My 5 Favorite Entries

By Kevin J. Davey

Today's Agenda

- **Who Am I?**

- **What is Really Important?**

- **My 5 Favorite Entries**

- **How To Turn Entries into Strategies**

- **Questions and Answers**
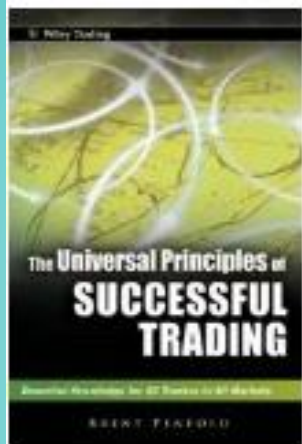- **Book Giveaway**

Disclaimer

Who Am I?

- **<u>FULL TIME TRADER,</u>** part time writer/consultant

- **25+ years trading experience**

- **1ˢᵗ or 2ⁿᵈ Place - World Cup of Futures Trading Championship – 3 years straight**
  - **Over 100% annual return each year**

Who Am I?

KJ TRADING SYSTEMS
Learn From A Verified Trading Champion

- **Profiled as "Market Master"**

The Universal Principles of SUCCESSFUL TRADING

"The Universal Principles of Successful Trading"
By Brent Penfold
(Wiley 2010)

TRADING TECHNIQUES: RISK MANAGEMENT

Myths and facts of equity curve trading

BY KEVIN J. DAVEY

- **Frequent writer, Futures Magazine**
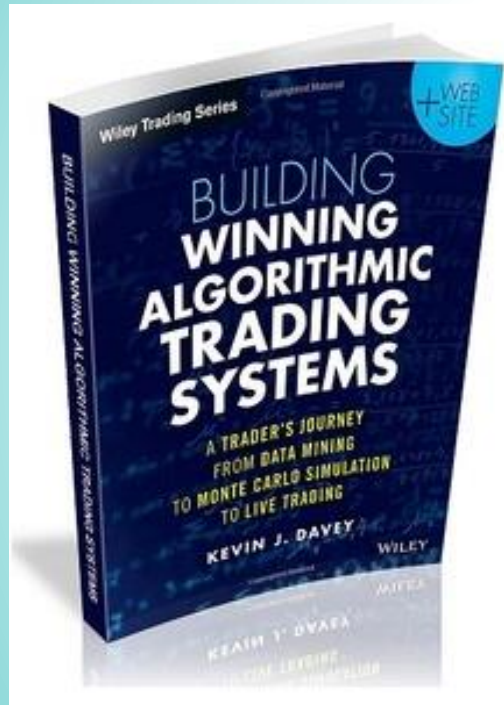
- **"kevinkdog" on bigmiketrading.com**

  Moderator of algo trading contest

kevinkdog
Market Wizard
Cleveland Ohio/United States

Trading Experience: Advanced
Platform: Tradestation
Broker/Data: various
Favorite Instrument: futures

Posts: 1,566 since Jul 2012
Thanks: 687 given, 2,512 received
Forum Reputation: Legendary

Author

BUILDING WINNING ALGORITHMIC TRADING SYSTEMS

A TRADER'S JOURNEY FROM DATA MINING TO MONTE CARLO SIMULATION TO LIVE TRADING

KEVIN J. DAVEY

"This is a very impressive book." —Dr. Van K. Tharp, Market Wizard

"This book is a must read!" —Andrea Unger, World Cup Championship of Futures Trading® Winner 2008, 2009, 2010, 2012

"For those aspiring to trading success, Kevin gives a step by step guide on how to approach systems development" —Michael Cook, Founder, Katmai Capital Advisors; World Cup Championship of Futures Trading® 2007 & 2014

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My Book

Average Customer Review: ★★★★☆ (26 customer reviews)
Amazon Best Sellers Rank: #76,153 in Books (See Top 100 in Books)
  #13 in Books > Business & Money > Investing > **Futures**
  #20 in Books > Business & Money > Investing > **Online Trading**

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My Trading History

- **First 10 years of trading -- I spent a lot of time DOING THINGS THE <u>WRONG</u> WAY!**

- **Losses lead to in-depth research**

- **Combining what winning traders did with my own personality/psychology led me to where I am today**
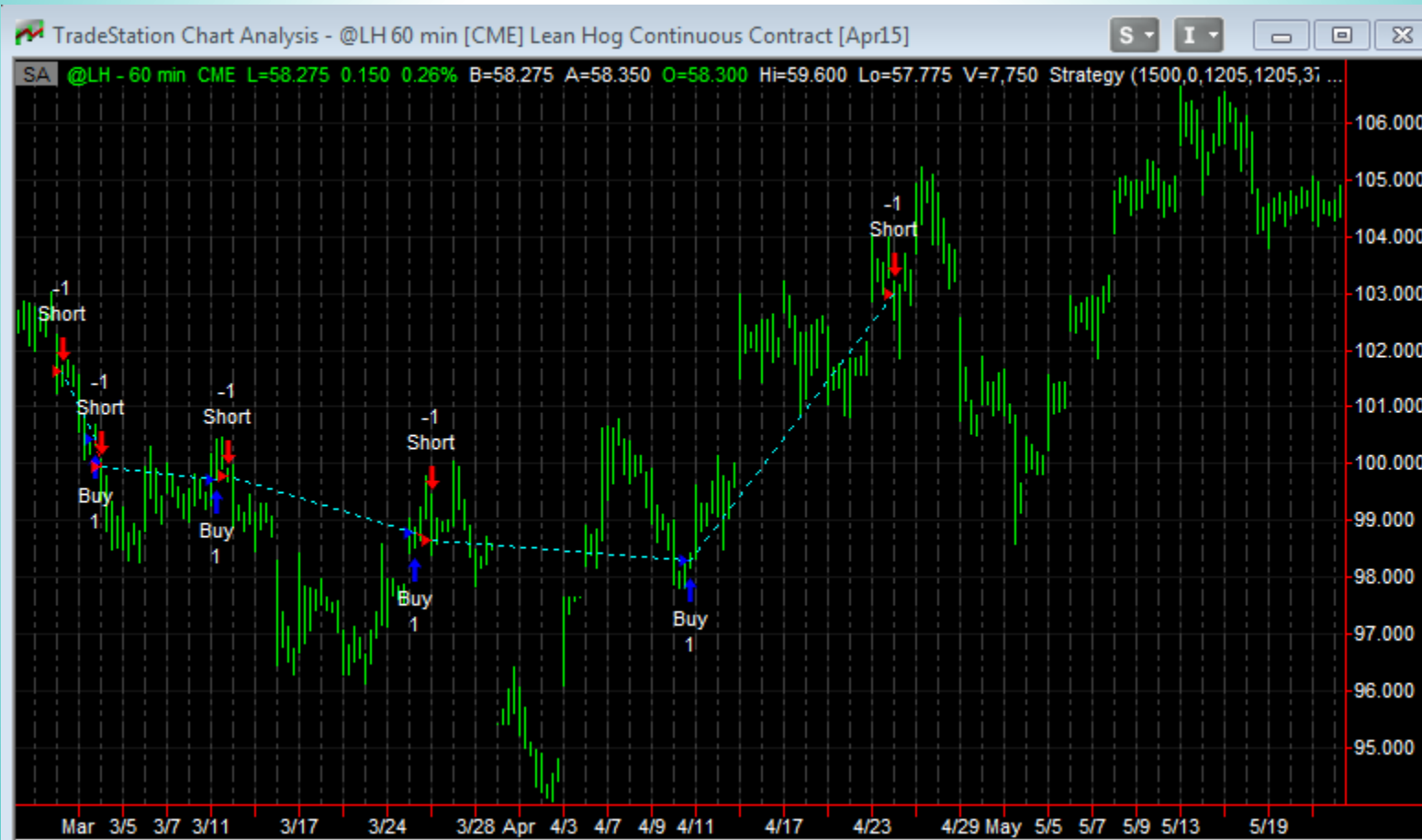
My Trading History

Breakthrough:

