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Predictive-Model Based Trading Systems - Part 2

by David Aronson

**George's Corner:
Interactive MPT
by George Pruitt**

New Systems Featured In This Issue:

**Interview With Gary Hart of
Trendfinder Trading Systems**

**PSSB_ES
by PSSB Management**

**Trading Futures Successfully on
the Shoulders of Giants
by Dean Handley**

**TF Trader and Chris E-Mini FT (ES)
by Chris Martin**



Introduction: Four years ago I decided to learn to trade futures; my Google search of “futures trading rooms” found 422 rooms spattered over 390 search pages [1]. The clear message was if you bought their products (education, mentorships, indicators), you could be a successful futures trader. None even remotely mentioned failure but the reality is that after buying such products, the vast majority of retail futures traders fail quickly and repeatedly – I did, twice. Before we buy trading products, they glisten with success, trumpet wealth and radiate reliability. After we pay for them and they repeatedly fail, we are left with only the fine print: “past performance does not predict future profit”. The chat rooms and fraud sites abound with condemnation of rooms and products, scam alerts and an endless list of jaundiced outcomes. It is not a case of buyer’s remorse - research shows that the vast majority of retail traders fail and are seen as permanent ATMs for the big institutional traders.

The Anatomy of Trade Failure: Now 4.6 years later after using brute force and relentless perseverance, I have visited all 422 sites looking for ways to avoid failure and to place blame.

- ▶ **Us vs. Them:** We blame these sites for shabby products, misrepresenting outcomes, and selling falsely enhanced versions of mundane indicators. They say we author our own failures by failing to have a trade plan, being under-capitalized, not using money management, etc. At first I also blamed the sites as well for such rampant failure; within the academic environment where I am familiar, if the majority of students fail an exam or an entire course, blame is laid at the feet of instructors. I still feel this way but also think there more reason(s) why we fail involving competition and talent.
- ▶ **Competition:** We trade in the Global Futures Market against maybe millions of other traders, thousands of banks, institutions, think tanks, investing firms, super computers, HFTs, etc. And yet we see none of that competition face to face. Maybe our failure is a preordained outcome, because when the competition goes way, way up, the chances of success go way, way down.



- **Talent:** Being massively competitive, perhaps only a very small percentage of retail traders will ever succeed. I believe greatest success always goes to those with greatest true talent and if so, then in reality very, very few of us will naturally have such true talent. And since true talent isn't transferable, if you don't have it you will not be able to buy it.

Our failures could be predictive, starting with massively competitive market in which few of us will naturally succeed, where we buy trading products that are expensive and largely ineffective, ending in a situation that is offensive and negative. I leave anything out?

Finding Trade Giants: For the vast majority of us retail traders that lack true talent, how can we be successful? My solution to succeed is to draft behind true talent - climb on the shoulders of the trade giants – and if I trade as they trade, I will profit as they profit! So how did I find successful trading giants and how did I climb on their shoulders? As I inspected all 464 sites, I developed 3 “needs” criteria to find the best giants and the most profitable shoulders:

1. I need to see their track record: Of the original 422 rooms, 59 are gone; 102 new rooms have formed and of these, 362 do not have any track record. Some rooms only show track records if you buy a membership (School of Trade, Pacific Trading Academy) – no thanks. Track records as win/loss or hitting targets 1-2-3 (Trade the Emini) are not useful; records of a few great winning trades (Dow Scalper) or few great trading days (Trading Pro Secret) are not a track record – they are puffery. Track records ending in 2012 (Pro-e-Trading) are not useful nor are sporadic records or student track records. Phantom track records (records posted at night from trades hidden by day) are not acceptable (HorstTrades, PureTick, Millennium) nor are testimonies (except mine which evaluated hundreds of trades in real time). So, if no track record, no interest.



