

THE SCIENCE OF SUCCESS

INCREASING ALPHA WITH PRACTICAL BEHAVIOURAL FINANCE

TradeEQ in conjunction with The Technical Analyst

December 2010







Accounting

Liquidity

Technical

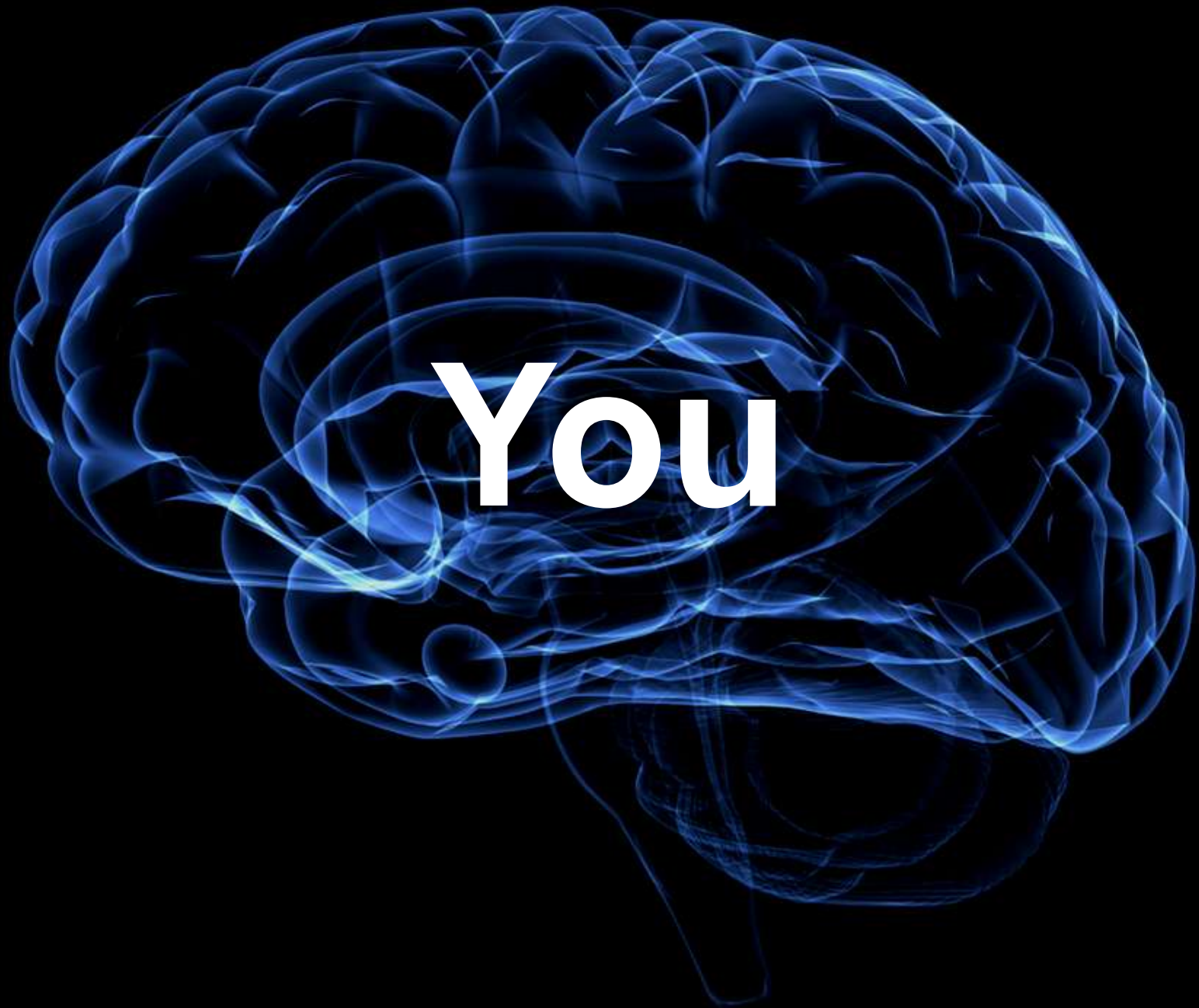
Industry

Economics

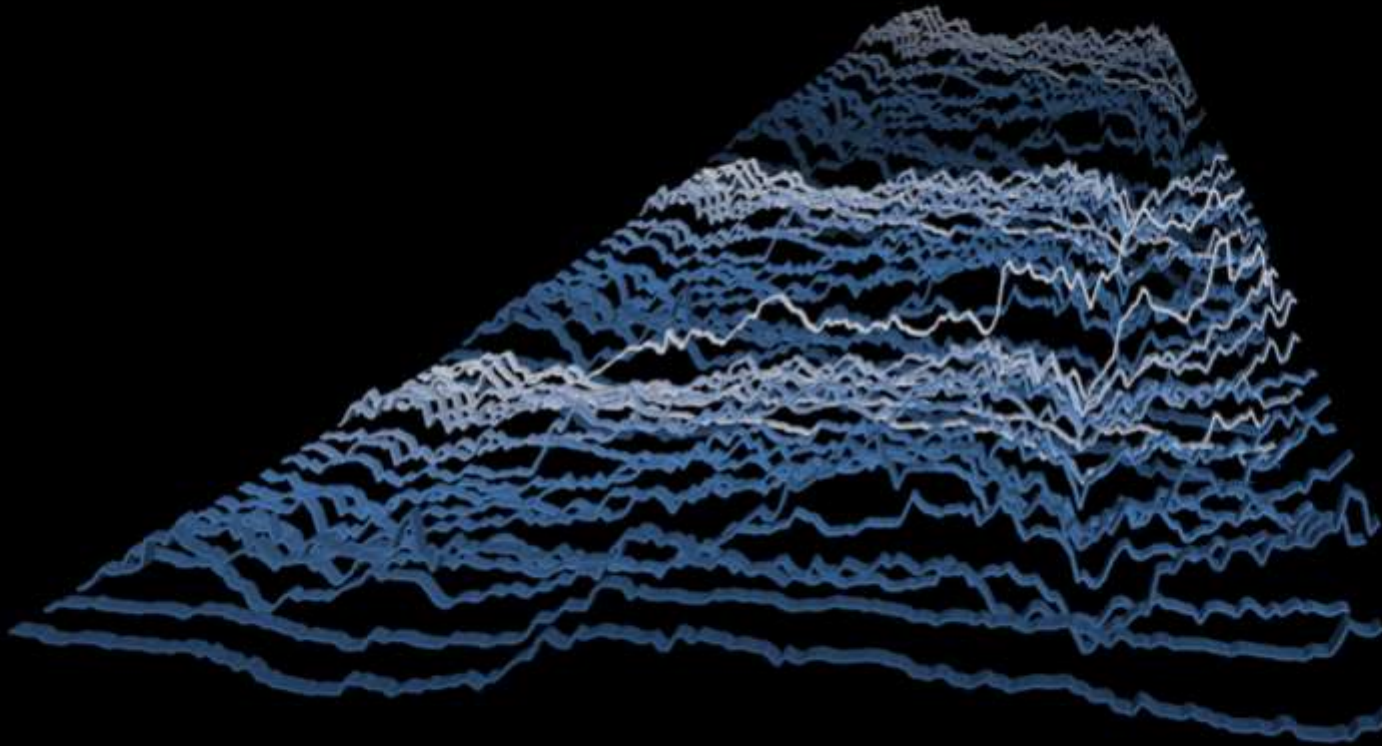
Factors

Demographics

Fundamentals



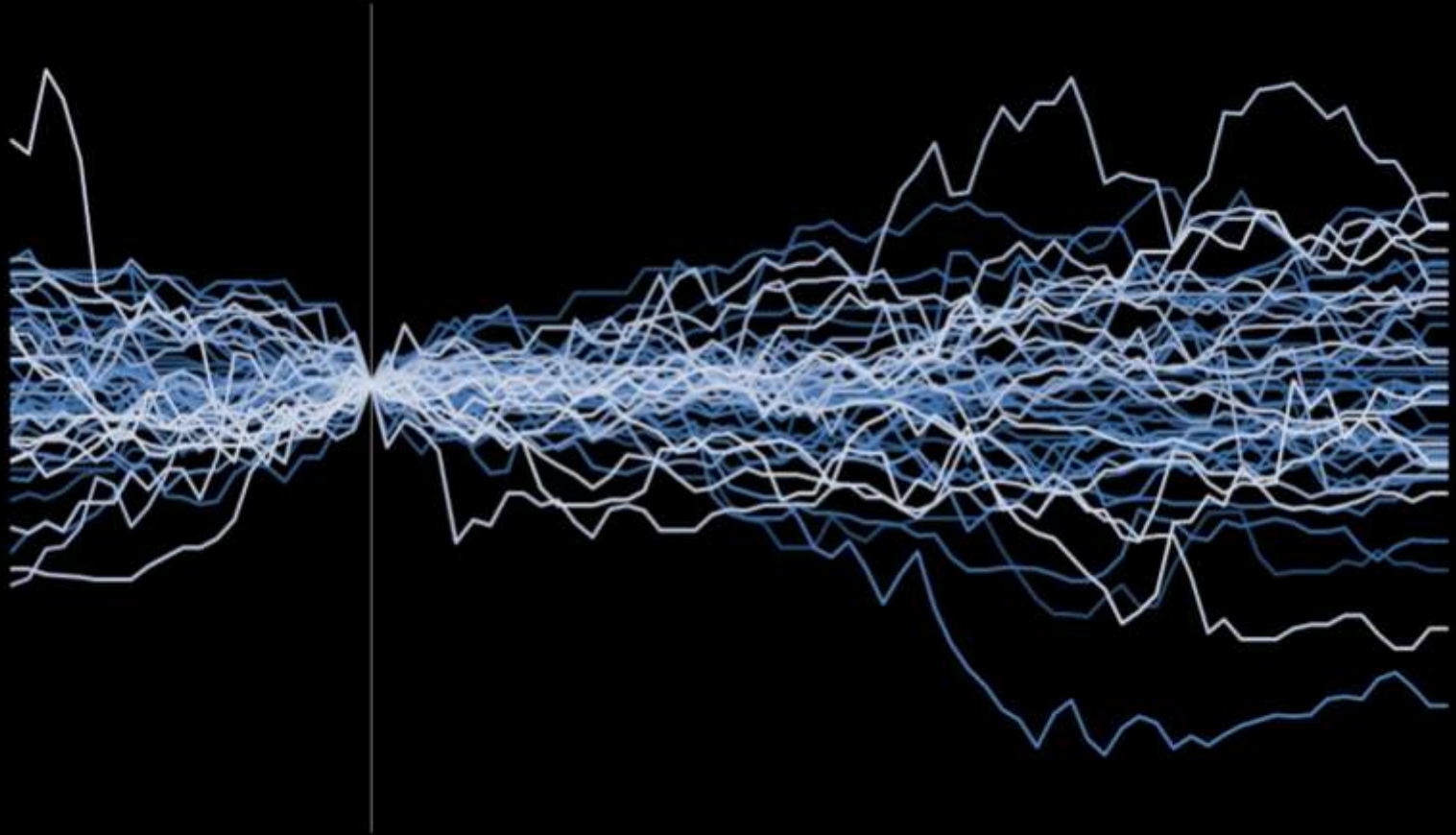
Individual decisions



