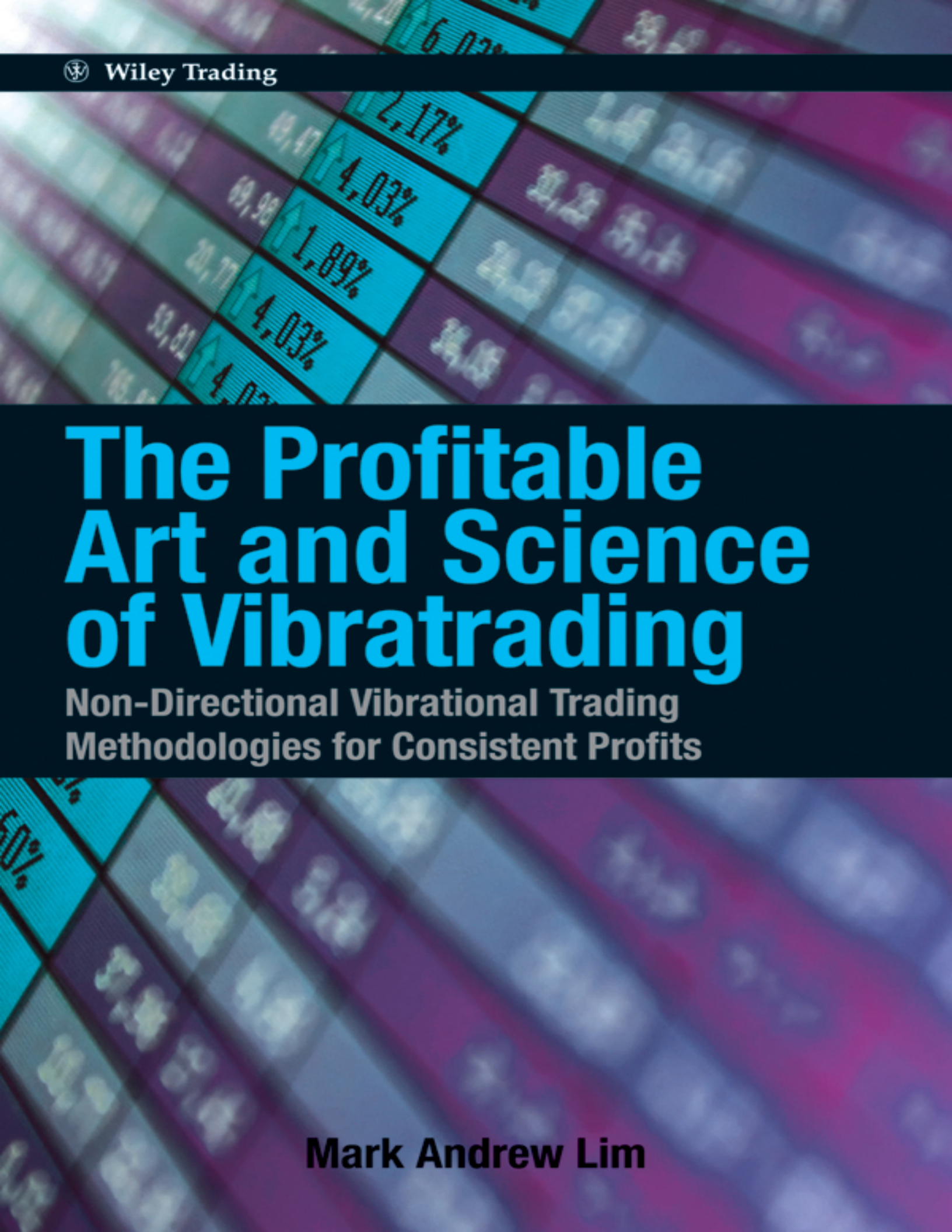

The Profitable Art and Science of Vibratrading

Non-Directional Vibrational Trading Methodologies for Consistent Profits

Mark Andrew Lim

Contents

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The deeper the vibration, the greater the creation.