When I started to develop my own trading entries and strategies THE RIGHT WAY!
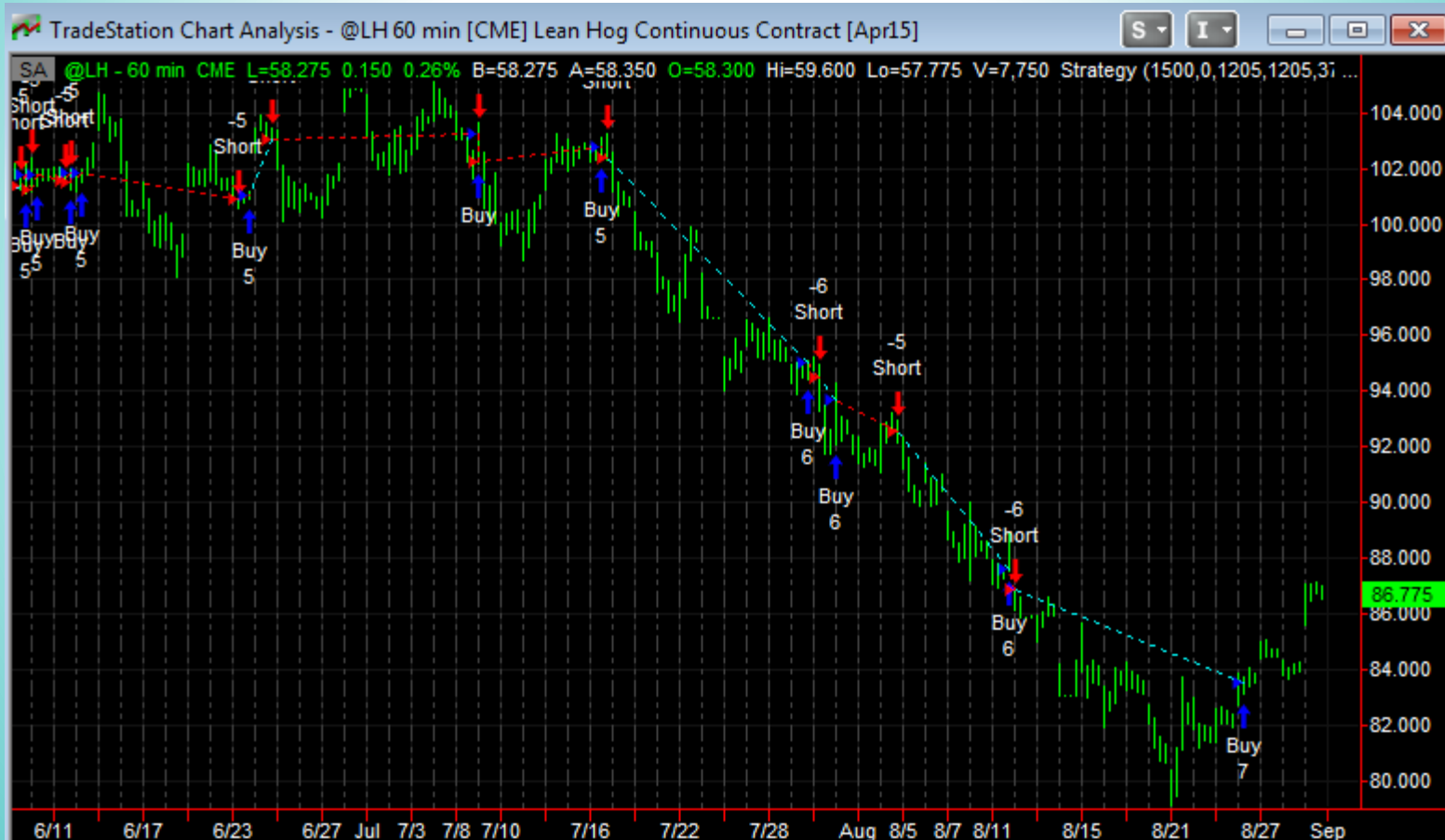
What is Really Important
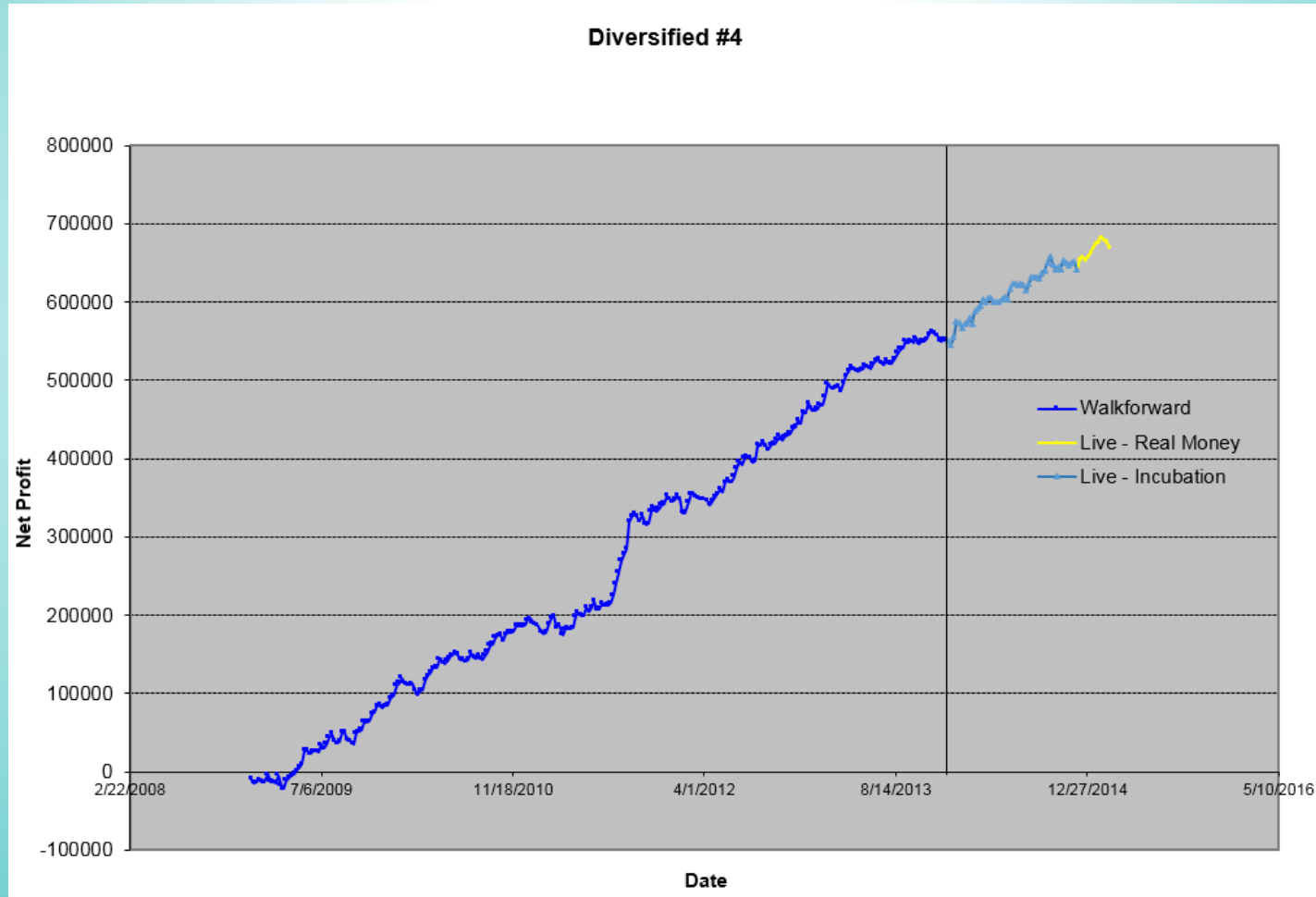
- **Entries?**
- **Exits?**

What is Really Important

- **Position Sizing and Money Management?**

What is Really Important

- **Diversification?**

10 "Decent" Strategies, traded together

Diversified #4

What is Really Important

- **The truth is…**

ALL OF IT IS IMPORTANT!

What is Really Important

- **Entries/Exits – establish your edge**

- **Position Sizing/Money Management – control your risk, THEN maximize reward**

- **Diversification - smooth the equity curve (MOST IMPORTANT, IN MY OPINION)**

- **Without all of these, success is difficult!**

What is Really Important

- **Entries/Exits** – **establish your edge**

- **Position Sizing/Money Management** – **control your risk, THEN maximize reward**

- **Diversification** - **smooth the equity curve**

- **Without all of these, success is difficult!**

Today's Focus - Entries

- **5 unique entries that I use in today's markets**

- **Characteristics of My Entries**

- **How I Test and Evaluate**

- **How You Can Use These and Other Entries In Your Own Development**
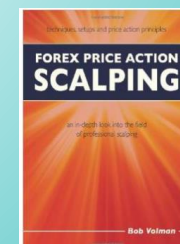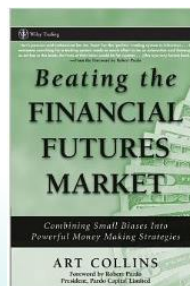
Agenda
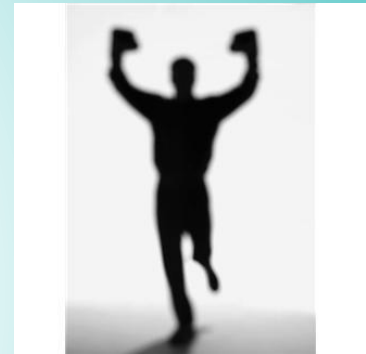
5 Unique Entries

Favorite Entries

My Entry Ideas Come From Anywhere and Everywhere!

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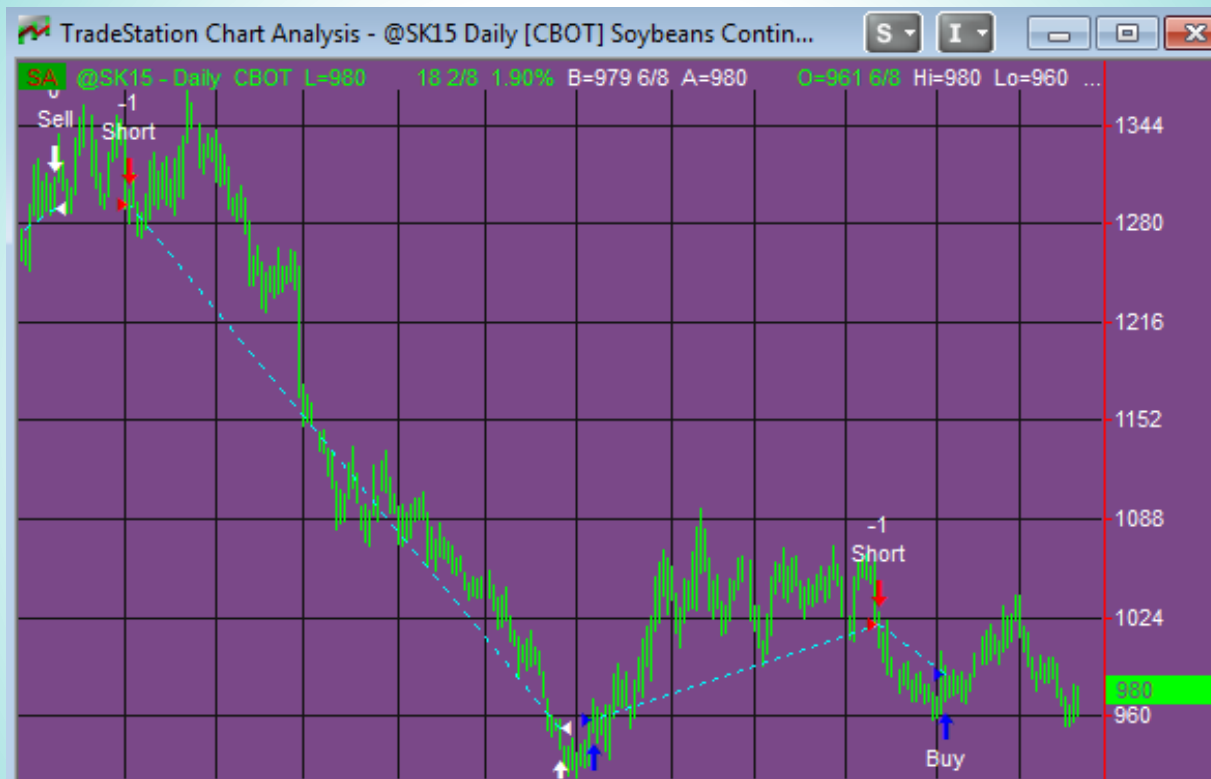
Favorite Entries

- **I actually trade all of the these entries in strategies today!**

- **2 Keys**

  - **Modifying entries to make them my own**

  - **Rigorous testing as part of development process**

My Process

```
┌─────────────────────────────────────────────────┐
│        Performance Goals and Objectives          │
└─────────────────────────────────────────────────┘
```


