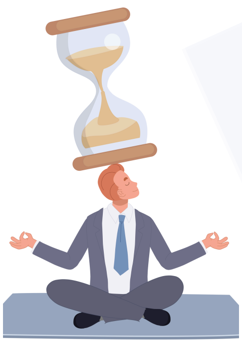
Managing Drawdowns and Mindset in a Dull Market Environment

Drawdowns are an inevitable part of trading, much like the flow of tides, except tides at least have the decency to be predictable. They test not only our strategies but also our emotional stability. Over the last 1.5 years, many equity swing and positional traders have experienced a period of good returns, riding the wave of a strong bull market. However, the last three months have been a reality check, the kind where traders feel like they've been betrayed by their beloved stocks, strategies or favorite chart patterns.

A drawdown can feel discouraging, especially when it occurs after a period of significant gains. It's easy to feel frustrated. Neophytes might be even disillusioned. However, this is where mental resilience and disciplined strategy play a crucial role. Here are some points to help manage a drawdown:

Patience wins. Random actions ~ random results:

In 1987, the final exam for German police service dogs was to remain calm in front of a cat. Similarly, the test here in the markets is to remain calm and composed and refraining yourself from forcing trades just because you want to cover your recent loss. Firstly, you are forcing a trade, secondly, you are not in the right mental state to handle the moves after pressing the buy button, this leads to over trading and faulty decision making. This only compounds your losses.



Avoid the urge to chase quick profits or make rash decisions. While driving, you speed up when the environment is good and not when you feel like, this also applies to trading.

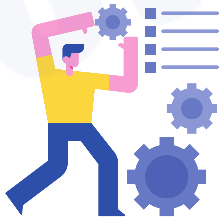
You didn't consider a short break, did you?

You trade day in and out in the markets, especially after a series of losses, because your mind asks you to cover it up. This usually happens after a strong bull swing in the near past. The problem here is you do not know when to stop. Prop traders at the largest of the firms excel not just because they have world-class trading-infra and experience, but also because they have a rigid risk management to follow, or in other words they are told when to stop by their bosses. This helps them win over their over-trading mindset. **Take a break, the market was here before you and the market will be here after you're gone**. You will come back with a composed mind and not take revenge trading bets.

> ***The consistency you seek is in your mind, not in the markets.***
> **- Mark Douglas**

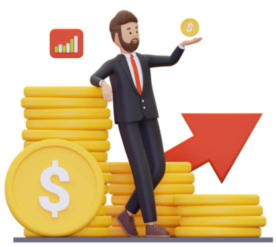
Acceptance:

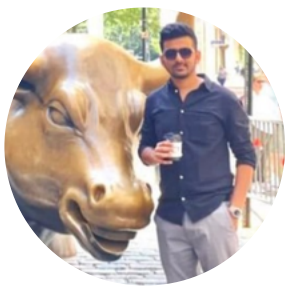
Market is very random. We trade ups and downs every day but we get nervous or annoyed when our profit curve shows those swings. **Market is very random to expect an exponential profit curve every month or every year.** C'mon you know it, don't lie to yourself. Things which worked out for you yesterday might not work for you today. You will save yourself from T2 diabetes and high BP when you start accepting losses and drawdowns instead of losing sleep over it. I know, writing is easy but suffering from it is not and I agree to that. But remember every time, every loss of yours was recovered when you just followed what you always used to (be it chart pattern, trading model, etc.) so why to stress out this time as well? Moving on is the key. A market that was once smooth and predictable can change course quickly.



If volatility is the new norm, **adjust your strategy** accordingly. This could mean reducing position sizes, using tighter stop-loss orders, or shifting your focus to different sectors or stocks that are performing better in the current environment and if nothing, have faith in your work and wait for the correct environment.

You are in this business for the long term, don't let a few days or weeks of drawdown ruin your confidence. Fear breeds losses so have faith in your models. There's no successful trader who didn't believe in his work even during a dull phase. Remember until you follow the process with your own set of rules with discipline, you will recover your drawdown and go way beyond that.





*This article is written by **Naivedh Shah**, an engineering graduate and a full-time trader with roots in the steel business. He navigates the markets using a techno-funda approach, focusing on contractions and thematic plays.*

*Follow him on X : **@naivedhhhh***