

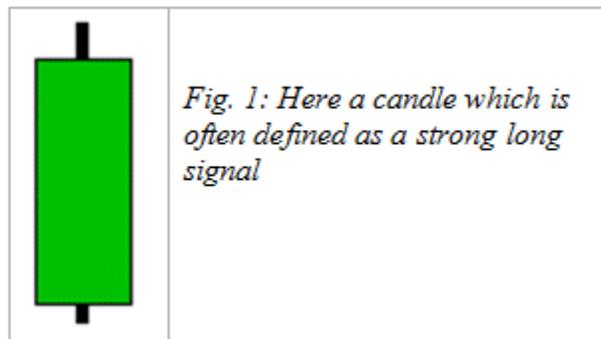
TO TREND OR NOT TREND: THAT IS THE QUESTION

By Andrea Unger

To trend or not to trend, that is the question?

We are traders, we look for trends, no matter how long, long enough to ride them and take some money out of the markets, it looks easy...well it isn't.

Reading technical Analyses books and papers we often find strong trend indicators in defined moves and clear extensions, so we may get confused and consider those are the chart patterns we have to look for to enter the market.



A candle with a clearly defined body may well identify a strong will to trend in the direction the prices showed; but the truth is that this is not an immediate indication to enter the market.

In fact markets are like human beings, they decide after having had indecision, they run after having had a rest.

To see if actually a message of indecision is a better information than strong decision let's test a very simple system with different setups. The action we will take in our system is, on daily bars, to buy the breakout of yesterday's high and to exit the position on close.

The first setup will have no particular conditions, it will buy the breakout regardless of any setup.

In the picture below you can see some examples of trade on Gold Future



Fig.2 : Examples on Gold Future, trades are opened at breakout of previous high and closed at the end of the day

We can test this system on a basket of instruments:

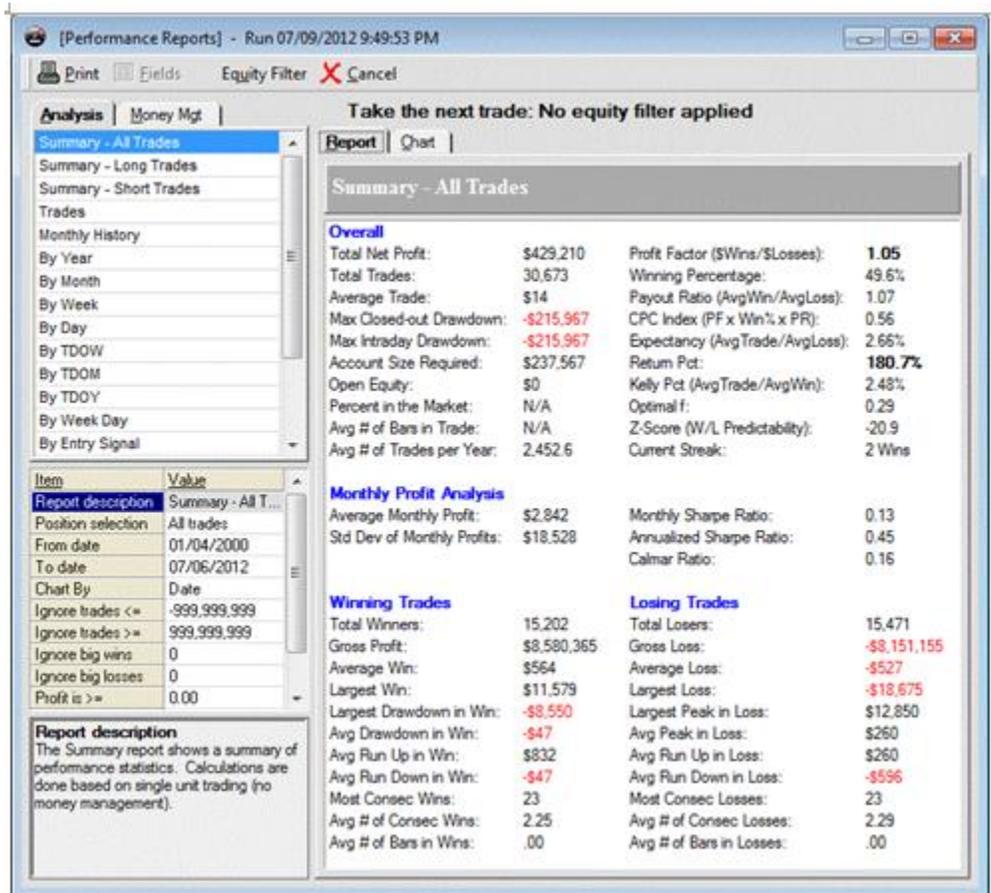
| | |
|---------------------------------|---------------------------|
| <i>Crude Oil Future</i> | <i>Coffee Future</i> |
| <i>Bund Future</i> | <i>Natural gas Future</i> |
| <i>Australian Dollar Future</i> | <i>Sugar Future</i> |
| <i>British Pound Future</i> | <i>Silver Future</i> |
| <i>EuroFX Future</i> | <i>30 yrs. T-Bond</i> |
| <i>Japanese Yen Future</i> | <i>Corn Future</i> |
| <i>Gold Future</i> | <i>10 yrs T-Notes</i> |
| <i>Dax Future</i> | <i>Soybeans Future</i> |
| <i>Copper Future</i> | <i>Wheat Future</i> |
| <i>Heating Oil Future</i> | |

