

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





House Keeping

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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

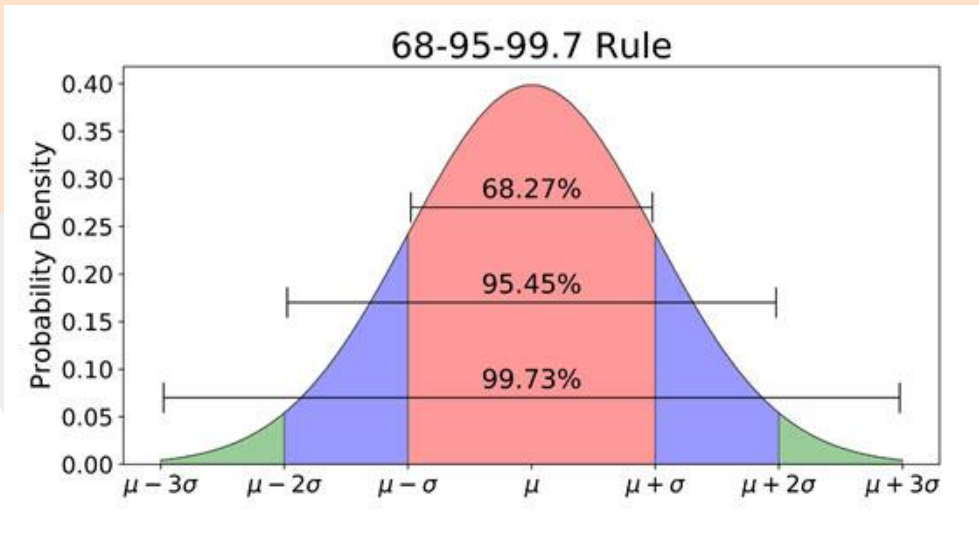
1. Probability Theory
2. Position Size
3. Environment
4. Frequency
5. Diversifying for Alpha



Probability Theory

Probability Theory

- Outcomes cannot be guaranteed
 - One investment or trade holds little weight (Big Data)
 - Potentiality 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)

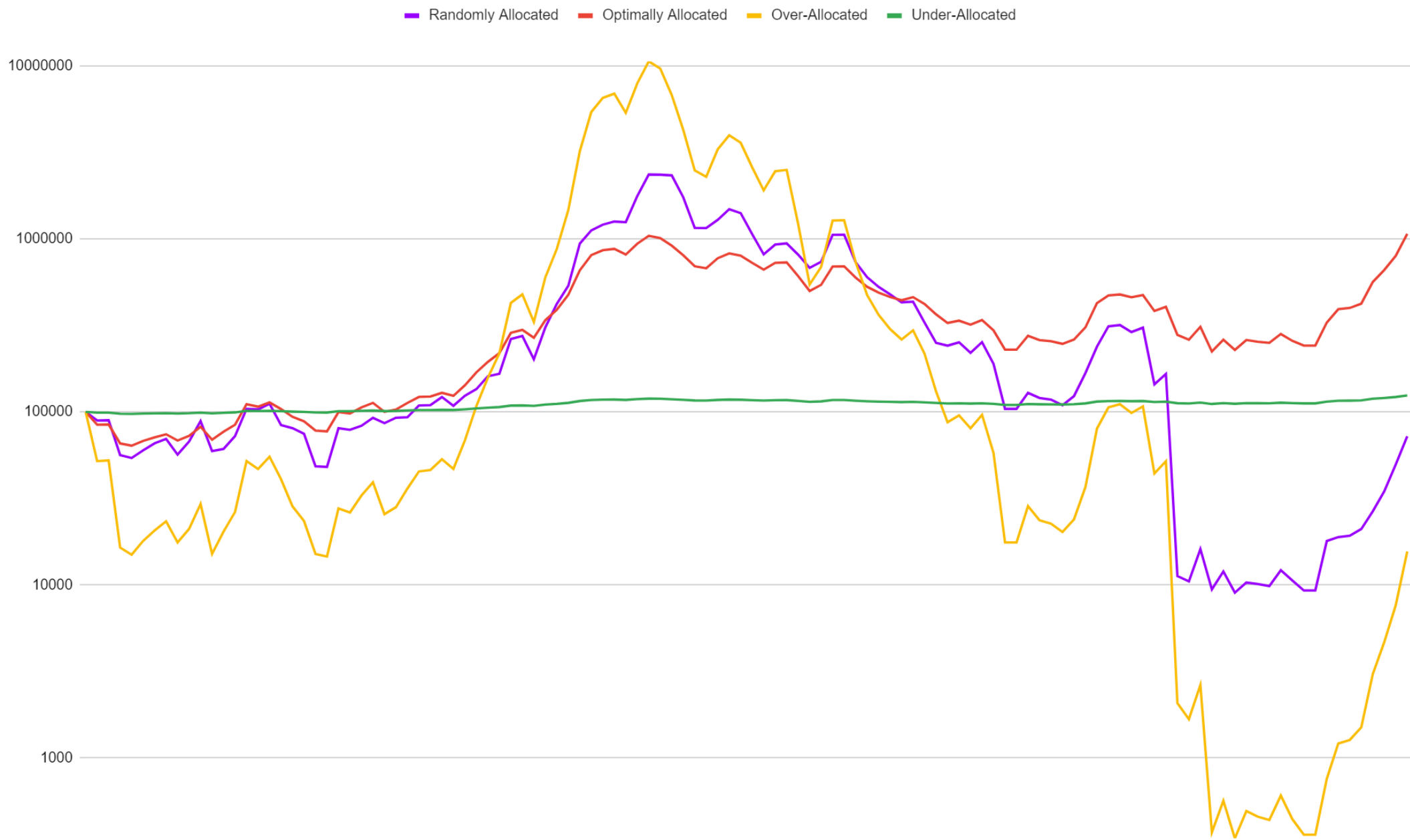




Position Size/
Allocation Size



Not All Trades Are
Created Equally



Position Sizing

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

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

where

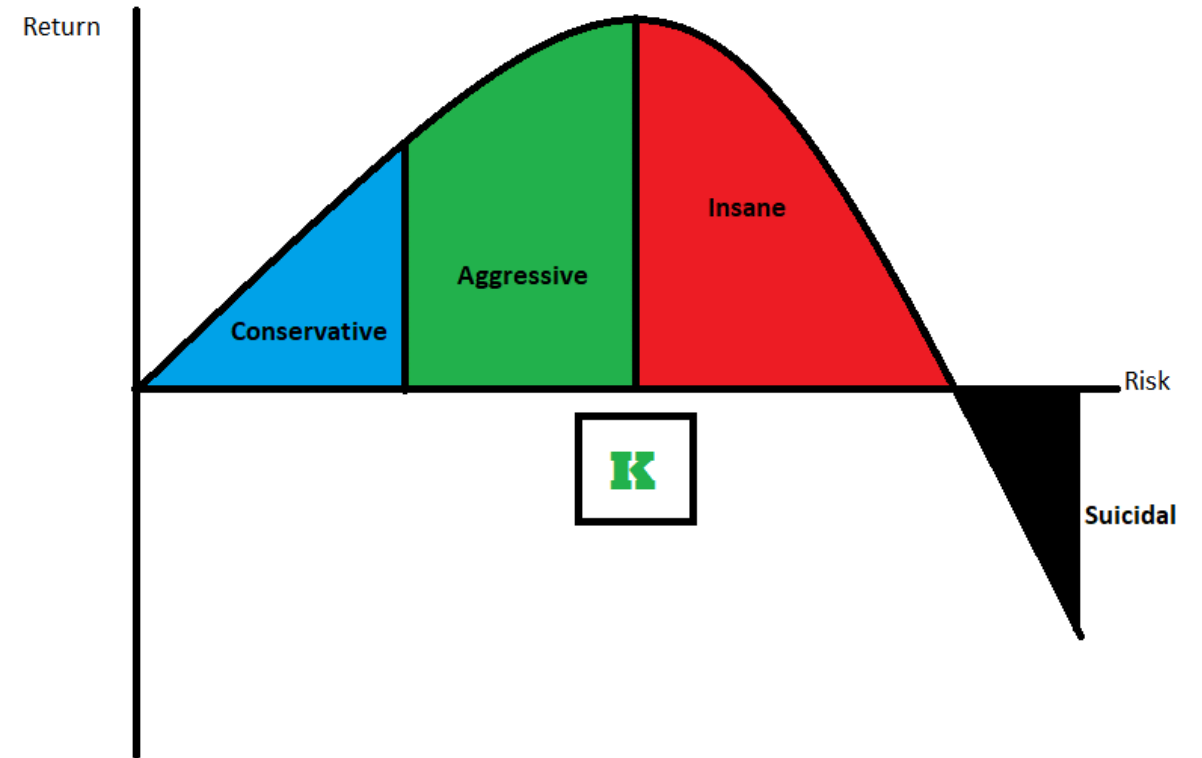
F = Kelly Criterion fraction of capital to bet