Carry a common thumbprint



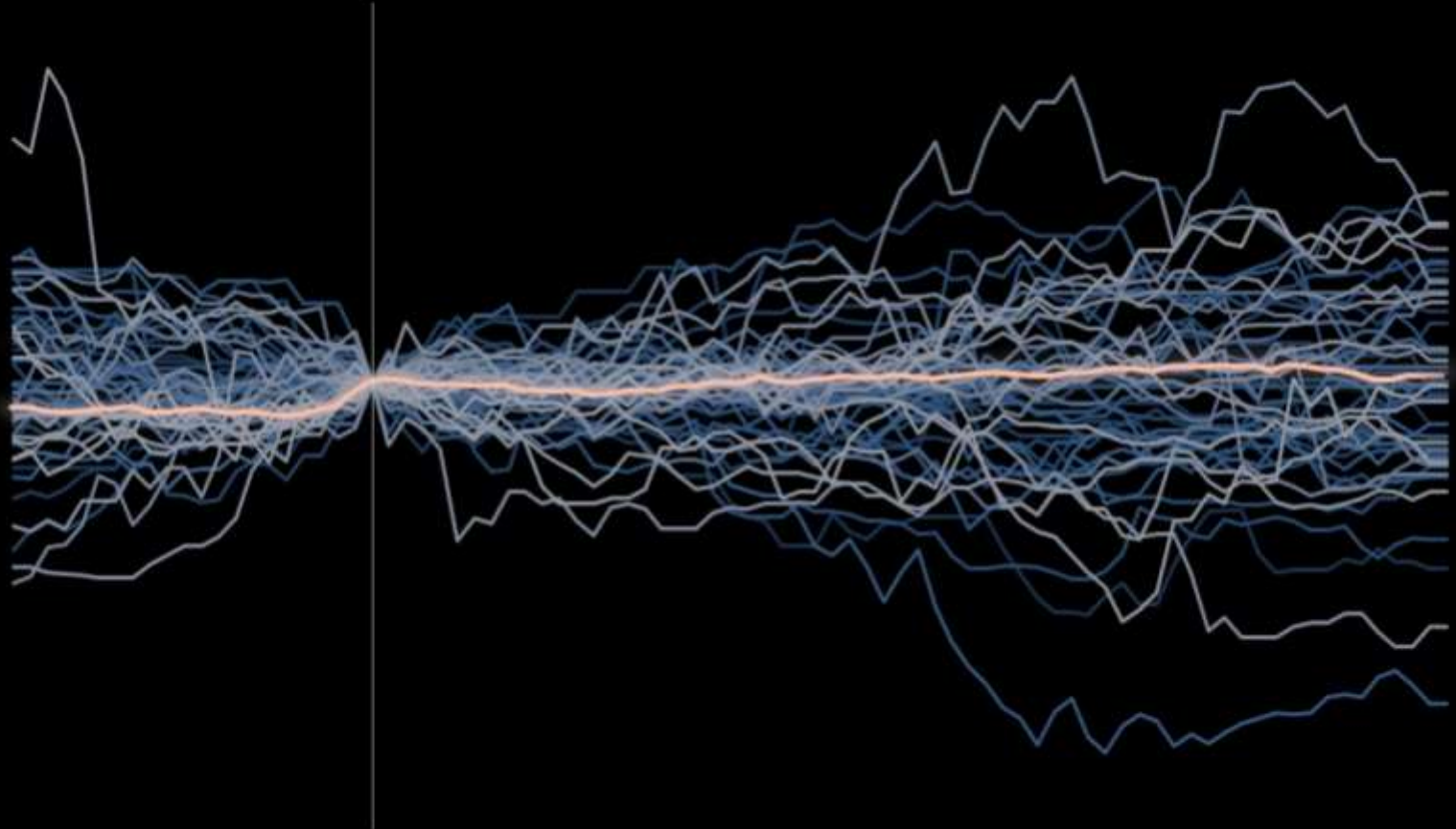
Which emerges



Position
Opening
Date



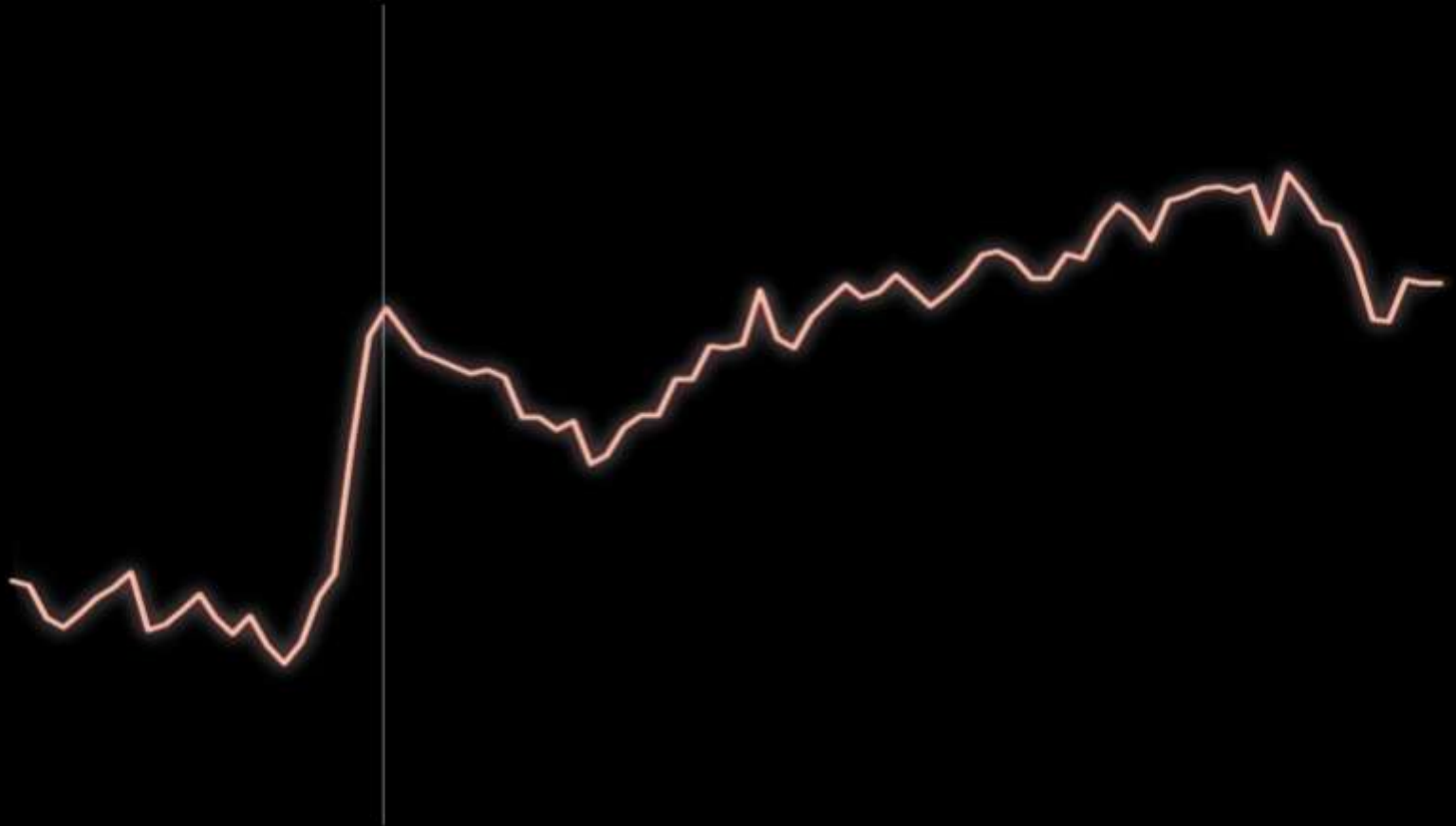
Through aggregation