Performance Goals and Objectives → Trading Idea → Limited Feasibility Testing → Walkforward Testing And Optimization → Monte Carlo Simulation → Incubation → Diversification, Position Sizing → Full Size, Real Money Operation
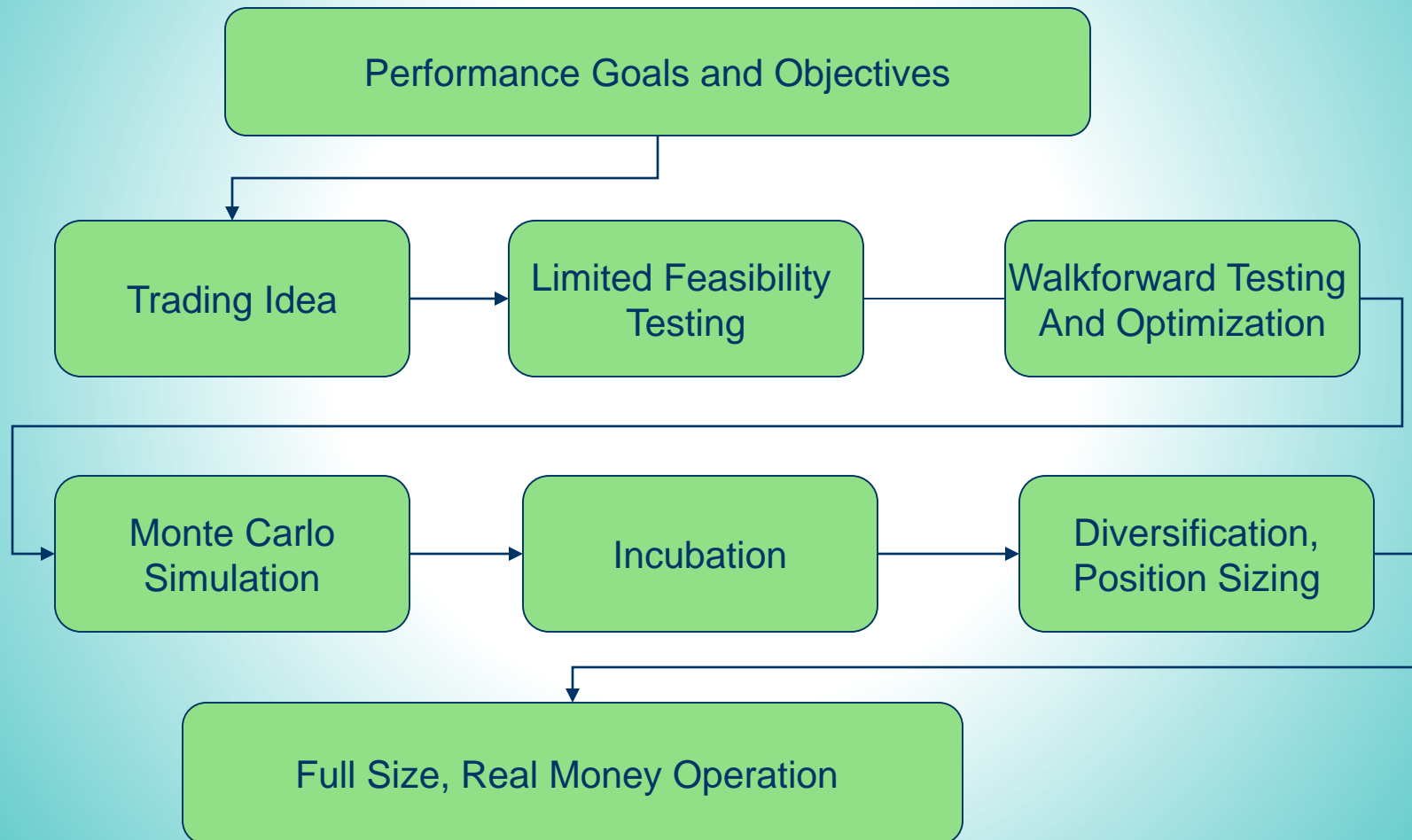
Entry #1

- ## **Momentum and Big Range**

- ## **Idea: Go with momentum after big range bars**

Entry #1

- **Code**

```
rrange=high-low;

if rrange>2*stddev(rrange,xr)+average(rrange,xr) and
close>close[daysback] then buy next bar at market;

if rrange>2*stddev(rrange,xr)+average(rrange,xr) and
close<close[daysback] then sellshort next bar at market;
```
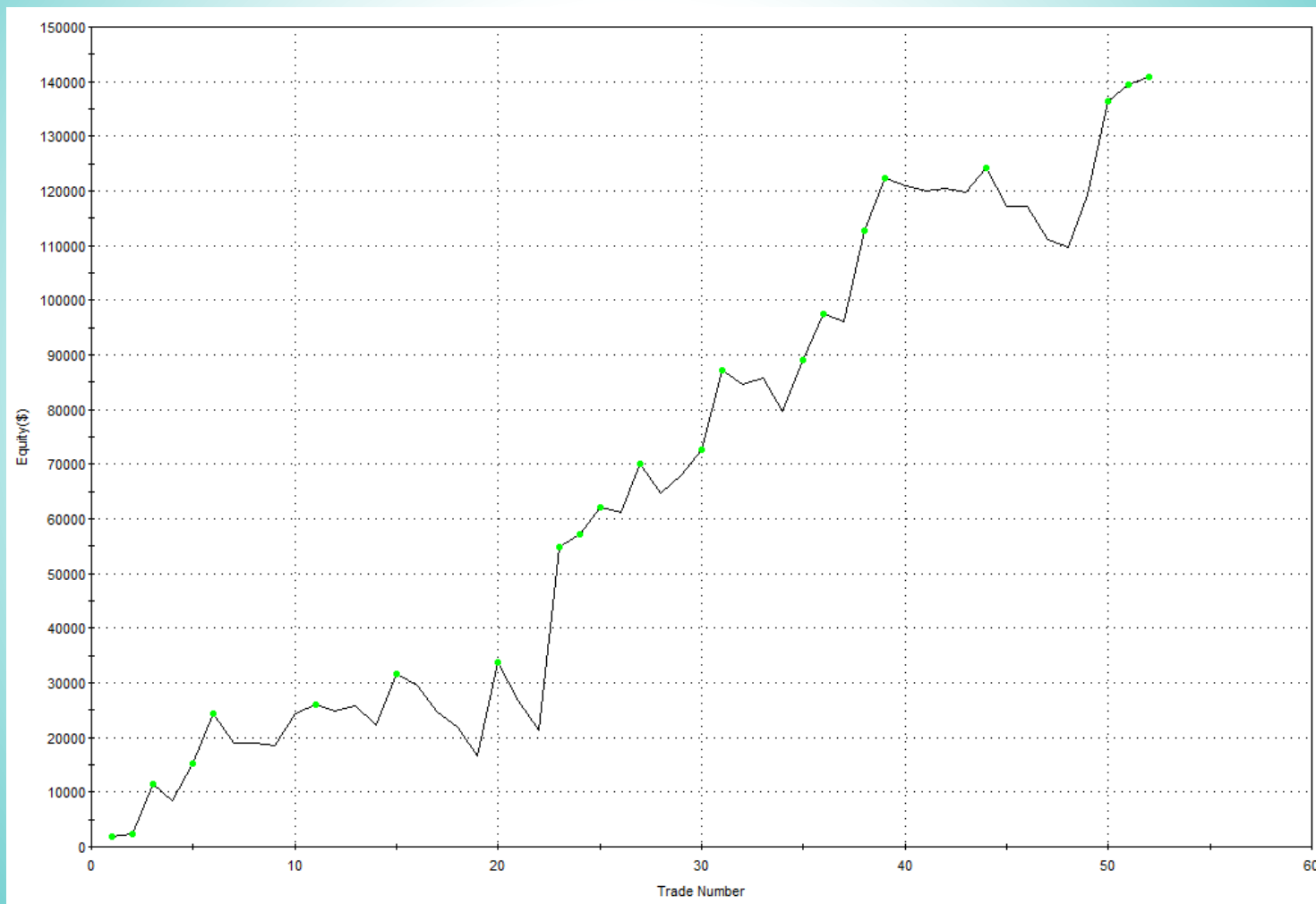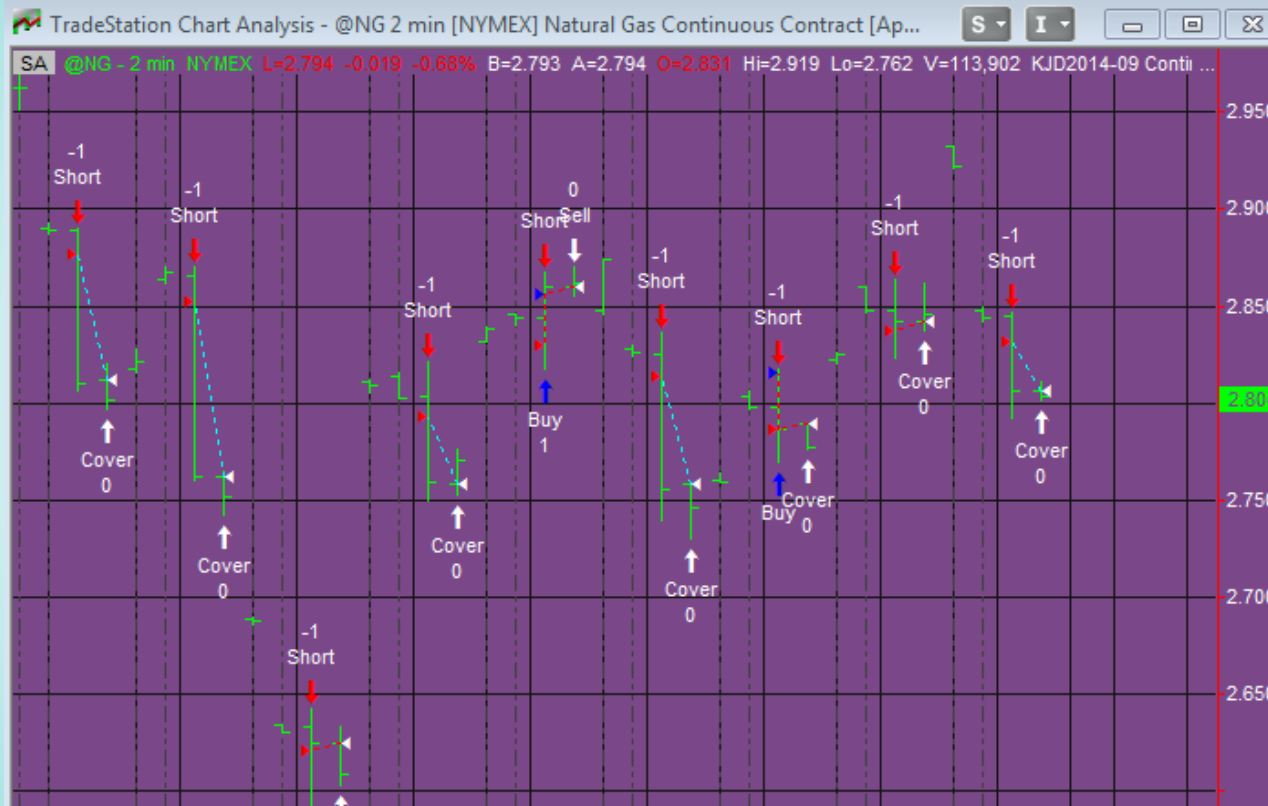
- **2 variables: xr, daysback**