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



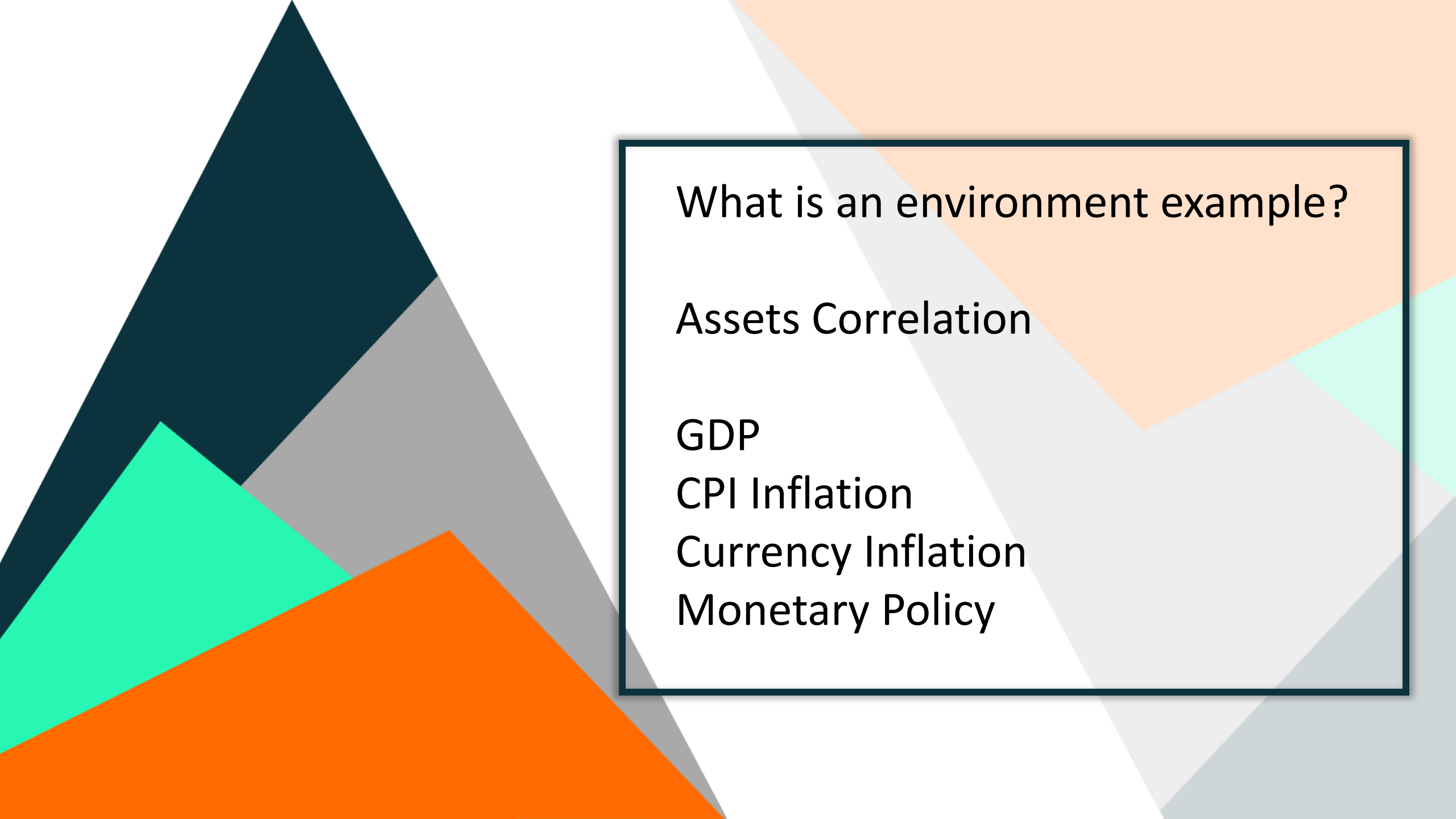


Trading/Investing For the Current Environment



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

FRED

— Gross Domestic Product
— S&P 500



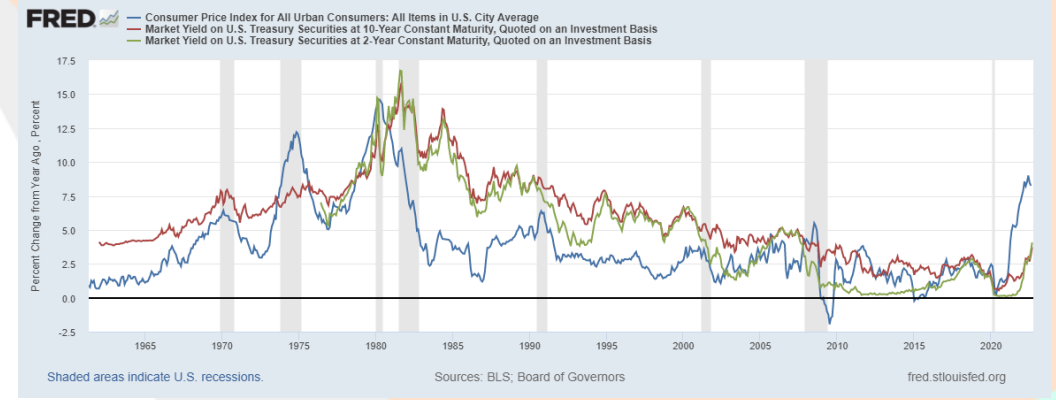
Shaded areas indicate U.S. recessions.

