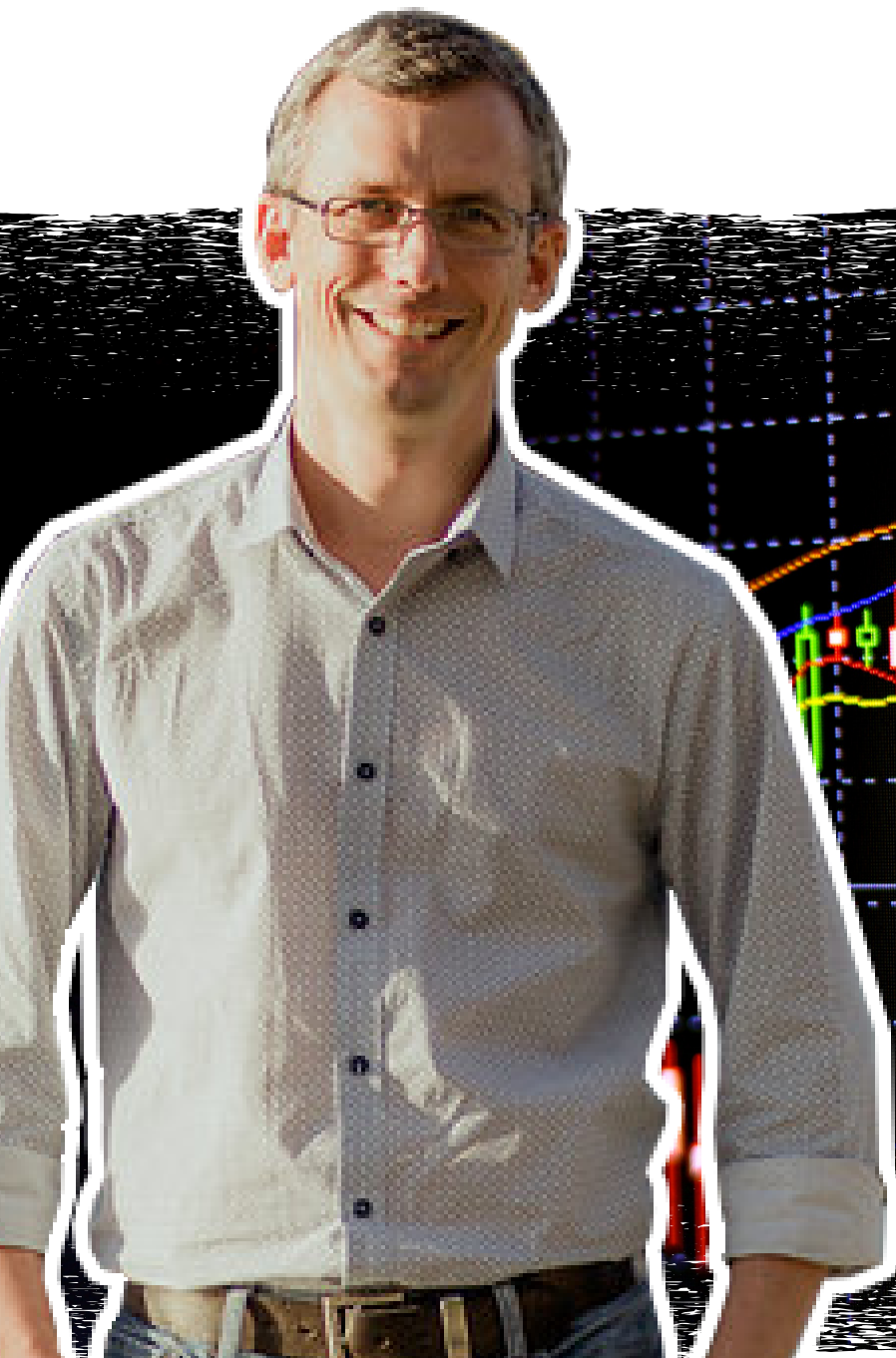


HOW TO BUILD CONFIDENCE IN YOUR STOCK TRADING SYSTEM



How To Build Confidence
for Your Stock Trading System

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COMMON STOCK TRADING QUESTIONS

- Should I take this trade or skip it?
- I wouldn't say I like the look of this stock. Should I pass on this signal?
- The price is near my stop loss. Should I move my stop, so it doesn't get hit?
- My stock is falling. Should I get out now before it hits my stop?
- Everyone is talking about this stock. Should I buy now, so I don't miss out?
- I am in a drawdown. Should I stop trading my system and find a better one?
- I wouldn't say I like the look of this chart. Should I take a small position size?
- This signal looks excellent. Should I load up on this trade?
- This market is making me feel nervous. Should I stop trading for a while?

