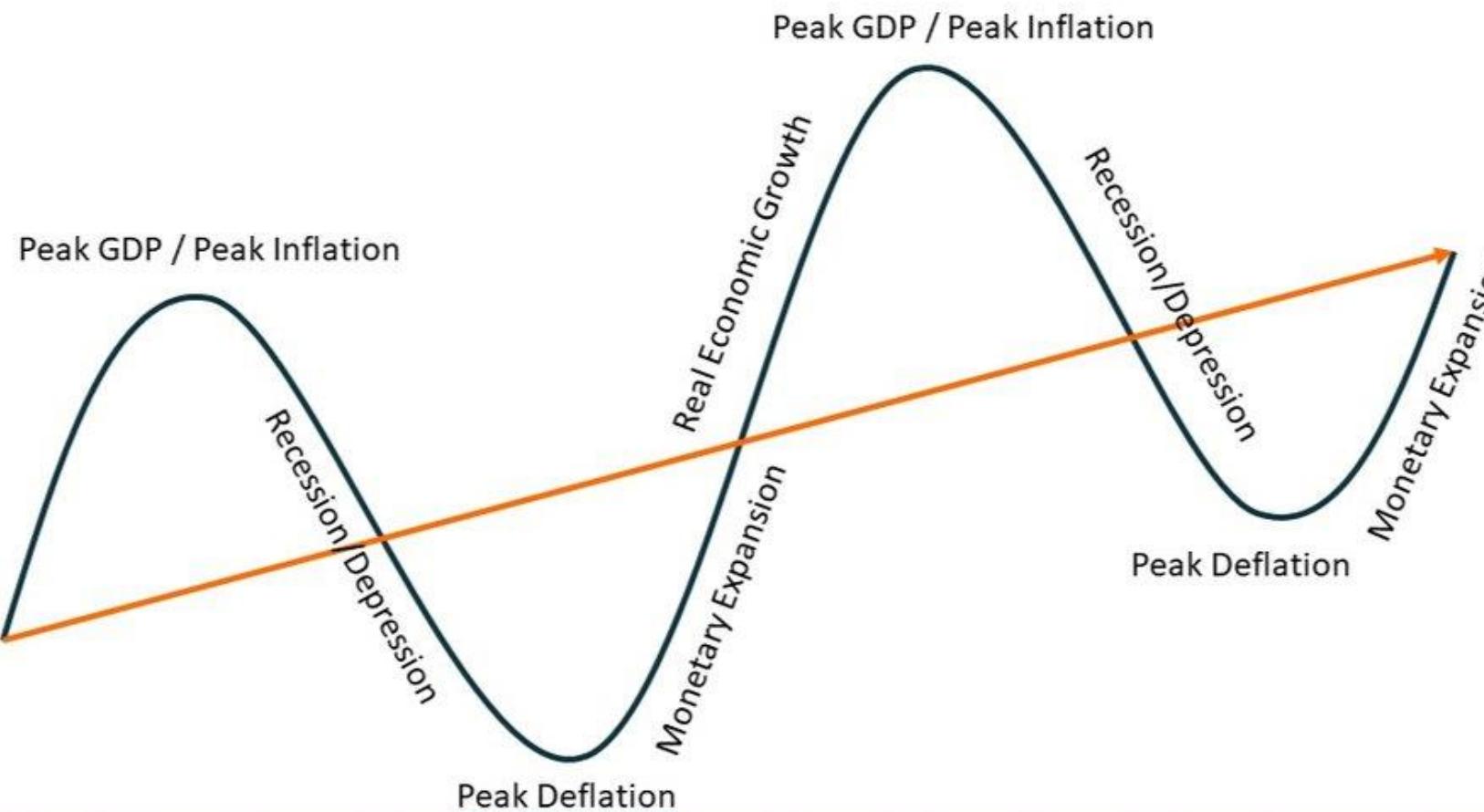
Zoom 1m 3m 6m YTD 1y All

Sep 29, 2020 → Oct 3, 2022

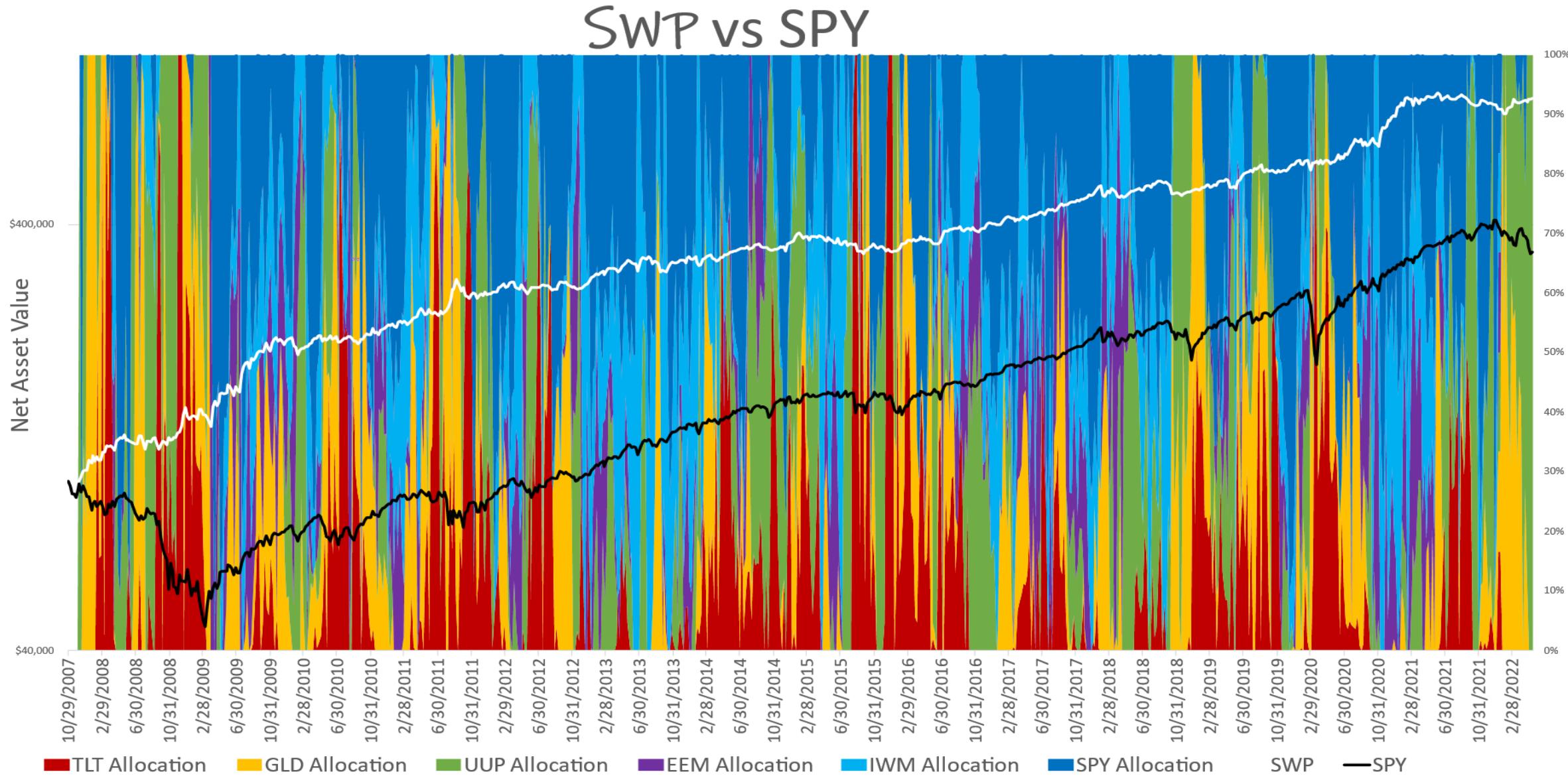


# Diversifying Well

## Business/Credit Cycle

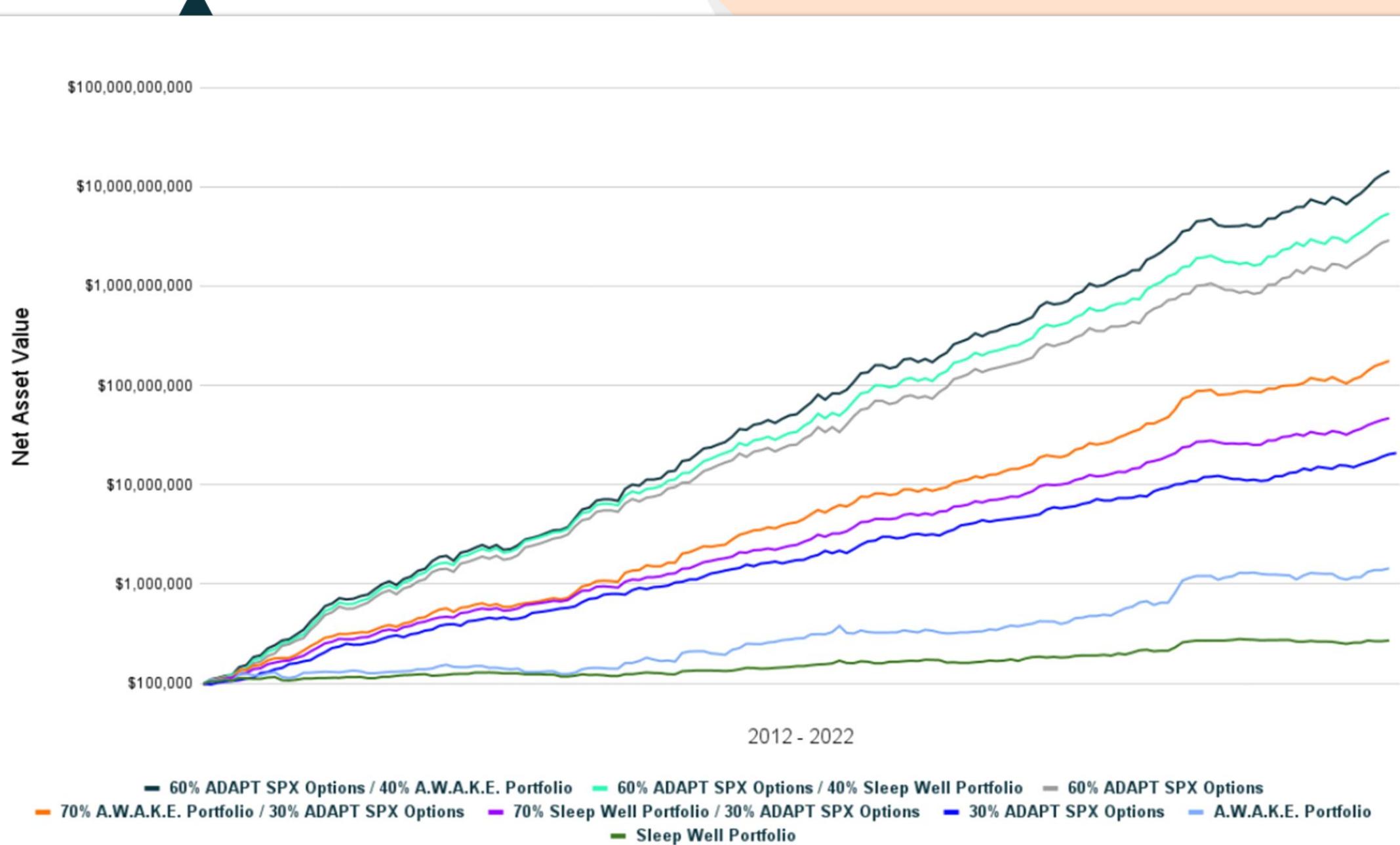


# Diversifying Well



## Asset Class Examples...

- Equities (e.g., stocks),
- Fixed income (e.g., bonds)
- Cash and cash equivalents
- Real estate
- Commodities
- Currencies
- **OPTIONS(?)**
- Other Trading Strategies



# ADAPT Options W/ A Portfolio

ADAPT to the market



**ENVIRONMENTAL  
TRADING EDGE**

# ADAPT SPX OPTIONS

&  
Sleep Well

PORTFOLIO

or

A . W . A . K . E .

PORTFOLIO

APPROX  
**208%**  
AVG. ANNUAL  
RETURN

APPROX  
**198%**  
CAGR  
(COMPOUNDED ANNUAL  
GROWTH RATE)

APPROX  
**-22%**  
MAX DRAWDOWN  
(Historically, -28.6% w/90%  
confidence interval)

APPROX  
**72%**  
LOWEST YEARLY  
RETURN SINCE  
2013