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

fred.stlouisfed.org

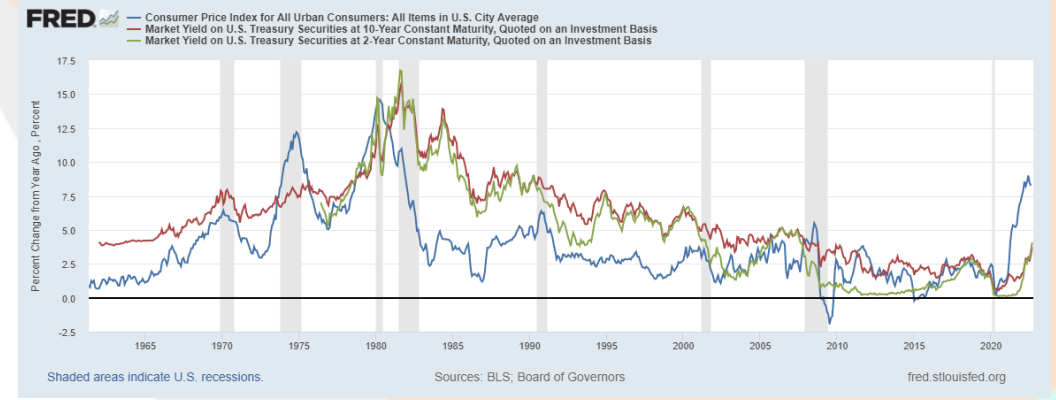
Macro Relationships

- 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

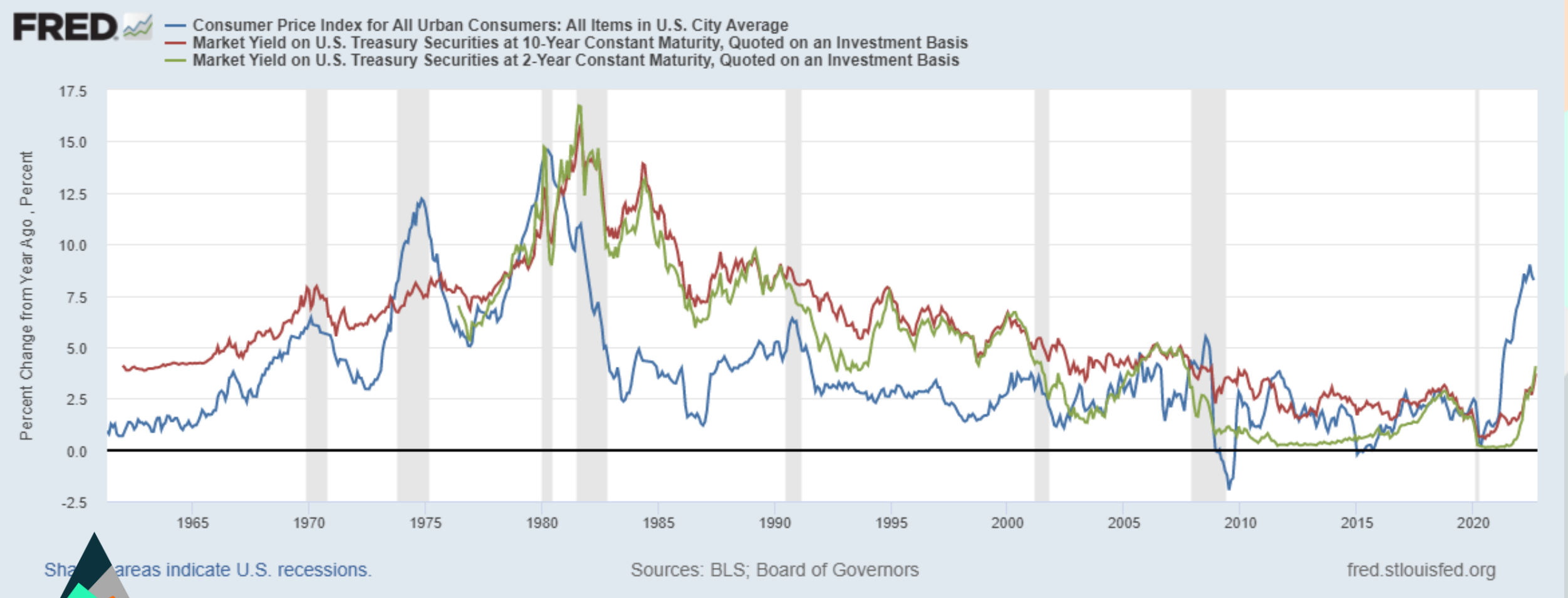


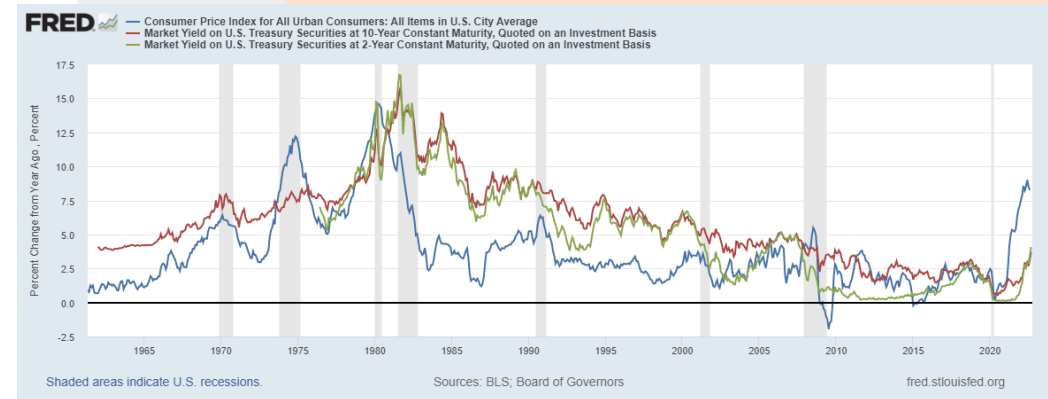
Macro Relationships

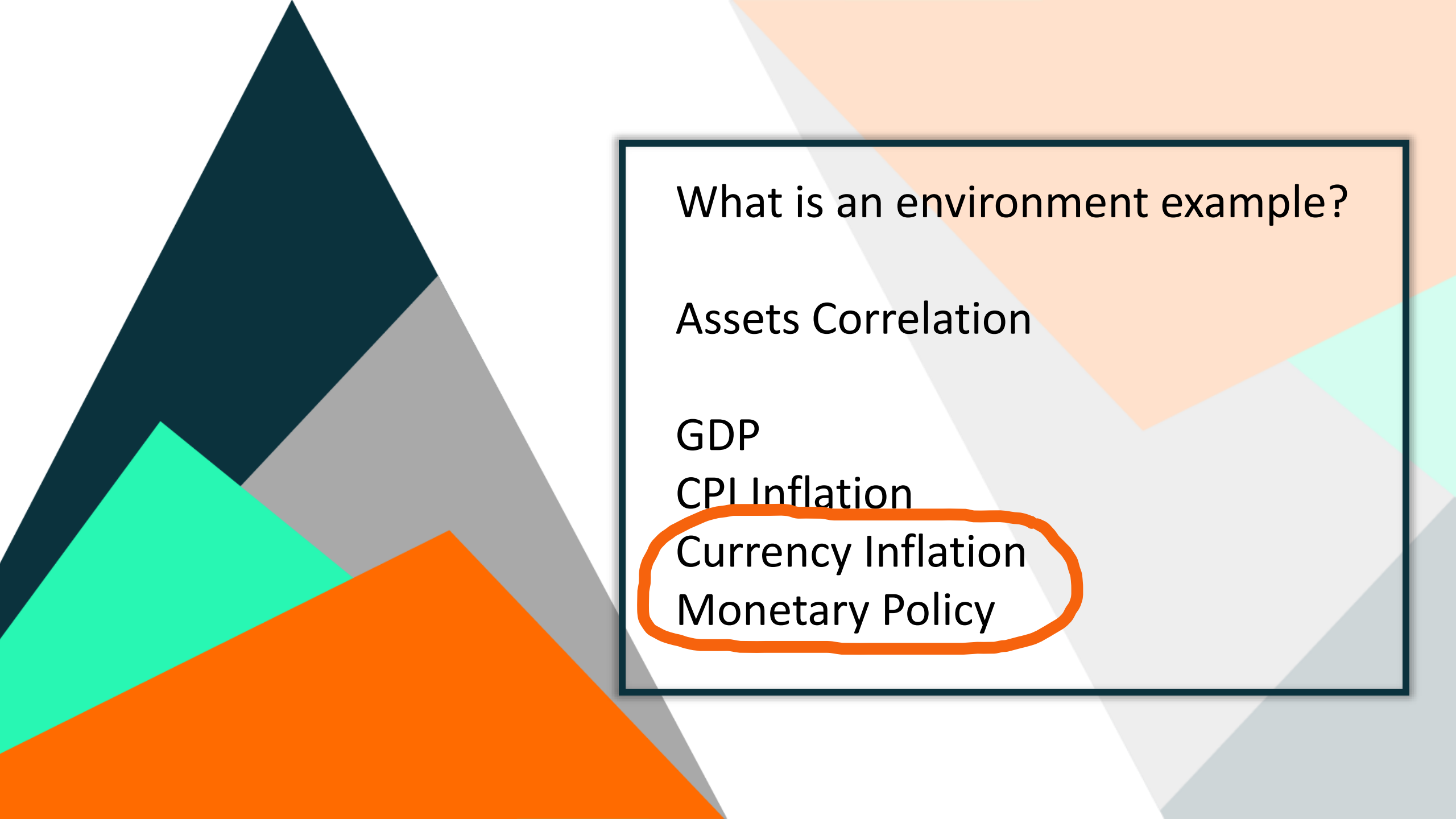
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Macro Relationships







What is an environment example?