Introduction

One of the key aspects of trading (and the most frustrating) is that it's impossible to predict the future. Since no trader can possess any absolute knowledge as to the future direction of price, one obvious option is to employ a "Martingale" strategy which keeps you increasing your bets until you eventually win. Unfortunately, since we don't know exactly how long any particular losing streak will last, and since most of us lack unlimited funds, this strategy is destined to fail, resulting in the total loss of our capital.

If we could work out exactly when that streak *would* end, of course, we would never lose, because we would know well in advance the precise amount of funds required to survive the streak and eventually produce a win, or a gain in capital. Even though the risk to reward ratio may be extremely low, especially on the very last bet, the trader would still come out on top.

Imagine if traders could enter the financial markets knowing exactly where the Martingale "limits" reside. Even if the price remains below the traders' entry level indefinitely, they would have the ability to coast through the losing streak to success.

I have adapted the high-risk and high-investment method of scale-trading to a safer, more powerful and adaptive tool: *Vibratrading*. Vibratrading is based on generating returns in the market from price oscillations, or vibrations. It is also implemented with reference to the concept of boundedness, which helps the trader or investor understand the type and degree of risk associated with any particular trading technique or mechanism. Trading according to the rules of boundedness is what separates vibratrading from

conventional scale trading. Boundedness is all about capital preservation, which includes the strict avoidance of all capital depleting mechanisms like stop losses, long options or initiating net short positions. More specifically, boundedness is defined as the condition in which the final account equity will be equal to or greater than the initial account equity, should price retest the initial price entry level. For example, a “vibratrader” enters the market at a certain price. After a number of trades, the market returns to the initial price level. If the methodology caused equity to fall below its initial value, then that methodology is said to be unbounded. All trading strategies and mechanisms are categorized as either bounded or unbounded. The vibratrader has a choice to implement either trading mechanism within the vibrational construct, but this must be done with full understanding of the risks involved in choosing an unbounded methodology. These strategies can be used in conjunction with various diversification techniques to accomplish what most traders and investors previously thought impossible.

The Genesis of Vibratrading

Before I get into the methodology behind vibratrading, let me explain the thought process leading me to this point.

It all started with a simple question:

What if we could find a stock or instrument that would never collapse to zero, except in a total systemic meltdown of the financial market?

If we could construct or find such a fail-safe investment, then we would only need to preserve our invested or traded capital in the market long enough to either:

1. experience a favorable upside move, or
2. accrue enough returns to reduce our overall cost basis.

To eventually profit and avoid capital erosion, we must stick to methods which build capital and avoid all capital depleting activities and mechanisms. Of these mechanisms, one is the most detrimental. To keep our capital intact, we must avoid using the single most capital-depleting mechanism ever created, ironically called the stop loss. When investors have a working order to sell at a certain price, regardless of circumstances, they may protect themselves from loss but also risk gradual depletion of capital funds. If the position is repeatedly stopped out, the account equity will inevitably be wiped out.

If we avoid the deployment of all stop loss mechanisms in our trading and investing activities, we will need sufficient capital to sustain a fall in price down to zero for longs (investments made with the hope of prices going up). At the same time, we need enough capital to hold the shorts: stocks sold with the hope that the price will go down, thus allowing us to repurchase and make a profit. Since there is no upper boundary to price, we would need essentially unlimited capital to hold short losses, therefore the only feasible solution is to initiate and hold longs. As the maximum that we can lose is the amount that we paid for shares, the limited risk involved is capped.

Accordingly, we should only go long for vibratrading to work. In other words, traders must buy low and sell higher, and never sell high with the intention of buying back lower. As shown above, shorting would expose the trader to unlimited upside losses, especially without the protection of a stop loss mechanism. To protect the capital from depleting permanently over time, that is, to ensure that trading capital is always “bounded,” all trades must close in profit, as opposed to a loss. Wouldn't

that mean that all long exits would be profitable? Well, upon deep reflection, yes!