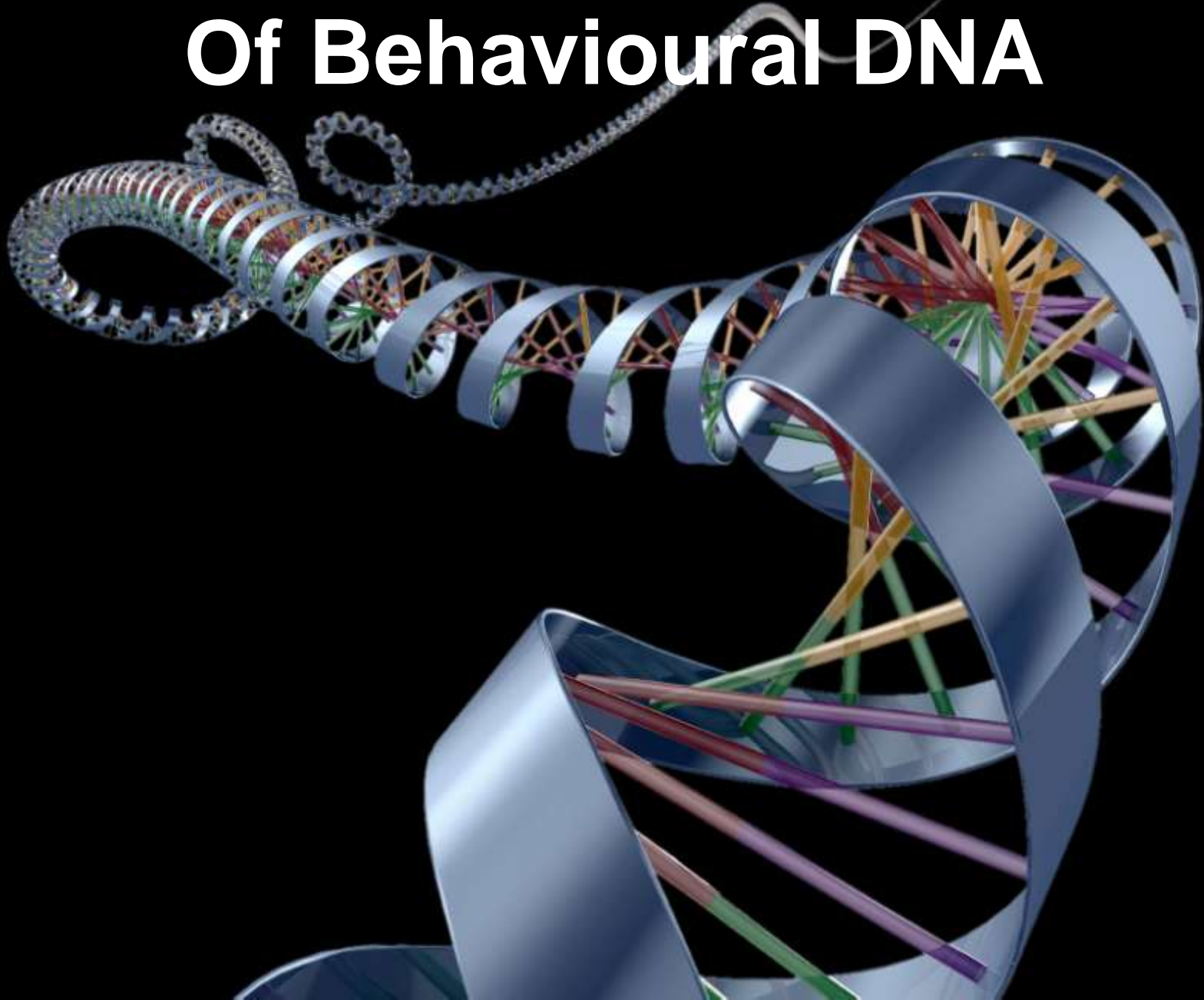
Position
Opening
Date



Revealing the patterns



Of Behavioural DNA



Success

What is it?

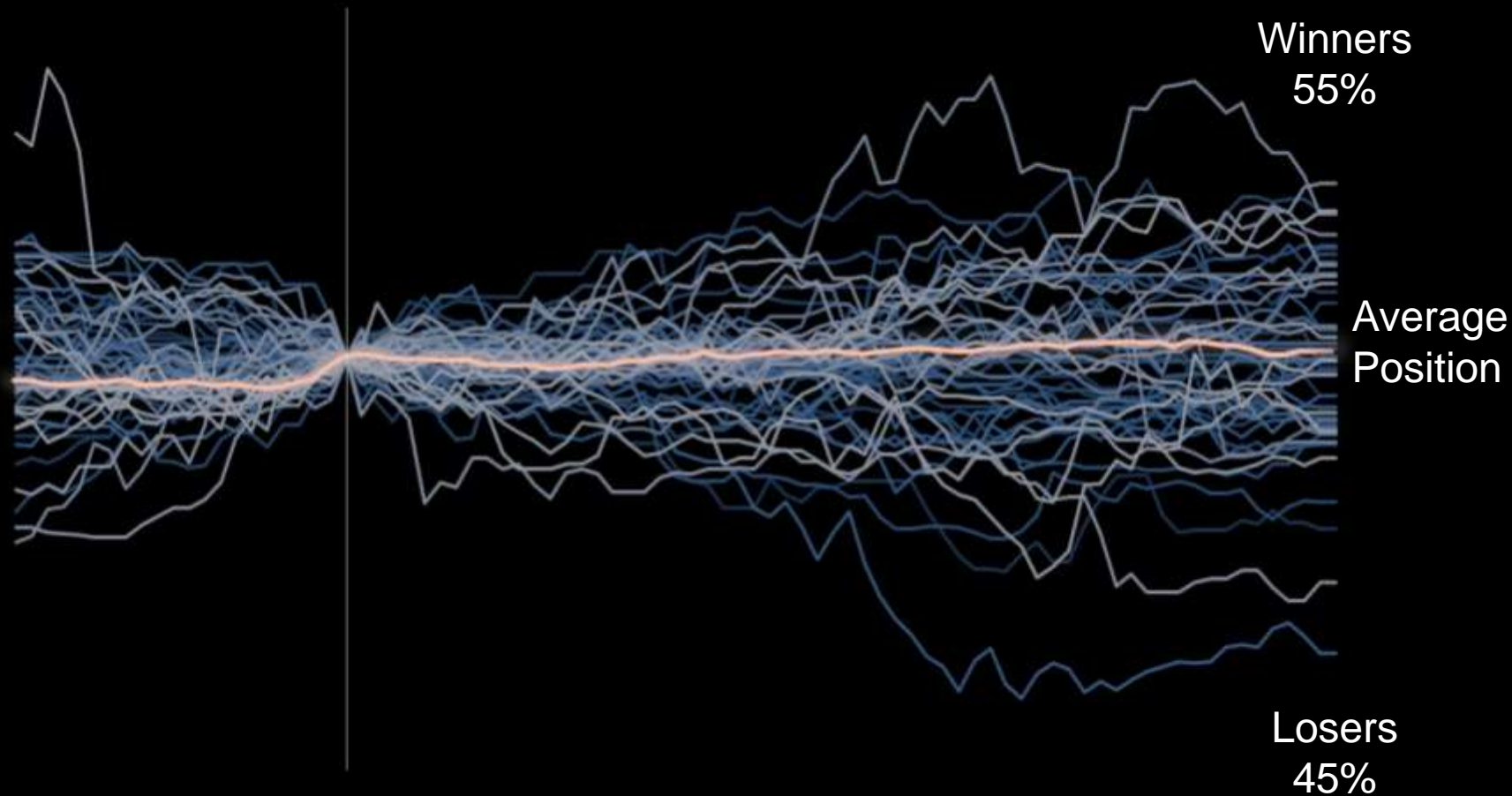
How much do we
need?



