Stay Positive

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First Thought

The song Stay Positive, from The Streets back in 2002, comes to my mind suddenly. The other popular hit Dry Your Eyes, also fits well with the current market, where it is not rare to see people portfolio with 50% pullback. So do I. Well, actually this is the third time that I have such deep drop that I feel reluctant to open the app: the first happened at Jan 2018, while I only had limited access to the internet to sell in fear, and the second happened at Mar 2020, when I succeeded to sell the dip and started to learn how to invest. This time, however, I felt something different: active and positive.

What can you do under backwater? Being Calm, positive, and find a way back into normality.

It takes approximately 7, 5, 3 months in 2008, 2018, 2020 for the market to recover.

The market has been in the downtrend for literally 6 months since Jan 2022.

I got Walkman and MP3, but Spotify recommends Flavor of The Week.

Second Thought

There are many lessons I learned from the mistakes I made over and over again. The most important one is how to distinguish between speculation and investing. These two terms are not totally exclusive, however, can lead you to conflicting conditions if you haven't thought it through. At least that is the case for me, when I start from speculating but end up bag holding.

For investment, you want more quantity. For speculation, you want more profits.

There can be other differences between the two, but I think the one above just cuts to the point. Investing feels like collecting. "Buy when others are in fear. Buy when others dislike it. " These are the best strategies, but you need to have a good insight that what you have bought is what people would pursue afterwards. In short, you are buying the future with probability. On the other hand, speculating feels like startup. You got an idea and tried it out quickly. Take profit if it works, and stop early vice versa.

Third Thought

As we rely on green light to cross the street, for speculation or investing, we also need the signal x that guides us to make the decision y, where $y = f(x)$. However, I expect the signal to be noisy, biased, varying, faint, and hard to be standardized, otherwise everyone would make profits instead. In other words, you need to find your own signal and calibrate your $f(\cdot)$ in a dynamic manner. To achieve this you can either run backtesting, or you have to collect your $\hat{y}$ from practice.

This procedure fits well with Dynamic Programming, or Reinforcement Learning to make it fancier. Specifically, it reminds me of the reflexivity theory, that you have to somehow consider the impact of your own actions when evaluating the performance of $f(\cdot)$, which is your logic, philosophy, strategy, or perception.

In all, it is better to have a sequential thinking process rather than perceiving there is a one-to-one mapping between the x and the y.

Fourth Thought

I found candlestick essential for those who are also not into technical analysis. It is like a short summary of what has happened in the market, which is simple and concise, and follows Occam's razor theory. What's more, you can analyze a combination of candlesticks at specific time scale, which feels like conducting a spatial-temporal analysis.

However, I need to remind myself that the analysis is only abstract but not precise. It only helps me to summarize some commonsense which bring some comforts when swimming against the current. For example, it might be essential to have needles on the monthly candlestick for the trend to reverse.

Fifth Thought

Signal is all you need for picking among favorable stocks and finding a reasonable entry. For long term investment, buying at the lowest price is desirable but hardly achievable, which make it more practical to have multiple entries based on different types of signal. Don't go all out until the trend has been reversed. Otherwise, you might miss the train since not all stocks would rise from the bottom. Ideally, the signals are buying in fear before reversal, and only adding more afterwards.

Sixth Thought

Multiple bottoms and single objective: Transition, or hook, is essential for trend reversal. The first cut is the deepest, but it is a great indicator for the following dips, as long as they are not significant newer lows. A massive buy at the first bottom is unrealistic since you will never confirm until the second is observed. Instead, it is more reasonable to buy at the bottoms with ascending allocations. This strategy is helpful to maintain a relative optimistic perspective when you are against the wave, but you must be psychologically ready for single bottom scenario since Rome can be rarely built in a day. *(updated on 08/06/2022)*.