Entry #1

- **Performance**

Entry #2

- ● **Breakout – Report Play**

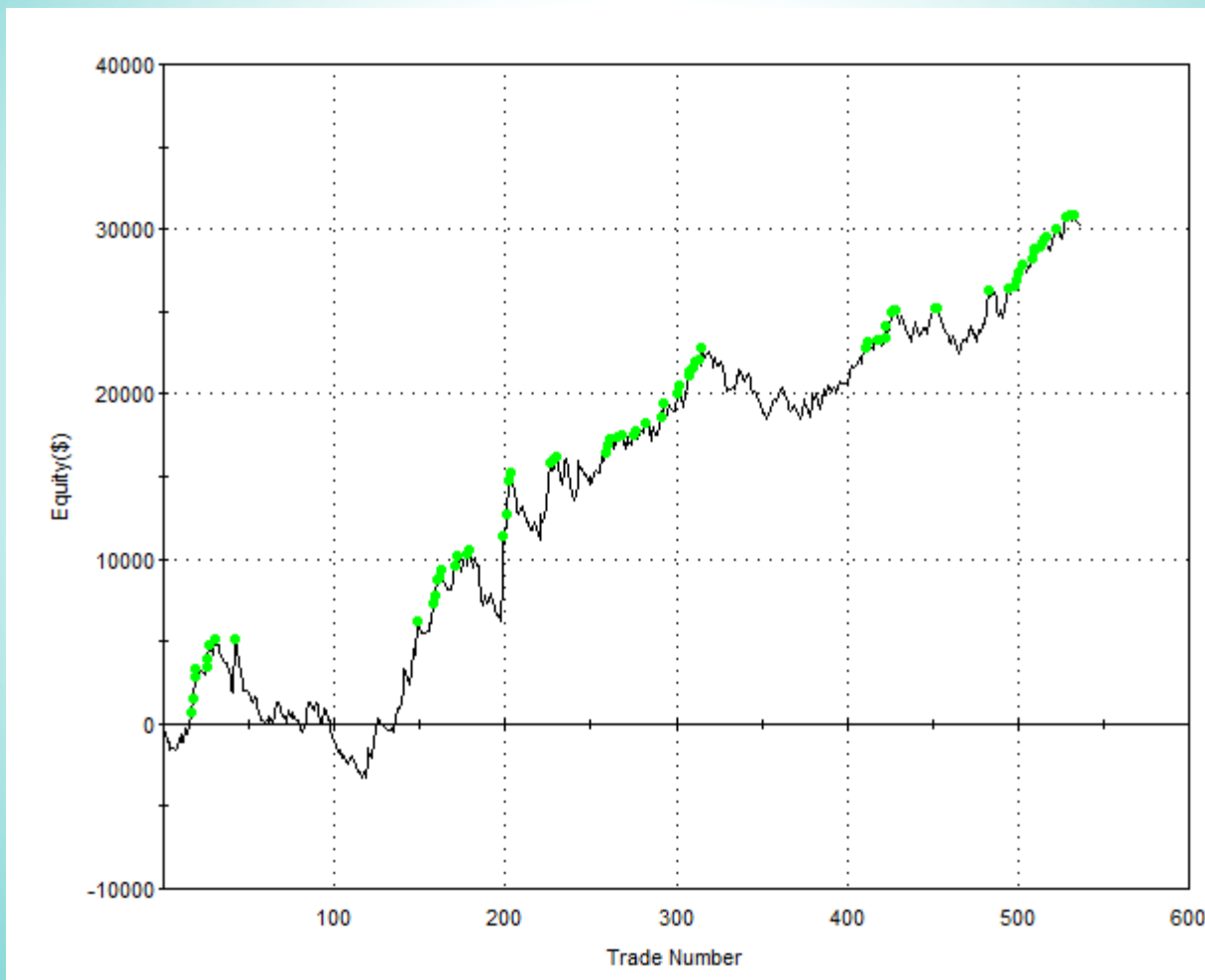- ● **Idea: Go with the trend after a regular report**

Entry #2

- **Code**

```
If time=XXX then begin
 buyprice=high+.01;
  sellprice=low-.01;
end;


If time=XXX then begin
 Buy next bar at buyprice stop;
  Sellshort next bar at sellprice stop;
end;
```

- **1 variable: XXX**

Entry #2

- **Performance**

Entry #3

- **Mean Reversion**

- **Idea: Look for low volume reversal points**

Entry #3

- **Code**

```
If v<average(v,5) then begin

 If close=lowest(close,len)   then buy next bar at market;

 If close=highest(close,len)    then sellshort next bar at
market;


end;
```
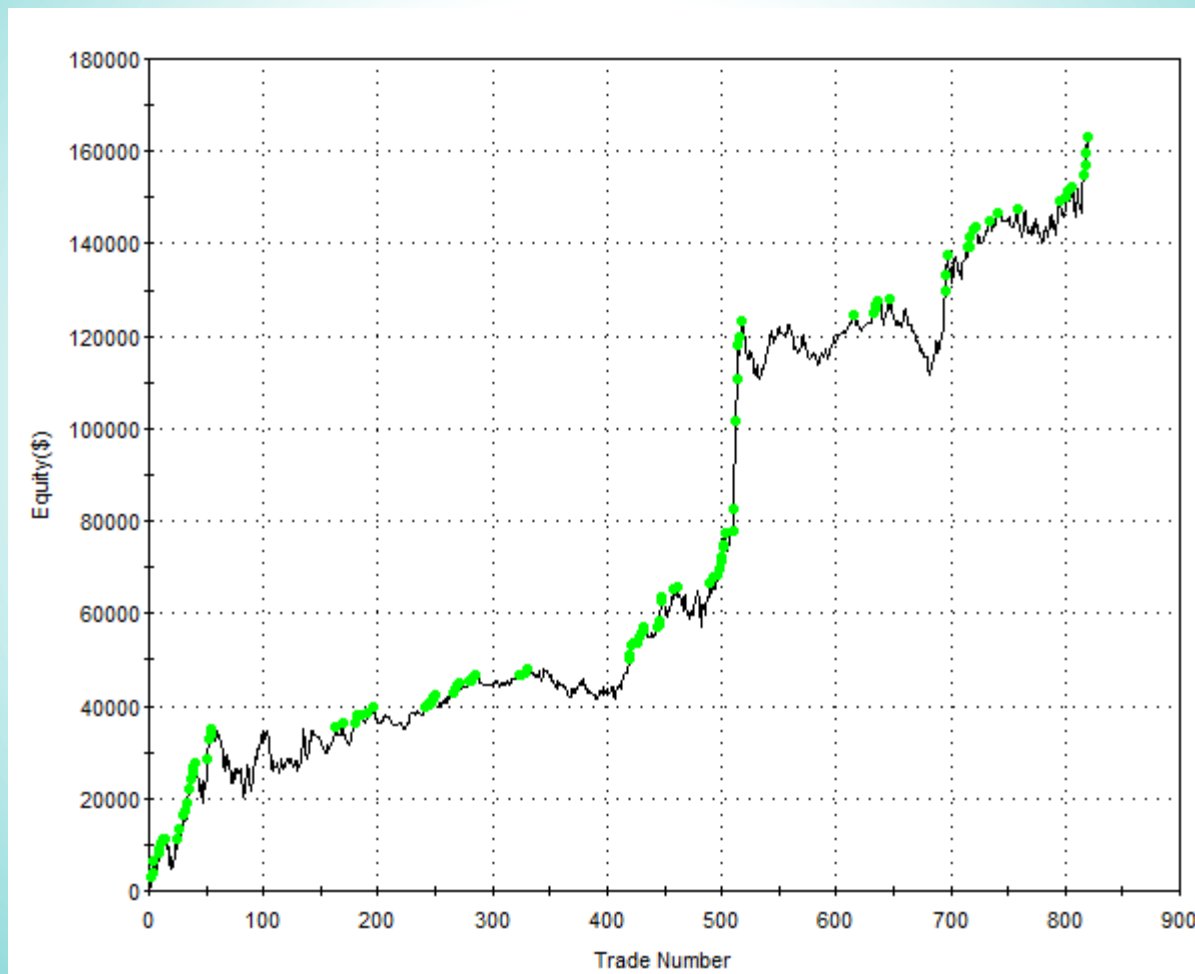
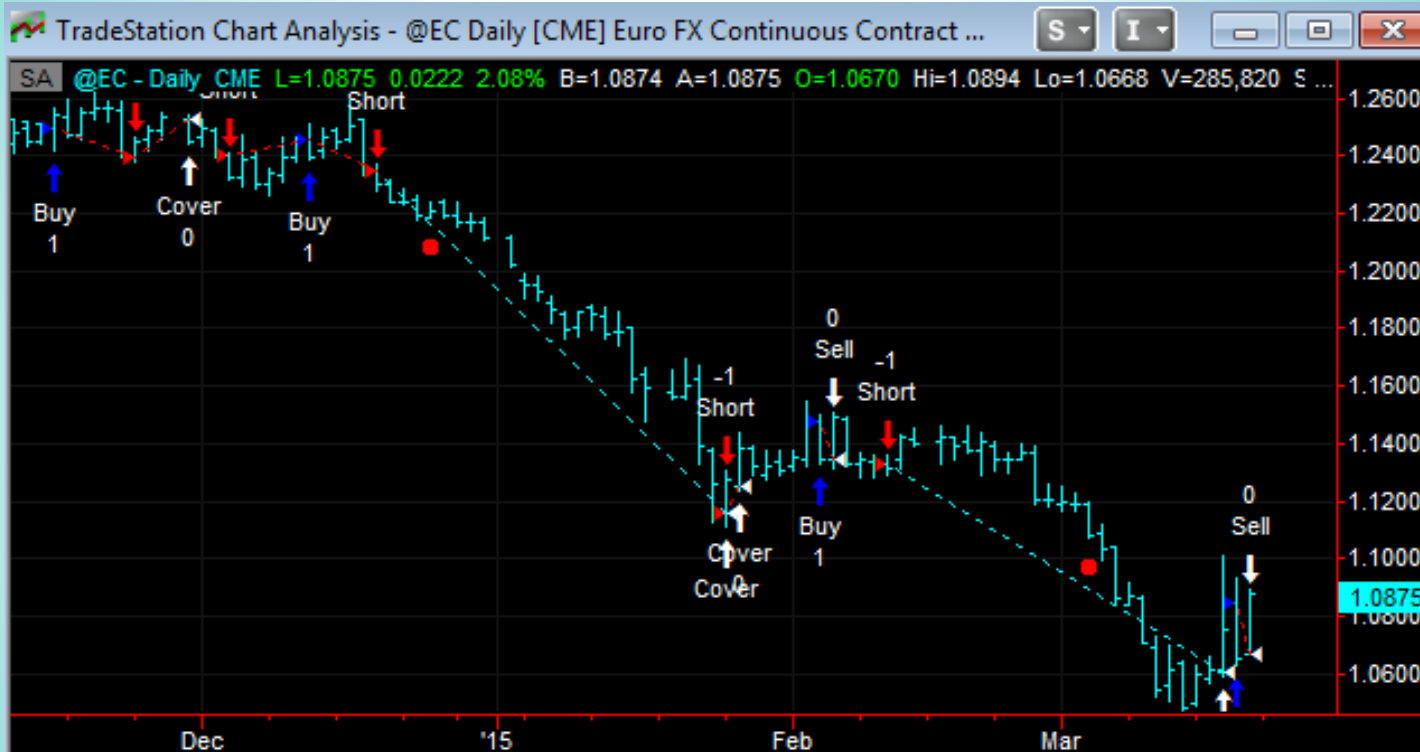- **1 variable: len**