Winning Positions

All Positions %





Trading Equation



$$\begin{aligned} &\text{Expected Return} \\ &= \\ &\text{Success Rate \%} \\ &\times \\ &\text{Payoff Ratio} \\ &\times \\ &\text{Frequency} \\ &\times \\ &\text{Sizing} \\ &- \\ &\text{Costs} \end{aligned}$$





80% Success Rate



Positive Flow Preference

Biased Behaviour

Cutting Winners

Gambling Losers





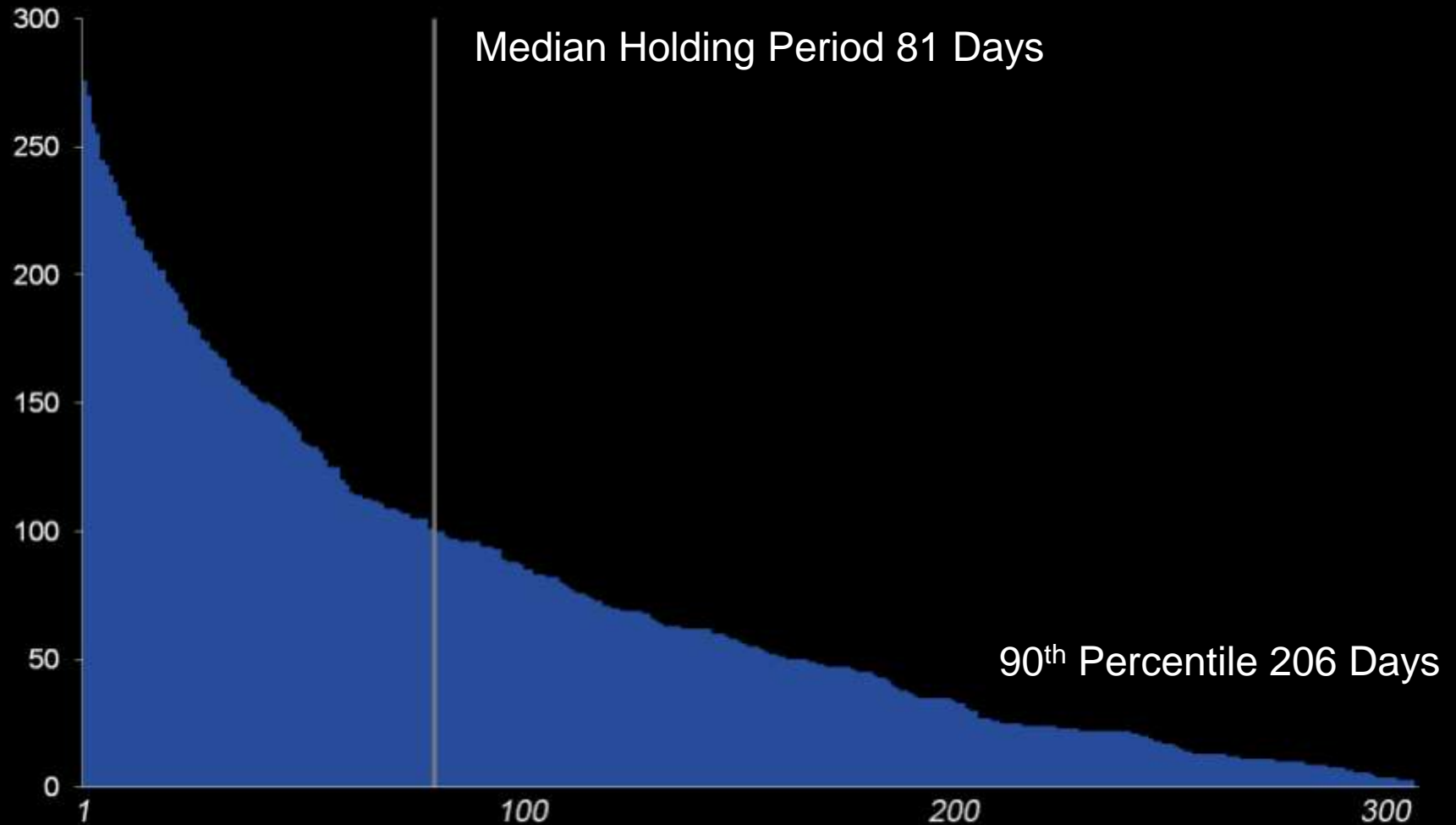
Win / Lose Holding Periods

Holding Periods Conditioned on Success

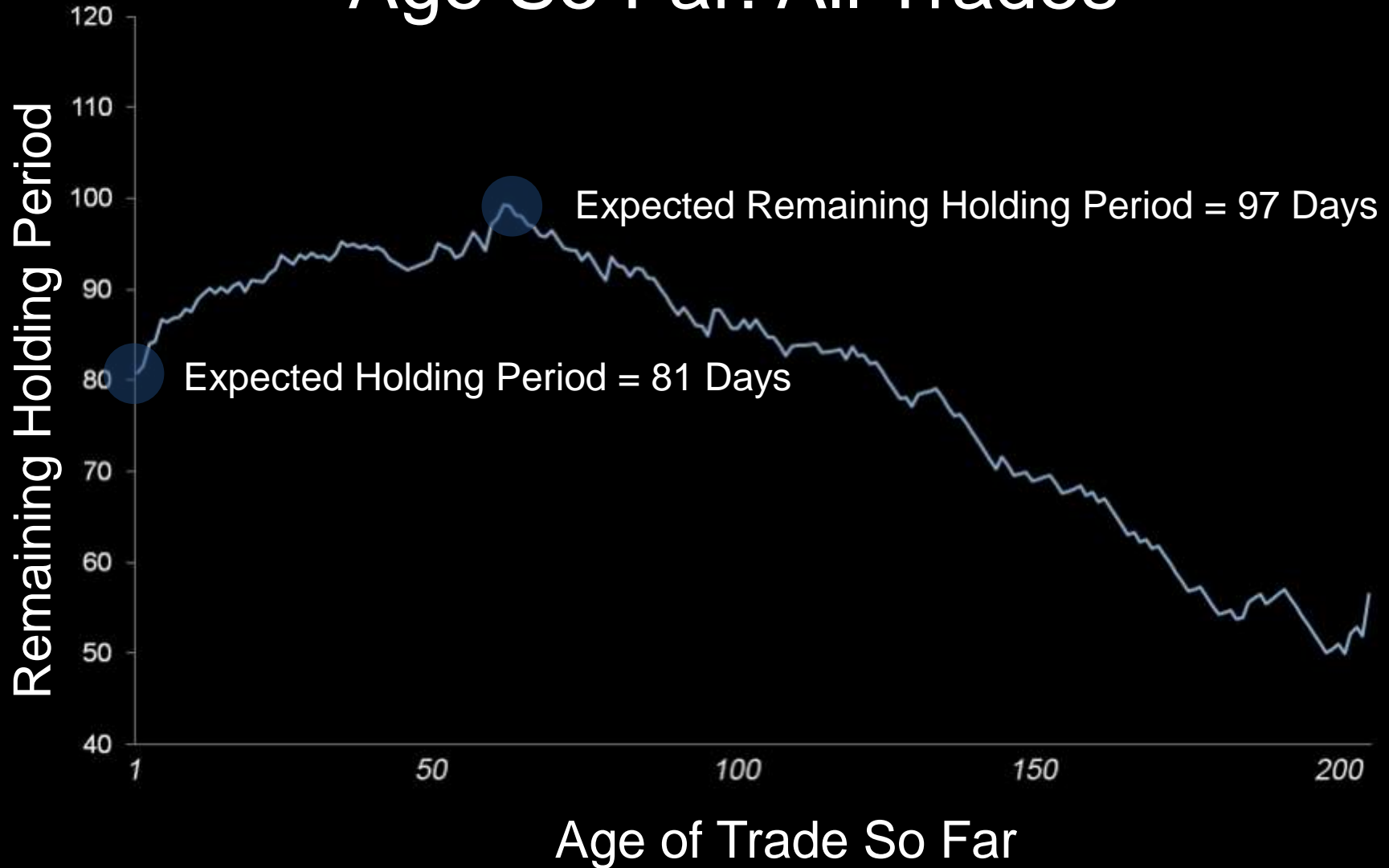
Holding Periods Conditioned on Return Size



