

# Creative Breakthrough, Inc

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## System Robustness.

The common misperception put forward by the "Want to be system/traders" is stated forthwith: "With computers as powerful as they are today it's easy to optimize a trading system to make it look exceptional. However, an optimized system is not a good system. Simply because you're able to train your computer to have 20/20 hindsight does not mean it will perform anything like that in the future.

"For now we will set aside the topic of "how long one should back test a trading system?" and approach robustness head on.

Since 1974 with over 1,000 plus systems in our repertoire one thing I know for certain, you can take the vast majority of systems and optimize them until you are blue in the face and you will never get a respectable "historical" result from them. Over the years we have collected strategies given to us by students, associates, bought off the shelf, seminar handouts, and self developed. To date 95% of them "just don't work!" So for these pundits, academics and want to bee's it is nothing more than repeating what is the popular opinion only to find comfort from being embraced by the masses? In fact they are nothing more than publishers of balderdash keeping the public misinformed.

The primary problem with optimizing past performance is that markets change in the future. Yes, change is a constant but markets are NOT constantly changing. In fact "trends" have a tendency to persist much longer than the "majority" believes. Not trend's in price but trends in market conditions! Furthermore, a good systems developer does not "optimize past performance so the phrase itself that pundits use is misleading.

We don't dispute the facts about varied and different market conditions such as: A low volatility market suddenly becomes a high volatility market. A market prone to trends becomes a choppy directionless market. A market that had high leverage has it margin changed and now it has low leverage. A regulated market suddenly becomes unregulated and so on. We don't argue that markets that have the millions of units traded daily will be less idiosyncratic than markets that trade only 10,000. But to espouse to the public in same breath that there is no such thing as the holy grail of trading systems (which there is not) and the only good trading system is one that is and I quote "Universal" (which there is not) is self contradictory! So from their point of view a robust system is expected to be omnipotent. It should trade well on "pork bellies" and the Euro Stoxx 50 or it stock systems should trade today as well as it did in 1929.

You hear it said too often that 90% of all traders' loss and most of the time the reason is pushed off to lack of emotional and trading discipline. Ok, we will concede that point. However there is such a plethora of "misinformation out that is so poorly presented in trade journals, web sites and blogs, it is no wonder the investment public is left "holding the bag!"

Here is an example of what these abstract copy writers put out for public consumption: "... the system has been designed to work well in most all markets A thru Z. Now, it does not matter if market Z starts to act like market Y or market A starts to act like market P. They can change as many times as they want because the system has been designed to be universally robust with most ALL the various markets! Once again, the market characteristics can reshuffle themselves countless times and your system is like a Swiss Army knife that has proven in historical testing it can deal well with most all of those scenarios."

So what they want us - the traders of the world - to use is a jack-of-all-trades systems and a master of no market. In other words a "Swiss Army knife." When was the last time you filleted a fish with a Swiss Army knife?

By no means are we trying to debunk robustness in the development of a trading system. Alternately we are not going to throw away the notion of optimization either. In reality it is a combination of the two, a synthesis.

Here is a list of 8 criteria CBI's uses before it offers a system publicly or privately.

1. We set high standards in performance criteria but kick out strategies that produce Unrealistic numbers like 80% win rate or profit factors of 4 to 1.
2. We expect systems that "day trades one market well today trades other markets well, if and only if the other markets have the type of high to low daily range that is conducive to day trading system.
3. For each strategy we develop the same set of rules exists for all the markets it trades. The more markets it produces "descent" result on the better. Our set of rules is the same for each system: define an extreme in price set up breakout entry, failed breakout entry. Some systems will also include entry to trade the range in between the extremes. The algorithms for calculating these prices levels are the same in each system,
4. From the chart level, input can be optimized according to a mythology with built in controls to avoid what is commonly called back fitting. The "exact" entry level will have little to do with the rules that set up the entry.
5. It is firm belief that markets are made up of people not statistics. That advances are rules by greed and declines are rules by fear Therefore prices will unfold differently when going up and when they are going down. So while each systems rule will be the same the inputs that set the exact price levels to get in will differ for both long and shorts and exits

6. Our systems factor in the cost of doing business. Slippage is only a factor to give the end user a "pessimistic" view of potential returns and assumes that the entry is going to be 100% efficient.
7. Uses money management methods that don't include market normalization (like single contract performance only)
8. Our systems use a "static" dollar loss on "bar of entry but use volatility based stops that trail market action for both profit targets and stop losses.

Tell me your style of trading and I will get you a track record report on my system that fits your approach.

<http://www.traderassist.com/trading-systems.php>

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