



RISK MATRIX: SPEED VS. IMPACT

CAI discretionary fund managers believe that the speed in which a loss (our accumulation of losses due to a drawdown) occur must be balanced with the absolute value or impact of that loss. Components speed and impact, when combined, share profoundly in the psychological effect that loss taking has on a trader. Generally speaking, the larger and a faster a loss is realized, the more destabilizing. Below is a high and low level "Speed vs. Impact Risk Matrix". Each demonstrate how CAI fund managers approach stop-loss placement and size, in terms of its psychological state and the place of confidence we find ourselves trading from.

Questions: How do we feel about the speed of losing?
How do we feel about the percentage impact of losing?

Table with 2 columns: NARROW STOP LOSS (Faster when feeling aggressive) and WIDE STOP LOSS (Slower when feeling defensive). Rows: SMALLER POSITION (Tight Strong Trend vs. Wide Late Trend) and LARGER POSITION (Wider Early Trend vs. Loose Saw Tooth Trend). Includes STOP and RISK percentages for each scenario.

Risk Matrix: Speed vs. Impact (Continued)

| | NARROW STOP--Fast (Feeling Aggressive) | WIDE STOP--Slow (Feeling Defensive) |
|-------------------------|---|--|
| SMALLER POSITION | <p>1) Poking at the Danger Zone. Testing for an inflection point.</p> <p>2) Turbo Position (adding to a winner). It is okay to be more aggressive. It's a winner.</p> <p>3) Running Entry. Playing this fast and positioning small. Or, adding to a big position that is already a big winner.</p> <p>4) We feel all right about being stopped out quickly.</p> <p>STOP: IN THE CLUMP (2.5% to 5% of price)</p> <p>ENTRY SIZE: 1% to 5%</p> | <p>1) Choppy markets with some things that look fairly good. Speed averse or feeling protective or confused.</p> <p>2) Afraid of losing quickly but want to be involved in the move.</p> <p>3) Re-building confidence after a major set back or long time off from trading. Attempting to allow the market to guide us while re-acquainting and getting in step with the dance. Goal is to regain rhythm, courage and a positive equity curve.</p> <p>4) Have we rooted accepted our feelings? Are we making friends with the protective instincts? Why aren't we comfortable taking risk? What are the issues with which we are dealing, personal and professional? Are we writing a lot about this to see what the patterns in our thoughts are?</p> <p>Flatten things out, paper trade, do something else but trading, go on vacation, debrief and reflect, or:</p> <p>STOP: TWO TO THREE HUMPS BEHIND (15% to 20% of price)</p> <p>ENTRY SIZE: 1% to 2.5%</p> |
| LARGER POSTION | <p>1) Runaway Bull/Bear Market. Position entry at the sweet spot. Coiling market with high degree of liquidity and confidence in the trend and us. Tight wedge/base/top or all buying/selling squeezed out.</p> <p>2) Positioning enough to make a big difference.</p> <p>3) Feel okay about being stopped out where we are. Feel all right about coming back to it if turns into a fast, running entry position.</p> <p>STOP: ONE HUMP BEHIND (5% to 10% of price)</p> <p>ENTRY SIZE: 2.5% to 5%</p> | <p>1) Fast moving market where patterns are not tight. We possess high conviction in the direction/trend of the position/sector/market. Feel a need to participate in the move and desire to be involved.</p> <p>2) It is a tight pattern, but liquidity is not great. Nonetheless, it has enough liquidity to make it worth our while to position ourselves.</p> <p>3) Is it all right to lose with this stop placement? Is the prevailing trend we are trading really in question at the point where we will be stopped out?</p> <p>STOP: TWO TO THREE HUMPS BEHIND (10% to 15% of price)</p> <p>ENTRY SIZE: 2.5% to 5%</p> |