BLAST FROM THE PAST

By Daryl Guppy

Last week it was time to make some room and throw out some old computer towers which had been cluttering up the storeroom in the office. One of the towers had a simple trading plan stuck to the front of the tower. It was a simple reminder of the trading strategy. It has been there since 1999. Our trading plans have become a little more complex since then, but at core they remain the same.

This simple plan also touched a chord in terms of some feedback we had from readers in last weeks notes on setting up searches for trading opportunities. Some readers felt this was a bit complicated. The simple 1998 trading plan solves that. It has five rules.

- Trade long with a 10 and 30 day moving average crossover
- Confirm breakout with a count back line
- Trade liquid stocks
- Place stop loss order when order is confirmed
- Add to winning positions.

This trading plan shows that plans do not have to be complex. This is a robust plan that is suitable for many different types of stocks and for many market conditions. As an exercised we ran this plan across the database to see if it was still relevant. We used the crossover search from last week. Because we split these searches into components it makes it easy to use a component in a new search pattern.

MA CROSSOVER

For MetaStock we use a simple crossover exploration that identifies stocks where the crossover has developed on the last day of trading data. If we apply this search it throws up many stocks that will fail to develop so it's useful to extend the look back period. We find all stocks where there crossover has developed in the past 5 days.
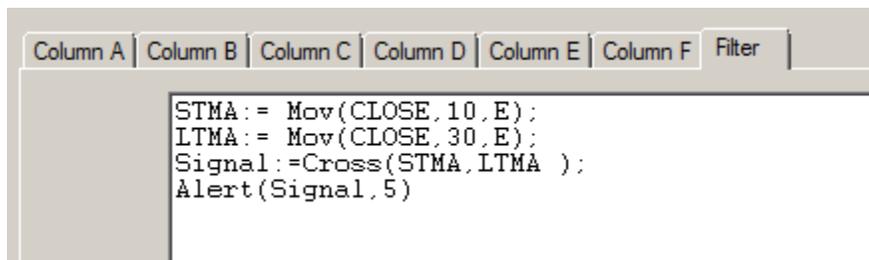

```
Column A | Column B | Column C | Column D | Column E | Column F | Filter

STMA:= Mov(CLOSE,10,E);
LTMA:= Mov(CLOSE,30,E);
Signal:=Cross(STMA,LTMA );
Alert(Signal,5)
```

How do we weed out failed crossovers? The situation where the moving average crossover takes place, but then the rally fails. This is why we use a 5 day look back period because it allows some price activity to develop. This will provide a group of stocks that have between 1 and 5 days of development after the breakout. It could be a large list, so the next task is to reduce the list size.

RESULTS ASSESSMENT

The objective is to find stock where the MA crossover signal develops and it is simultaneously confirmed with a CBL entry signal.

CBL breakout
before MA crossover

This stock is rejected because the CBL breakout signal developed well before the MA crossover signal. It doesn't mean this breakout will not develop. It just means it is not the best fit for our conditions.

Reject
No history of clear signals

This type of stock is rejected because there is no clear down trend so the breakout is not strong. Additionally there have been multiple MAS crossovers which have failed.