The tests are run without considering slippage and commissions as the purpose is not to build a winning system but to compare market behaviour. The entry without particular constraints shows to be profitable on most markets but there are also some where losses are shown:

| Symbol | Period | FromDate | ToDate | Win% | Trades | Avg Win | Net Profit | Profit Factor | Avg Trade | Max Drawdown |
|---------|--------|------------|-------------|-------|--------|---------|------------|---------------|-----------|--------------|
| SI3-067 | Daily | 01/03/2000 | End of Data | 50.4% | 1,630 | \$893 | \$120,750 | 1.20 | \$74 | (\$40,150) |
| GC3-067 | Daily | 01/03/2000 | End of Data | 52.9% | 1,602 | \$563 | \$93,260 | 1.24 | \$58 | (\$23,710) |
| HO3-067 | Daily | 01/03/2000 | End of Data | 50.0% | 1,622 | \$931 | \$83,878 | 1.12 | \$52 | (\$27,758) |
| CL3-067 | Daily | 01/03/2000 | End of Data | 52.9% | 1,640 | \$758 | \$58,050 | 1.10 | \$35 | (\$52,590) |
| G6A-067 | Daily | 01/03/2000 | End of Data | 54.4% | 1,666 | \$343 | \$49,400 | 1.19 | \$30 | (\$9,020) |
| HG3-067 | Daily | 01/03/2000 | End of Data | 51.0% | 1,631 | \$670 | \$38,463 | 1.07 | \$24 | (\$50,338) |
| G6B-067 | Daily | 01/03/2000 | End of Data | 50.1% | 1,628 | \$359 | \$21,956 | 1.08 | \$13 | (\$13,031) |
| ZB-067 | Daily | 01/03/2000 | End of Data | 49.9% | 1,688 | \$513 | \$20,391 | 1.05 | \$12 | (\$25,281) |
| EBI-067 | Daily | 01/03/2000 | End of Data | 50.7% | 1,723 | \$263 | \$9,460 | 1.04 | \$5 | (\$15,050) |
| GX-067 | Daily | 01/03/2000 | End of Data | 51.0% | 1,688 | \$1,129 | \$8,088 | 1.01 | \$5 | (\$72,025) |
| ZS-067 | Daily | 01/03/2000 | End of Data | 48.0% | 1,614 | \$402 | \$7,300 | 1.02 | \$5 | (\$24,875) |
| ZC-067 | Daily | 01/03/2000 | End of Data | 48.3% | 1,540 | \$215 | \$5,988 | 1.04 | \$4 | (\$9,763) |
| SB-067 | Daily | 01/03/2000 | End of Data | 50.4% | 1,606 | \$216 | \$4,816 | 1.03 | \$3 | (\$12,802) |
| ZN-067 | Daily | 01/03/2000 | End of Data | 46.9% | 1,745 | \$329 | \$3,422 | 1.01 | \$2 | (\$18,922) |
| NG3-067 | Daily | 01/03/2000 | End of Data | 50.1% | 1,525 | \$961 | \$-12,810 | 0.98 | \$-8 | (\$88,450) |
| G6E-067 | Daily | 01/03/2000 | End of Data | 48.4% | 1,640 | \$647 | \$-13,200 | 0.97 | \$-8 | (\$41,750) |
| KC-067 | Daily | 01/03/2000 | End of Data | 44.6% | 1,487 | \$622 | \$-19,050 | 0.96 | \$-13 | (\$34,406) |
| ZW-067 | Daily | 01/03/2000 | End of Data | 46.6% | 1,500 | \$356 | \$-22,338 | 0.92 | \$-15 | (\$42,775) |
| G6J-067 | Daily | 01/03/2000 | End of Data | 43.9% | 1,498 | \$514 | \$-28,613 | 0.92 | \$-19 | (\$33,900) |

