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Toggle AI

How Do You Time A Trade Entry?

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TOGGLE

TURN ON INSIGHTS. TURN OFF NOISE.

HOW TO TIME A TRADE ENTRY

IB Webinar – March 9, 2023

tog•gle

/ˈtägel/

verb

1. COMPUTING

switch from one effect, feature, or state to another by using a toggle.
"the play/pause button toggles between those functions"



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Decision making in the battlefield



In a daily barrage of new “information” portfolio managers are often forced to make a large number of fast decisions with incomplete knowledge.

- "Big sell-off in the largest portfolio holding: is it temporary? Do we hold? Add?"
- "The government just announcement a new fiscal package: is that good for our allocations? They are rallying!"
- "Yield curve has inverted, signaling a recession. But my economist says activity is picking up. If they're wrong, what is my downside risk?"

Key considerations in timing your entry



- What's your time horizon? Knowing how long you'll be in the trade can help you better decide your entry and exit points. The longer your time horizon, the more flexible you can be.
- How much risk can you afford to take on a particular trade? Make sure you're comfortable with the size of the trade based on your overall portfolio value.
- Does this trade align with your strategy? Don't feel like you need to jump into a trade if it doesn't fit your trading strategy—keep looking for the right opportunity.

Use a range of indicators



You have to determine which ones may work for you. Here are a few examples:

- Are there any upcoming events that could cause the stock to move in one direction or another? (Earnings announcements, Product launches etc.)
- What are analysts saying?
- Are there macro events coming up that could impact the entire market (Fed meeting, government policy announcements ...)
- Are there technical indicators that indicate bearish or bullish sentiment?

Technical indicators are based on market price and trading volume.

1. **On-Balance Volume (OBV)** is used to measure the positive and negative flow of volume in a security over time. When OBV is rising, it shows that buyers are willing to step in and push the price higher. When OBV is falling, the selling volume is outpacing buying volume, which indicates lower prices. In this way, it acts like a trend confirmation tool.
2. **The Moving Average Convergence Divergence (MACD)** indicator helps traders see the trend direction, as well as the momentum of that trend. When the MACD is above zero, the price is in an upward phase. If the MACD is below zero, it has entered a bearish period.
3. **The relative strength index (RSI)** is a momentum indicator used in technical analysis that measures the magnitude of recent price changes to evaluate overbought or oversold conditions in the price of a stock or other asset. The RSI can have a reading from 0 to 100.

Fundamental indicators – Alpha vs. Beta timing



It's important to distinguish between timing the market (Beta) and asset (Alpha)

Alpha timing

1. **Valuation** is used primarily as a way to think about the overall potential return but – when really stretched – it can also serve as a timing indicator, offering a brief window to enter at a better price
2. **Equity Risk premium** is the extra return stock investors are demanding to take on the inherently higher risk of owning a stock rather than a risk-free government bond. Extreme deviations in this value can also serve as a good indicator of opportune entry and exit

Beta timing

1. **Macro indicators** et. Yield curve, Fed meetings, business cycle indicators are all useful aids in timing the right moment from a Beta (market systemic risk) rather than Alpha perspective

The issue with trade entry timing



While extremely popular with both experienced and novice investors, trade entry timing requires substantial commitment of time and resources:

- Testing each indicator to see whether it works for the asset you are considering is time consuming and requires access to a long time series of data
- Following several indicators across a range of assets can be impractical for most individual investors

AI = Augmented Intelligence



Human intelligence is very good at strategy (the “big picture”) but AI can be helpful with the tactics (the “details”) and the numbers.

AI can crunch the numbers instantly and alert the investor to developing patterns. More than that, it’s able to provide the full analysis of how impactful a particular driver has been historically (does the “Death Cross” really work for this stock?), giving the investor dramatically improved confidence to act.

Pro-active alerts are essential

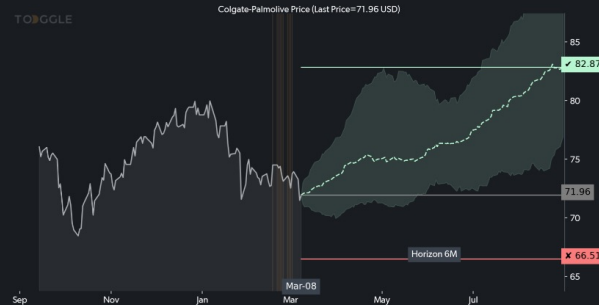


TOGGLE will highlight a particular PAST pattern ...

