

own custom alerts and trading systems. I'll be providing the code for you to copy and paste into your charts. Don't worry, if this sounds complicated, I'll provide you with the exact code so all you need to do is copy and paste this into the appropriate box. I'll even highlight what numbers change if you want to look at slightly different settings. I'll provide the code for the 'squeeze' indicator as mentioned in the Atticman article you'll read later. Send me your requests for systems you would like coding and I will my best to provide you with the code in the next edition of *WRP*. Email [wrp@canonburypublishing.com](mailto:wrp@canonburypublishing.com).

**Review: The advanced guide to creating your own trading system.**

## The Book To Read If You Are Serious About Designing Your Own Trading System

There are an increasing number of powerful software tools available to the 21st century trader. IG Index Advanced charts offer an impressive level of functionality for anyone wanting to design and test their own trading system. However, having the right tools is only half the battle, knowing how to use them is the real issue.

Back in *WRP* March 2009 I reviewed two excellent tools that you could use to design, test and implement your own trading systems. The tool in question was NinjaTrader, a versatile piece of software that allows you to test trading systems without the need for complex coding language skills.

To accompany this I also reviewed the excellent *System Trading For Spread Betting* by Gary Ford which is one of the best manuals I have seen on system creation. The two resources went well together because Gary Ford used Ninja Trader as his reference throughout.

If you are interested in creating your own trading system, then I highly recommend both the free Ninja Trader and Gary Ford's excellent guide.

However, as we've seen with IG Index's Advanced charts, Ninja Trader isn't the only tool available to

you and neither is Ford's book the only guide.

Recently, Urban Jaekle and Emilion Tomasini released *Trading System: A new approach to system development and portfolio optimisations*. I'm familiar with the author's work via their regular article's in *Traders' Magazine* before the English language edition was discontinued.

Jaekle and Tomasini are experts in system design and have presented a number of successful complete trading systems over the last few years. Their recent publication compiles the best of their work on system development with a couple of trading systems included.

### Trade Station

Just as Ford's book references Ninja Trader throughout, Jaekle & Tomasini's book references another software tool called TradeStation.

TradeStation is a versatile trading tool that is perhaps more popular in the US than it is in the UK. It costs \$90 (£60) per month for the platform excluding live data feeds, but these costs can be refunded if you trade directly through TradeStation's brokerage arm.

TradeStation (TS) allows you to code, test and implement trading strategies using the 'Easy Language' interface. You don't need Trades Station though as much of the information could be applied to another platform such as NinjaTrader. There is a big advantage in using TS, because they provide the complete code for you to copy for each of the test systems. However, they also provide the full rules and logic for each system so you will be able to adapt them to other platforms.

### Put your trust in your own trading system

J & T start their guide by explaining the pleasures and pitfalls of systematic trading systems vs more elastic, discretionary methods.

Systematic trading systems are appealing because they appear to take the emotion and indecision out of trading. You can purchase one of the many commercially available trading systems, but this approach isn't without its problems, some which are *please turn over*

---

directly related to underlying profitability of the system.

As J&T explain:

“In order to trust a trading system, especially during gloom periods when drawdown will erase the trader’s confidence in the trading system’s capabilities, you really need to do a huge amount of research and statistical work that not everyone is able to do.”

This point relates to another limitation of systematic trading systems, that ‘Trading systems work, system traders do not’. According to T & A, there is no bigger infamy for a systematic trader than not to take a signal.

One of the considerable advantages that comes with designing and testing your own trading system is that you know its limitations. As T&A outline above, through diligent research and analysis, you know what the expected worst case scenario is. You might have a sense of what the worst losing run is that you can expect. Knowing this in advance can help you keep the faith through the rough periods.

Perhaps a good analogy is that of an F1 team. The engineers design the cars aided by lots of live and computer stress testing. This way, the team know the car’s capabilities and limitations. Which will ultimately feedback into the driver’s confidence when handling the car.

You may find systematic trading systems that offer this much information, but you might never be as confident in the information as when you design and test everything yourself.