How To Build Confidence for Your Stock Trading System

OVERVIEW



My name is Adrian Reid, the founder of Enlightened Stock Trading. This post will show how you can build Go Live Confidence in the Trading System. The reality is that you need more Confidence with all the market gyrations and the changes in market conditions, the sudden drops, and so on.

Having absolute Confidence in the trading system is critical if you want to succeed long term.

I have been a systematic and profitable stock trader for 18 years now. I was on my own when I started the market. I didn't have any support nor know any successful traders. All I had was the trading books that I gathered together. I read over 200 books on trading systems to figure out how to master the markets. In 2012, I escaped the corporate world and walked away from \$230,000 a year's salary for trade full-time. It was achieved because I managed to make more money in that year by trading just 20 to 30 minutes a day than working 12 to 14 hours a day, six days a week in my day job.

I managed to pay off my debts and build a seven-figure portfolio through my trading. I also coach and mentor hundreds of traders worldwide; it doesn't matter the type and nature of their trade markets. Thus, I have vast experience and lessons that I will share subsequently and show you how you can build Go Live Confidence in your trading systems, in the hope that you can replicate and accelerate your trading journey.

PROBLEMS MOST TRADERS FACE WITH STOCK TRADING SYSTEMS

After coaching and mentoring many traders in different markets, I realized and noticed most problems traders face. They are categorized under the following:

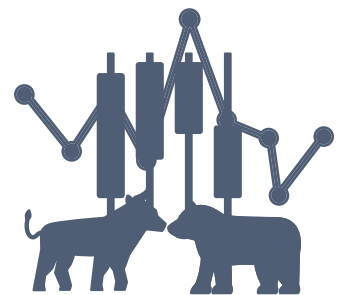
Overload of Information

There is much information in the market nowadays; data feeds, real-time newsfeed, analysts report, broker recommendations, signal services, websites, blogs, chat forums, and Facebook; many information sources are almost impossible to collate, assimilate and understand. Traders are overloaded and need a way to cut through decisions with Confidence and take on the trades without second-guessing, without hovering over the buy button and wondering if they are putting their financial lives at risk. There is a need to get through the overload information. This post will show you exactly how to do it.



Conflicting Information; Bull or Bear Market

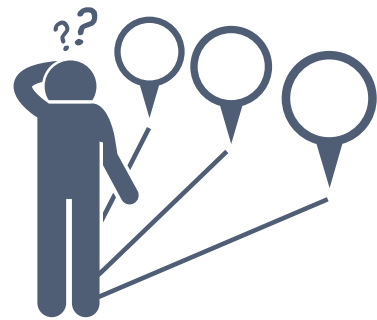
There's a bearish argument for every bullish argument; for every bearish view, there are three bullish arguments. It's very hard or impossible to find a consistent message out in the market noise. Thus, traders need to create consistent messaging and decide for themselves. That's part of having Go Live Confidence in your trading system. Because once you have Confidence in our system, that's what will guide you, making you ignore other conflicting information outside and follow our system. This post will reveal how to do that.



- This chart is gappy and erratic. Should I skip this signal?
- My stock is in profit, should I take profits now while I am ahead?

Inconsistent Decision Making

It is tough and almost impossible to make decisions consistently if you are a technical trader or if your trade is based on recommendations or tip services, newsletters, or even based on a combination of fundamentals and outside sources. When you have inconsistency in your decision-making process, you also get inconsistency in your trading results. Thus, putting the right systems in place and building confidence in those systems eliminates the inconsistency due to the fact we have a secure system to follow. Our training is a step by step process; one can repeat it every day and week in a consistent manner. You will start making money far more consistently if we do that together.



Friction between the Trader and his Rules

Another problem prevalent with many traders, especially those I worked with, is the friction between you (the trader) and the rules you follow. It happens when the trader doesn't match the system correctly to his situation and lifestyle. The friction that the system causes make one-second guess lose Confidence, and even quit. Traders might have a great system in reality, but it doesn't fit well with them; thus, eliminating the friction is one of the big problems traders face.



Not Knowing Whether Your Trading Rules are Profitable

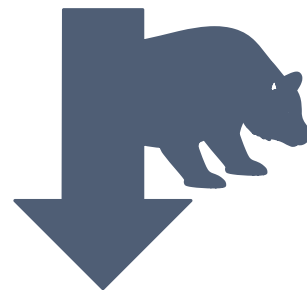
Another situation is when traders don't know if their trading rules are even profitable. If you have a set of trading rules and you think they would work, you read them in a book; they sound good. Maybe you got them from a famous trader blog, and they look good, but you are just trusting; you have faith that they are profitable. Meanwhile, you don't know yourself deeply. Your situation might be satisfactory; things are going well, and you are making money; however, what happens when you go into drawdown?