2. I need to earn a living at trading: For the rooms that do post a track record, I measure hundreds of trades over 6-12 months to assess aver P/L/trade and P/L/day. I want to earn a reasonable living from futures trading, which I define as net \$50,000/yr. For daily goals, I want to find traders that net \geq \$200/d from about 3-6 trades/d always based on 3 contracts/trade. Past results do speak to P/L uniformity, a strong indicator of reliability and an attribute of true talent. Some rooms make a profit but when the number of trades/d is factored in, net profits are just too small (ex. AbsoluteDayTrader, ABusinessWithTrading, DayTradeToWin, DimensionTrader, Eminimoney, OEXStreet, TradePilotPro, WhichWayToday, ViewMyTrades, Winborn, The Intentional Trader). This seems due to poor trade efficiency which cannot be corrected by increasing the number of contracts beyond 3contracts/trade. I exclude 46 such rooms; now 90% of all rooms have eliminated; 49 remain.



3. I need to effectively shadow trade: To climb on the shoulders of successful giants I need to see and replicate their trades in real time. I exclude all rooms that hide their trades, have “blink and you miss it trades”, post a myriad of trade possibilities and then later select as befits best performance (Natures, Day Trading the Futures). I want rooms that announce (narrate, type, price chart, dome) their trades in real time so I replicate the entire trade and obtain their final P/L. When you can do that, you are on the shoulders of the giant. I observe and tabulate 50-100 trades in any room and directly assess if the track record posted for *those trades* is accurate and forthright. For 17 rooms, this is not the case – their records have been shellacked in a manner to minimize poor performance or to camouflage underlying trade failures; not acceptable.

My personal preferences: My recommendations are highly detailed and yet dynamic: there are rooms in the past I recommended but no longer do so –some of these (Trade the Emini, Day Trading the Futures) still trumpet my obsolete endorsements which is disingenuous. Also one very successful room (Rick Vinecki - BeyondProfile) has gone private/invitation only. My current best rooms are in alphabetical order.



EminiStrategies: George Mahshigian, Jason Medeiros; 24 hrs a day; ES. They offer three unique mechanical strategies: Reversion, Momentum and most recently the Hybrid, as demonstrated in real time by Mr. Medeiros. Each is rule based, easy to use and have proprietary indicators to spot signals and trade entries/exits as well as risk management rules. These programs are a real treat and Mr. Medeiros presents the Hybrid splendidly during US market hours, adding marketing insights, analyses and strategies. In trading these, I was able to replicate trades easily. The Hybrid program is clever amalgamation of the both strategies and offers a logical method for trading. My quote “Trade Like a Machine, Celebrate Like a Human© is in splendid harmony with these strategies.



Equity Management Academy: Patrick MontesdeOca, 9:00~5.30 EST (14:00-22:30 Zulu); SI, GC, CL, QM, 6A, 6E mostly. Mr. MontesdeOca presents as one of the kindest and most polite head traders I have met. He is a day/swing trader in that he can hold trades for many hours (often all day) and accepts drawdowns consistent with his trading strategy. Trade entries (exits, targets) are announced (you hear them), posted in the text box (you read them) and are entered on the price charts and corresponding trade domes (you see them). He uses sophisticated methodology based on VC Price Momentum proprietary indicator that is a mathematical marvel which incorporates Elliott Wave, Fibonacci, Vedic and Western Mathematical principles to monitor cycles and identify volatility, momentum and pattern recognition. He seeks to empower all traders and investors with superior market intelligence designed for wealth creation and his daily P/L speaks volumes. Mr. MontesdeOca not only trades futures metals including silver but uses his methods to assess and trade investments within the metals involving stocks, options and ETFs as part of the actual futures room.