On the other hand, this does not mean we should keep buying as prices rise. There is no upside limit to price and therefore we would need unlimited capital to keep on buying as the price rises. Some think we could always just buy on profit. That is one option, but we need to be prepared should price decline prior to the opportunity to buy on profit. Remember, we cannot use a stop loss. If all capital has already been allocated to that one long position, then there is little recourse except to hold that position until price returns to the original entry level. If this should happen to a contract for difference (CFD) trader without the capital to sustain the long position all the way down, then positions could be liquidated for violating the minimum margin percentage level.

So does this mean we should keep buying as price falls? Realistically we could, provided we have enough funds to support our downside buying expedition. By buying more at a lower price, we are averaging down and reducing the average cost per unit of the investment. The difference when averaging down with longs, as opposed to averaging up with shorts, is you at least have an idea of the maximum capital you need to maintain your long positions down to zero, or what I call Zero Test Point. There is no equivalent cap when averaging up with shorts. Therefore, if you plan well in advance, the idea of averaging down is totally workable.

So far, it looks like even if we avoid all capital depleting mechanisms, we may still be holding on to non-performing long positions. However, what if price continues to oscillate at the bottom of the market? In that case, we could continue buying low and selling higher every time price vibrates, and in the process extract profit with every vibration. That would mean that we

could continue to generate returns indefinitely. Of course there must be a loophole somewhere; for example, what if the shares of the stock plummet to near zero?

Actually, our oscillation profits will be high in that situation, as we can buy and sell even more shares due to the lower price. We would, in fact, make greater vibrational returns at lower share prices. We take advantage of this price leveraging effect.

If the stock plummets directly to zero and winds up, however, there is no way to profit—unless there is virtually no possibility of the stock or instrument ever testing zero. Fortunately, there are three main categories of instruments that never reach zero (except under exceptionally adverse market conditions).

The first is called an Exchange Traded Fund or ETF. An ETF is a stock with a share price based on a basket of component stocks. ETFs have a built-in replacement mechanism that automatically replaces any stock that is failing to meet the fund's criteria for inclusion within its large basket of component stocks. As such, the share price of an equity-based ETF can only hit rock bottom if every stock in the basket plummets and collapses to zero simultaneously. That scenario is incredibly improbable—it would be financial Armageddon!

The second category is Index Future Contracts, which involve an agreement to sell at a certain price at an agreed future date. As with ETFs, index future contracts are based on a basket of component stocks and as such will never test zero except in exceptionally adverse markets. Index investors receive a separate return, the roll yield, when they roll trades over periodically. That return is negative when far out futures prices are higher, or in “contango.” Unfortunately, we cannot employ index future contracts in vibratrading due to the effects of negative roll yield.

The final category is commodities. It is virtually impossible for a commodity that is not financial-based to hit zero test point. When was the last time we saw precious and base metals, oil, wheat, corn, or sugar at rock bottom? Never! But we can only vibratrade the spot prices of these commodities via CFD platforms. We cannot use futures contracts to gain exposure to these commodities, due to the negative roll yield mentioned above. We also cannot use long options to trade or invest in these markets; it could expose the trading account to capital unboundedness. As a result, we will only focus on ETFs and CFDs in vibratrading. As a rule, we do not vibratrade single stocks as there is no mechanism to prevent them from winding up. But I will introduce a vibrational technique called Oscillatory Propagation should a stubborn vibratrader insist on trading single stocks.

Okay, things are starting to look much better. But if the price of the equity-based ETF stock just stays completely still and “flatlines,” it appears there is no way to profit within the system. In reality, all we have to do is incorporate options into our vibrational construct to generate profit. We never buy options, as they deplete capital if you fail to achieve at least a breakeven trade. This was the very reason we avoided using stop losses. In flatlining markets, we sell options instead.

Yes, we all have heard of traders and investors losing the shirts off their backs from trading short options. But, if we deploy short options within an oscillatory or vibrational trading construct, then those positions will be completely riskless, unless the price of the stock or instrument falls to zero. The remainder of this book will show you how to maintain short options without risk, while your predetermined working capital continues to generate returns indefinitely.