Assets Correlation

GDP

CPI Inflation

Currency Inflation

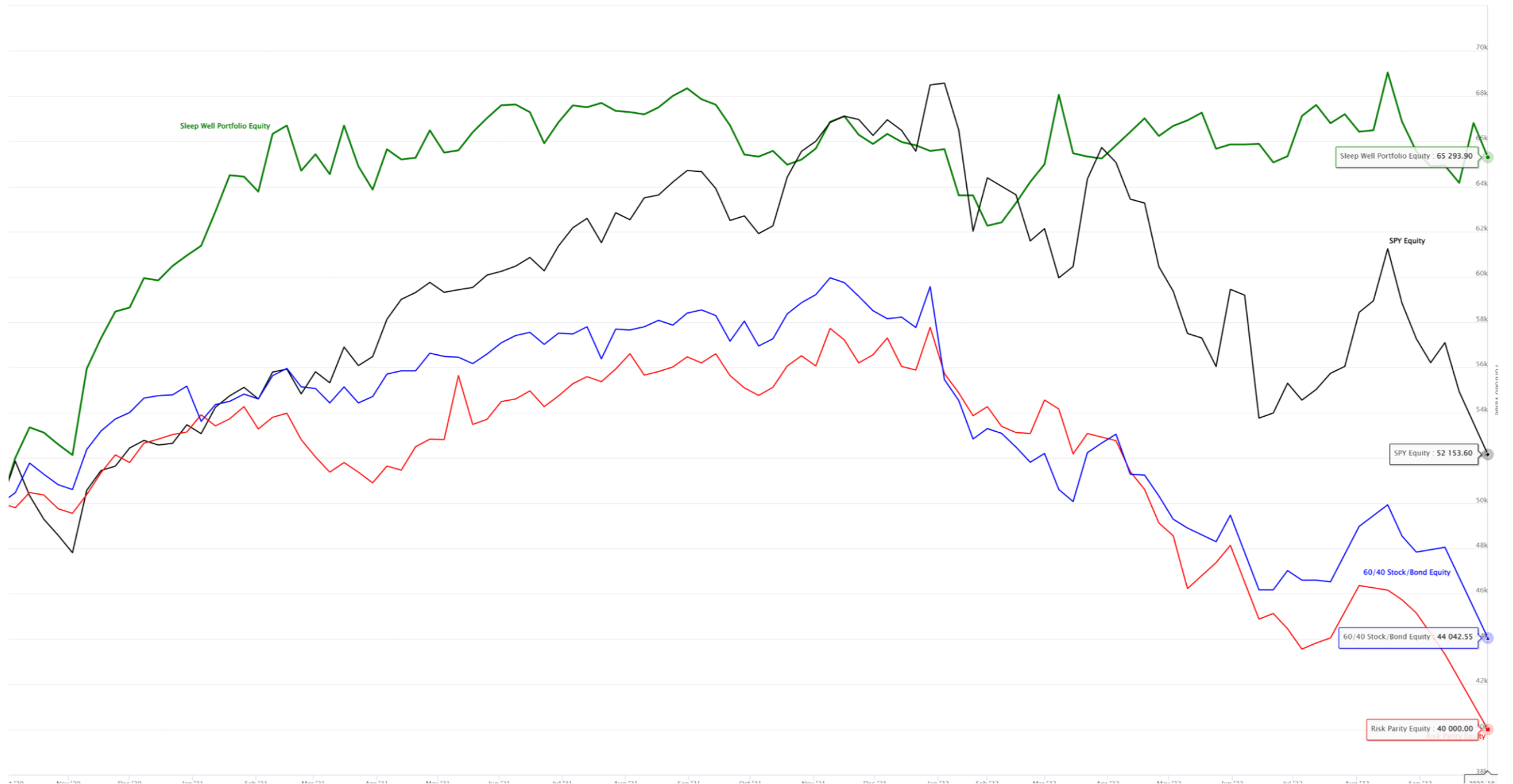
Monetary Policy



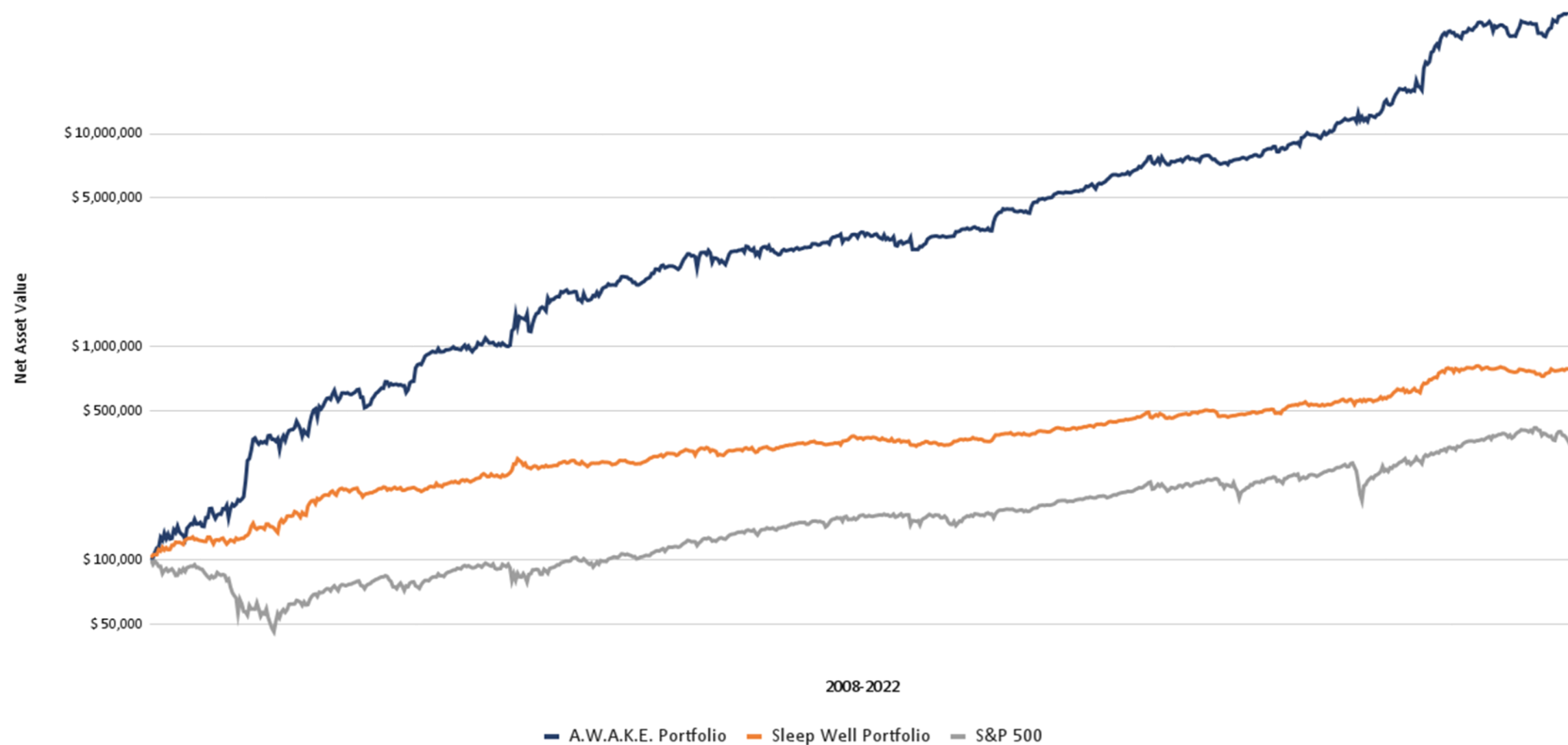
Adaptive Macro Portfolio Results

1d 1m 3m 6m YTD 1y All

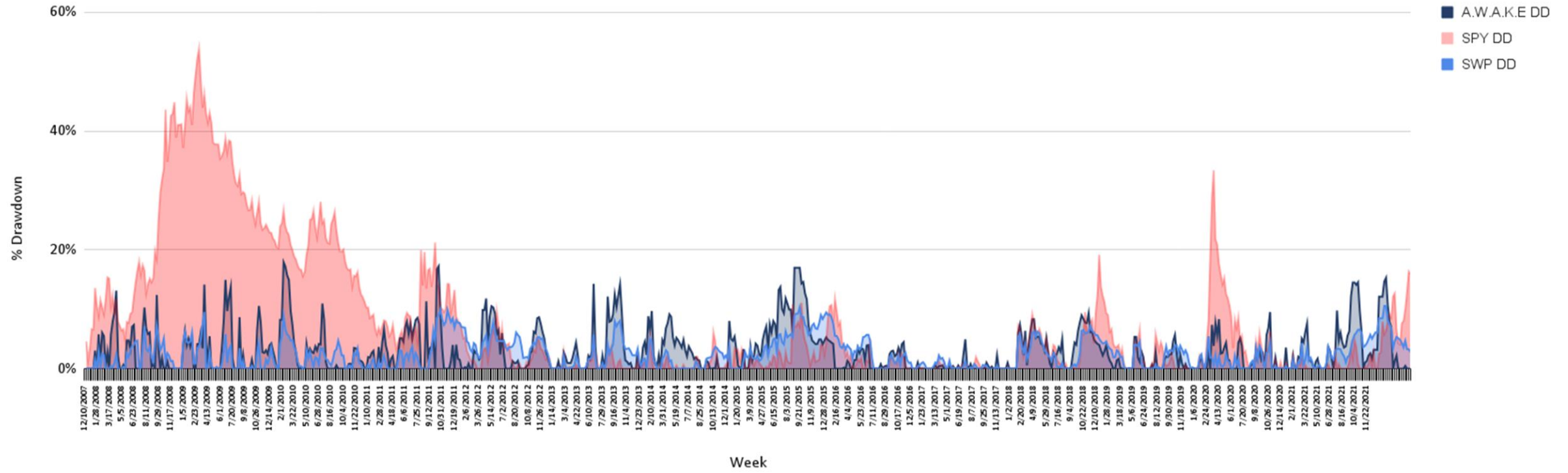
Sep 29, 2020 → Oct 3, 2022




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



DD 2007- 2021

