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Risk Management in a Crisis in the Financial Markets

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***Abstract*—This article is devoted to modern methods of risk management in a crisis in the financial markets. The global financial crisis of 2008 created new and aggravated existing risks in the economy: unexpected movements of the markets began to appear on a global scale. This makes it increasingly difficult for businesses and individuals to conserve their assets, plan production, and save households. In this regard, an approach to the study of markets in the field of technical analysis was chosen, which is impersonal look at the fundamental, including hidden market movements. The article deals with new approaches to the study of Finance and financial markets. New methods of comparison of fundamental events and their technical interpretation on price charts are presented. Measures to improve the efficiency of risk management of financial market participants are proposed. Is considered bidding analysis tool RTSI (RTS index future). An effective analysis is given using Fibonacci levels. The main risks in the financial markets in modern conditions and ways to reduce them are determined.**

***Keywords*—Financial crisis, Risk management, Trend, Lateral movement, Gap, Fibonacci levels.**

I. Introduction

At present, the situation on the financial markets remains difficult. Therefore, financial managers, brokers, other interested specialists have to look for new methods of increasing the efficiency of work with securities. At the same time, as is customary in practice, all methods can be conditionally divided into fundamental and technical ones. Fundamental methods of analysis study various factors that can affect quotes, as well as the degree of this influence. The key parameter is the choice of the factor and the methods for its analysis. Now we see that, as a separate category, fundamental analysis passes into a new phase of development: the facts themselves are not analyzed, but the experts' opinions about these facts. Part of this is justified - not always a specific market participant has direct access to information. This may be related to geographical remoteness, available skills, skills to collect and analyze information. And, thus, there are whole groups of participants in the financial market who are building their pseudo-fundamental analysis based on the opinions of so-called "experts". By " pseudo-fundamental " analysis we mean someone's opinion, used by a market participant as ***the main*** factor influencing the decision on the transaction . It should be noted, in part this is justified , since the media with their own materials can influence quotations: so, at the end of 2014 the mass media maintained panic about the growth of the RUR / USD exchange rate . Similarly, in the fall of 2016, the media produced many "authoritative" opinions about the victory in the election of Hillary Clinton and the absolute impossibility of the victory of Donald Trump. As we can see from these two examples, if a market participant relies entirely on someone else's opinion, he can get serious financial losses.

A trader always carries a risk. It is connected with the fact that any asset has a risk of price reduction. Even the trader does nothing, that is, all assets are in cash, there is always a risk of a drop in their price. In the Russian conditions this is even more significant, because we can recall the serious fluctuations of the RUR / USD exchange rate , as a result of which the dollar is tens of percent increased in price, ruble, fell, and in the economy there was a confusion, turning into a panic. Note that such fluctuations in the Russian market occur approximately once in 5-7 years. Therefore, the trader should have in the arsenal of current, adaptive methods to identify risky situations, stable trends in the markets, predict their beginning and end. If the situation with the market often looks confusing, then it is still, in our opinion, much more favorable to the market participants than lateral movement and, especially, gaps . Thus, in order to correctly choose a risk strategy, the trader needs to be able to determine the current situation with quotations on the market (trend, outset, gap). The trend is characterized by a relatively long (10 time-frames and more) period of growth or price reduction (see Fig. 1) [1].

Fig. 1. Index RTSI , time frame "day". Growing trend.

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Lateral movement manifests itself at a slightly variable price (within 1-2%) for a long time (see Fig. 2) [1]. As we see, lateral movement on this graph has a rather long duration.

Fig. 2. Index RTSI , time frame "day". Lateral movement.