I will start by teaching you some of the basic knowledge required to fully grasp vibrational trading systems. You will then learn to set up, construct, and implement some of the most effective bounded and unbounded trading methodologies for generating consistent (as well as exponential) returns in the markets. You will also learn to never fear falling markets again, and in fact, to look forward to such bear action! Buy and hold is comparably inefficient as vibratraders continue to generate returns instead of passively hoping for price to return to previous levels. Eventually, we will see many examples of bounded and unbounded vibrational constructs for generating consistent income in all manner of markets, taking conventional scale-trading and averaging strategies to the next level.

Layout

This section describes the basic layout of the book on a chapter by chapter basis. Readers are advised to start from the beginning, going through all the chapters sequentially. Various terms, concepts, and techniques will be introduced systematically.

Chapter 1 briefly describes the nature of vibrational strategies and techniques for extracting profits from the markets. It discusses the difference between directional and vibrational trading. There is also a brief explanation of the concept of boundedness.

Chapter 2 covers the basics of order entry with a look at the various characteristics and functionality of trade orders. Special emphasis is placed on those orders that are used in vibrational trading. Besides covering some terminology and trading definitions, this chapter also delves into the various price- and time-triggered orders

and includes a very useful graphical representation for easy referencing.

Chapter 3 reveals the objectives of vibratrading, including employing it as an income strategy. This is followed by a basic introduction to the concepts and definitions applicable to vibrational trading.

Chapter 4 goes over the control of risk in vibratrading, covering the various types of risk and its control mechanisms, as well as topics on diversification, hedging, long options, and the important Disposable Capital Rule.

Chapter 5 introduces the mechanics of equity price action which represent the “nuts and bolts” required to fully comprehend the various scaling constructs introduced in later chapters. It explains how to calculate simple profit and loss, market value of total investments, and various leverage factors. Important concepts like price, buy, and money leverage ratio are of particular relevance with regard to the selection process of a suitable ETF or CFD, as well as the vibrational construct desired.

Chapter 6 includes the analysis of price action itself, with regard to single and multiple hedged and unhedged positions, with simple calculations of hedged or soft-locked profit and losses. The concept of average price, break-even point, and net position is thoroughly treated. The implications of negative spread bias are also highlighted.

Chapter 7 presents the mechanics and dynamical aspects of “boundedness,” a unique concept that gives rise to the rules of vibrational trading. Boundedness originates from the important role of capital preservation in trading and investing, and includes three aspects: Range, Directional and Order Entry. Boundedness not only dictates how the scaling mechanism and constructs

should work, but also indicates which trading strategies and techniques are bounded or unbounded.

Chapter 8 is critical as it explains the construction of all the scaling mechanisms of the vibrational methodology. It starts by describing the general properties of the pyramidal vibrational structure with references to scaling factor, foundational stability, conversions, and the Buy-Sell mechanism. All this is followed by a detailed description of the main scaling mechanisms used in vibratrading.

Chapter 9 explains the mechanisms and methodologies under the Pyramidal Based structure and vibrational elements like termination and share multiples, along with its constructs: the Null, Profit, and Phi-Based constructs. Vibrational hedging follows with illustrations of the numerous forms of hedging for long and short vibrational returns, with special focus on the Short Scaler and Rider techniques.

Chapter 10 describes in detail the diversification strategies and levels used in vibrational trading. In fact, these levels of diversification lay the foundation for a virtually indestructible portfolio by overcoming the effects of both systematic and specific risk. The idea of the pyramidal “floor” is examined, followed by an illustration of the vibrational constructs. Diversification is treated in detail with reference to its six levels. Particular attention is paid to the fifth level of diversification: Oscillatory Propagation. Finally, the difference between market-driven and structurally-driven correlation is presented along with various charts depicting its behavior.

Chapter 11 explains the difference between timing the market for direction and timing for volatility. A range of volatility techniques are described specifically for use within the vibrational constructs for added profit

potential, which includes event trading, range zoning, and effective range scaling.