Fig. 3: Silver shows to be the best performing instrument for this approach while Japanese Yen Future is the one where we see the highest losses

Here is the Performance Report and the Equity Line of all these markets together:



The Equity Line includes substantial drawdowns.

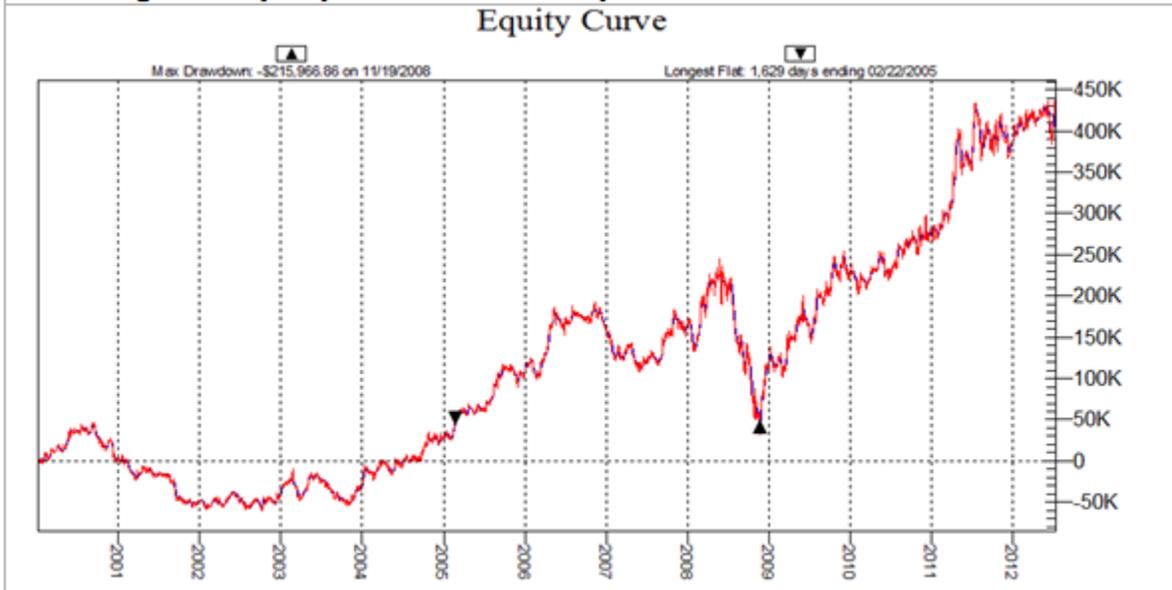


Fig. 5: The Equity Line is not very nice

We can also have a more detailed look at the best and worst report:

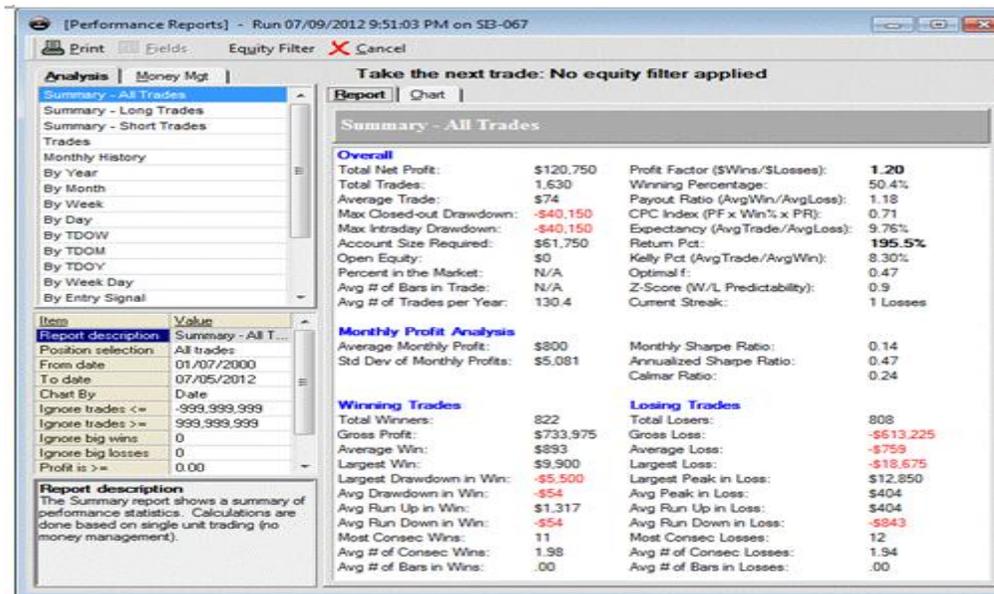


Fig. 6: Silver shows interesting profits using this simple method

Equity Curve

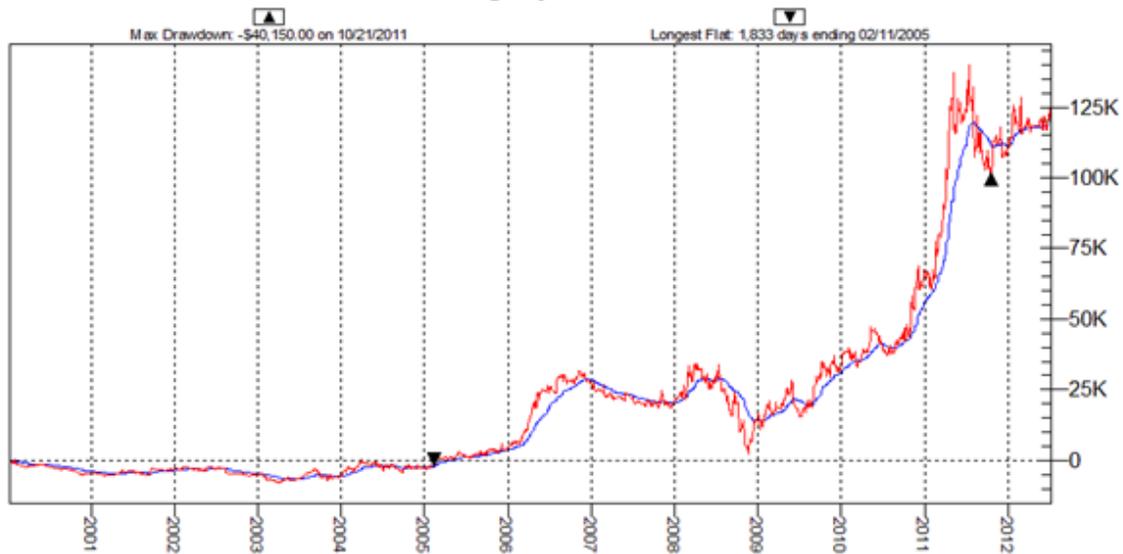


Fig. 7 : The Equity Line is in any case not the best that could be desired

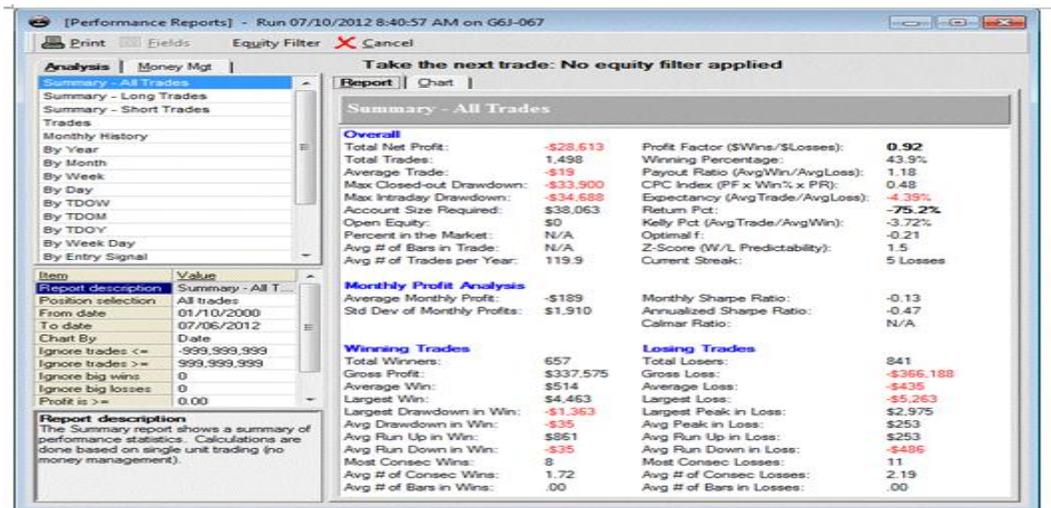


Fig. 8. Japanese Yen is definitively losing with the proposed entries

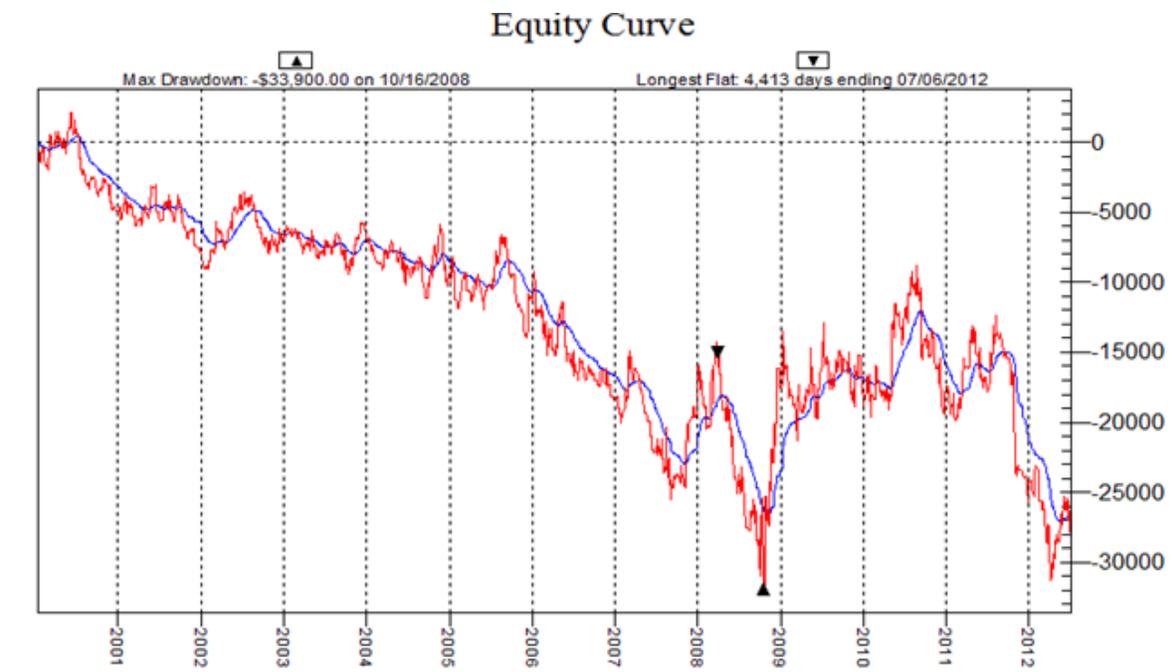


Fig. 9 : A bad Equity Line witnesses what we saw in the report

Now we go into our demonstration and we consider the assumption that it might well be true that candles like the one shown in Figure 1 indicate a trend; but our idea is that after such a day there is not immediately much left, this means we'd prefer to follow our breakout only after days where indecision is shown, that is, days where the distance between open and close is much less than the whole range.

Advances in trading usually come from small changes and modifications. New ways of using old indicators sometimes give surprising results. When testing new ideas, whether they be original or from other sources, start by analysing the desired indicator signal to see how often it occurs, then back test this through your charting software or MS Excel to see how it worked historically.

Once you are satisfied that it produces a better than even chance of winning, paper trade it in real-time for a short period to see how it performs in real-time.

Only then should hard earned cash be put on the line with 100% confidence, that your new found method will give a better than average result.

In the next article we consider this approach.

Andrea Unger In 2008, Andrea became the first Italian trader to win the most famous trading championship all over the world, he won **The World Cup Trading Championships®** in the futures division with an astonishing 672%.

In year 2009 Andrea became the first back to back winner of the competition in nearly 20 years winning again with 115%.

And in 2010 Andrea became the first trader ever winning the competition three years in a row ending first with 240%.

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