The easiest for risk management market conditions is the trend: the trader sees a stable price change and has a certain confidence that it will continue. The risk consists in sudden change of a trend, as a result of which the open position can be unprofitable. It should be noted that the stable trends in a time of crisis and SMOs five missing. Even the collapse of quotations can occur with rebounds, or have a very fleeting nature. But all these falls quickly enough stop and the schedule passes in lateral movement. Lateral movement, despite all its "weakness", seeming passivity, carries a much greater danger of loss. Lateral movement can be erroneously received for stability. But to achieve stability in the economy is extremely difficult: it ***all*** the multitude of factors that affect the price should be fixed (the desire of buyers, sellers capabilities, technical conditions of production, the health of employees, even the weather conditions and the like). As a rule, this is unattainable, and these factors change in the process of vital activity, which is why the take-off of quotations occurs, then their fall. Lateral movement is a kind of expectation of uncertainty by many market participants. Various non-market assistance can also contribute to this, for example, from the state. If we regularly hear, for example, about the help of the state to some bank, and its quotes are in the outset, then, most likely, without this help they would already fall quite significantly. Therefore, the outset requires the trader not only technical analysis, but also the search for explicit fundamental factors that support it. We recommend that you stay out of position during lateral movements. Technical analysis can help a trader avoid risky, rash transactions. So, by studying figure 1, a trader can close a long position when the quotes break through the support line. At the end of the growing trend, the quotations go into lateral movement (see Fig. 2). According to our recommendations, the trader refrains from deals (this is psychologically difficult, since the lateral movement lasts about 6 months), and in the breakdown of the resistance line, it can open a long position.

And the longer the lateral movement lasts, the stronger will be the upcoming trend. In this case, there is a danger of accepting a local puncture at the beginning of the trend at the price of the line of the corridor of the outset. To avoid this, you need to make sure of a long and strong price movement when you exit it from the corridor. Fundamental factors in the Russian conditions are another characteristic trait: perhaps the news that a trader just got ***possibly*** already are someone famous. There are examples when the use of insider information in a number of countries, including the US, can there is a serious criminal responsibility. In Russian reality, such examples are still little known, while the temptation for insiders is extremely high and, in our opinion, given the volatility of the market, insiders in Russia can get a much larger income than anywhere else . Therefore, in order to reduce the level of risk , including the impact on the insiders' market, we recommend using technical analysis on a priority basis fundamental.

One of the most unpleasant phenomena for a trader on the market is the crisis phenomena in the form of a protracted lateral movement with periodically appearing gaps. Under **a gap** in the technical analysis the situation is understood to be a significant difference between the closing price of the previous timeframe and the price of opening the next one (see Fig. 3) [1].

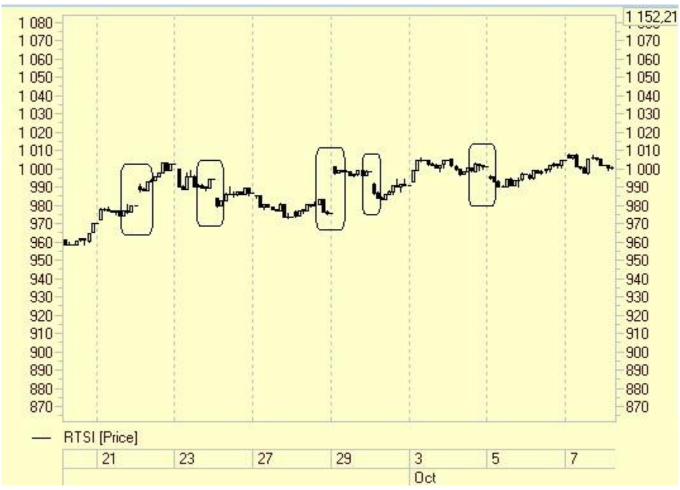

Fig. 3. Gap on the graph and index RTSI , time frame "60 min.".

At the same time, it should be borne in mind that the gap is a gap in the chart of a highly liquid instrument (shares of Sberbank, Gazprom, etc.). In the market of low-liquid instruments, gaps may arise for other reasons: for example, the lack of buyers at the required price may force the seller to set the price significantly lower than previous transactions. Presented in Figure 3 gaps often arise between a closed "yesterday" and an open "new" trading session. Less often gaps occur during one trading day (for example, in the FORTS section after a clearing session) . The main characteristic of gaps is their unpredictability. They, as a rule, appear due to fundamental changes in external factors: news and significant changes in foreign markets at the previous session. News can cause a gap if they are:

- unknown in advance. If there is a gradual leakage of news (about buying large blocks of shares, ongoing negotiations, etc.) into the external environment, then the liquid instruments market will not allow a gap to appear. Only sudden news can cause a gap: for example, the results of the meeting of the US

Federal Reserve, the opening of the trading session in Russia, taking into account the rapidly unfolding trends in the US markets (there the trading session ends later than in Russia, so its result is not known in advance);

- have a global character: for example, the decision to merge companies, the arrest of company executives, etc. Minor, local news does not exert strong pressure on the price.