Having a profitable trading system is only half the battle, the methodology that you followed to get those results is just as important as the system itself. This is where the *Trading Systems* manual comes in to its own.

If you have a profitable trading system with a breakdown of past results, then you are at an advantage to someone who just has headline results. However, if you can honestly say you followed a rigorous method of enquiry in order to get those results then you will not only have more confidence in your system, you are also much more likely to make sustained long-term profits.

## Don’t be scared to give it a go

More apprehension about learning programming than for learning a foreign language? As J & T explain, this may be due to the fact that programming sounds mathematical and logical while speaking a language is something most people are accustomed to. They add: “As far as we are concerned, the contrary is true and it is much more difficult to learn Russian as a foreign language, for example, than to learn to program in Easy Language.”

J & T believe basic coding knowledge is important, but that this is just one of the many factors that make up successful trading system development. In 15 years they have seen many successful system traders, but in only a handful of cases have these people been professional programmers.

I’m no coder by any means but have managed to bodge together a number of promising trading systems with coding. The great thing about sites such as NinjaTrader, TradeStation and ProRealtime (IG Index’s charts) is the user community. This way if you can use and adapt ready made trading systems and if stuck ask for help. I have to say the NinjaTrader support forum is particular good in this regard.

## How to really tweak a trading system

Optimisation has earned a bad reputation among many traders. ‘Over optimised’... ‘curve fitted’... ‘back fitted’ are all derogatory terms relating to a system that has been tinkered with too much so that it is no longer realistic.

As J & T explain, optimisation is a two-edged sword. On one hand, it is impossible to avoid optimisation on some levels as you seek to improve the profitability of your trading system. However, it is “another thing to look for those inputs that by chance made the most money in the past but have no forecasting power”.

It can be hard to get the balance right at first, but J & T handle this issue very well, showing you the right steps to take when tweaking or optimising a system and how to avoid ending up with a pile of fool’s gold.

The *Trading Systems* book shows you the correct process to go through when evaluating and tweaking your trading system. For example, this includes the

importance of keeping an out-of-sample period for the final layer of testing.

For example, you might test the GBP/USD for the last 10 years but only go up to December 2007. January 2008 to present remains 'out of sample'. This means you do all your testing and tweaking in the period prior to this then, when you are ready, you run the full test which includes the up-to-the-minute data.

J & T provide numerous examples of systems that look fantastic in the testing period then fail when you add the recent out-of-sample data. The reason for this is usually the system has been over optimised for the testing period and when you apply it to more recent years, the system falls down.

Too many systems hit the market (usually robots) without this rigorous testing and lack of out-of-sample analysis is one of the most common reasons why systems crash and burn when they launch to much fanfare.

It sounds an obvious question, but how do you know if a trading system is good or not?

You might run a test and find a system has made a huge profit, but does this tell the whole story? What if the system made everything from just one massive freak trade?

J & T take you through all the various ways you can assess a system from the profit factor to the biggest drawdown on record. Monte Carlo analysis is also explained as a good way to stress test a system. Monte Carlo analysis randomly changes the order of performed trades to give you a better estimation of the system's expected maximum drawdown. Before you might have had 10 losing trades on the bounce, but if you rearrange all the trades at random, you might find you have to contend with 20 losing trades on the bounce.

## Real-life trading system

Throughout the book, J&T provide examples using some relatively simple trading systems such as a moving average crossover system on the GBP/USD. All the rules and code are provided for this.

You are then shown how to safely optimise this system step by step. For example, the initial system presented involves a three period moving average

crossing a slow 30 period moving average to give you signals. After testing various parameters, we find that the most effective pairing of a fast and slow moving average is the 1 period crossing the 44 period.

We're also shown how to optimise the system by time of day. The Forex market is 24 hours a day, but different periods have different characteristics. Which one is best for your system?

## Putting it all together – System portfolios

The final chapter of the book is dedicated to explaining how best to safely combine a number of trading systems. If you follow a number of trading systems instead of just one, you can potentially increase profits while minimising risk.