Entry #3

- **Performance**

Entry #4

- **Simple Breakout**
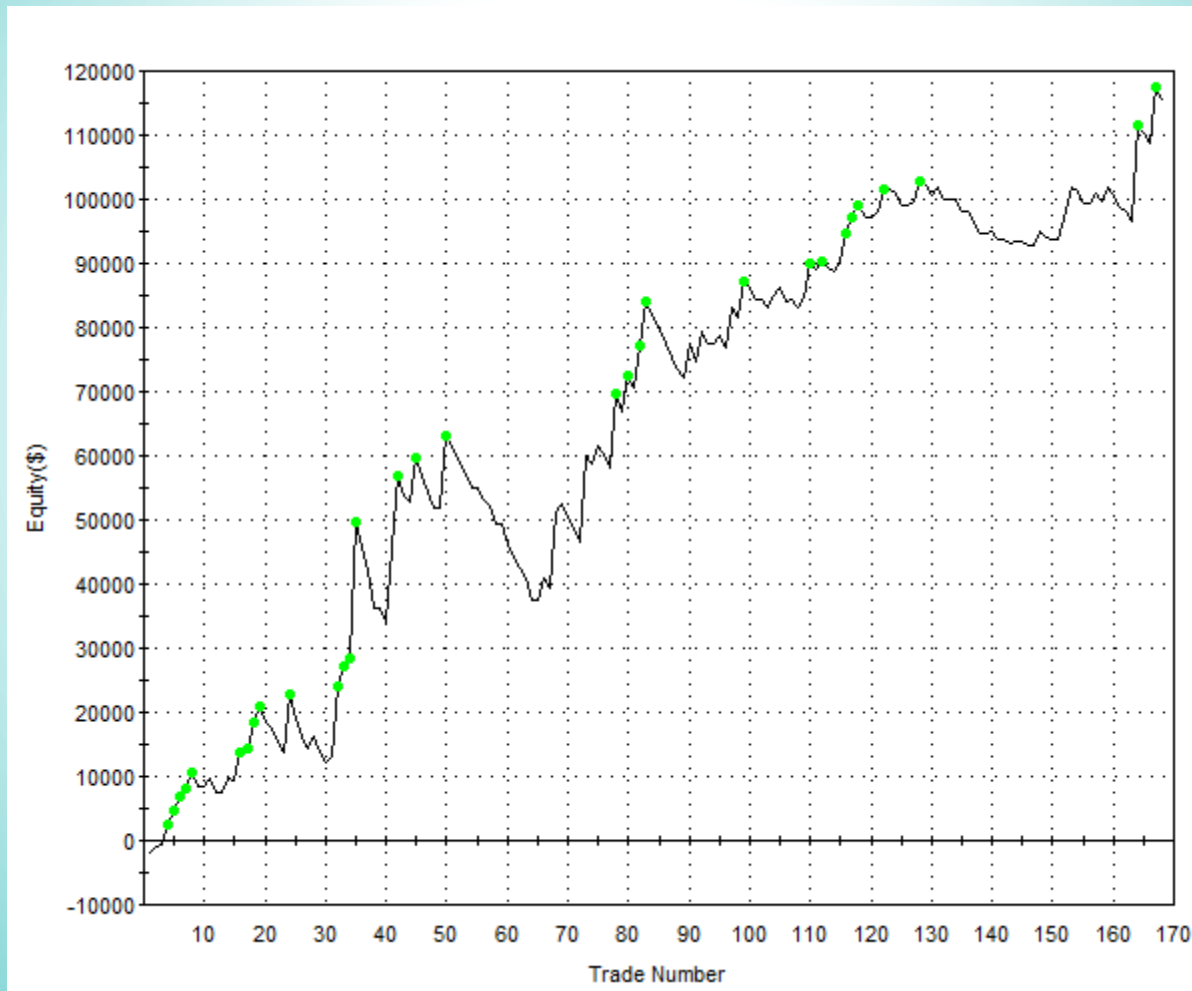

- **Idea: Go With The Trend!**

Entry #4

- **Code**

```
if Close >= Highest( Close, Length )  then buy Next Bar at
Market;


if Close <= Lowest( Close, Length )  then SellShort Next Bar at
Market;
```
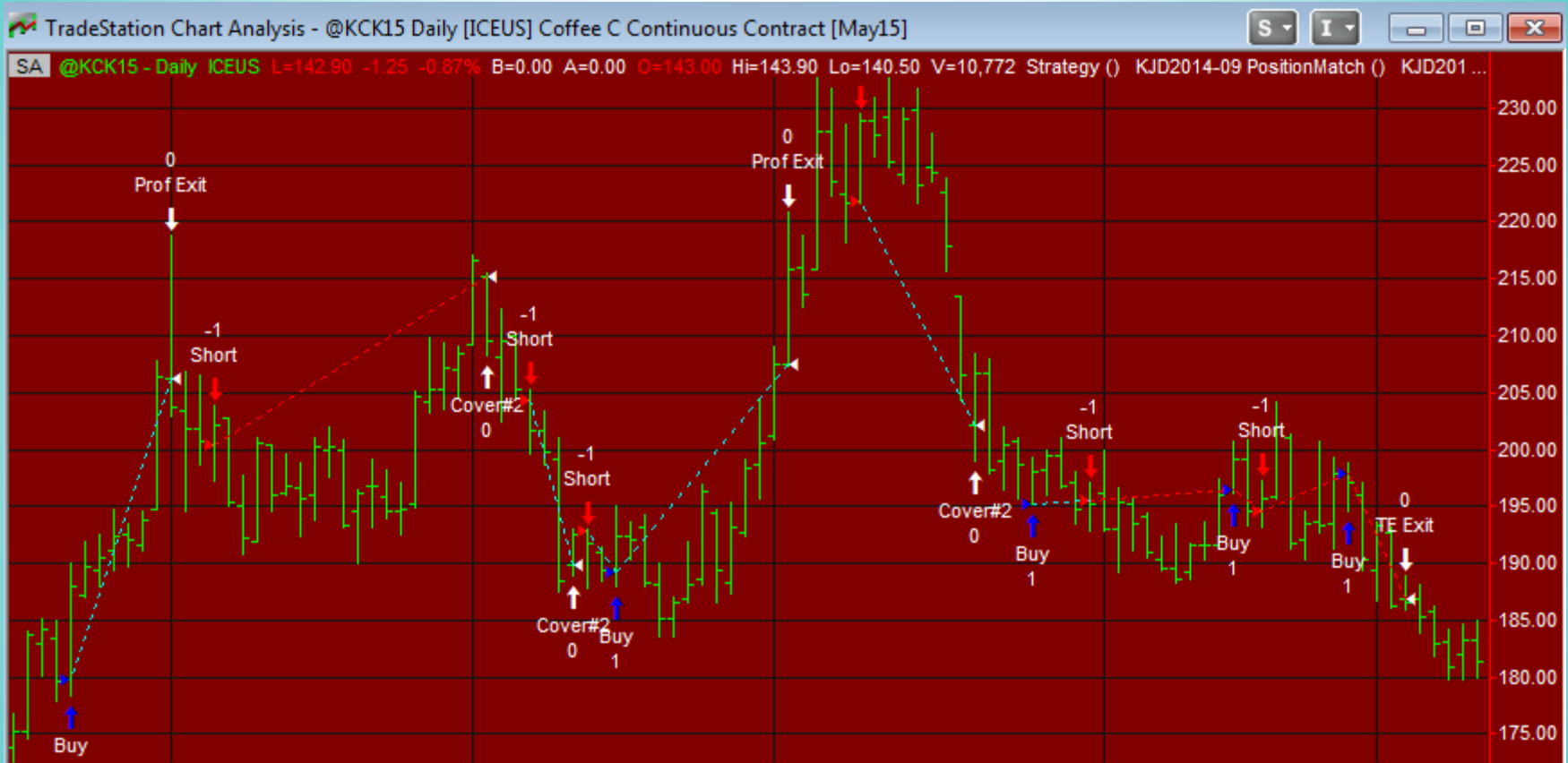
- **1 variable: Length**