Global Forces Trade Network: Chip Cole, 9:30~11.30 EST (14:30-16:30 Zulu); TF,YM, GC. This is a brand new room but I have observed Mr. Cole's trading prospectively in his former room, continuing to this new venture. Mr. Cole opens his room with

friendly splendid Southern welcome and gets down to work, describing the basic market situations. Trades are called well in advance with clarity, as are stops and his impressive hefty profit targets. When he reaches his target profit for the day, he trades sim and ends with a Q&A. He endorses a "earn while you learn" so can make money and understand market structure concurrently. His core methodology is the understanding of S/R levels and the reaction of bid/ask order flow at those levels. He leans heavily on taking high probability trades with positive risk to reward ratio to keep our accounts on the right side of the market



Jaguar Trading Club; Edwin Abreu, 8:30~11.00 EST (13:30-16:00 Zulu); CL,6E, no charge. Mr. Abreu trades price action at S/R and while a scalper, he is always looking for the bigger trade (and he finds them). His approach is a very high win rate, minimal

drawdown, and ample opportunities. He offers a top notch mentorship program involving realistic, consistent trading methods, strategies, and approaches. He selectively accepts one out of three applicants to teach trade management, range bar chart reading, and S/R combined with basic order flow using simple minimal chart tools. Whether you use the basket of strategies the club provides or your own, the information you will learn can be applied to your trading to increase your edge. What struck me with Mr. Abreu's site were following statements:

- #1. You must be able to see the moderating trader's charts in real time.
- #2. You must be able to see the trades entered in real time either through the moderators order DOM, or chart trader or some method where it is apparent that the trade was entered, filled, and managed.
- #3. You must be able to follow the trades, or at least most of them, albeit fast markets may need some adjusting.

I absorbed these statements and they became formative in all further room evaluations; they should be required reading for all retail traders and trade doctrines for all rooms.



RIOS Quantitative: Joe Rios (founder); Steve Schwartz; Edward Preston; 8:00~11:00 EST (13:00-16:00 Zulu); they trade the greatest diversity of futures indices I have ever seen and present as a one-stop financial boutique specializing in electronic trading

strategy and software development for the trading. Their technology provides traders access to innovative methods to profit from the markets while controlling risk. Mr. Schwartz opens the room in a friendly, relaxed and most informative manner. He demonstrates the concepts, methods and tools outlined in an easy to understand step-by-step approach. This room offers ample and diverse trade opportunities.



Tesseract Trading: Consortium Traders, 9:30~ 3:30 EST (14:30 - 19:30 Zulu); ES,TF,YM,NQ. Tesseract states entries, targets and stop for each index, along with historical P/L data, before the first trade is called; before the market opens in fact. Trades strategies are

statistically based previous P/L data and then tabulated and selected based on the day of the

week, time of day and index traded. Accordingly, logical methods to view, select (and avoid) trades are presented and optimized fixed targets and trailing stop are given for each trade. Both strategies are looking for grand slam trade homeruns. The trade strategy is virtual and mobile - you need not ever be tied down to a room or have to listen for calls. Furthermore, it will be available as a download file (*Concierge Trading*), where all strategies load into your platform and will execute all pre-selected entries, exits and targets automatically all day. Room review available [2].



The Strategy Lab: M.A. Perry; 9:00~4.00 EST (14:00-21:00 Zulu); TF,CL,GC,ES; chat room, no charge. His trade methods based on pure price action (no indicators) and wide range bodies (WRB) where different WRBs reflect analyses based on volatility, gap or

S/R. The WRB is an interval that has a body (difference between open and close) or bar (difference between high and low) with a price area larger than each of the prior three intervals. Mr. Perry trades from 1-25 contracts/trade, averages about 12 trades/d (about the highest I have seen) and while Mr. Perry says he is NOT a signal calling room, his WRB appears very profitable in his hands, it can be seen in action every day and his materials are very reasonably priced. Room review available [3].



The Trading Clan: Ken McCulloch; 7:00~4.00 EST (12:00-21:00 Zulu); ES,CL,6E,GC,NQ. Mr. McCulloch (Patriarch of the Trading Clan) trades S/R methods of their own design; entries, exits and targets are presented clearly and well in advance by him (audio alerts

are delivered with a wonderful brogue accent and wee bit of humor). Trades are executed in real time and all executions are discussed openly prior to entry. The number of trades taken/index and the cumulative P/L/index is posted continuously all day – just excellent. Furthermore, complex market conditions as they affect trade strategy and risk are incorporated into trade strategies in real time.