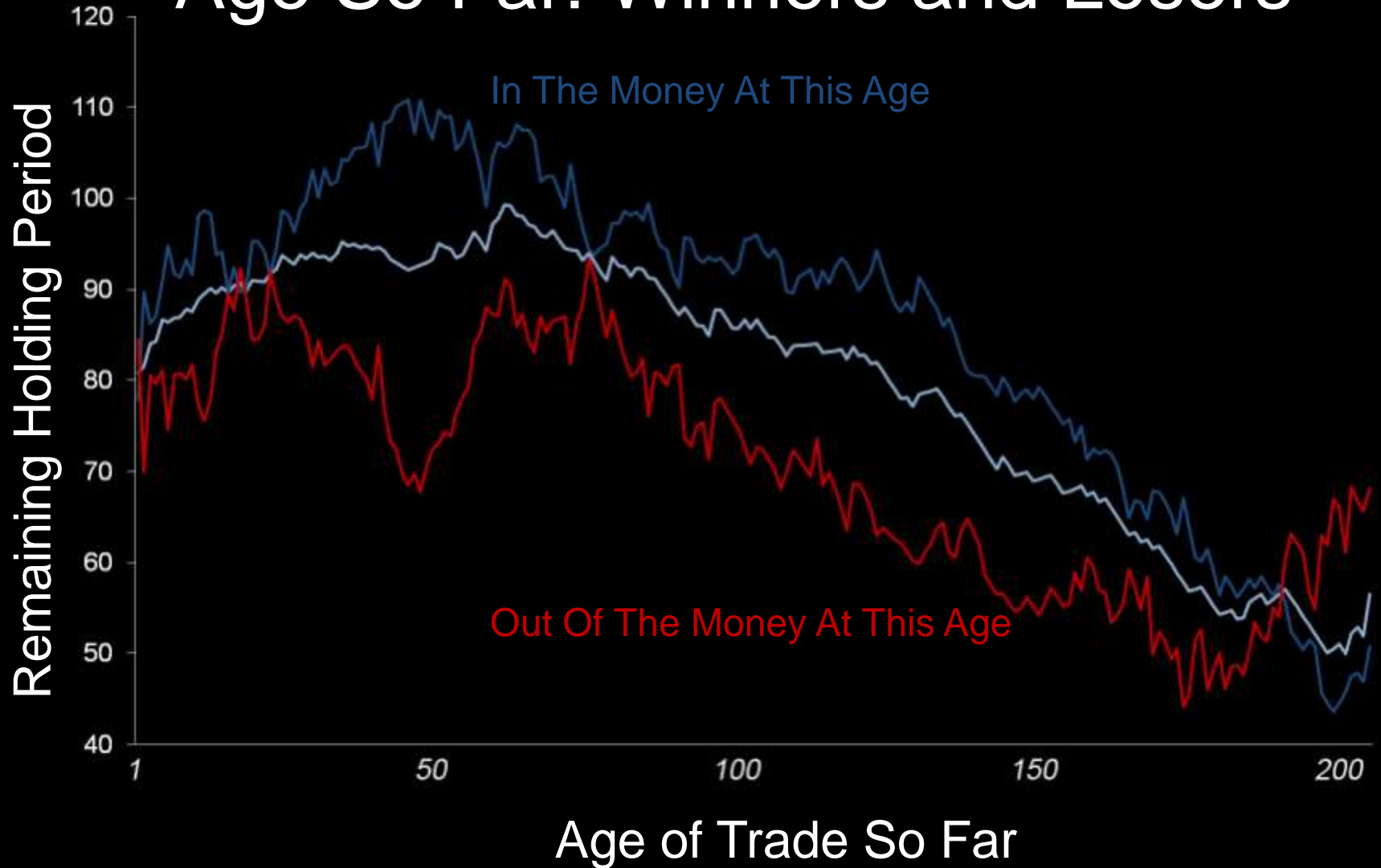
Distribution of Holding Periods: All Trades



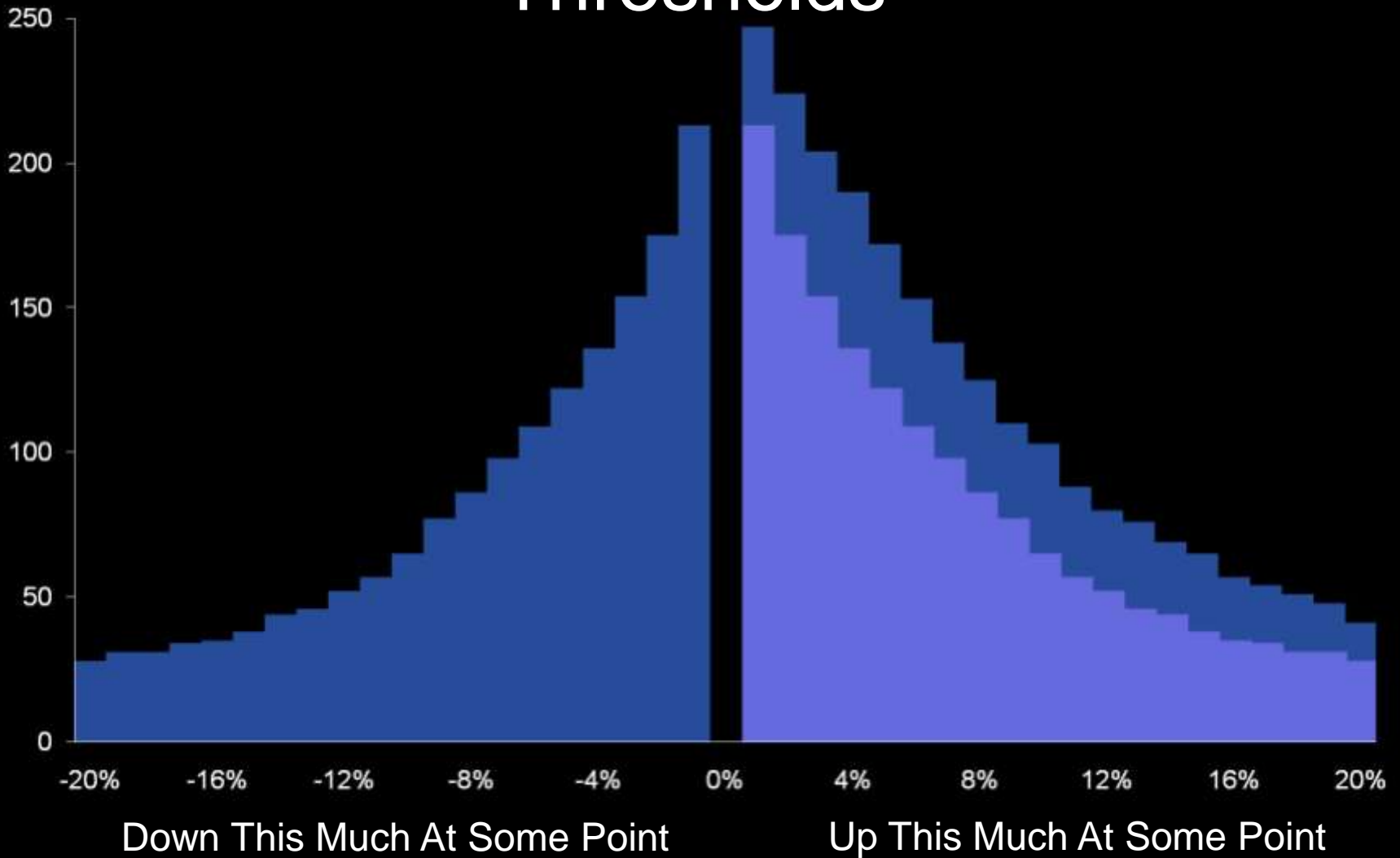
Remaining Holding Period Conditioned on Age So Far: All Trades



