

What Makes The "Perfect" Trading System? Inside the %C Solution.

**“Realize that nothing is too good to be true.”
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The development of a profitable trading system is based on how you understand the markets. The essence of that understanding is the notion of the Holy Grail or the perfect trading system. Obviously, we know perfection is an idea, not a reality, but it is the concept and goal that are important.

By definition, to be profitable all systems must catch a trend in the direction of the position, and all systems must enter on a breakout or a reaction. That is simple enough.

Furthermore, empirical study reveals that breakouts - of some proportion - lead to more trends in the direction of the breakout most of the time. A good part of the remainder of the time, the breakouts are faded, and should be viewed as reactions. Such a "condition" can be called a trading range. However, it is important to remember that ranges are not limited to a horizontal direction. They can be up or down as well.

In addition to trading range and breakout markets, there is a third major market condition that can exist and should be avoided for a system to be profitable: flat or dead markets. Pull up any chart of any bar size and place the "price channel" indicator, which is "standard" with TradeStation⁸(TM) around the bar chart. Your empirical study should reveal that there are only three market conditions:

- 1) Flat or dead markets, a condition for floor traders in which prices rarely get to either side of the channel band and in which the pattern from open to close is seldom repeated in the next bar;
- 2) A tradable range, in which each side of the channel is a touch off for a reversal of an inside and trend, and suitable for desk traders. Direction from open to close and from bar to bar is consistent from one side of the channel to the other;
- 3) Dynamic conditions, in which breakouts outside the range get carryover in the direction of the breakout. This condition is suitable for desk traders to take advantage of.

Being able to predict what condition the market is in and when it is about to change allows you to know whether you should stand aside the market when it is dead, or "fade" the breaks (enter on reactions) when the market is locked in a range or go in the direction of the breakouts when conditions have turned dynamic. That, in large part, is the essence of the Holy Grail: having the ability, the indicator, to call market conditions. Direction, therefore, becomes a secondary consideration.

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- 1.
- 2.

[ASK for the strategy by name!](#) For more information or a *Rina Portfolio Evaluation* report on any of the above, click on this link and ask for the specific system you are interested in. You can also set your goals and risk tolerance and I can work up a portfolio that may fit your constraints.

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