



## Conviction

### Why is Conviction important in trading?

It can make a world of difference. Let's start with an example, let's say we see an aggressive option buyer in ABC stock in XYZ sector. If you decide this trade is appealing to you – how much size are you going to take, what is your holding period, what is your stop price, are you going to stick with this trade through thick and thin? These are things to think about before trade entry that will give you a **level of Conviction in your trade**. Other factors to think about are, “do you really like this company and do you like this sector?”

Your level of Conviction may help you determine all the questions above and may help in whether the trade ends up being a winner or loser.

Why? Let's go back to our example above

ABC stock in XYZ sector saw aggressive call buying

Let's say you did not determine your level of Conviction going into the trade entry. What will happen if ABC doesn't move in the first days of the trade or even worse, if the stocks dips. What are you likely to do or at the very least what could happen? Odds are you may give up on the trade and sell because you did not determine your level of Conviction and realized that it was pretty low after the fact. So, let's try to solve this issue by first examining the difference in Conviction levels that I use:

#### High Conviction:

- It is a stock and sector that I want to be in (I have conducted my own research)
- The stock is setting up technically (for simplistic reasons, let's say there is support near)
- Option call buying / institutional support

#### Low Conviction:

- Less favorable sector (meaning a sector that you are borderline on, do not have strong feelings)
- Technicals are neutral
- Option call buying / institutional support

For me, absent a name breaking down technically, this will determine how long I may stay in a trade. **Trade size is important. Do you want to take the same trade size in a Low vs High Conviction setup?** This is where in my opinion, sizing a Low Conviction vs High Conviction trade & determining this on trade entry can help with profitability. Now, your trading process still has to be disciplined and follow a process but if **your size is too large in a Low Conviction name you may get shaken out of a profitable trade or worse sell on the low because you realize you don't have any Conviction to stay in a trade where you have too much skin in the game**. However, if you size a **Low Conviction trade appropriately, there will be less of a probability in my opinion of selling at wrog time**.

So, why not only take High Conviction trades? One can make a case for this, but there may be many reasons that you may want to take a Low Conviction trade. It may be for diversification, it may be a event driven trade, or it may be trade that you saw huge call activity / institutional that you want to participate in. **The bottom line for me is to determine the Conviction Level prior to trade entry may give you the patience & confidence to stay with a trade and not sell at an opportune times**.

Copyright © Tribeca Trade Group. All of the information in this newsletter is for entertainment and educational purposes only and is not to be construed as investment or trading advice. None of the information in this newsletter is guaranteed to be accurate, complete, useful or timely.

**IMPORTANT NOTICES AND DISCLAIMERS** TriBeCa Trade Group is not an investment advisor and is not registered with the U.S. Securities and Exchange Commission or the Financial Industry Regulatory Authority. Further, owners, employees, agents or representatives of TriBeCa Trade Group are not acting as investment advisors and might not be registered with the U.S. Securities and Exchange Commission or the Financial Industry Regulatory Authority. All persons and entities (including their representatives, agents, and affiliates) contributing to the content on this website are not providing investment or legal advice. Nor are they making recommendations with respect to the advisability of investing in, purchasing or selling securities, nor are they rendering any advice on the basis of the specific investment situation of any particular person or entity. All information in this newsletter is strictly informational and is not to be construed as advocating, promoting or advertising registered or unregistered investments of any kind whatsoever. The information provided on this website is provided "as-is" and is not guaranteed to be correct, complete, or current. The sole purpose of this newsletter (including, but not limited to, the contents of this website and any oral or written presentation made in any way referring to or relating to this website) is to provide information which could possibly be used by a person or entity in discussions with his/her/its investment advisors and/or investment decision makers and does not function as a substitute for the advice of an investment advisor. You should consult with your own trusted financial professionals before making any investment or trading decisions. TriBeCa Trade Group is not responsible for the accuracy of any information on this website or for reviewing the contents of the listings that are provided by the listees or any linked websites, and TriBeCa Trade Group is not responsible for any material or information contained in the linked websites or provided by listees. TriBeCa Trade Group makes no warranty, express or implied, about the accuracy or reliability of the information on this website or on any other website to which this website is linked. Your use of this website is at your own risk. In addition, if you use any links to other websites, you do so at your own risk and understand that such linked website is independent from TriBeCa Trade Group. TriBeCa Trade Group does not endorse such linked websites and is not responsible for the contents or availability of such linked websites. These links are provided only as a convenience to you. TriBeCa Trade Group is not responsible for any loss, injury, claim, liability, or damage related to your use of this website or any website linked to this website, whether from errors or omissions in the content of our website or any other linked websites (e.g., injury resulting from the website being down or from any other use of the website). Any information that you send to us in an e-mail message is not confidential or privileged, and TriBeCa Trade Group may use any information legally provided to us for any legal purpose. Owners, employees, agents or representatives of TriBeCa Trade Group may have interests or positions in securities of the company profiled herein. Specifically, such individuals or entities may buy or sell positions, and may or may not follow the information provided in this newsletter. Some or all of the positions may have been acquired prior to the publication of such information on the website, and such positions may increase or decrease at any time. Any opinions expressed and/or information on this website are statements of judgment as of the date of publication /or/ circulation on the website, and such opinions and/or information are subject to change without further notice. Any such change may not necessarily be made available immediately on this website or elsewhere. None of the materials or advertisements herein constitute offers or solicitations to purchase or sell securities of the company profiled herein. Day trading, short term trading, options trading, and futures trading are extremely risky undertakings. They generally are not appropriate for someone with limited capital, little or no trading experience, and/ or a low tolerance for risk. Never execute a trade unless you can afford to and are prepared to lose your entire investment. All trading operations involve serious risks, and you can lose your entire investment. In addition, certain trades may result in a loss greater than your entire investment. Always perform your own due diligence and, as appropriate, make informed decisions with the help of a licensed financial professional. TriBeCa Trade Group makes no warranties or guarantees as to our accuracy, the profitability of any trades which are discussed, or any other guarantees or warranties of any kind. You should make your own independent investigation and evaluation of any possible investment or investment advice being considered. Commissions, fees and other costs associated with investing or trading may vary from broker to broker. You should speak with your broker about these costs. Be aware that certain trades that may be profitable for some may not be profitable for you, after taking into account these costs. You should also be aware that, in certain markets, you may not always be able to buy or sell a position at the price I discuss. Thus, you may not be able to take advantage of certain trades discussed herein.