

# Pursuit of Truth

Life's pattern is repetitive and inevitable, as Albert Camus commented on Franz Kafka: *“He managed to represent fully the everyday passage from hope to grief and from desperate wisdom to intentional blindness”* (Appendix: Hope and the Absurd in the Work of Franz Kafka *The Myth of Sisyphus* by Albert Camus, Second Vintage International Edition, November 2018). As such, living is probably much easier if one intentionally lets oneself to be carried by the current of time without thinking about it. However, it is both impossible and coward to always look away from the nature of things. In the arena of stock trading, one needs to pursue truth proactively and calmly.

## Pursuit of Truth Without

With the development of information technology, the most popular phrase used in the modern business is information-based decision making. However, the truth is, given sufficient data from various aspects, it is still extremely difficult to choose a direction and make a decision. This can be illustrated using an example of trading stock CVNA (ticker of Carvana Co. Class A).

CVNA stock has been incredibly volatile as indicated by the stock price chart below:



(Source: CVNA stock price chart as of March 15, 2019 from Yahoo)

Key risk factors affecting the trading of CVNA are collected and briefed as follows:

Select Risk Factors	Current State	Immediate Trading Effect
Macro Factors:		

Select Risk Factors	Current State	Immediate Trading Effect
Fed Policy	This could be the biggest factor affecting the stock market. Fed's stance has been erratic, changing from hawkish to dovish to ambiguous within days. Fed may not only change its assessment of economic status but also its aim to defeat inflation. Therefore, it'll be hard to foresee how many interest rate hikes will be placed in 2019, if any at all.	Uncertain
US-China Trade Talk	The trade talk has been dragged on with planned deadlines postponed. Although both sides are eager to make a deal, the degree of concession either side would make is hard to define. Additionally, this is as much a personality wrestling as an economic negotiation. The President Trump does not know what China is capable of, and China cannot predict Trump's move.	Uncertain  Investor's expectation for the result is zigzagged between hope and doubt.
Economic Conditions	Regardless the pressure every consumer perceives, job reports and inflation reports tried to assure us that economy was in a good shape; then almost suddenly the consensus was that we were in the last cycle before recession and economic growth could be very slow; lately Fed came out to say the economy in the States was strong in spite of the grimness in other economies.	Uncertain  Positive economic consensus are not sufficient guarantee preventing the stock market decline, as evidenced in 2008.
<b>Idiosyncratic Factors:</b>		
Financing Structure	CVNA is highly levered with increasing level of debt exceeding its net worth. Although this is not uncommon for a company with a very high growth rate, there is uncertainty about sustainability of its current operations if liquidity dries up in unexpected downturns. Therefore high debt load demands proper asset liability management with high operational efficiency.	Uncertain
Growth Outlook	CVNA has become a leader in providing e-commerce platform to buy used cars with high growth rate. However, its market share is still relatively small, and it remains questionable whether its business growth rate can maintain above 100% in the next couple of years with competition from other car dealers, and when it can generate better earnings.	Uncertain

Select Risk Factors	Current State	Immediate Trading Effect
Investor Sentiment	Short interest in CVNA has been very high with the ratio of Short Volume to Total Volume being as high as over 50% historically. This ratio was reduced to 12% in early March. As short sellers tend to maintain their negative propensity, their trades would press down the stock price if they possess abundant funds to borrow covering stocks; on the other hand, some positive events/news may result in short squeeze which drives up the price fast and dramatically, and that is what is happening right now.	Uncertain

Well, assuming the above illustrative data are sufficient, would you buy or sell or hold the stock at the moment? It seems all the information is relevant and true, yet nothing is confirmed, and as a result you cannot make an information-confirmed decision.

Does any truth lie in the news, reports, analytics and any other information sources? Yes, there are elements of truth everywhere, but one needs to filter out false information, connect the dots, make own study and analysis independently to identify an underlying logic, which is the truth specific to oneself. In other words, such truth is not universal but a result of one's own belief, philosophy, analysis and judgment. Put it differently, pursuit of truth without is integrated with pursuit of truth within.

### Pursuit of Truth Within

In stock trading a trader cannot lie to himself. His trading records are perfect reflection of his characteristics. If a trader is reckless, he may gamble by taking on a dropping knife via building heavy exposure on one stock when the stock price is precipitating; if he is impatient, he may accept a loss by tossing off his position prematurely; If he is overly discreet, he may not be able to establish enough holdings to take advantage of a super buying opportunity; if he is lack of courage, he may hold onto a declining position for too long without having the determination to stop loss, and so on and so forth.

Stock trading tells much more than a trader's personality traits, it also tells about his preference of life style. Being a great day trader, like being a great scientist or doctor or any professional who focuses on research and study, requires one to immerse in a universe that is tremendously different from the outside world. This universe could be more exciting, more interesting, more rewarding, but at the same time more dangerous, more lonely, more frustrating and even desperate. To some people, it could be as the Palatine of Posen said: "I prefer liberty with danger to peace with slavery". Therefore, it is really about what kind of life he wants to live.

In addition, trading tells a trader's philosophy. For example, if a trader follows Taiji philosophy, he would believe in a coherent and incessant flow between yin (dark, negative, passive) and yang (bright, positive, active), and develop a strategy of trading on trend: whether to trade passively or actively will depend on the strength of upward or downward market force he perceives. If a trade is a believer in stoicism, he would have great discipline and controls on his actions, he might meditate every night on the day just as how Marcus Aurelius wrote his

*Meditations*, and rationalize every move. It may not be apparent, but a trader's trading strategy does reveal how this person views and deals with the relationship between him and the outside world. A trader may have mixed or changing philosophy, but it is his philosophy that guides his consciousness, attention, focus, and eventually trading methods.

In summary, trading activity has idiosyncrasy. A trader got to learn the truth about himself, including all good and bad, strong and weak, glorious and dark aspects, for the purpose of reconciling his trade strategies and methods with his unique qualities.

Linking back to the previous section, this also explains why there are truths to individuals but no single truth exists. The reason lies in the fact that perception and interpretation of same data and weights assigned to same risk factors are different due to traders' different philosophy and traits.

### **Risks and Responsibilities**

Once the truth belonging to an individual is found, will one have the courage and determination to pursue the truth? For a trader, this means making corresponding response by implementing trades or staying away from the market in real time. Such a response may not have positive consequences, in fact, in some cases the trader may incur a serious losing streak. If this happens, the trader got to acknowledge that market conditions are against his truth, and he needs to make a decision whether to wait for his timing to come, or to adapt strategies based on identified changes.

No matter what, one is responsible for pursuing one's own truth and accepting its consequence. This is because: first, one doesn't have other choices but relying on oneself to make all kinds of decisions; second, a decision that is aligned with one's truth tends to pay off. Although it may not lead to a greater financial payoff than other people's, it is one that is at peace with this individual and therefore has other types of payoff such as feeling of freedom or lucid thinking of the world; lastly, this is part of one's living experience. Regardless how little meaning has, how dim hope is, living by pursuing truth serves life.