Chapter 12 represents the culmination of all vibratory and trend capture techniques. The reader is taken through the practical steps of selecting and putting together bounded and unbounded vibrational, bidirectional, and directional constructs. It also covers cost reduction techniques. A thorough analysis of the operational and functional characteristics of the vibrational grids is carried out. The bounded and unbounded trend capture constructs are then introduced, with examples using CFD traded commodities. Numerous other vibrational techniques like Macrosiso Vibrahedging, Martingaling, and Zero Cost Hedging are then introduced. Finally the vibratrader is shown how to generate consistent returns via the use of the average period range.

Chapter 13 explains the many aspects and characteristics of ETF behavior, with emphasis on its inherent risks, advantages, diversification, and leveraging. There are numerous examples with charts showing the differences between market- and structurally-driven correlation. Sector rotation and basic intermarket analysis is covered. Non-linear performing ETFs and ETNs are examined along with asymmetric leverage, negative expectancy, and the daily reset feature. The fifth level diversification strategy is also discussed within the context of the replicated and hybrid portfolio.

In **Chapter 14,** vibratrading is compared and contrasted with some of the more popular trading and investing systems, highlighting its overall efficiency. This section examines how vibratrading overcomes many common shortcomings, and will be of particular interest to those who are currently trading and investing with

these popular systems. Vibratrading presents various ways to augment and improve such systems with a view to minimize risk and maximize profitability.

In **Chapter 15**, some simple options techniques are introduced to supercharge the vibrational constructs for increased level and consistency of returns for both volatile and flat line markets. It examines the use of riskless short options as an entry mechanism for vibrational trading. Covered calls are also discussed as part of a "covered short strangle" strategy for maximizing profitability.

Chapter 16 presents concluding remarks and a summary of the purpose, use, and future of vibratrading.

Chapter 1

Challenges to Conventional Trading and Investing

In this opening chapter I will explore some of the common issues faced by conventional traders and we will begin to discover the vibratrading difference and advantage.

Directional vs. Non-Directional Methodology

By far, the most popular trading approach is directional. This requires a trader to make a bet on the future direction of price. We see this approach used heavily in scalping, day, and swing trading, and especially in instruments offering medium to high leverage such as Foreign Exchange (FOREX), commodity futures, CFDs, and options. If price moves favorably, all is well. Problems surface any time price moves adversely, resulting in capital erosion by the amount risked on each trade. Therefore, to avoid blowing out the entire account, a directional trader must ensure that the system is profitable indefinitely, or until the trader decides to cease all trading activities. If a trader fails to maintain this ongoing condition of consistent profitability, all trading will eventually come to an end, without any means of extracting further profits without injecting new capital. Furthermore, once the trading account's drawdown (percentage between the equity peak and the trough

during a specific period) is over fifty percent, recovery is extremely difficult. If trading is allowed to continue, it is very likely that all capital will be depleted in the process.

To overcome this, many traders resort to non-directional strategies through which they hope to negate the effects of directional risk by attempting to profit bi-directionally. There are basically two ways that traders can accomplish this feat.

A trader may employ a “straddle-type” breakout strategy. Two stop entry orders (orders to enter the market at a less favorable price) are made in an attempt to encapsulate the market, hoping for a breakout in either direction. Unfortunately, many traders experience very rapid oscillation losses across the straddle zone, especially with false breakouts in a prolonged inactive, or sideways, market. Even if the initial breakout was successful, trying to gauge a suitable exit becomes the new challenge. If the exit is taken too soon, there may be insufficient profit to offset past and future oscillation losses. On the other hand, if there are already some oscillation losses, exiting before breakeven will lock them in. While the straddle breakout may seem to overcome the directional risk issue, it comes at a high cost when the market reverts to sideways or volatile behavior.

Another popular way to eliminate directional risk is to resort to so-called “non-directional” options strategies. The main problem is that those strategies must be directional to some degree, as they require the trader to predict the degree and time of arrival of future price movement or reaction. It still requires price to respond in a particular manner, and accordingly, the trader ends up having to predict the right strategy to use in order to collect positive premium and keep it.

