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"Navigating a volatile market can be made easier by having a good balance of knowing the market context and environment, plus solid trading rules for your specific tickers."

– Profit Pilot TG Watkins

How To Navigate Today's VOLATILE MARKETS With Confidence

The title of this piece actually came from a common question I get from traders who are looking to improve their consistency. Making money in the market can be relatively easy, but it's the keeping it that really has the most impact on our account growth. I believe, from my own personal experience as well, that most traders lose the gains they made when the market starts to get into chop or becomes more erratic.

This is about the time the question **"How do you / how can I navigate today's volatile markets?"** starts to bubble up to me from various communication mediums.

I have my general answers which help people realize that, for the most part, it's not them who suddenly got worse, it's the market. So my job in this case is to remind traders that it may simply be better to sit on our hands until the trades are easier to see.

In this piece I will have more opportunity to expound on the common answers I give, along with some other aspects outside of the charts that can have an effect on the trading environment in which we operate. This reminds me, traders often think that we are in unique times and we are the first to struggle in this or that particular way. This is true in the fact that every moment in time is unique, but as Mark Twain would say "history does not repeat, but it often rhymes".

We may be dealing with **computer algorithm trading, geopolitical events, flash-crash black swan events,** and **perplexing monetary policy** that all have strange effects on the market, but traders in the past had to deal with their own crazy market influences as well. These range from wars, presidential assassinations, online trading, and massive societal changes as the human race rapidly progressed. Then you have the things that rhyme: new fangled financial products "guaranteed" not to lose, depressions and recessions, technology creating new industries which fuel massive bubbles, and government interference.

Bottom line is that the markets, life, and the world at large are messy; There will always be events yanking things to and fro. So we just need to know when, in our era, it's time to change our investing gears or simply not be in the markets. Here are some of the things I use to determine this.

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1) USE THE MARKETS FOR CONTEXT

The first is always "The Market" because most stocks are significantly affected by the day to day moves of the market and the overall backdrop of the market environment. This is typically ascertained by simply looking at the greater indices such as the S&P, the Russell, the DOW, or the NASDAQ.

- **Are they in a trend?**
- **Are they following certain moving averages well?**
- **Are they moving with each other or is there a glaring discrepancy between the various indices?**
- **Are they moving right into an area of support or resistance?**

All of these questions will help us flesh out the backdrop to which our stocks will move. Therefore if the markets are fading or pulling back into an area of support, *we should be well prepared to take advantage of that with our own watchlist of actionable tickers.* If the market is under and flagging into a down trending moving average, well then *we need to be extremely careful about putting on a long strategy that may suffer if the market gets deflected downward.* **This is what I call context and it is vital to know if you are to be in sync with the supporting, or unsupporting, moves of the market.**

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2) WHY TIME FRAMES MATTER?

The next layer I bring in is the idea of time frames. One trader's bad environment might be another's ideal opportunity simply because they are on two different time frames. A shorter term trader may love a 2 or 3 day pullback because that is when they can make some quick money with their strategy. While another longer term trader is giving back money on that same pullback, and must also show self-restraint not to keep adding money till the pullback is completed.

Know what time frames you prefer and operate best on, stick to them, and know the context of the market for that particular time frame.

Did you know that there are seasons for the market and stocks? You probably know about the oft cited "sell in May and go away" which can have a surreal way of coming true most years. Is it real or is it a self fulfilling prophecy? Does it matter? Only if it negatively affects you and your account. Let's take this seasonal idea one step further and see if there are ways to take advantage of it on an individual ticker basis;

- **HSY (Hershey) is seasonally strong around March and April. Why? Valentines day and Easter; Both are associated with chocolate and therefore traders have figured out HSY does well during that time.**
- **GT (Goodyear Tire) is seasonally strong November and December because people need to buy special tires for the winter season.**
- **HRB (H&R Block) is seasonally strong in April and May due to tax season.**

So what does this have to do with navigating volatile markets? **Well if the market or overall environment is not great for trading, perhaps those tickers which are seasonally strong at the time, can buck the trend and pave their own path.** Even if it's just because it has become a self fulfilling seasonal prophecy.