Entry #4

- **Performance**

Entry #5

- **Dueling Momentum**

- **Idea: Go with short momentum, against long momentum**

Entry #5

- **Code**
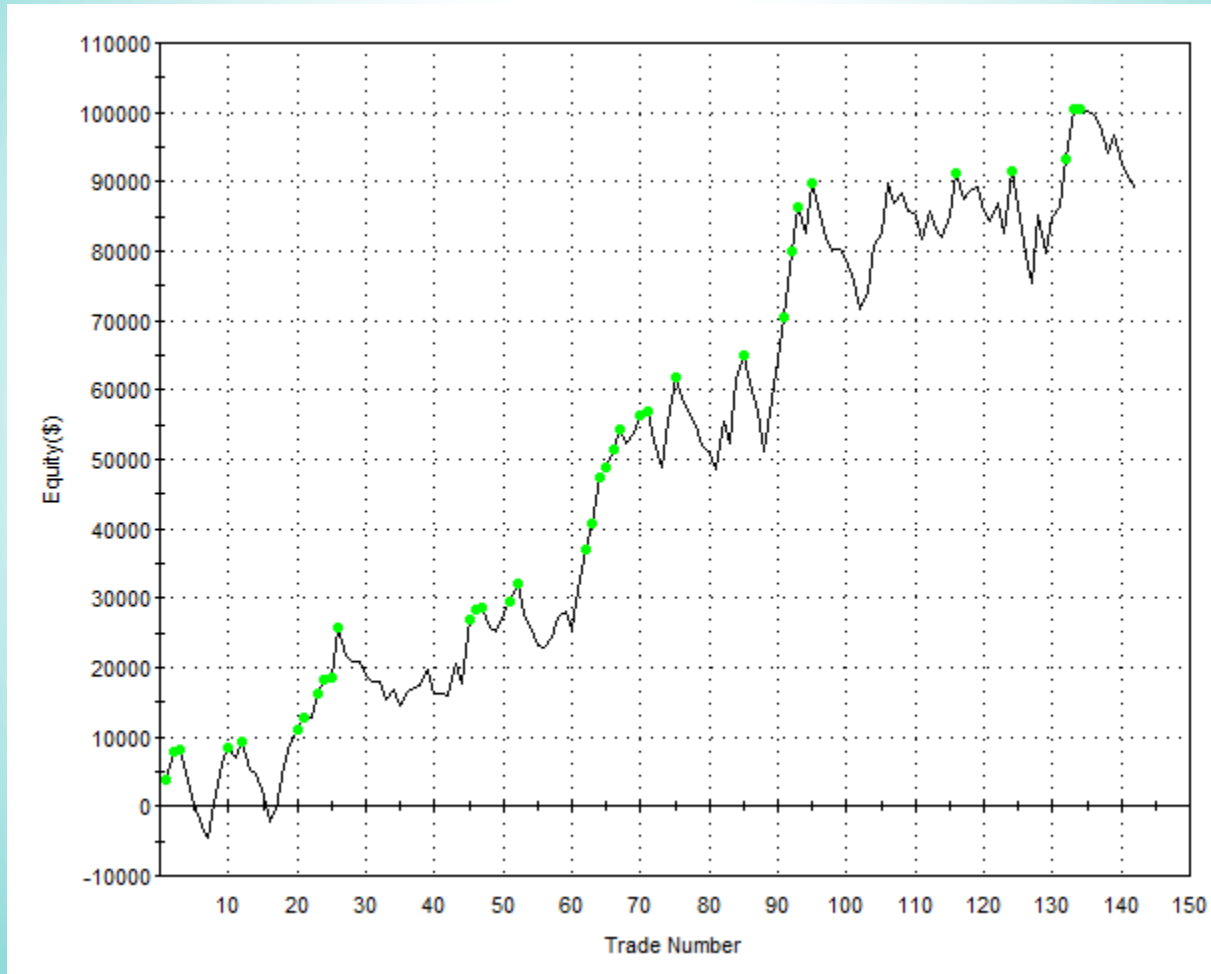
```
if c>c[sl] and c<c[slx] then buy next bar at market;

if c<c[sl] and c>c[slx] then sellshort next bar at market;
```
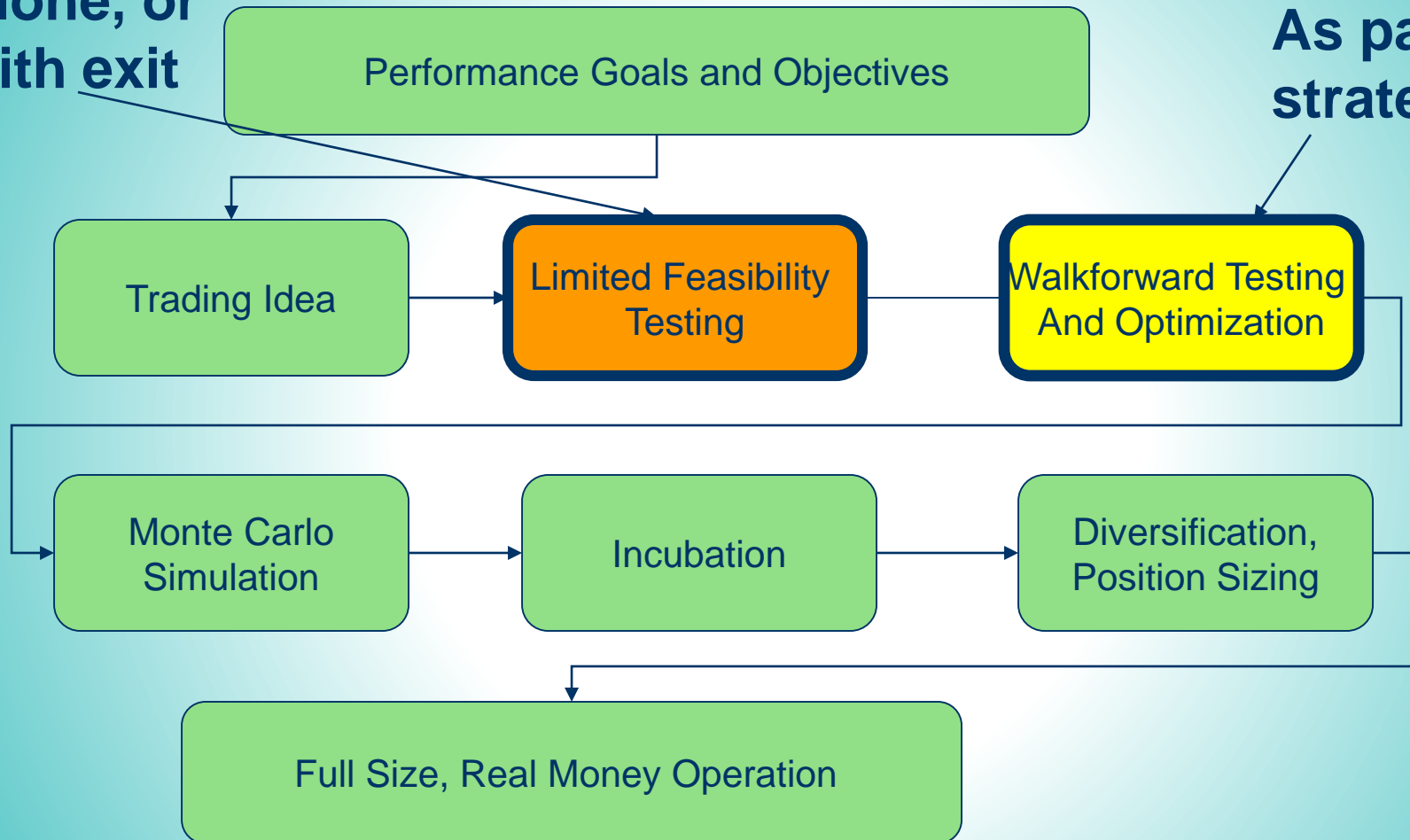
- **2 variables: sl, slx**

