

Enjoy your preview of...

*Mike Bellafiore · Austin Mitchum · Bryce Edwards*

# GROW OR DIE

 CHAT WITH TRADERS  LIVE

# **RIGID BELIEFS**

## Rigid Beliefs

### AARON

I'd be interested to know if there are any rigid beliefs that you held before being exposed to new ideas and concepts from each other?

### AUSTIN

I uphold a few beliefs today. Those beliefs can be proven wrong, but they give me a framework to operate within. For me, that's quite important, that's simply the start. As a big part of my trading is buying the strongest stocks and selling the weakest stocks, I was with Mike yesterday and he asked, "How are you going to trade this?" I said, "When it gets to the high I'm going to buy more." And he responded, "What happens if it pulls back?" I said, "I'm going to wait for it to go back up and then I'll buy more." Mike then said, "But you're always buying on the new high?" My response was, "Well, that's just what I feel comfortable with..."

That is a belief I have based on watching the screen and seeing how strong stocks move. It's how I feel comfortable. Perhaps, I need to be able to understand that's not necessarily the 'right way' to trade, but it's what gives me a framework to operate within. You do have to be flexible, you do have to know when you're wrong, but I believe there are certain frameworks or guiding forces that need to hold firm to your particular style. Another thing I simply don't do and that is to buy dumps—I don't like capitulation trades.

Mike has CC'd me on emails with a very successful U.S. equities trader, and that is one of his primary strategies. Mike's intentions of doing this was to make me understand that there's another way out there, that there's someone who's doing it very

successfully. So, I've used that information and tailored it to what I do; if I'm short and a stock's capitulating, I'm using that to cover a lot better. But I still hold the belief that I don't want to be the guy fighting flow—I don't want to be the guy picking bottoms. It's not necessarily right, but it's something that works for me.

One thing I will also add, is that you've got to be able to adapt. I just spoke about holding firm beliefs, but you've got to be able to adapt too—you've got to be able to understand when you're wrong, and that's when these beliefs can go out the window. You've got to adapt to the patterns that you're seeing, especially when things aren't working.

#### **AARON**

**I'm glad you brought up this example of buying capitulations...**

#### **AUSTIN**

It's just a very hard trade. I think most people haven't built enough experience to make that trade. Inherently what happens is the stock dumps and when it does start to bounce, people get out straight away. So you're risking a lot to make a very small gain—plus, they're very uncomfortable trades. Some people are good at it, and that's fine, but when you're starting out—and Mike will say this forever—you want to do one or two things well. I'm telling you, fading and buying capitulations, in my opinion, is the hardest thing there is. So, do one or two simple things well, and then earn the right to try a new play or learn a new skill. Stick to the simple things first, and do the simple things well.

#### **BRYCE**

As far as rigid beliefs, I've always been fairly flexible. Though when I was starting out, one of the first thoughts that I needed to let go of was this idea of building conviction. When I first started

I was trying to find my style and I would build conviction every time I went to place a trade. But because I'm only winning half of the time, inevitably when I would take a loss, I found it really difficult. So the less conviction that I had before I entered a trade, I found it much easier.

But I've always been quite flexible, and I'm comfortable going big without having a lot of conviction, because I'll just turn around and cut the trade. Really, I'm not rigid in my beliefs at all.



## MIKE

I don't know why a lot of people get convicted about certain things, particularly when they're starting out. I mean, what the hell do they know? I'll say it more eloquently...

There are two different types of edge:

1. There's an edge where you can predict a market move is about to happen. Which generally means, you have a news edge.
2. And there are other people who observe what's going on in the market and they derive an observational edge.

Let's take the people that have a news edge and can predict what's going on. These people can call up brokers, analysts, companies and talk to them about their views. Can you do that as a developing retail trader? No, you can't.

An edge is not, "I read an article on Bloomberg.com and I decided that a particular company is going to do well." That is not a news edge. That is an opinion. That's a thesis. You don't build a career off of that, you end a career off of that. It's not an edge. So, if you don't have a news edge, become good with an observational edge—which is how our firm trades, we don't have a news edge. It's fine to develop a thesis by reading an article on Bloomberg.com, but then look for a setup in your playbook that makes sense to you. Get in at a good price, set good risk-reward trades. And see it—we talk about this a lot—see the confirmation on the tape, after you've learned tape reading skills.

That can then become one good trade, that can then become a profitable trade. That's something you can turn into edge as an observation trader. In fact, most active short-term traders are observation traders.

# TRADE EXAMPLES

## Trade Examples

### AARON

I'd like to step through some specific trade examples. As you hinted at Afterpay (APT.ASX) earlier, lets start there...

Particularly because Afterpay has very much been in-play these past couple of days, for various reasons; on Friday (18th Jan 2019) it released a Business Developments update and then today (22nd Jan 2019) was the beginning of a senate inquiry into 'buy now, pay later' financial providers. Are you able to talk about how you've been trading this one?

### AUSTIN

I would like to talk about Afterpay, but more about a trade back in November (2018) when these news events started hitting the tape...

### BRYCE

This is an example of what I was referring to earlier about a breaking news trade. On this particular news event, there was a senate inquiry announced into 'buy now, pay later' financial providers. It must have been around 2:00pm, and I don't know where Austin got the news from (possibly a broker), but the news came through a channel outside of the ASX news platform. So, huge amounts of volume get done on the tape, the stock spikes, and it's really, really illiquid.

These are the types of trades where, if you know there's flow coming and you're the first person with the news and there's no halt, people are going to pile in behind you. Austin managed to get his hands on the information pretty quickly...





*Afterpay Touch Group Ltd (APT.ASX) - 16th Nov 2018 - 15-min - Source: TradingView*

## AUSTIN

The ACCC (Australian Competition and Consumer Commission) had sent their recommendations to the senate, and basically, it was worded in a way that seemed as though they were okay with how the business operated. Very simply, this meant that the thesis for short sellers was slowly falling apart on this one headline.

## BRYCE

And there was a good short base on this stock. So, any time there's a big short base and there's an opposing thesis on a stock, the built up shorts are getting squeezed. Afterpay is also a high beta stock, and this was a news catalyst for traders to get in front of [...]

To read the full-length guide, please go to:

[\*\*chatwithtraders.com/transcript\*\*](https://chatwithtraders.com/transcript)

*Mike Bellafiore · Austin Mitchum · Bryce Edwards*

# GROW OR DIE

 CHAT WITH TRADERS  LIVE