For example, a long straddle option strategy requires price to move at least a certain distance before it is

profitable, even though it is already “in the money” (ITM), or worth exercising. The challenge of breaking even is further exacerbated if the long straddle was purchased during a period of high implied volatility, which increases the premium of the long options. Hence you need a certain amount of price excursion to overcome the premiums of the long call and put options in order to profit. If price fails to move, you lose both premiums and experience capital erosion. Conversely, in a non-option-based bidirectional breakout, you would incur no cost whatsoever for unfilled pending stop entry orders on either side of the bidirectional breakout. In the short straddle option strategy, price has to be stationary, or remain within a specific range. If price makes a significant excursion in either direction, the trader will lose and capital will be depleted in the process.

Unlike the conditional terms of straddle options, vibratrading allows the trader to use the very same entry strategy for all price and market outcomes. The vibrational constructs and mechanisms will generate returns in up, down, and sideways markets, including perfectly flatlined markets, via the implementation of riskless short options positions that do not deplete capital.

In other words, vibratraders do not need to predict the future outcome of price or which strategy to use. All vibrational entry mechanisms extract profit, no matter what. This means that if price falls after a long entry, you will still generate vibrational returns, even if price never returns to its original entry level. In fact, you will be exposed to the greatest returns when the market is at its weakest.

On the other hand, should price explode to the upside, the very same scaling mechanism will capture trend

profits. More positions will be pyramided in to maximize profit potential once certain conditions are met.

We will learn how to extract more vibrational and trend based returns without added risk or capital.

The reason that these unique vibrational and trend-based mechanisms can capture profit in all markets, regardless of direction, is their ability to adapt to whatever scaling or trending construct is required for that market. This ability to capture bounded returns is only possible if entry was executed at or below the pyramidal apex level. The apex represents the highest point in a pyramidal structure where long entries are still bounded. Entering long positions above the apex leaves insufficient capital to hold these positions down to zero, thereby risking a margin call. This is especially relevant when trading with high leverage. In a “cash” account, all shares are bought and paid for up front and the concept of an apex is redundant.

Return derived from entries above the apex is unbounded in nature. In fact, every bounded vibrational entry must be at or below the apex level in order to accommodate every possible future price action. This important bounded entry condition will be covered in subsequent chapters.

Problem of Maintaining Long-Term Consistent Positive Expectancy

To be profitable in trading, you will need to use either a Martingale-type system with pre-knowledge of the maximum number of losing trades possible, or an anti-Martingale system. That system only increases successive bets if it is profitable, and in the process must

able to maintain a consistently positive trade expectancy or average return. For those unfamiliar with the concept of trade expectancy, it simply refers to the profitability of a series of trades in terms of winning percentage to the average dollar win or loss per trade. Basically, expectancy tells you whether you have been profitable or otherwise, over a number of trades, based on your entry and exit rules.

Every trader knows, or rather should know, that the only factor you can actually control is your dollar win or loss per trade, also referred to as the reward to risk ratio. You have absolute control over your entries and exits, and as such, you have total control over the amount of profit or loss per entry. But you have no control whatsoever over the number of wins or losses. Winning percentage is purely determined by the markets, and you cannot influence the future direction of price. No amount of fundamental, technical, statistical, or behavioral analysis (no matter how advanced or sophisticated) can possibly forecast with perfect accuracy the subsequent direction of price. To make matters worse, expectancy is just that—it “expects” the win-loss ratio to remain constant. As we well know, that is akin to wishful thinking. The markets are under no obligation to generate a consistent winning percentage for anyone.

This unrealistic attempt to keep a trading system's expectancy positive and consistent indefinitely is one of the biggest challenges in directional trading.