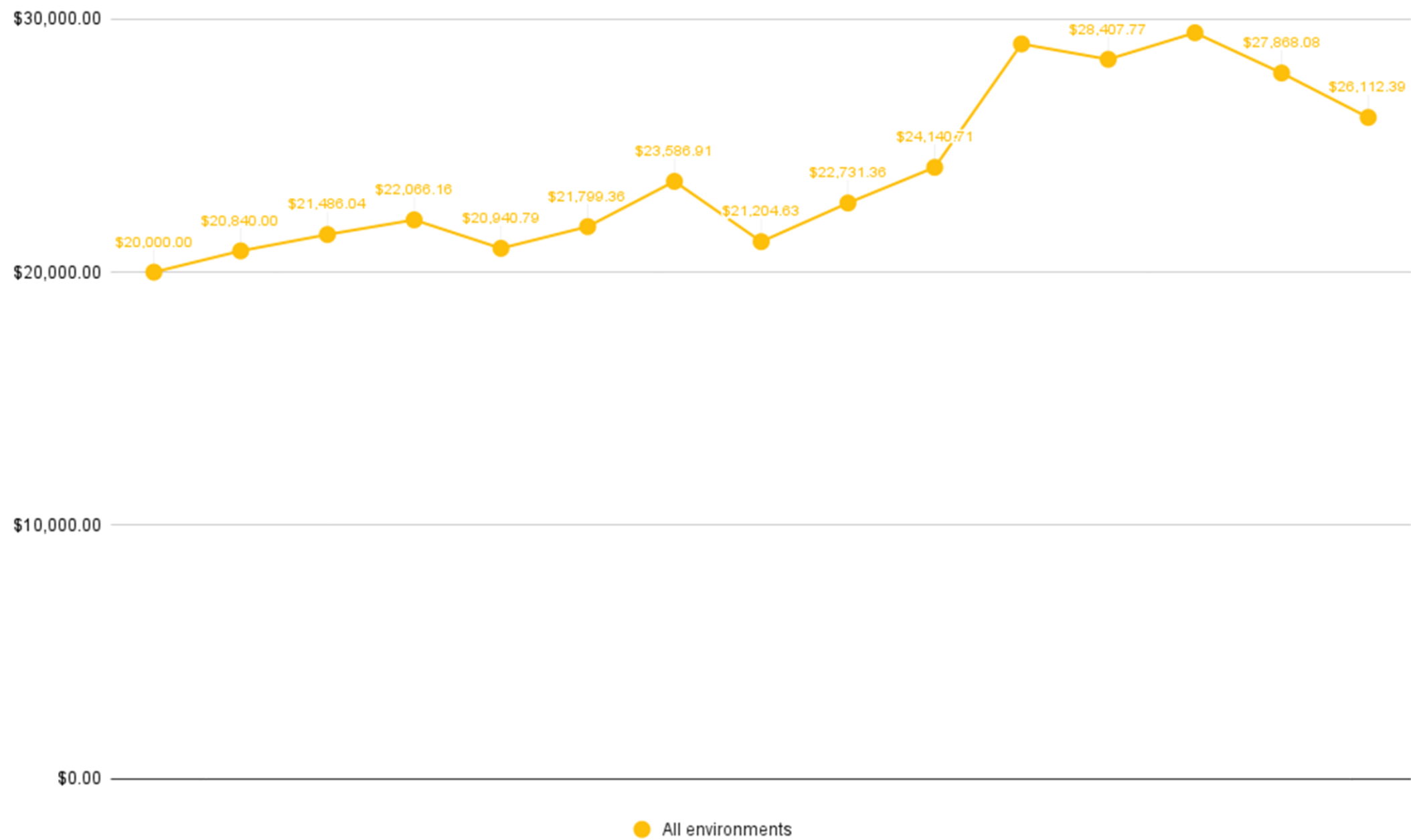


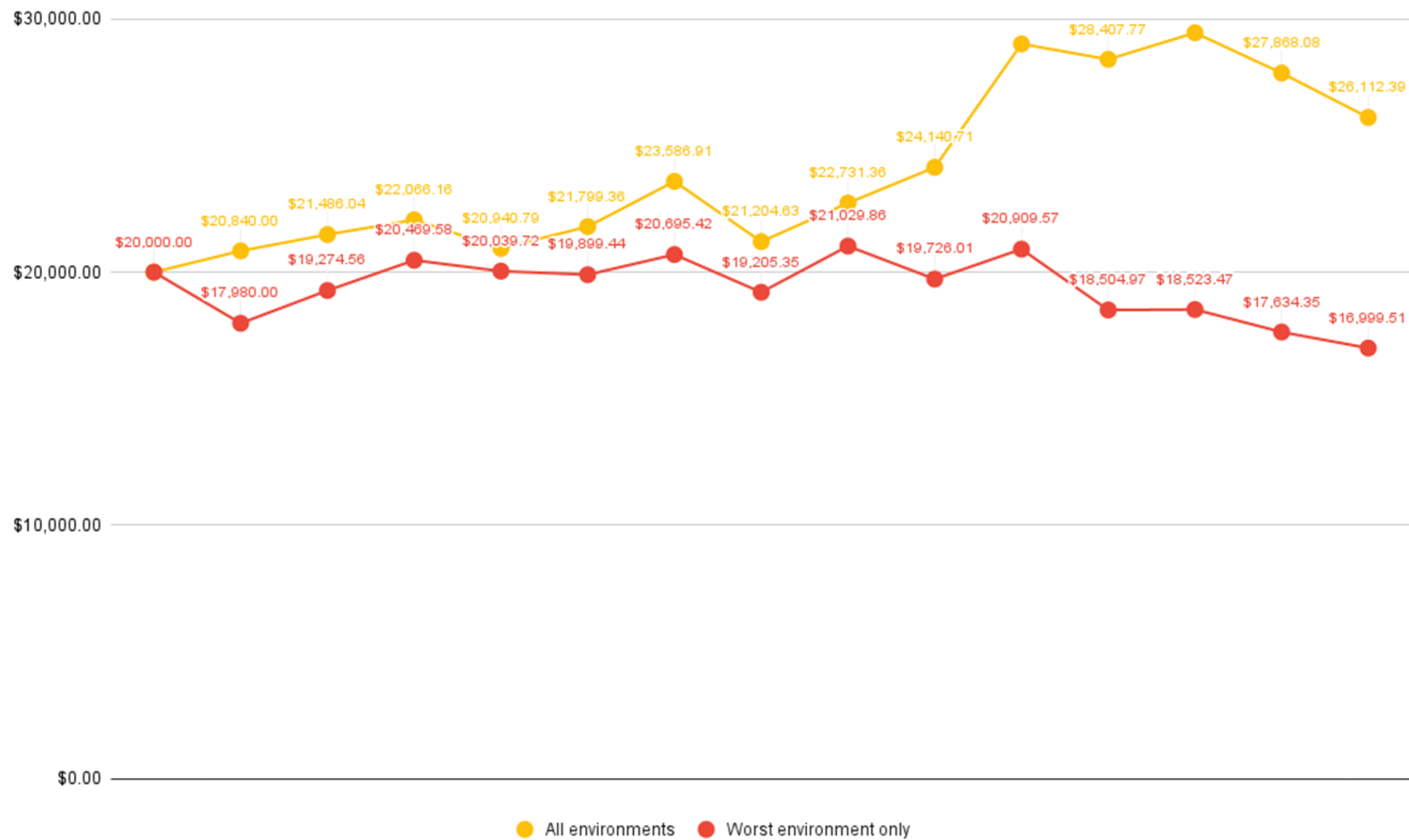


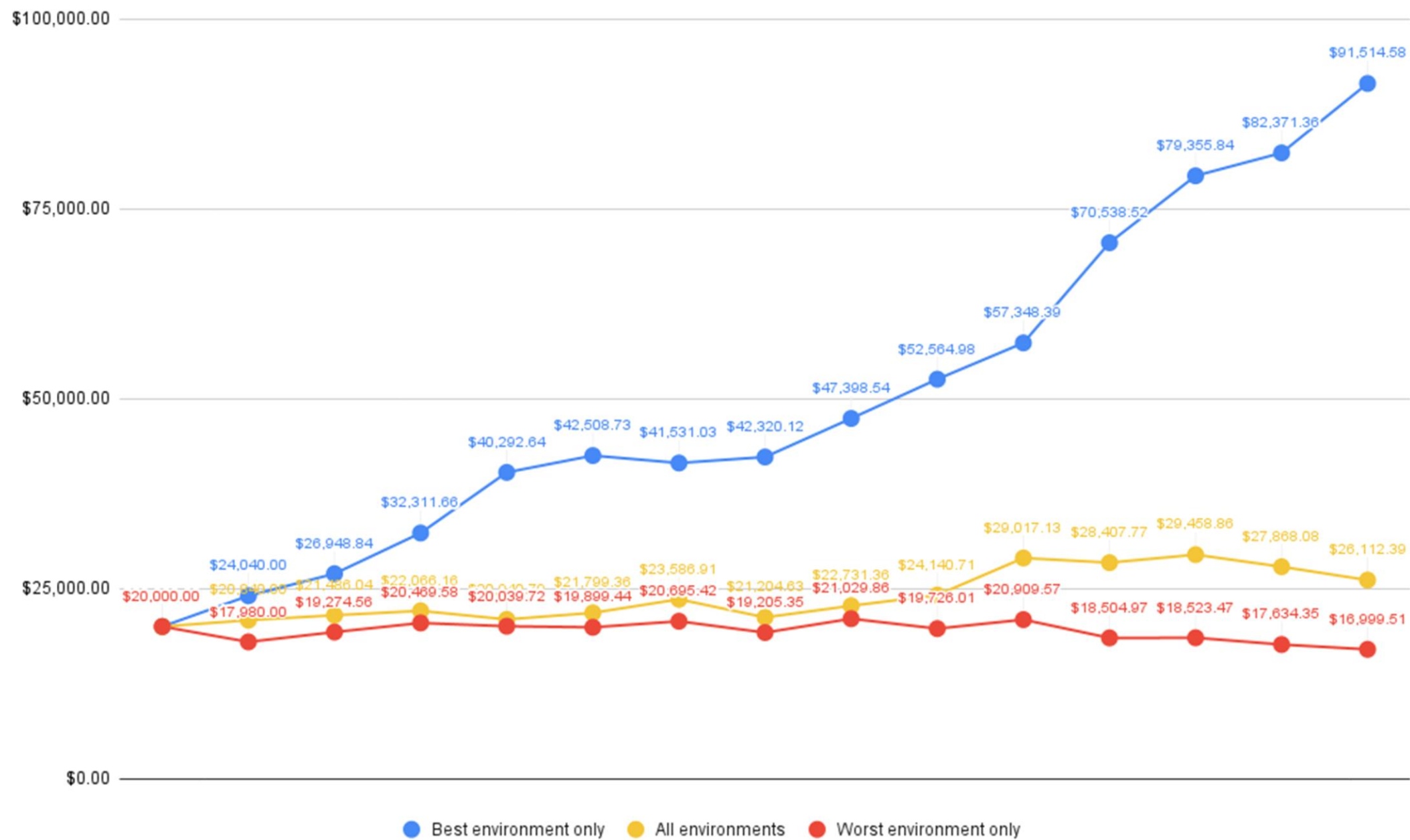
What is an environment example?

Trading


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











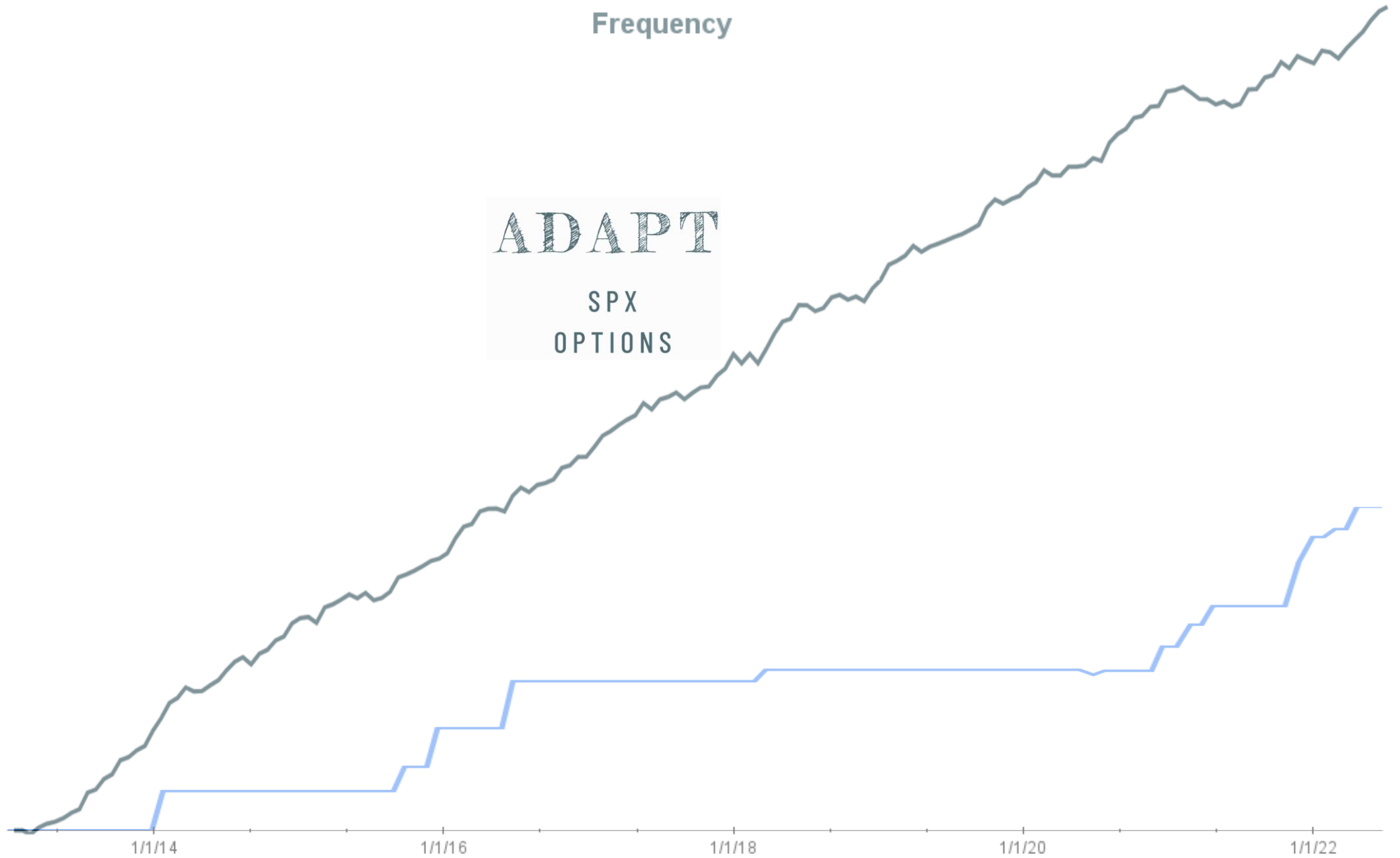
Less Frequency
Creates Opportunity
to Trade More

The graph displays the cumulative number of COVID-19 cases in the United States. The x-axis represents time, with labels for 1/1/14, 1/1/16, 1/1/18, 1/1/20, and 1/1/22. The y-axis represents the number of cases, ranging from 0 to 100,000,000. The line shows a general upward trend, with a notable increase in the rate of growth starting around early 2022, reaching over 100 million cases by the end of the period shown.