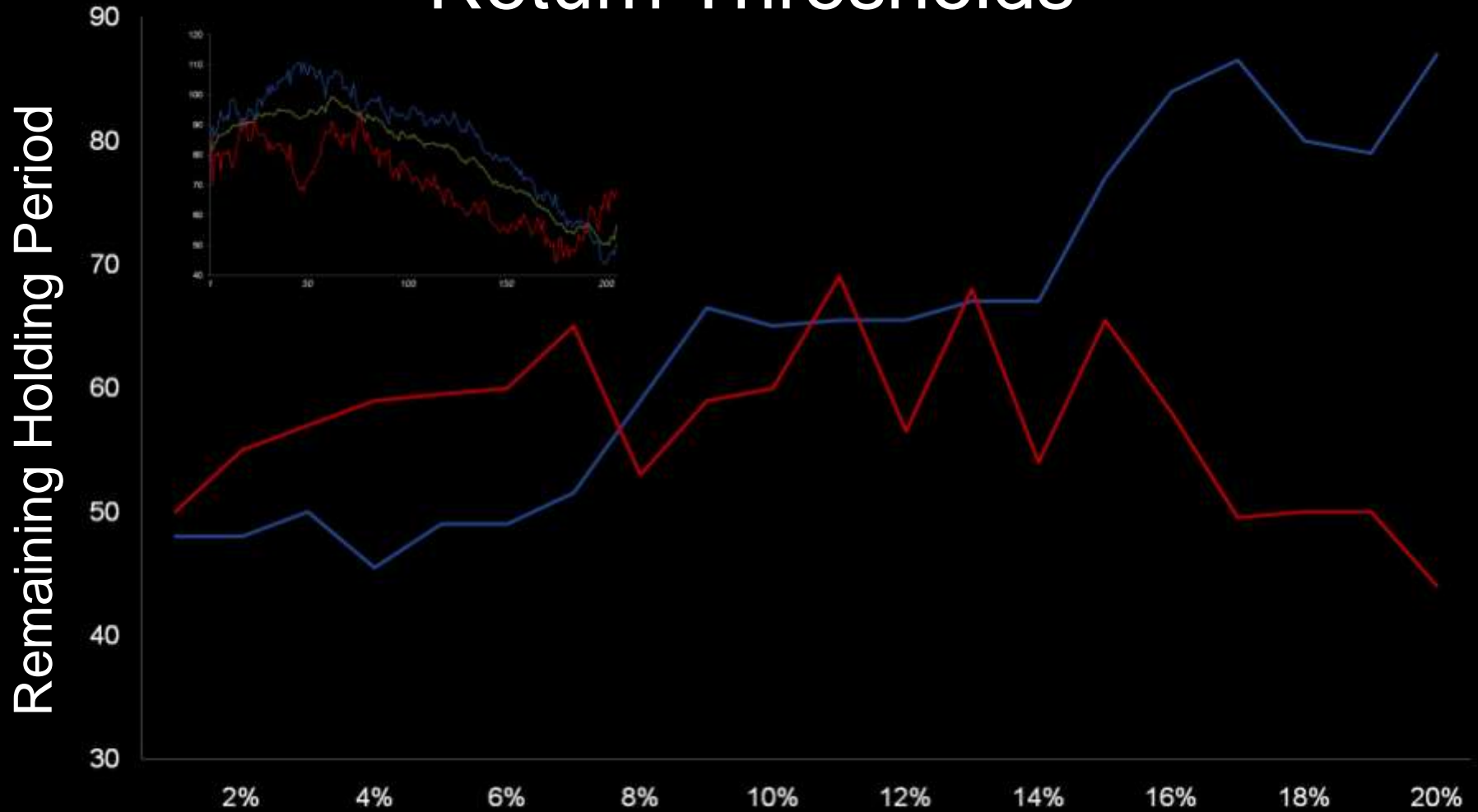
Remaining Holding Period Conditioned on Age So Far: Winners and Losers