Entry #5

- **Performance**

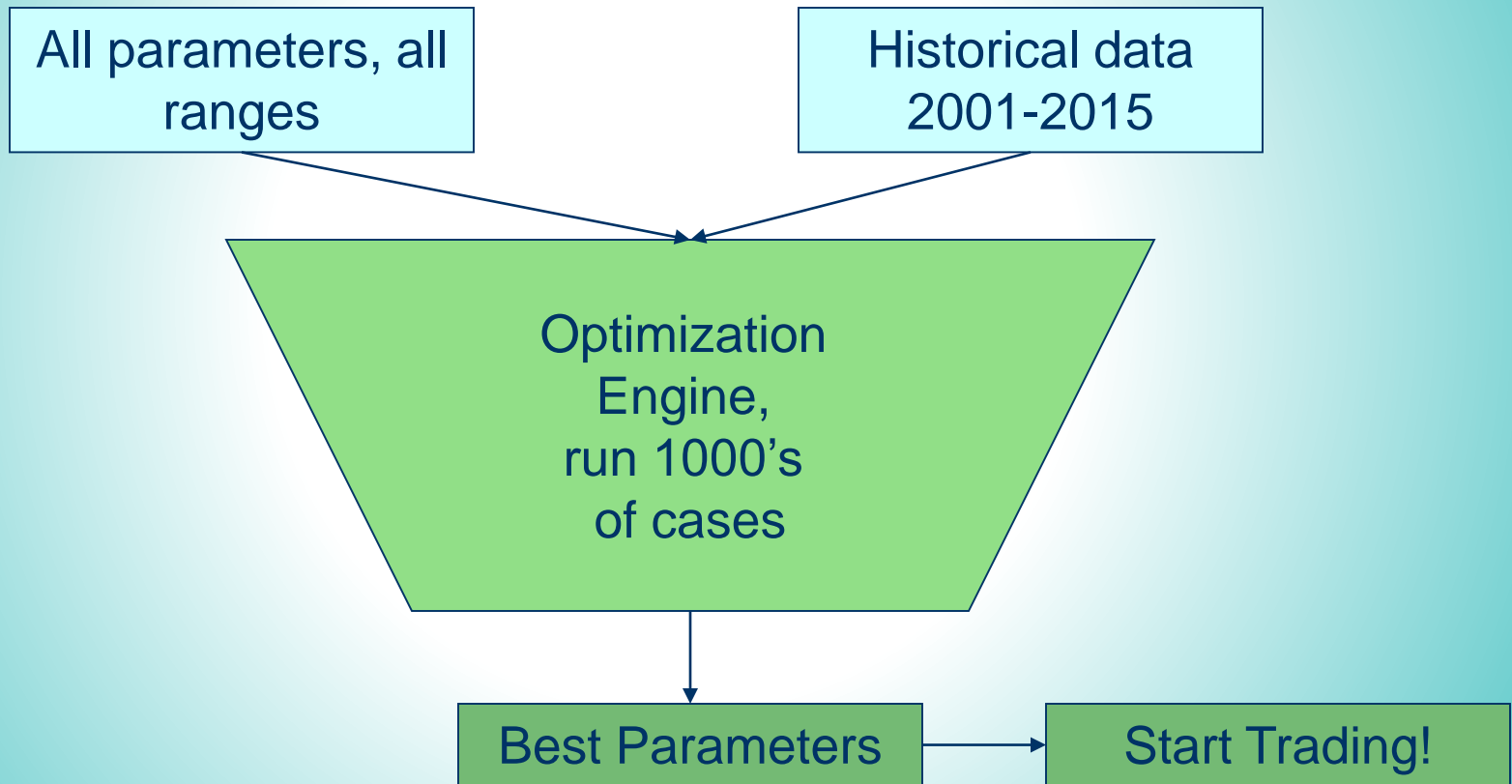# How I Test Entries

Using These Entries

- **The BIG Question – the 800 lb Gorilla in the room**

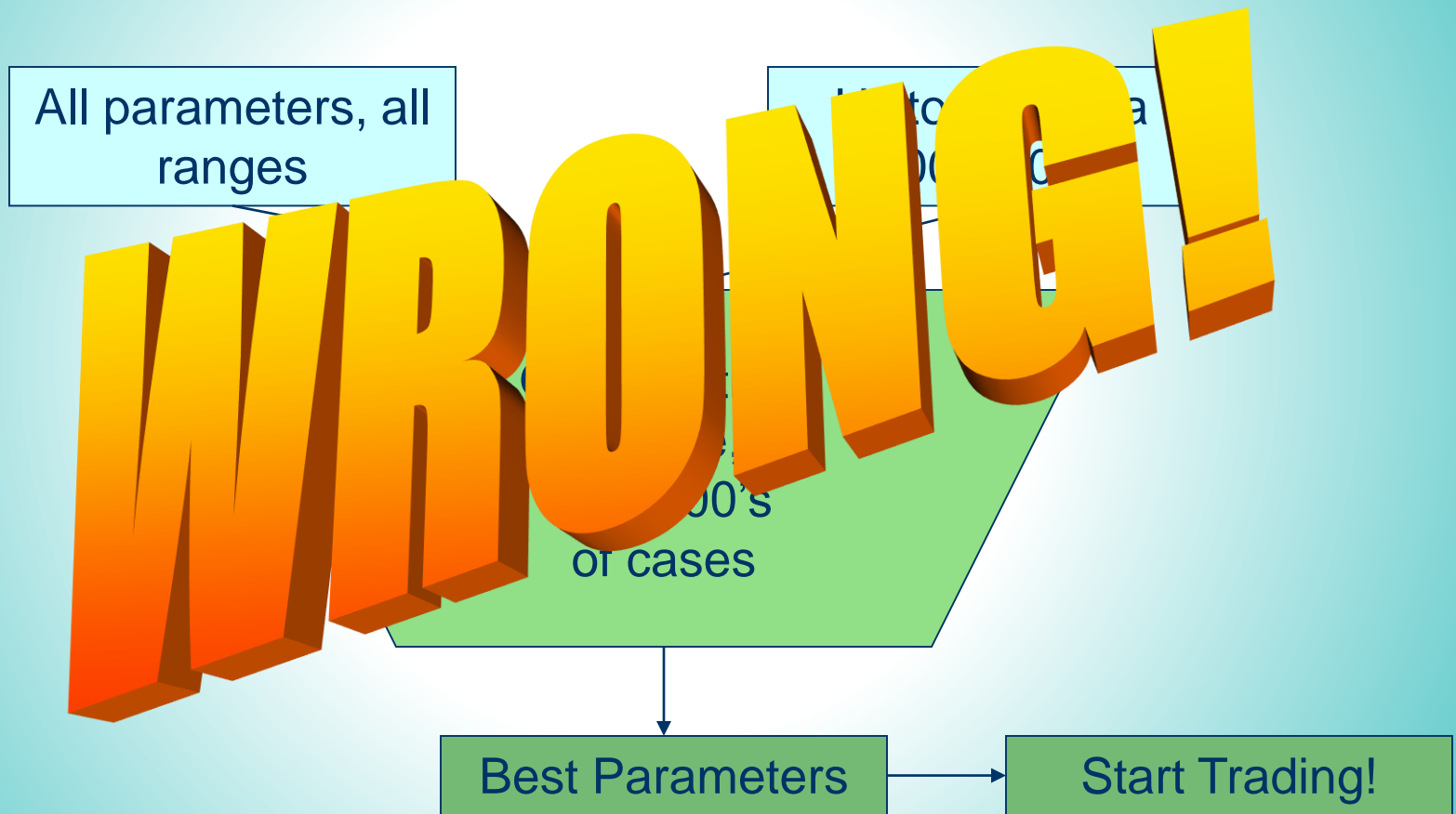- **How Can You Create Strategies Using All These Entries?**

Detailed Analysis

- ## Traditional Backtest

All parameters, all ranges

Historical data 2001-2015

Optimization Engine, run 1000's of cases

Best Parameters → Start Trading!

Detailed Analysis

- **Traditional Backtest**

All parameters, all ranges

H...to... a
...o... o

00's
of cases

WRONG!

Best Parameters → Start Trading!

Building Strategies

- ## The Reality For Most People

Equity Curve Line - @NQ.D 30 min.(01/02/08 10:00 - 04/29/11 16:15)

A strategy that looks great in backtest...

Equity Curve Line - @NQ.D 30 min.(01/02/08 10:00 - 03/06/15 16:15)

but falls apart with real money...
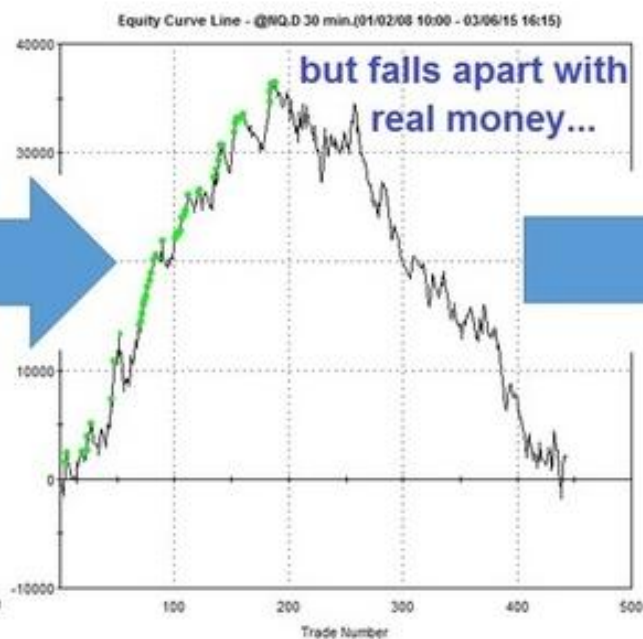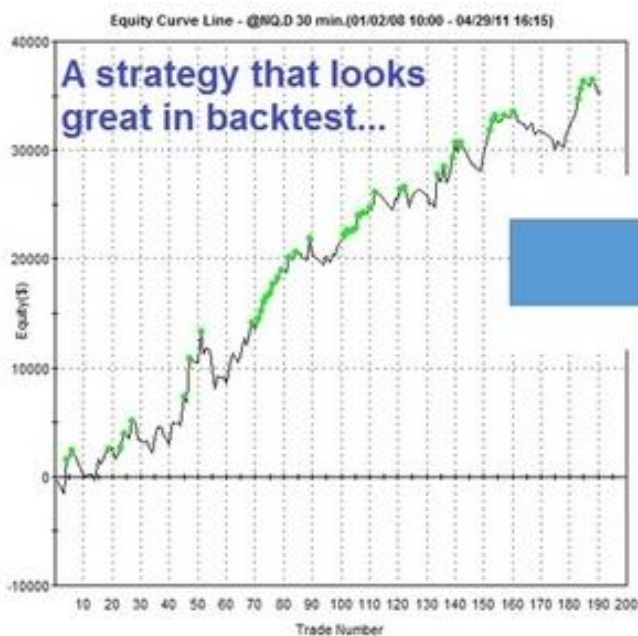
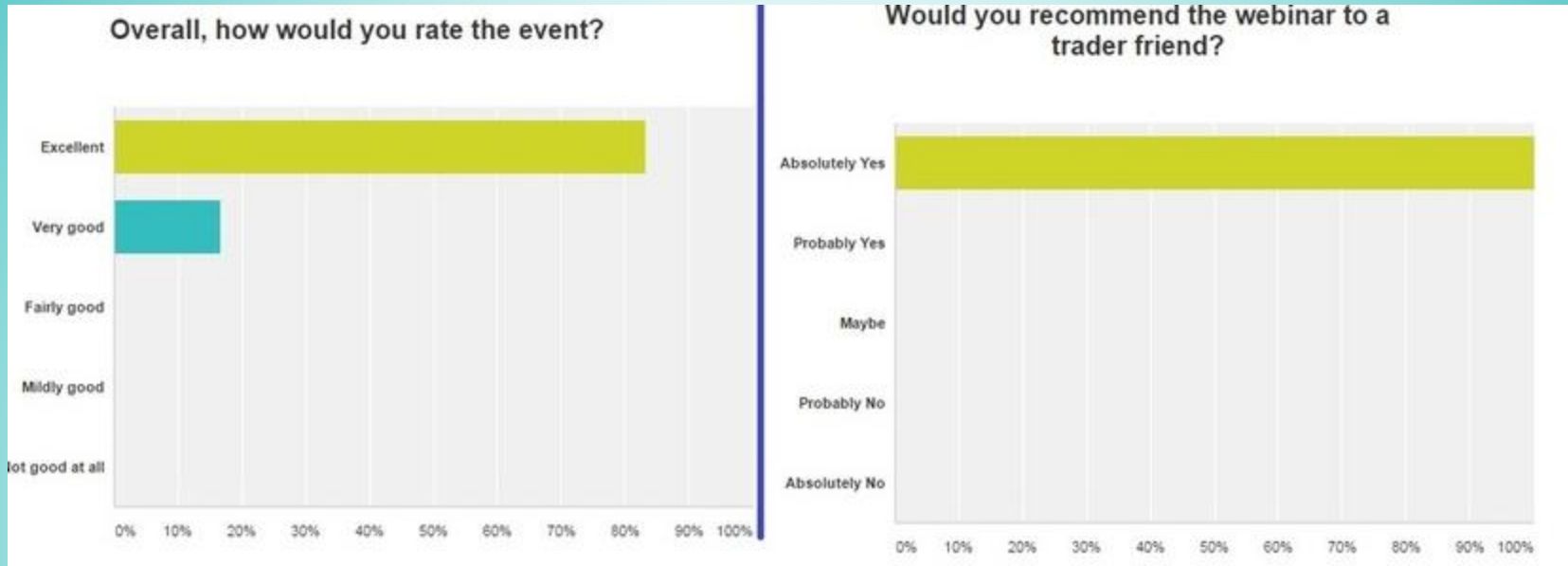leads to complete frustration!

Building Strategies

- **That's where I can help…**

  – **I can help you**

    - **How I create strategies that work**

    - **How to create strategies the RIGHT way**

    - **How you can begin creating your own strategies**

The Strategy Factory Workshop

- How To Find Trading Ideas
- How To Properly Test a Strategy
- How To Evaluate - 10+ Ways to Evaluate a Trading System
- How To Build a Strategy
- Why Goals and Objectives Are CRITICAL to Your Success
- How To Test the Wrong Way
- Why You Need a Strategy Factory
- How to Select a Trading Software Package
- How To Recognize Testing Pitfalls

- How To Avoid 9 Terrible Mistakes I've Made in Trading
- Why You Won't Get Burned Again By Snake Oil Vendors
- How To Separate Trading Fiction From Trading Fact
- Who to Believe in Trading, and Who Not to Believe - And Why
- How to Look at an Equity Chart And Tell if it is Fake
- How To Test - 4 Ways of Testing a Strategy
- Why Monte Carlo Testing Can Rescue Your Trading
- How Incubation Helps Make You a Professional Trader

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Survey Results

Overall, how would you rate the event?

- Excellent
- Very good
- Fairly good
- Mildly good
- Not good at all

Would you recommend the webinar to a trader friend?