The impact of gaps on the results of trading in securities can be:

- positive: if we take the average value of the gap on average about 1-2%, then the income can grow by this value, if the gap coincides with the direction of the open position;

- negative: the gap went against the position (for example, a short position was opened, and the gap went up). In this case, the resulting loss, as a rule, for the given trading session can not be closed. After the gap, quotes go in the side range, i.e. with a volatility in the range of 0.5-1%, where the transactions are profitable if they are made with a large shoulder. But, in view of the lack of clarity in the direction of future trends, this is extremely risky. We see that the management of assets on a "gap" and "stable" market (without gaps) has a different degree of risk, and the problem of money management arises before market participants. Currently, participants who trade for speculative purposes, we recommend closing the positions each time at the end of the session. An exception can be considered the presence of a complex indicator of several indicators for the continuation of the trend - this reduces the risk of gap.

Also, the risk can be partially reduced if the open position has already brought a good income, and the trader is ready to sacrifice it in the case of a gap. It should be noted that one hundred p-orders do not save from losses. Moreover, if the stop is placed with the condition of closing the position "market price", then the position after the gap can often be closed at the worst price (at the end of the candle). If a market participant suffered losses as a result of a gap, then he it is recommended to refrain from fixing losses immediately after the opening of the current trading session. As a rule, the gap during the session is somewhat leveled, so you can either reduce the loss, or wait for the positive movement of the market towards an open position. At the same time, it is necessary to be extremely cautious in the waiting attitude. The gap can open the beginning of a new trend that goes against the direction of the open position, and the delay in fixing the loss will worsen more and more financial result of the trader. Summarizing, it should be noted that gaps are an integral part of the market. The frequency of their appearance indicates a surge of significant price instability in the global economy. Traders should take all possible measures in order not to receive a loss when they arise. If this happens - you need to remain calm, confident in your knowledge, experience and gently close the positions at the optimum prices in the market.

Separately, we want to focus on combining fundamental and technical analysis.

One of the most vivid examples of the erroneous result of fundamental analysis should be considered the predicted market reaction to the results of elections in the US on 08.11.2016. The election of D. Trump by some experts was associated with the almost inevitable fall of the market and the beginning of a global decline around the world. The Russian market on 11/11/2016 opened with a drop of about 1.5% (see Fig. 4) [1].

Fig. 4. The fall of the market and the index of RTSI at the opening on 09.11.2016, time frame "60 min.".

Almost immediately, the media reported on the negative development of the market, that traders should be set up to open short positions. However, during the day the market turned around and ended the day with growth of almost 2%.

In similar sitauts (before big events) we recommend the following:

- close the position at the end of the session;

- at the opening of the session, wait for a steady signal of technical analysis and only then open new positions. Technical analysis in this case acts as a battery of all known and unknown data to us, as a result of which the solution will be much more faithful than the opinion of analysts.

Let's show why technical analysis even in this completely unique situation could help traders.

We recommend that you always use one of the best tools - the "Fibonacci Levels" (see Fig. 5) [1].

Fig. 5. Fibonacci levels on the chart and the index R TSI , time frame "60 min. " .

In August-September, we built the Fibonacci levels on the chart and the index RTSI . Then, during the trade, their movement was taken into account (see Fig. 6) [1].

Fig. 6. Fibonacci levels on the chart and the R TSI index as of 09.11.2016 , time frame "60 min.".

As we can see from Fig. 6, even a serious event for the markets - the choice of the US president, is clearly described by technical analysis: the price chart fell exactly to a specific Fibonacci level (960 points), after which a rebound occurred. After the rebound, with the breakout of each subsequent level, the trader could add to the long position, as these were very positive signals indicating strong market movement.

Summing up, we should draw the main conclusions from our provisions:

1. Risk management is a very urgent and urgent task for the whole society, and for specialists - especially;

2. An integrated approach to market analysis should be used;

3. In the analysis of the market and risk assessment, a fundamental background should be considered with the mandatory use of technical analysis tools;

4. Should be able to determine the current situation in the market (trend, lateral movement, gap);

5. We recommend closing positions to avoid the risk of gap, which in the crisis period can be considered a rule;

6. Even large fundamental events on the market follow the rules of technical analysis, so traders should use it constantly;

7. For the risk analysis, the "Fibonacci Levels" tool, which showed its stability in both a stable and a crisis market, is well suited.

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