Count of Trades Reaching These Return Thresholds



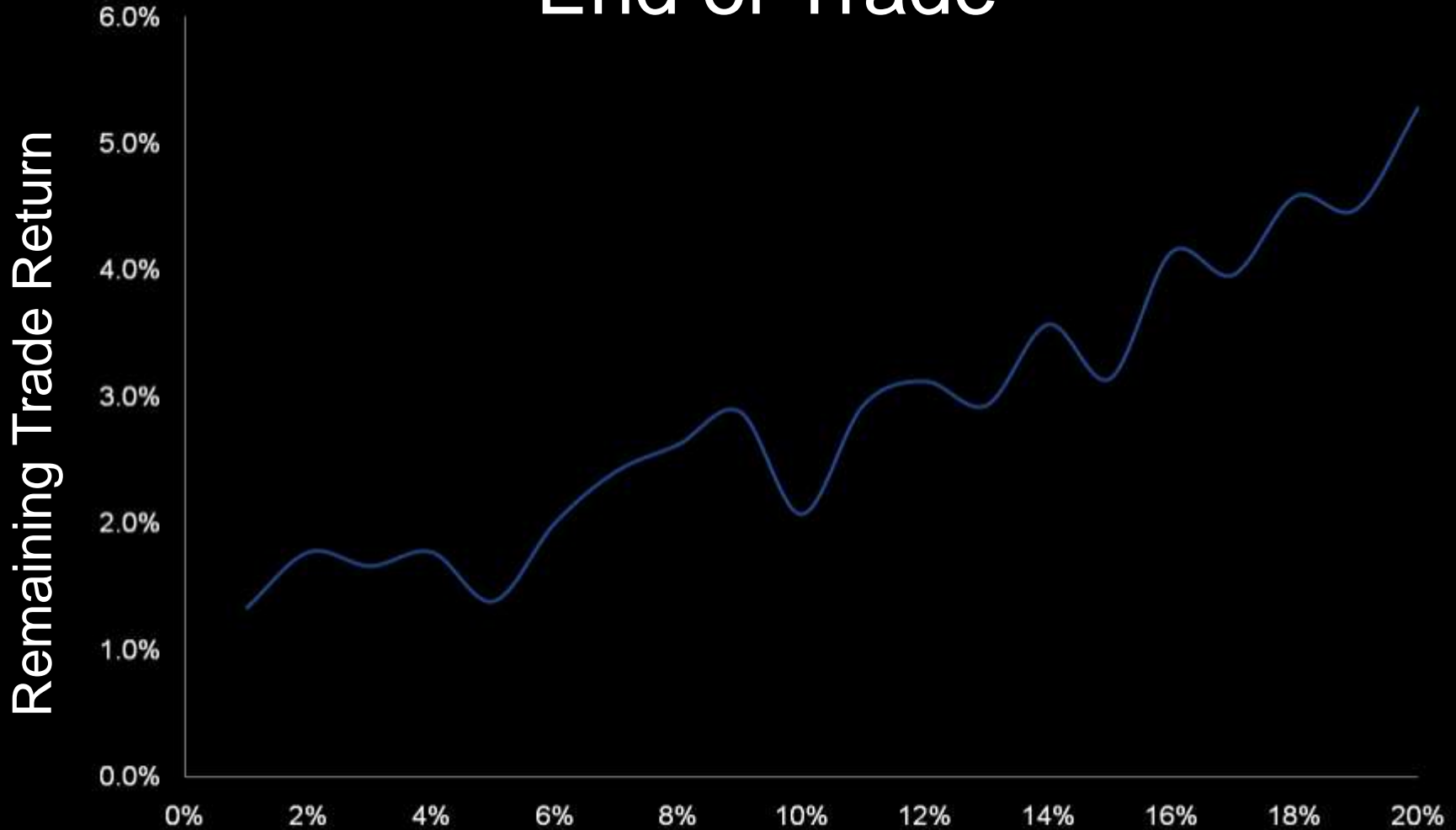
Remaining Holding Period Beyond These Return Thresholds



....From First Time **Up** / **Down** By This Much



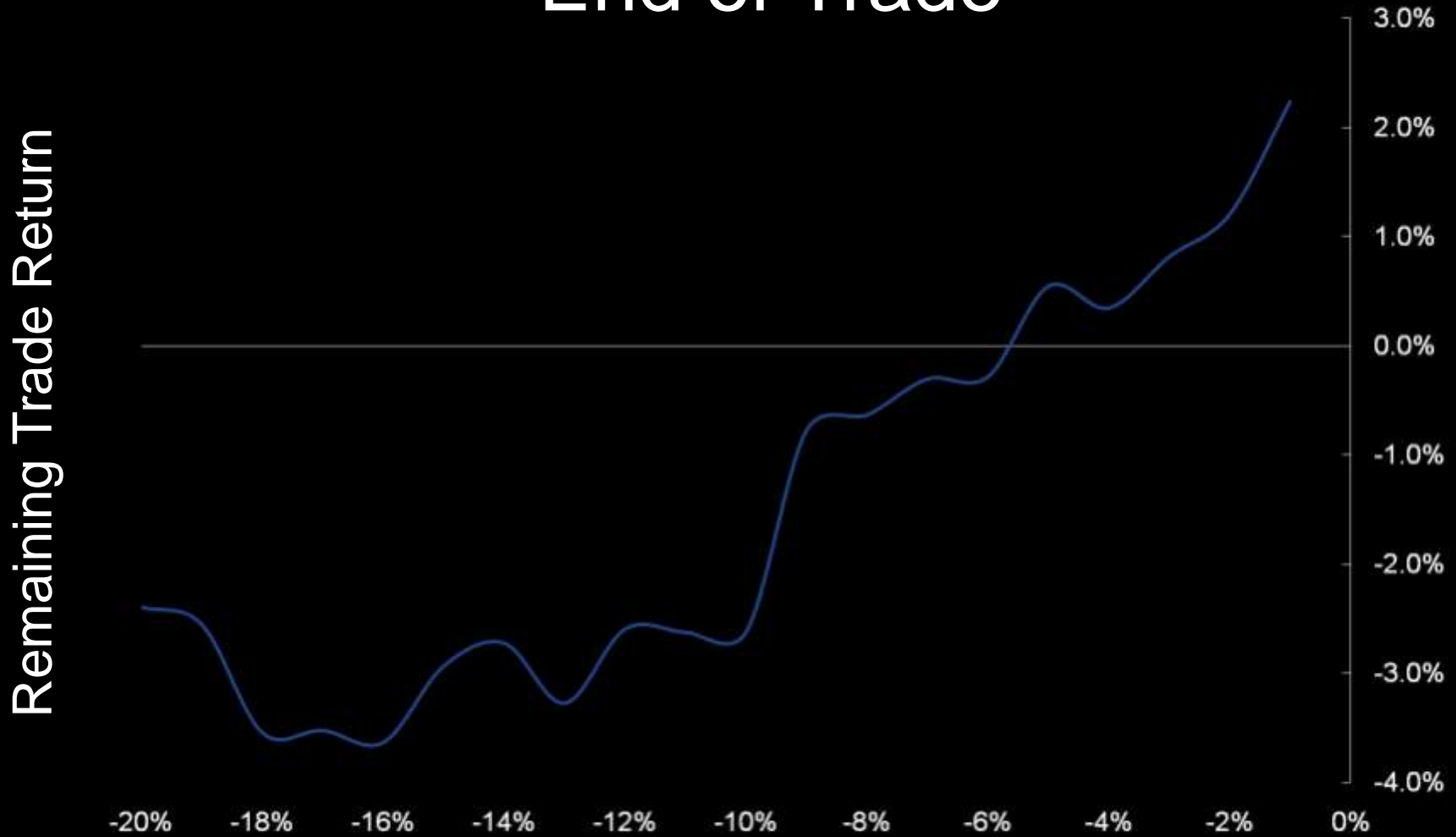
Remaining Return From This Threshold to End of Trade



...From This First Time The Trade Was Up By This Much



Remaining Return From This Threshold to End of Trade



From This First Time The Trade Was **Down** By This Much



Remaining Return From This Threshold to End of Trade



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