Frequency

ADAPT

SPX
OPTIONS

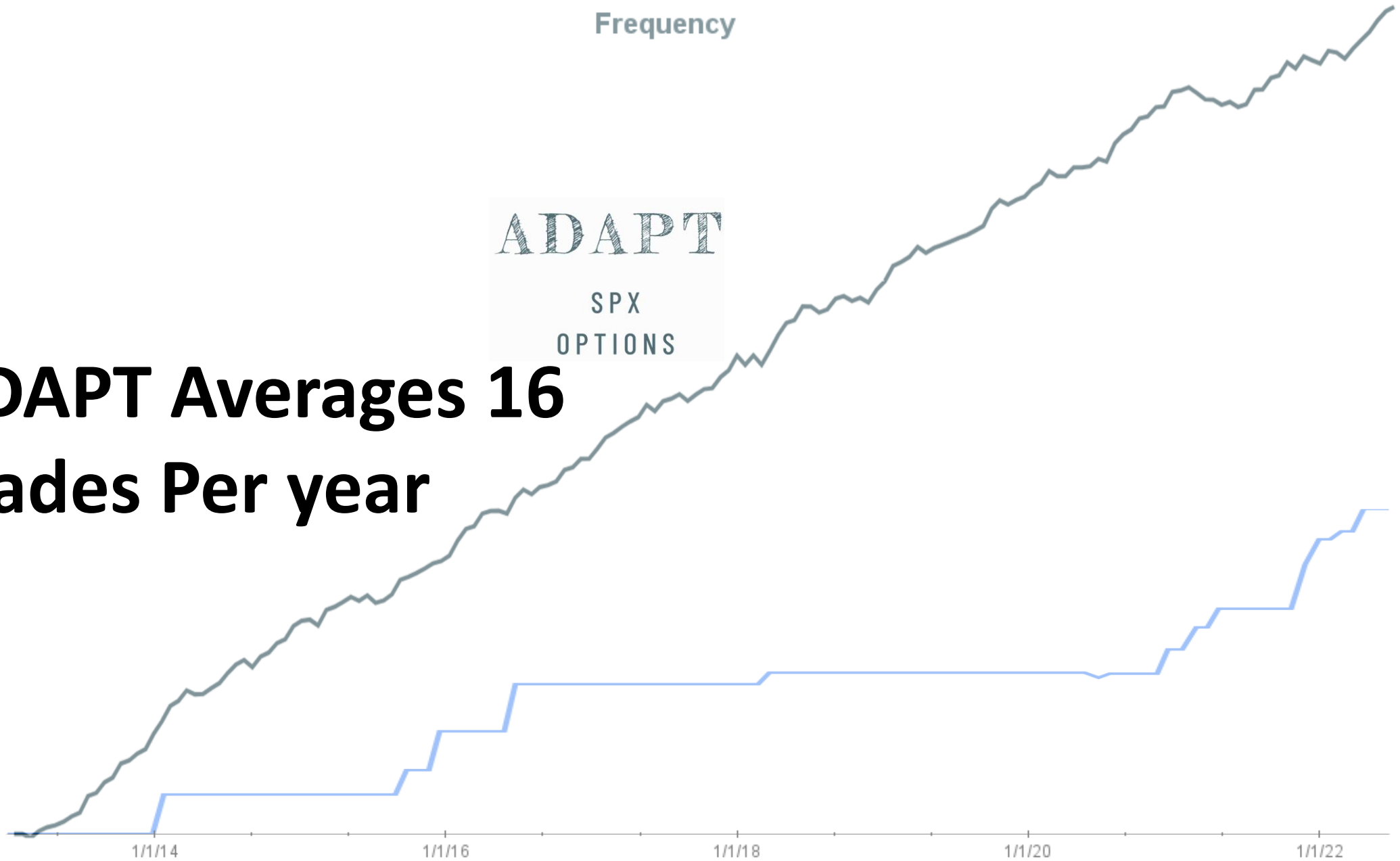


Frequency

ADAPT

SPX
OPTIONS

**ADAPT Averages 16
Trades Per year**





Diversifying Well



Diversifying Well

1. Uncorrelated Assets

2. Uncorrelated strategies



Diversifying Well

1. Uncorrelated Assets – “Downside Correlation”

- Examples

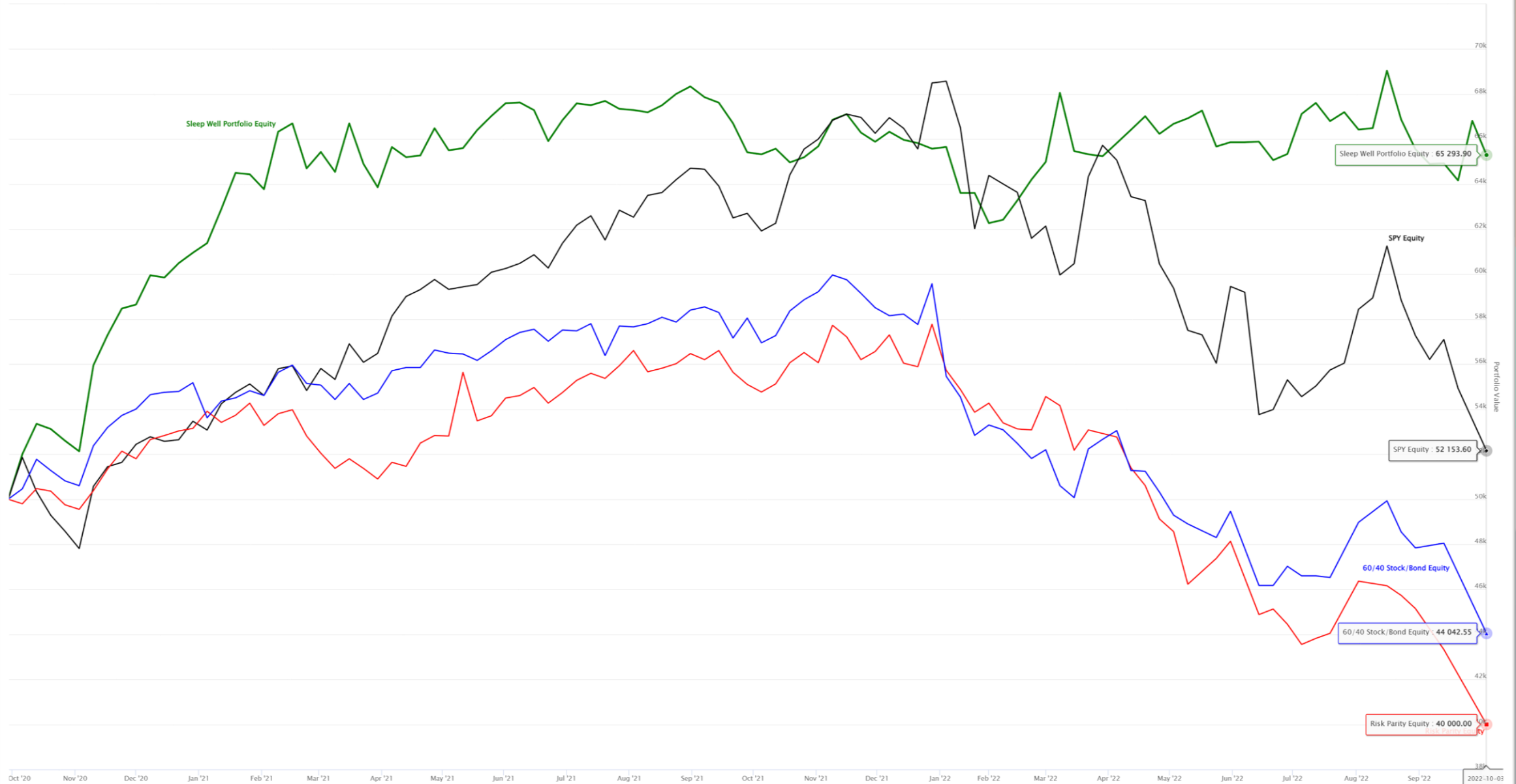
1. SPY – Blue Chip Equities
2. IWM – Small Cap Equities
3. EEM – Emerging Market Equities
 - Bonus – has more to do with US dollar relative inflation
4. TLT – long duration Bonds
5. GLD – Gold/Real rates and currency inflation
6. UUP – Currency Deflation

