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Traders Helping Traders...

Congratulations on downloading Bill Poulos' eBook "*Choosing A Trading System That Actually Works.*"

I have reviewed many trading systems. Most are not worth the time it takes to learn them. Bill Poulos' system, [Instant Profits](#), is an exception to that general rule.

Many trading systems today are sold as "black boxes," which give you "buy" and "sell" signals but provide no explanation for those signals. You must blindly trust the system because the "secrets" behind it are never revealed. You also remain dependent upon a single vendor, who will typically charge hefty fees to maintain, support, or deliver a data feed for their product. If you stop paying them, or if they are no longer in business, your "system" is kaput.

With [Instant Profits](#), Bill Poulos "pulls back the curtain" and shows you precisely how his system functions. It does not require proprietary software, hardware, or data. The system is not magic, just a very disciplined mechanical approach to making money by trading the markets.

What follows is a brief glimpse at what Mr. Poulos believes makes for a good trading system. You can bet that these qualities are embodied in his own system.

Enjoy the read and good trading!



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Bill Poulos, founder of Profits Run

Choosing a Trading System That Actually Works

Background

A good trading system should be an integral part of one's portfolio in order to enjoy superior returns with controlled risk. Finding a good trading system, however, can be a very difficult process. The problem stems from the fact that most systems that are hyped to the public are not good, meaning they do not deliver the performance claimed by the promoter. So it becomes necessary to have a way of distinguishing falsely-hyped systems from good systems. Fortunately, there is a way to do this by using a demanding set of criteria that must be met in order for you to consider using the system.

The purpose of this report is to define the criteria that will enable you to identify the few truly good systems out there from all the rest.

Criteria

Listed below are the key elements of the criteria set you should use in evaluating a trading system. A good trading system will meet the requirements of each key element whereas most systems will only meet some requirements. For example, a trading system may be advertised as having 80% winning trades which sounds pretty good. However, that same system's losing trades may be 5 times higher than the average winning trade, making the system a net loser.

The trading system must be 100% mechanical without any human input or overrides.

Mechanical System

The trading system must be 100% mechanical without any human input or overrides. It must also not be tweaked or adjusted as time goes on to fit current data. Also, the system algorithms or rules must not be curve-fitting or tailored to short term, non-repetitive patterns of past data that eliminate otherwise losing trades. A good way to screen for curve-fitting is to look for consistently good results over a minimum of 5 years of past data that meet all of the other criteria outlined in this report as well. Many systems promoters will cherry-pick the winning trades ignoring the losing trades or worse yet fail to disclose their losing trades altogether.

Liquid Markets

The trading system should be aimed at liquid markets where sufficient daily volume exists to easily and consistently execute orders as intended by the system with a minimum of slippage. For example, the S&P 500 Index Futures Market is highly liquid, whereas the Orange Juice Futures Market is far less liquid.

Market Direction Independence

A good trading system will not be dependent on a bull market for its success. It should generate successful trading performance in all market conditions; bull, bear, and sideways trading range.

Hypothetical Performance Results

The primary way of evaluating a trading system is based on its historical back tested performance (“hypothetical performance”). But the performance record must include real world trading commission and slippage assumptions. Commission and slippage can cause an otherwise winning performance to actually be a net loser. Beware of any trading system performance data where commission and slippage assumptions are not included or are understated – such data is nothing but hype.

Before selecting a trading system, you must be able to quantify the drawdown risk and find it suitable, both financially and emotionally.

Maximum Drawdown

An inherent characteristic of investing in general and in trading systems in particular is the maximum drawdown in account value from the most recent peak. This is a very important factor in assessing the risk associated with any system. There are two aspects to consider; the dollar amount of the drawdown as a percentage of the total account value (should not exceed 1/2 of the average annual return) and the duration of the drawdown until a new peak level in equity is realized (should not exceed 6 months). Many trading systems hype great profits over the past several years, but don't disclose drawdowns that sometimes exceed the initial capital invested and last for a year or more. Before selecting a trading system, you must be able to quantify the drawdown risk and find it suitable, both financially and emotionally.

Beginning Account Size

The maximum past drawdown (over a minimum five year period) plus the margin required for one contract is the absolute minimum account size required to trade a system. And to be conservative, it is prudent to add a buffer since the maximum drawdown for any trading system is always in the future. Many systems promoters dramatically understate the beginning account size required to successfully trade their systems, setting up false expectations and probable failure.

Annual Returns

Annual returns are measured as net profit after commissions and slippage, divided by the beginning account size which gives you annual percent return on beginning account size.

Two things are important here. First, the average annual net profit should be a minimum of twice the maximum drawdown over a period of at least 5 years. Second, there should be no losing years.

Remember, a trading system must meet all of the criteria elements outlined here to qualify as a system that you would consider trading for your own account.

Trade Profile

There are two aspects important here. First, the percent of profitable trades should be in the 40-60% range and the ratio of average win to average loss should be in the 1.3 - 2.0 range. Second, the average trade net profit (total net profits divided by the total number of all trades) should be at a minimum 3 times greater than real world per trade slippage and commission assumptions. Beware of systems claiming to deliver greater than 60% winners. Such systems usually exhibit a very poor average win to average loss ratio where a few losing trades can easily wipe-out profits from several winning trades.

You Now Have the Tools

By following the guidelines in this report, you are now in a position to distinguish the difference between falsely-hyped systems and good systems that deliver superior returns with controlled risk. Remember, a trading system must meet all of the criteria elements outlined here to qualify as a system that you would consider trading for your own account.

The Next Move Is Yours

Trading systems are not for everyone. Trading involves significant risk. However, the appropriate use of a good trading system could mean the difference between mediocre and superior returns. You now have the tools necessary to choose the right system for you. We hope this report has been informative and adds to your success in the future.

Good Trading,

Bill Poulos