> *Not only does the directional trader have no control over thewin-loss ratio, the directional trader also has no control whatsoever over the win-loss distribution!*

This results in what I call the “Expectancy Box” problem. I conduct an entire masterclass in “Stochastic Maximization” to help traders overcome the issues of extracting profit from randomness. This does not mean

that directional trading, which I define as trading with a stop loss mechanism, is bad in any sense. What I am saying is that it is tremendously difficult to maintain consistent profit indefinitely.

Nevertheless, the concept of expectancy remains important to directional traders, despite being highly difficult to sustain, especially in the face of inexplicable market expression. The challenge of maintaining consistent positive expectancy, coupled with the uncertainty of predicting future price direction, is often considered a cause of traders losing their account completely, which happens more often than we'd like to believe. In vibratrading, we do not need to predict price action at all; it can only add to the effectiveness of the methodology.

Even gamblers can be profitable over the very short term. Though the application of money management plays a pivotal role in the final determination of trading expectancy, the actual task of producing net profits is still formidable, if not near impossible, for most retail traders and average investors. Profitability under the vibratrading methodology does not depend on the win-loss ratio—since every trade only closes in profit there is no win-loss ratio. Therefore, vibratrading, be it bounded or otherwise, totally circumvents the sheer difficulty of maintaining a consistent positive expectancy in the long term. The concept of winning percentage and reward to risk ratio is not applicable.

Predictive vs. Reactive Approaches to Risk in Trading

Another issue that plagues traders is the use of price prediction as part of a trading strategy. It is universally

accepted that price and market action are random or at best, semi-random in nature. You cannot access all relevant trade information instantaneously to assess the actual forces of supply and demand. Even if you could, you would still require information as to the possible future actions of all market participants in order to anticipate the supply and demand at approaching price levels. You would also need to be able to anticipate unexpected market “shocks,” or catalyzing events, including the range of possible reactions of all participants. Not only do you need to know of any possible current or future events, you also need to consider the tenuous intermarket interactions that may affect your trades or investments. As you can see, maintaining a reasonable and consistent winning percentage while maximizing the reward to risk ratio is going to be a never-ending challenge to the directional, predictive trader.

The reactive trader faces similar challenges, the difference being the reactive trader only initiates a trade entry after price has confirmed a breakout, pullback (a rising of price from its bottom), or throwback (a falling of price from its peak). For example, a reactive trader would enter a pullback from a support level via a buy stop entry order, after price has confirmed the pullback, whereas the predictive trader would enter at the same support via a buy limit entry order, before any proof of a pullback is evident. Reactive traders may also try to predict future price direction, but they will only initiate a position once price has confirmed a favorable move that was predicted by the analysis. Therefore the reactive trader is consistently late in initiating entries, whereas the predictive trader enters a position in anticipation of its outcome. In terms of risk profiling, the predictive trader may be “aggressive in time” but “conservative in price,”

whereas the reactive trader is “aggressive in price” but “conservative in time.” This is the dualistic nature of trader risk profiling. “Aggressive in time” means to initiate a position before price confirms a favorable or desired move, whereas “conservative in time” means to initiate a position after that has occurred. Someone who is aggressive in price will initiate a position at a less favorable price level; conservatives in price initiate a position at the most advantageous price level.

As mentioned, the concept of risk and reward is not at all applicable to vibratrading. The basic idea of return on investment (ROI) applies, but the returns are also defined over time, in addition to a fixed initial invested value.

Also, the relationship of time and risk in vibratrading totally contrasts with traditional directional trading. Generally, the more time you spend in the markets, the lower your chances of achieving consistent profitability. But in vibratrading, the more time spent in the market, the less the risk. This is because the investment's cost basis is constantly being reduced via vibrational returns. Therefore it is advantageous to remain in the market as long as possible, preferably indefinitely.

Trader Inactivity and Volatile Price Activity

In most directional trading approaches, a system will suffer losses in the form of slippage when a trade entry or exit is executed at a price that is different from the expected price. These losses only occur with stop orders. Orders being filled at an unexpected price above a buy stop will result in additional losses, called negative slippage. Negative slippage results in reduced profits for those entering long positions and affects sell stop orders.