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

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

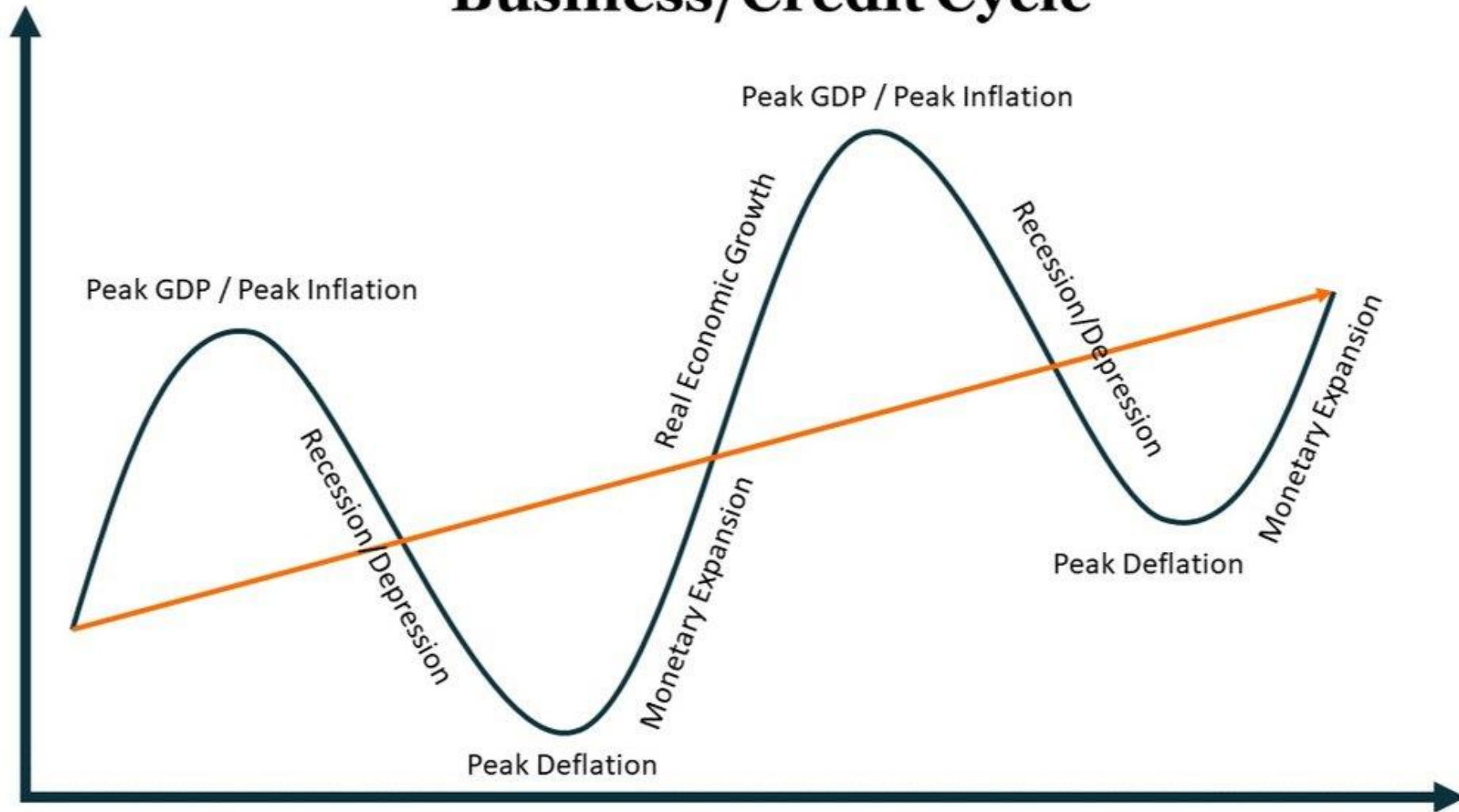
Zoom 1m 3m 6m YTD 1y All

Sep 29, 2020 — Oct 3, 2022



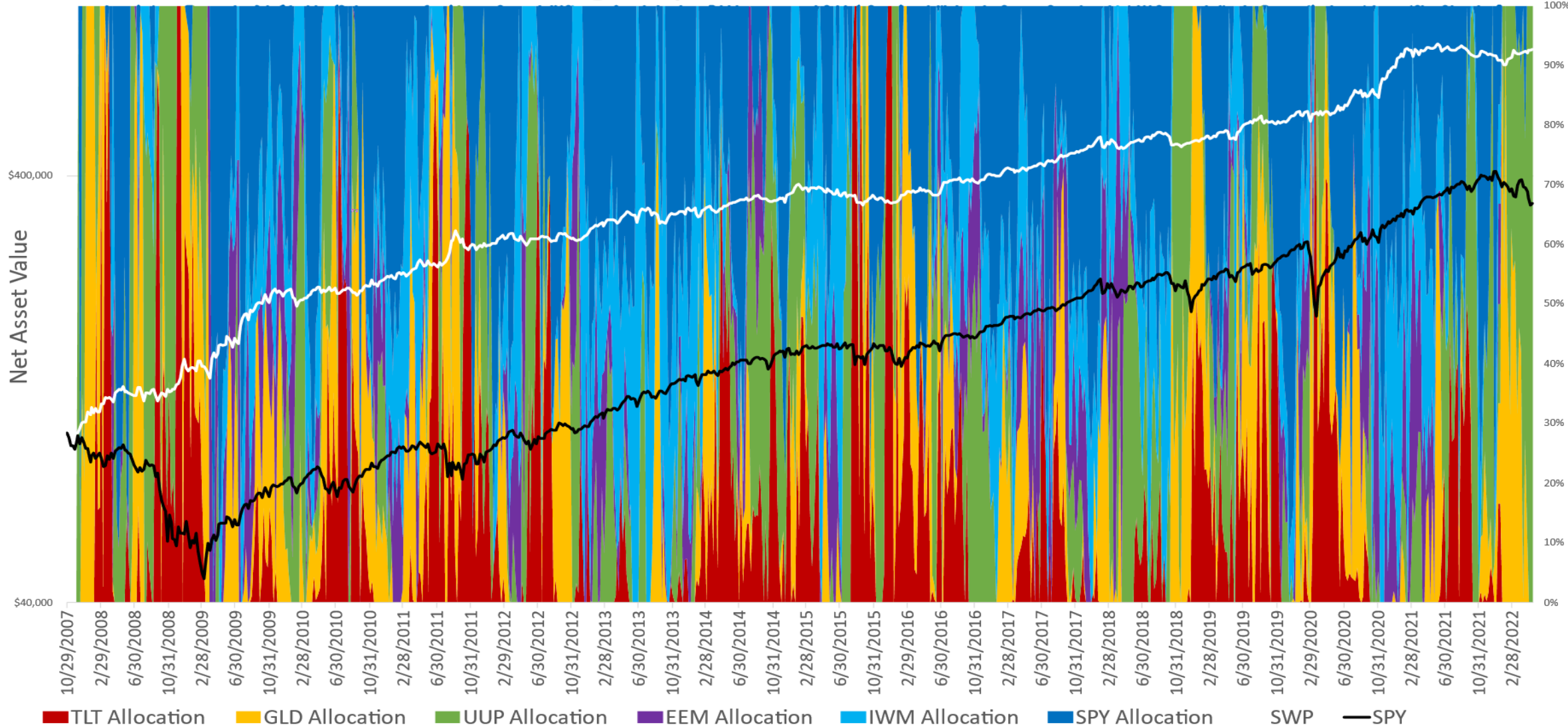
Diversifying Well

Business/Credit Cycle



Diversifying Well

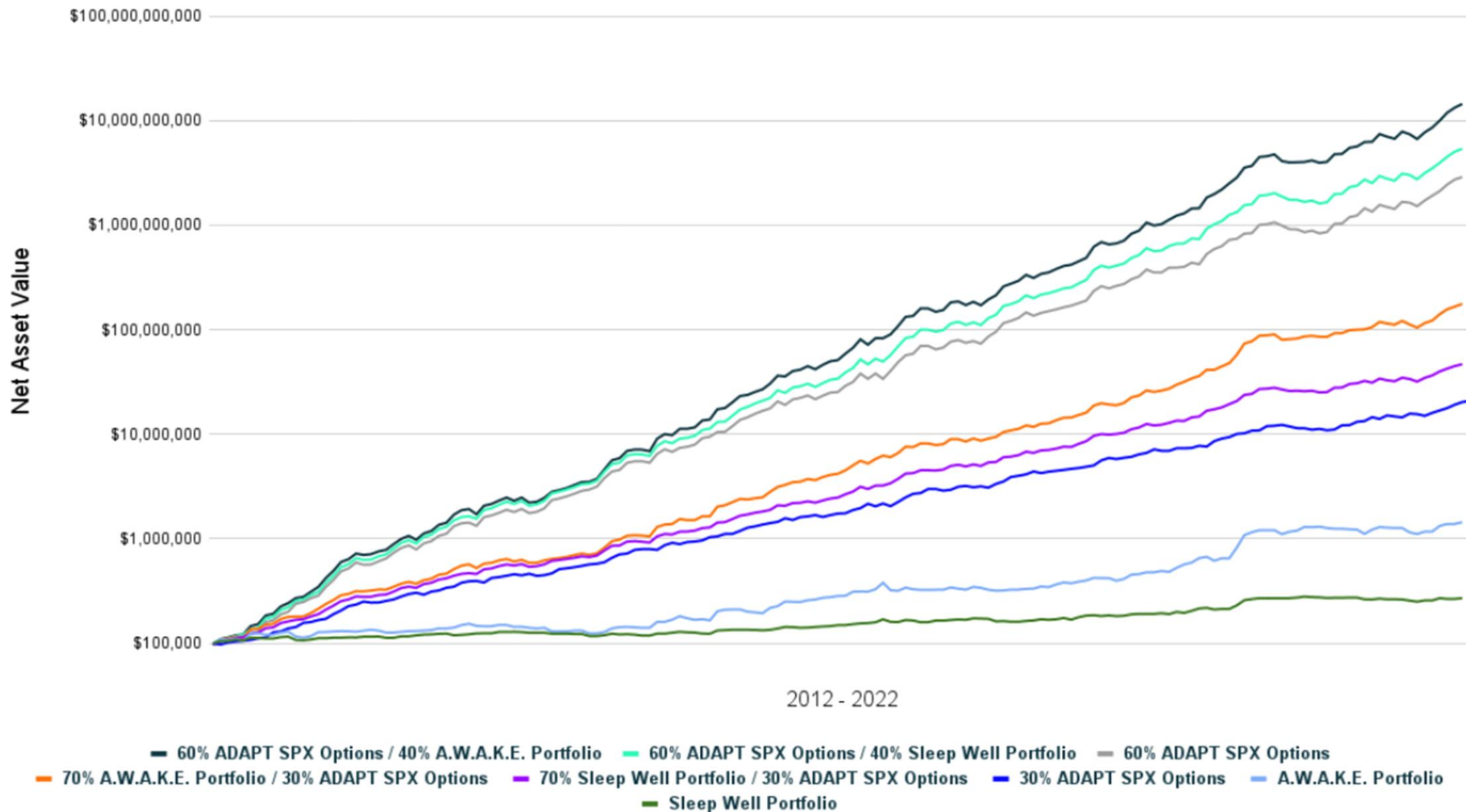
SWP vs SPY





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



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

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

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

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

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



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TRADING **EDGE**