TraderShark: Brian Rehler, 9:00~4.00 EST (14:00-21:00 Zulu), 5 days; ES; 6E, CL. Mr. Rehler helps simplify complicated futures market and explains in detail how the “Shark infested waters of Wall Street lure unsuspecting traders into choppy waters to take their

money”. He uses a unique combination of indicators to trade and teaches you to learn to rely on your indicators, significant price levels and avoid trading by emotions. His trade entries, stops and targets are narrated well in advance of the trade execution, and he delineates the logic, set up parameters and other associated knowledge pertinent to that trade. As such he provides real time mentorship, as well as financial stewardship, for all students and advanced traders in his room. Room review available [4].



Valhalla Futures: M. William Scheier, 9:30~ 11:15 EST (14:30-15:15 Zulu); TF;YM;ES;NQ; no charge. Trade entries, exits and targets are detailed in time stamped text statements as he posts

entries well in advance of the actual trade. His methods and strategies can be read in his new book *Pivot, Patterns and Intraday Swing Trades* (www.wiley.com). Trades come from the

confluence of three essential Trade Entry Model criteria. The first is a wave fractal analysis method called Serial Sequent. These wave signals are superimposed over the Pivot / Exhaustion Grid for target accurate turning points, and finally, both must concur for trend entry or breakout signals with the True Trend Momentum Indicator. He often calls trades like a floor trader where other traders have difficulty in entering, and is positioned for explosive surprises that occur nearer to true reversal levels than traditional trend confirmations. He has achieved strings of 10-20 winning days in a row and switches to sim trading after reaching lost limits to set an example for his students. Room review available [5].

It took me years to find these rooms and months to substantiate them so be patient – and also let me tell you some of what they are (and are not):

- *They're polite, friendly, trustworthy traders; most mentor and many are remarkable educators*
- *They're reasonably priced; all generate a net P/L \geq \$50K/yr (\$200/d); further P/L ranking is unproductive*
- *They're easy to follow, transparent; some do not use a single indicator*
- *They're most often quiet, focused and reserved rooms; all trader-no vendor (as per Mr. Perry).*
- *They're not successful 98% of the time nor do they do not routinely make \$500/contract;*
- *They do not have a marketing dept; in cyber searches they will be distant if not invisible.*

One final recommendation: do pay attention to your Introducing Broker (there are thousands, I use Gibraltar Futures) and Futures Commission Merchant (I use Straits Financial; they publish monthly seg funds). Ask and understand how your trade costs are structured; recognize that this dynamic duo needs to be a full service, proactive firm that offering multiple platforms. Mr. Ganis of Gibraltar knows and offers stellar customer focus with established industry relationships. Don't settle for anything less.

All references: All available at: <http://www.tesseracttrading.com/#!/who/c4nz>

1. *Handley, 422 Futures Rooms - Red Pill, Blue Pill, Gold Pill, Futures Truth #3 2013.*
2. *Handley, Tesseract Trading Review, MarketClips 08.30.2013*
3. *Handley, The Strategy Lab, Room Review, MarketClips 08.19.2013*
4. *Handley, TraderShark Review, MarketClips 04.22.2013*
5. *Handley, Valhalla Review MarketClips 07.15.2013*

Dean Handley has BS; MS; PhD; MBA, JD. Author's disclosure: I do consult for and participate in Tesseract Trading stats and compendiums; they in turn list all of my room recommendations on their site. Several fellow traders (Maria Roussos, Art Dill, Stephen Wasson, Todd Lang, Ed Umbrasas, Sicco Goldetti and April Handley) have helped guide my thinking and efforts. drdhandley@yahoo.com.

