Trend Sigma Trading

What is Trend Sigma trading?

Sigma is a Greek letter that is used with various meanings in science and mathematics. In statistics it denotes the standard deviation, which is used as a measure of confidence.

Trading is statistics and traders need some sort of confidence. That's why I chose this name for a style of trading or investo-trading that results in less stress and work combined with larger profits.

To put it simple, Sigma traders just enter a favorable situation and relax. And later they are cashing in on their investment. On average, of course.

Sounds too simple?

Right! Of course, the difficulty is to find a favorable situation. A system is needed...

There are indeed some methods to drain the financial markets the elegant way. And they are not necessarily secret. They are just not so outstanding that it is clear that one should concentrate on only them.

Let's see what a Sigma trader is looking for:

A) The long running trend with a possibly large potential. It could be a trend once in a lifetime of a specific market, typically attached to something really new. It could also be a trending phase of such a megatrend with pauses. Or it could be any situation with the potential for a large move and a specific reason for that potential. Trend Sigma: The Sigma stands for a meaningful reason.

B) An automated system. You want to do almost nothing? The direct answer is a software that does the trading for you. That also isolates you from the emotional problem. Trading is psychology, and having an automaton is the solution if you feel that an incorrect execution of your trading plan is the real problem. There are many types of trading robots and many of them don't work. Still, searching for the holy grail may lead to finding something that works at least partly.

C) A market that has had a terrible downturn and now has a tremendous potential to recover. This sort of chance has a risk that is bigger than with a fine trend situation (A). If something went downhill, chances are, the worst is not over. But it still has the large potential that makes the possible gain so much bigger than the worst case loss.

D) Something that flies under the radar and shows suddenly activity. Examples are exploding penny stocks or virtual goods like Bitcoin in a monster trend. Such markets may face manipulation. But prices are still moving like they do in other markets. They go up and down, just with a larger volatility. Again, the huge divergence of possible gain and maximal loss is what makes this situation so interesting.

E) The combination of one of the situations above and a software that does the trading. If solidly in plus territory, you may detach the automaton from your position and just hold it for a long ride.

Do these methods work? Yes, they work! Of course, with a little help from the best friend of every trader, the stop loss. Sigma trading means doing a trade lightheartedly, well knowing that a tight stop (and a sound money management) will not only protect you, but make the trade work on average.

Why does that work?

1. In any situation that has more potential for a move into the desired direction than to the other side, the math is on your side with the simple system of holding or stopping after entering the trade.
2. Having a tight stop in place keeps you calm. It is indeed time to relax. The right mindset and a stable psychology are much more important than many traders think. They will put you on the winning track.

Note that the penny stock explosion (D) needs some adaption to the stop method, because markets may be illiquid and note also that the automated software system (B) has the stop loss built into its algorithm, perhaps indirectly or probabilisticly.

Sigma trading is just common sense, math, and psychology. If you have the right system, you can be calm and confident and you will hear the silent voices of the markets among all screaming loudness. You will find the trading situations or systems where the odds are a bit skewed to your favor.

The reality looks much different for most. At least at times, they begin to lose. If they don't lose money, they lose their positive vibrations by struggling with their trading systems or styles. Some typical patterns of private market warriors look like these:

- Investors burn themselves sitting on positions deep in the red and waiting for the holy recovery. To not experience the hell on earth, they need all energy to convince themselves constantly that everything is alright.
- Investors playing it safe are not losing, but they are also not gaining much. They need a long life. If the market turns south eventually, they may wake up and find that even a long life doesn't help.
- Traders try everything under the sun, change their original plans, or give up at all. They rotate like a propeller, but they run not as smoothly.
- In what is actually total despair, traders turn investors or vice versa.

You could do better...

Just take trading lightly. Do the simple thing, but be active. Don't be the investor hoping for things to finally turn around as planned!

It can indeed be so easy, but most people are not able to see this. And if they hear it, like right here and right now, they may not believe it...

The simplest Sigma trade

This is the one for trend traders (A) and it looks like this:

Doing the basic Sigma trade is betting on the right trend, but not necessarily at the right time. The right method? A tight stop! Of course, knowing the right time would be tremendously helpful, but that is also nearly impossible. Just accept it. To enter the right trend, typically multiple attempts are necessary. Also accept that. What if you are stopped out and the trend turns around or vanishes? It simply wasn't the right trend then. What if it restarts unexpectedly thereafter? This is the way the market works. Accept it and reenter.

Trading the Sigma Trend in short:

1. Find a situation with the odds in your favor
2. The trend must be running right now and potential must be there
3. Enter the trade with a tight stop
4. Be prepared to be stopped out by pullbacks or an ending trend
5. But wait for new strength and if the trend is still or again running
6. Reenter

Seen from the psychologic angle:

- Happily enter or reenter.
  There just has to be some local strength. No technical formulas, indicators, chart formations. All these will only help to miss the chance. If you want to do it more elaborated, use a simple and robust system or consider a completely mechanical one (B).

- Happily accept to be stopped out.
  That's the price for getting on a great trend. No stops mean great trouble and not accepting the cycle of getting stopped out and having to reenter will make you miss the best chances.

Having the right psychology at work is always important, unless you are the completely automated trader of (B).

Traders like simplicity, but they also want to optimize their trading.

The simple system above could and should be extended with technical (entry) systems and methods for discovering chances with potential.

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Version (A), trading the Sigma Trend, is in more detail available as a comprehensive system:

- **The Trend Sigma System**

The laws of probability will eventually get the Trend Sigma trader on a true trend that yields hugely more than just compensating for all small stop losses.

May the syncing forces be with you,

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