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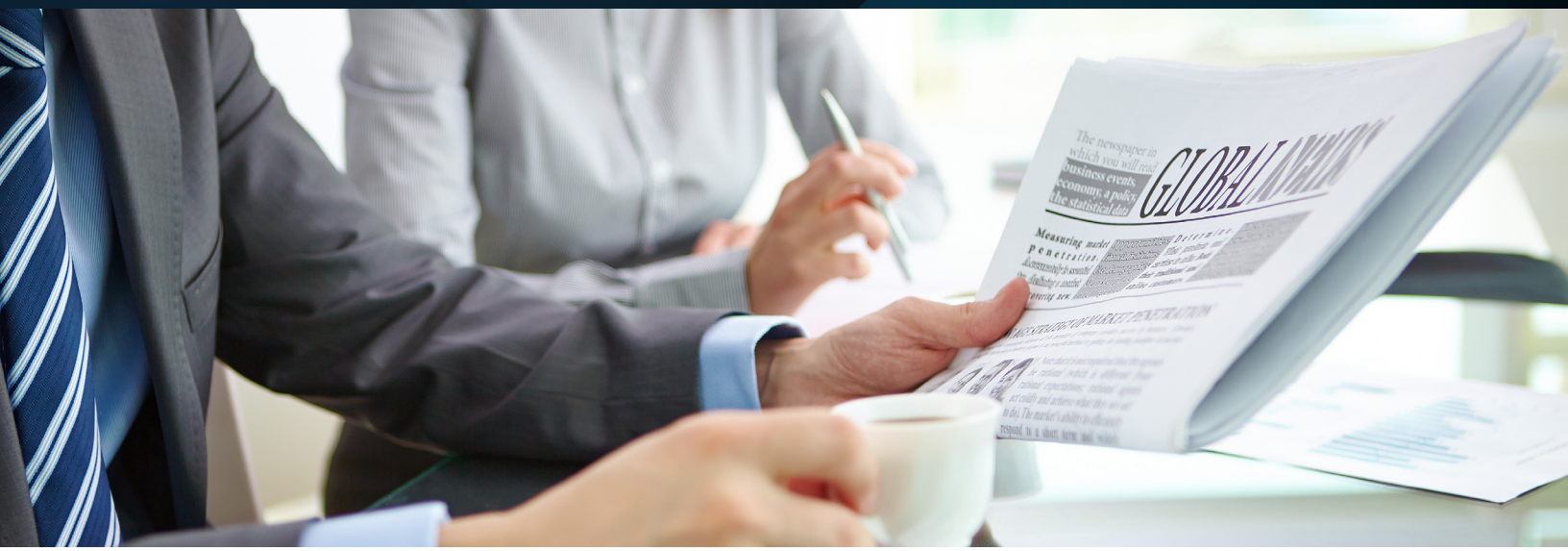

3) WHY FOLLOWING THE NEWS MIGHT BE PROBLEMATIC

I used to read a lot of news. I would read the latest about companies, sectors, products, and politics, thinking this stream of information would provide me an edge or an opportunity to act on. It didn't take me too long to learn that most news had a temporary effect, if it had any at all. So I stopped surfing the web with the intent of gaining trade setups that way.

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But I realized it was still vital to know what is going on out there in the world so I am not blindsided by the Fed coming out and saying they are changing interest rates. Or that a certain trade war is going on and that tariff rates may change on certain dates. These are general local and world events that, as a trader, we need to generally be aware of and know the underpinnings which direct the market. If we hear that there are some real significant tensions between major countries, we won't be surprised when the market responds by declining or chopping around for weeks at a time.

I find that **subscribing to news summary services** can be helpful to get you updated each day, **listening to quality podcasts** that help filter or interpret the news, and generally keeping your head out of the sand. Often times just engaging with those around you in the world and being observant can help you get a feel for the climate of things and how that may seep into the market itself. To be more trader-specific, look into market metrics that help you gauge the internals of the market. These can range from advance/decline ratios, number of stocks over certain moving averages, number of stocks making new highs/new lows, and put/call ratios to name just a few.

4) SO... HOW DO YOU SET A CLEAR COURSE IN VOLATILE MARKETS?

Navigating a volatile market can be made easier by having a good balance of knowing the market context and environment, plus solid trading rules for your specific tickers. Sprinkle in some strategies to take advantage of times when the rest of the market is in a funk and you should be able to weather the volatility pretty well.

The best advice I have always given myself is to raise cash and just sit on my hands when things are not conducive to easy trading. There is no need to push things when the most likely outcome is stress or loss of capital. **So keep your eyes and ears open, stick to your rules, and trade well when the wind is at your back.**

Have Questions?

Call us at 512-266-8659 or email support@SimplerTrading.com