

Newsletter 008 2 April 2004

Like buses, you don't see one for ages, then....

I simply **had** to put 2.94.2 out, and hurriedly type this – as I think I'm onto something at long last!

First off 2 bug fixes though – some of the target price calcs were off in 2.94.1, due to using the 'slider' percentage value in the calculations rather than the optimised versions. Second bug was in the 'Zig Zag' signals – they didn't work properly, some misidentifications resulted if you had a 'stem' (the initial rise or fall) that happened to be in the first column of your chart. This won't therefore have been overly common, but it's annoying that it happened... no excuses on that one, it's down to me typing the wrong code in. They've been fixed, thanks to Chris from Australia for pointing both errors out.

I've been updating the manual to show the correct form and description of the Zig Zags, that's not onsite yet as 2.94.2 means I need to edit the main manual yet again. (I only did it 2 days or so ago...) As this will take a few days to get round to I'm putting the changes in here, followed by some more on testing – read on, I think it'll be worth it.

Changes:-

One obvious change, I've added a Volatility% figure to the bottom left of the P&F chart display, you can't miss it – if volatility is above 8% (more on this shortly) it's in red. When you click [analyse] the volatility% is repeated there at the end, along with a comment on what it means for your potential trade.

Why? I've done quite a lot of testing, and whilst a complete test across half a dozen markets and major stock groups would be nice the truth is that it would take a small team several weeks to do it ... so this isn't a completely thorough test, but it's thrown up fairly consistent results so I'd be surprised to find major problems should I ever get round to testing against the Chinese top 20. Tests have been carried out on the Dow 30, Nasdaq100, S&P100 and 500, FT30, 100 and 350, and a random selection of stocks from the Toronto and Canadian Venture exchanges. I took my existing results, primarily gleaned from US/UK data from 1991-99, and went back over what I could see to try to improve the close and range results.

During the initial (pre 2.94.1 release) tests I noticed that few trades appeared with a rating much under 2%, and the trades above 8% or so were frequently doing quite badly. More volatile trades, bigger boxes I thought – but the win% seemed to be higher if smaller boxes were used... the win% was still poor however, we're talking about 30% winners as an improvement over 19% and so on. I experimented briefly with setting a cutoff above which trades were rejected – I returned to that in this latest test round, and plumbed in 8% as a first effort.

So, how about this then – using my standard 10% either way exit, SP500 gave 57% winners (Double top, trading bull only) ‘raw’, add the 8% filter and it becomes 60%, add optimised boxes and I got 67%.

FT350 over last 2 years (actually 450 trading days) – 58% ‘raw’, 60% with filter, filter plus boxsize 64%.

A random selection of Canadian stocks from the Venture exchange gave a horrible 36% raw score, jumping to 50% and 57% with the filter/filter+box added.

I’m not claiming this is the Holy Grail or anything like that, but I think it’s fair to say that anything that looks even vaguely like it might improve the win rate by 10% is worth a serious look. This still uses the simple ‘profit/stop loss’ way of testing for win/lose, obviously you could actually trade that – exit when 10% up or 10% down, if you have 3 wins to every 2 losers you make 2% a trade... take slippage off and you’re playing for pennies however. I’ve added a backtest exit for exiting on column swap – a long trade exits as soon as the next O column starts to draw, a short exits if it turns up into an X. I’ve added a profit/loss line to the ‘quick report’ in backtest – as well as telling you the win/.loss percentages and info on which optimisations you have set, it now tells you the average return across all trades so you’ve some idea of how profitable the tactic you tested might be. This could save a trip into excel when you only want a decent guide to profit/loss and win rate.

I’ve put the 8% filter onto the same form you pick the P&F signals in backtest – you just click a box and it will reject trades if the volatility is above 8% - so you can test it yourself on your own choice of market and period. I’ve only scratched the surface, and having used the 90’s data to develop it would be misleading to go back and test on it – ideally I’ll test on other markets to see if the effect holds.

There’s no filter as yet on the main menu for this – to duplicate this on a daily basis you would select ‘all buys’, set the program to optimise boxes, and then simply reject any trade if it’s chart shows a volatility annotation in red at bottom left.

There are other bits and pieces in there, I’m too tired to try to remember them all currently – it’s been a busy week. It would be really useful if anyone testing felt like passing on a few results? I suspect this will be another setup that stops working in time, and possibly only works in some markets, only at the upper end of the market, or whatever. However, I think it shows distinct promise ☺

Dave