APPROX  
**-0.1**  
PER TRADE  
CORRELATION TO  
THE S&P 500

APPROX  
**218%**  
AVG. ANNUAL  
RETURN

APPROX  
**237%**  
CAGR  
(COMPOUNDED ANNUAL  
GROWTH RATE)

APPROX  
**-21%**  
MAX DRAWDOWN

APPROX  
**96%**  
LOWEST YEARLY  
RETURN SINCE  
2013

APPROX  
**0.0**  
PER TRADE  
CORRELATION TO  
THE S&P 500

APPROX  
**275%**  
AVG. ANNUAL  
RETURN

APPROX  
**253%**  
CAGR  
(COMPOUNDED ANNUAL  
GROWTH RATE)

APPROX  
**-16.9%**  
MAX DRAWDOWN

APPROX  
**112%**  
LOWEST YEARLY  
RETURN SINCE  
2013

APPROX  
**0.11**  
PER TRADE  
CORRELATION TO  
THE S&P 500

\*\*All results are a mix of live and back-tested results. Past performance may not be indicative of future results.



## Recap - 5 Differentiators Retail vs Pro Traders

### 1. Probability Theory

- Focus on big picture more than any single trade



## Recap - 5 Differentiators Retail vs Pro Traders

### 2. Position Size

- Every trade and every strategy needs to be allocated appropriately
- Position sizing can turn winning strategies or trades into losing accounts



## Recap - 5 Differentiators Retail vs Pro Traders

### 3. Environment

1. An environment is a measurable variable that fundamentally impacts trade performance
2. Invest/allocate/trade for the current environment



## Recap - 5 Differentiators Retail vs Pro Traders

### 4. Frequency

1. Being selective when to trade opens up opportunities to trade other trades



## Recap - 5 Differentiators Retail vs Pro Traders

### 5. Diversifying for Alpha

1. Diversifying reduces risk
2. Diversifying well increases return per unit of risk

# ADAPT

to the market

Wayne Klump (Managing Partner)

Environmental Trading Edge LLC.

[EtradingEDGE.com](http://EtradingEDGE.com)



# ENVIRONMENTAL TRADING EDGE