CL:NYSE - Strong consensus that Colgate-Palmolive's fundamentals are deteriorating, in the past this led to a increase in price

by Toggle A.I. 16 h ago

Analyst Revisions indicators for Colgate-Palmolive <CL:NYSE> are deteriorating. Historically, this led to a median increase in Colgate-Palmolive price of 15.16% over the following 6M, as shown in the chart below. TOGGLE analyzed 13 similar occasions in the past to produce the median projection and the confidence band below (How do you do this?), most recently on 2023-02-17. This insight received 7 out of 8 stars (What are stars?) in our quality assessment.



The chart above shows the expected path (dotted line) based on performance during similar episodes in the past (How do you do this?). The shaded area represents a confidence band (What is a confidence band?) and the actual price typically stays within those boundaries. The horizontal green line indicates the level the asset is expected to reach. The horizontal red line is exactly 50% of the level of the green line, in the opposite direction. Professional traders often set a price level they expect to reach, and use 50% of that level in the opposite direction as a way to start thinking about a possible stop-loss level (What is a stop-loss?). For Toggle insights, the red line signifies the point where price action has deviated too far from the expected path and the insight is considered invalidated.

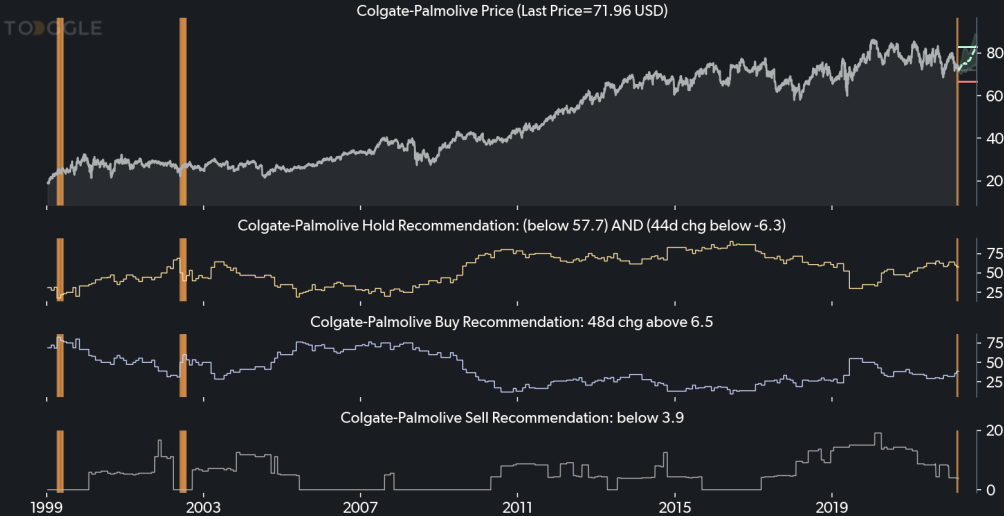
Source: Toggle

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Pro-active alerts are essential



... and test it



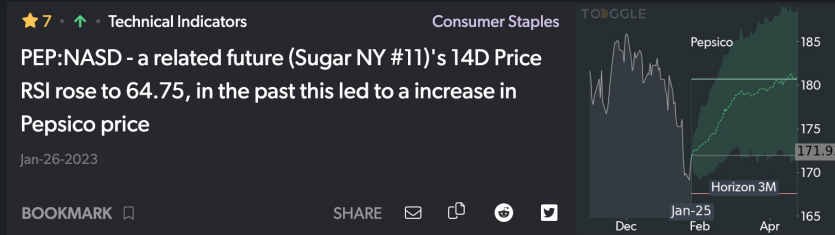
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Monitor ... everything



It will keep an eye on developments across a range of Technical and Fundamental (macro and micro) indicators, over 40,000 assets ...