J & A provide sensible tips and sophisticated methods for combining trading systems as a portfolio. There are some useful ideas on how to weight your portfolio towards a particular system, such as giving higher strike rate systems a bigger weighting because they are less likely to have a losing run.

## The bottom line

Jaekle & Tomasini's book on trading systems is excellent; one that I'm sure will become the benchmark in its field.

In terms of the evolution of a system developer I suggest you first immerse yourself with the basics. Read a lot at sites such as babypips.com and develop an understanding of one market, such as Forex, that will give you ideas and hunches to try out a certain idea.

Next, Gary Ford's *Systems Trading for Spread Betting* is probably the next best place to go with NinjaTrader having a more user-friendly, coding free trading system interface. Ford's book shows you how to create trading systems, but didn't do as good a job of dissecting the performance side of things. This is really where J & T's manual comes into its own.

*Trading Systems* is probably towards the more advanced end of things, but that doesn't mean that the newbie system developer won't be able to take some important lessons from the publication.

*please turn over*

---

You don't need coding skills if using NinjaTrader instead of TradeStation and ultimately being a super programmer won't make you the world's best system creator. Creativity is an important trait and as J & T outline: "Persistence and determination are the qualities that sooner or later lead to success."

Recommended.

---

## The AtticManTrader's FTSE350 trading strategy

---

# How To Trade UK Stocks From The Comfort Of Your Own Home

I recently received a flyer for the World Money Show to be held in London in October. I can't attend the event, but on flicking through the preview, I saw something that caught my eye.

One of the speakers was Daniel Jackson of [www.AtticManTrader.com](http://www.AtticManTrader.com), an intriguing name for a website that certainly got my interest. The website chronicles Daniel's progress as he trades FTSE 350 stocks from the comfort of his attic. I was very impressed and thought that it was something that *WRP* readers would be very interested to learn more about. I was especially excited because Daniel trades FTSE 350 stocks on an end of day basis, a strategy that could suit many a time-restricted *WRP* reader.

I'm very glad to say that Daniel was keen to share his strategy with *WRP* readers. There's a heck of a lot for Daniel to explain so rather than cram everything into one edition, Daniel will be penning a series of articles over the coming months. This month Daniel starts with an overview of this strategy with an example trade at the end that pulls everything together. Over to Daniel...

## The strategy

I've been trading various markets using numerous strategies for over five years now. As a software developer by trade, my initial strategies were very technically based. I was a big believer in removing the emotion from trading by using a very clearly-defined strategy.

My original strategies for finding trading opportunities were very rigid. I would follow my trading plan to the letter in order to arrive at these trading decisions. I would then use my money management and risk strategies in order to place stops and targets. The strategy was relatively successful, but I would find myself placing trades that I didn't really believe in, simply because my strategy was telling me to do so.

There was often something about the shape of the graph that raised alarm bells somewhere in my subconscious, but because the trade was confirming to my strategy I felt compelled to place the trade and follow the plan. Some of these trades worked and some did not.

Things have changed for me since those days. I no longer believe that a system that is 100% mechanical is suited to my personality.

The system that I trade today incorporates technical and fundamental analysis together with a discretionary element that is based on my trading experience.

In this article I will describe the elements of my strategy in overview. In subsequent articles I intend to focus on individual elements of my trading strategies in more detail.

## Market bias and stock selection

As I write this article it is clear just by looking at a graph of the FTSE 100 that we are in a strong up-trending market. Since 13th July 2009 the FTSE 100 has risen from 4,096 to nearly 5,000. With this bias established, I will only look for long opportunities. I am not interested in fighting against the tide and shorting companies, I've tried in the past and failed.

## When was this trend established?

For this I would use an element of discretion and some basic technical analysis. My first port of call would be to look at the weekly chart for the FTSE. To the naked eye, is the chart bullish or bearish? I occasionally ask my 6 year old daughter to tell me what she thinks – more often than not we agree. If it's not clear (for example, the market is trading as