- Absolutely Yes
- Probably Yes
- Maybe
- Probably No
- Absolutely No

- **Attendees agree the webinar is great!**

- **Max 6 students per class**

- **Money back guarantee** (see webpage)

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Bonus #1

- **6 months of one-on-one e-mail support from me**

  - **I will help you to create those first strategies**

  - **No 3rd world, non-trader based support**

  - **All support is from me, and me only!**

Bonus #2

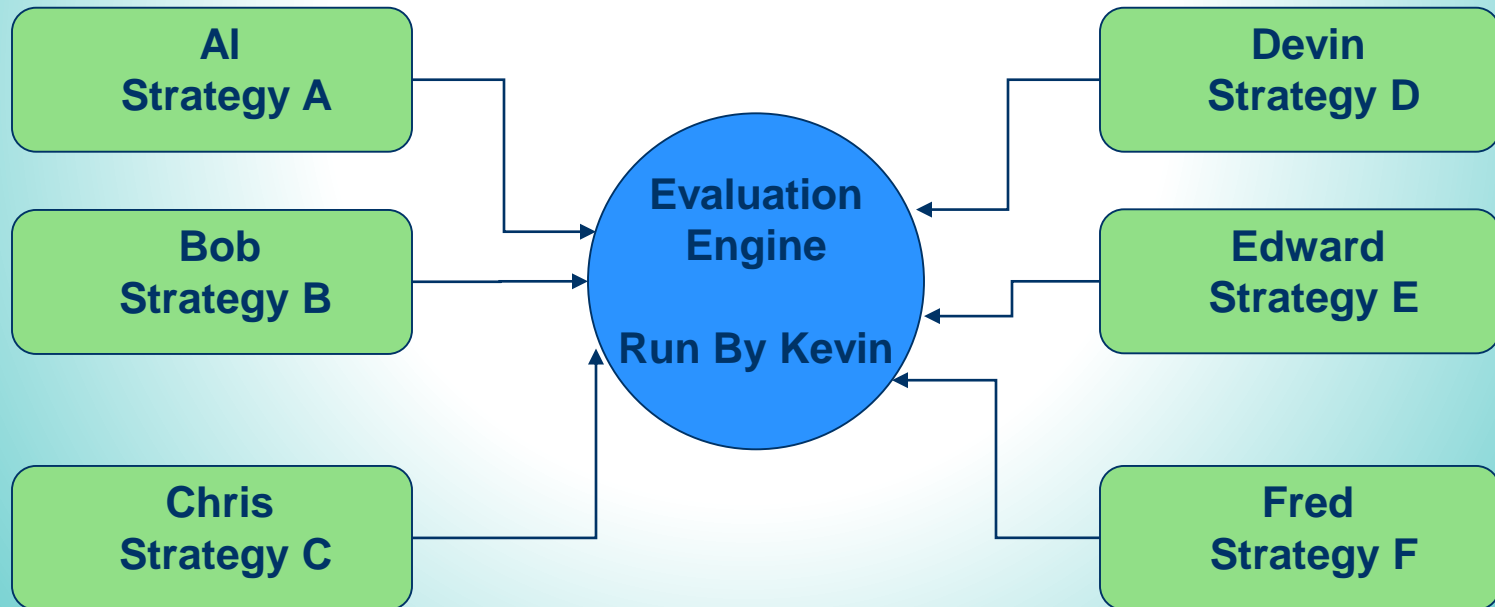- **3 Working Strategies to Start With**
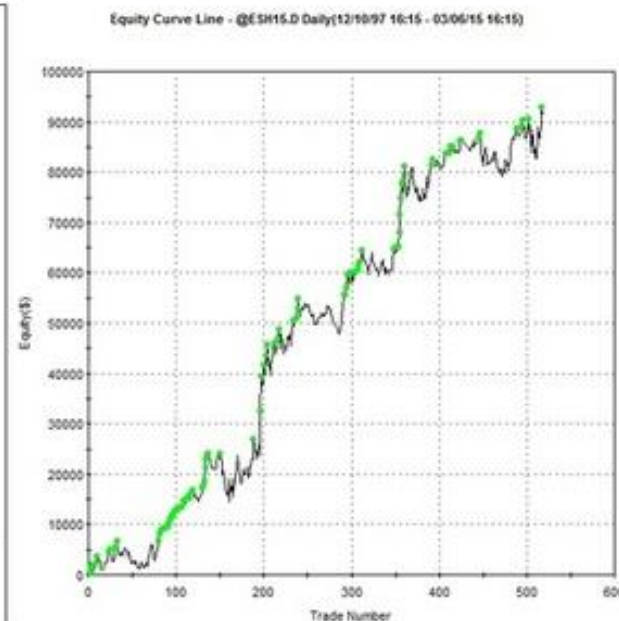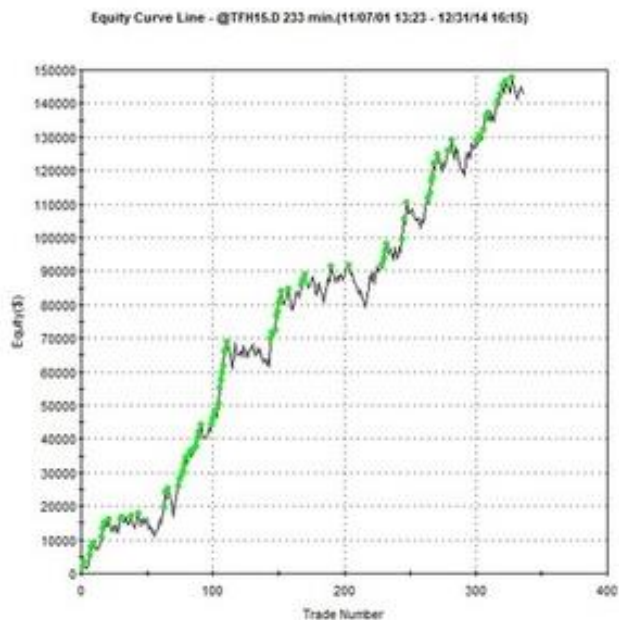
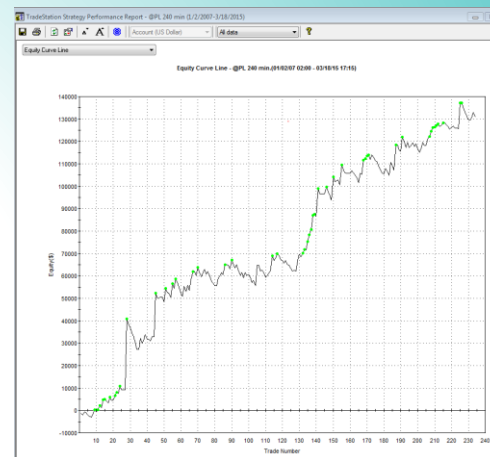
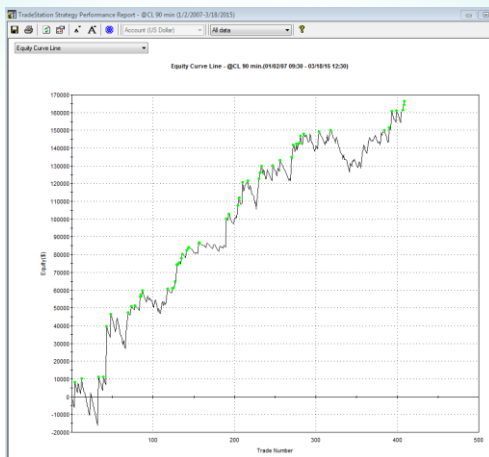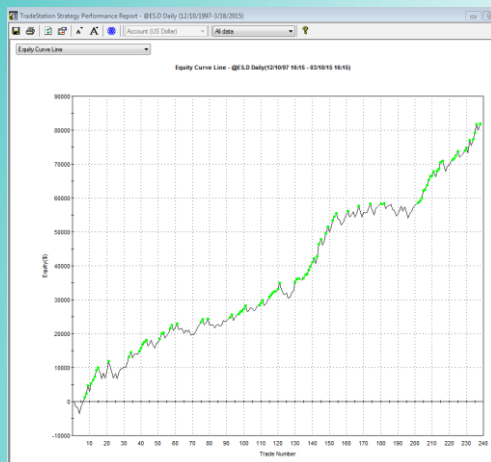- **I trade these strategies myself!**

Bonus #3

- **Ability to Participate in the "Strategy Factory Club"**

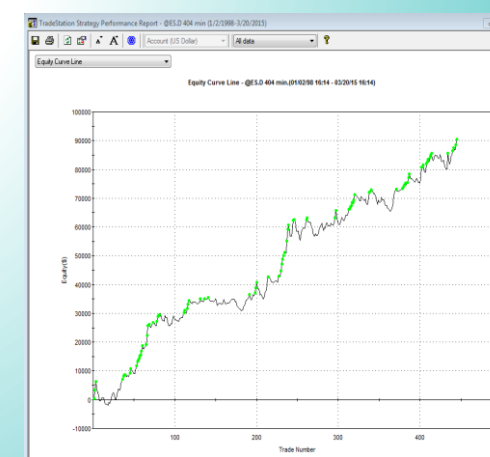 – **Students around the world share verified strategies**

Bonus #3

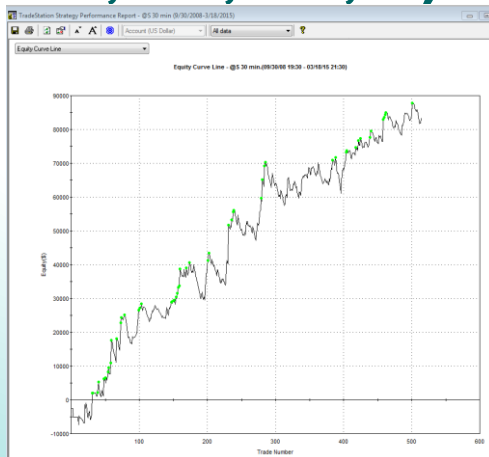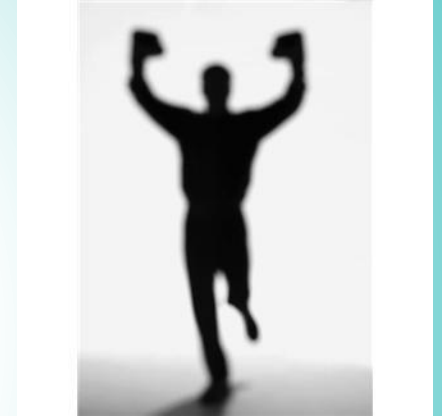- **"Strategy Factory Club" – April Strategies**

- **Walkforward test results – different markets (ES, CL, PL, LH, S)**

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Summary

- **<u>Do</u> remember – entries only part of story**

- **<u>Do</u> use multiple entries to create multiple strategies**

- **<u>Do</u> aim for diversification**

- **<u>Learn</u> how to build strategies the right way**

Questions

E-mail me at:
kdavey@kjtradingsystems.com

Thanks for Attending!

- **Strategy Factory Workshop:**
  http://www.kjtradingsystems.com/strategy-workshop.html