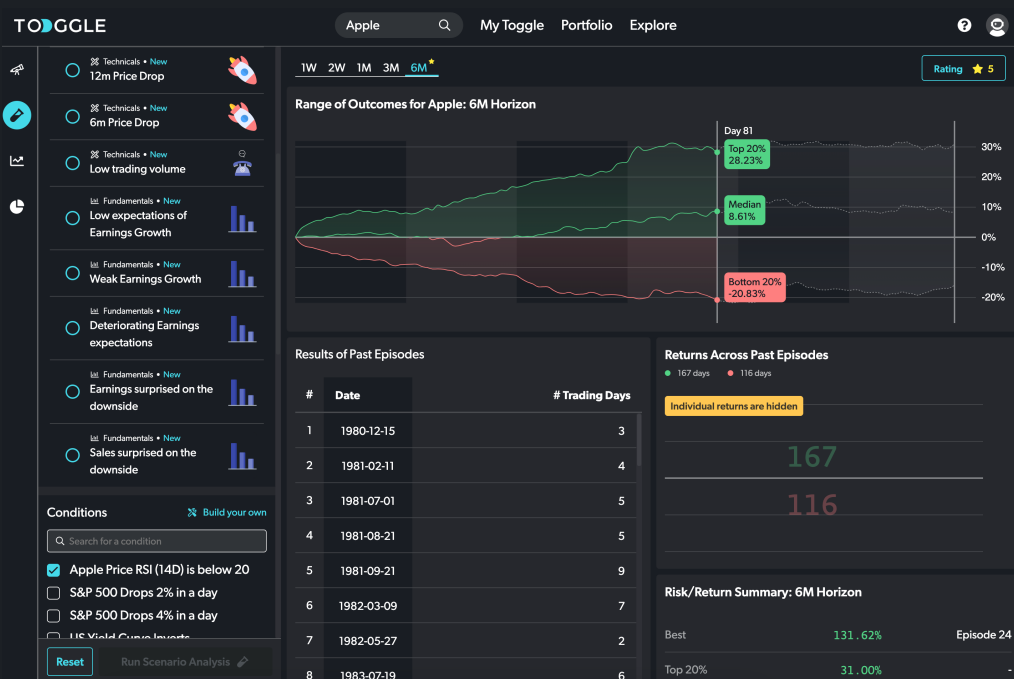
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Analytical tools to test your entry



Is the selloff deep enough to get back in? Is the valuation attractive? Test, test, test



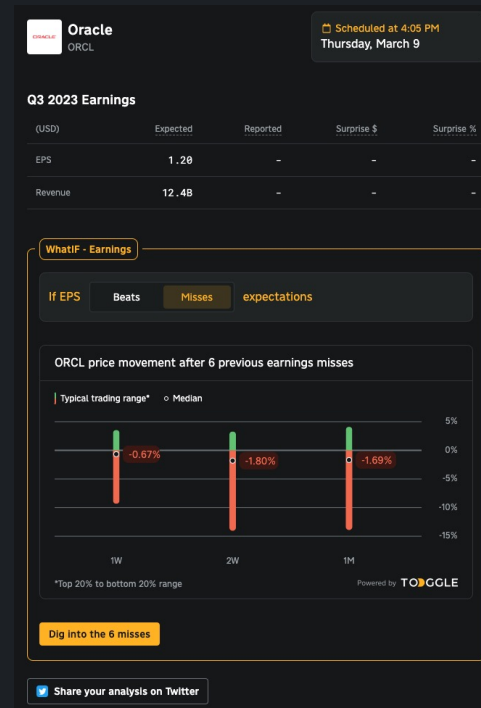
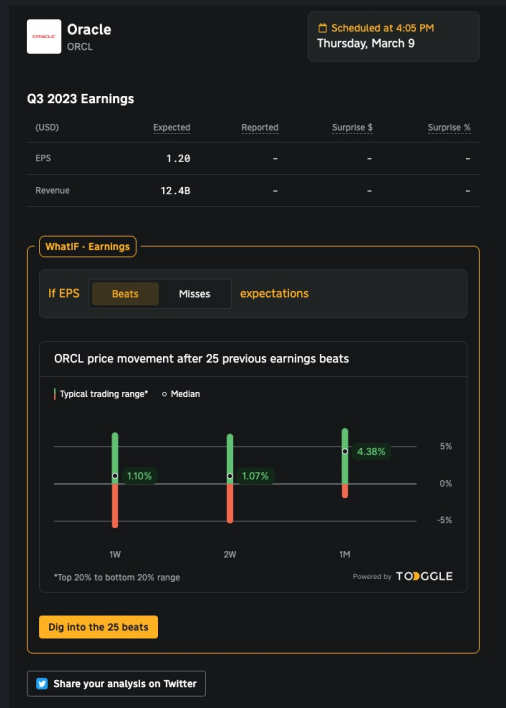
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Analytical tools to test your entry



How will the share price respond to earnings surprises?



Source: Toggle

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