If you are trading a set of rules that you haven't tested for yourself and you go into drawdown, all of a sudden, the uncertainty comes up, the stress and the emotion come up, and it becomes far more difficult to follow those rules consistently. But with our fair trading system that you have Go Live Confidence in, you would trade through the inevitable drawdowns, knowing that the system is profitable.

● **Not Knowing if Maximum Drawdown will be Tolerable**

Similarly, the major problem traders see is that they don't know how significant their maximum drawdown will be and tolerate it. You are going to be wondering when you go into drawdown. Then you would be asking; how bad is this going to get? How much of my [can 00:07:39] am I going to lose? Am I going to walk away with anything or going to lose everything? These sorts of questions undermine our Confidence, and it would be eliminated. Your Confidence will go up, and you can trade much more consistently when you do that again.



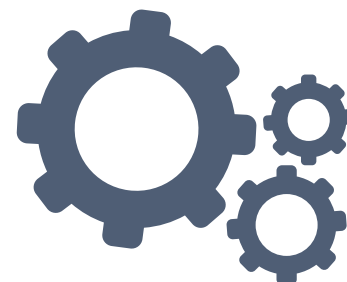
● **Not Comfortable with the Trading Process**

What's more, you might also not be comfortable with the trading process. We will practically put you through if you don't know what to do and when to do it.



● **Lack of Systems to Profit from Different Market Behaviours**

Finally, you don't have systems to profit from different market behaviors. Suppose you have a system that profits in a bull market, but you don't know what to do in a bear market or don't know what to do in a volatile sideways market. Again, the Confidence is undermined because you know that eventually, there comes a scenario with a market behavior set where you will not make money.



You would go into a significant drawdown and don't know how you will deal with it, and equally don't know how well you're going to walk away from it financially. We will not only put you through but as well as aid you to avoid the mishap.

HOW TO BUILD GO LIVE CONFIDENCE WITH FIVE PRINCIPLES

All the problems listed above could be eliminated by abiding in these five principles:

1. Use Complete Trading Systems
2. Ensure Your System Fits You
3. Backtest Your System Correctly
4. Mental Preparation
5. Profit From Different Market Behaviors

THE USE OF A COMPLETE TRADING SYSTEM

The Use of Complete Trading System is the first principle you can use to build Go-Live Confidence. I don't remember how many traders I have spoken that have a Trading System. When I look into the system, I will not see a complete system; I will see a scan to find trades. It's a buy trigger; it's a setup. It's not an entire system. A complete system has several components. It should define everything that you do in the markets. Your Trading System should describe every action you take in the market.

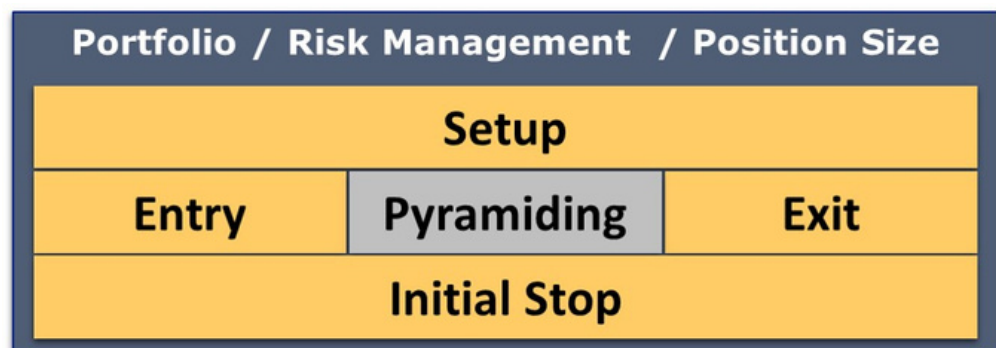
Thus, the complete Trading System involves the setup, which is the condition under which you will consider placing a trade, the entry trigger, the precise moment you will buy or sell if you are shorting. The initial stop loss will keep you safe and also get you out of the market if the trade moves too far against you. It will have an exit rule, which tells you precisely when to get out, hopefully with a profit.

There may be pyramiding rules, which show you how to scale into your position if you want to add more size to your position as it moves in your favor. You don't need to have a pyramiding rule, but if you are going to scale in, you must have a systematic way of doing; the actual way defines when precisely you will scale up.

Wrapped around all of these things, you have your portfolio management, risk management, position sizing rules, and those things together eliminate all of the subjectivity in your trading decisions.

What's more, the Trading System takes away all of the discretion and tells you exactly what to do and exactly when to do it. How would it feel if you could eliminate all of the judgment and subjectivity from your trading? Finally, have a set of rules that you can follow to know what you will do and exactly when you will do it. It is what an excellent complete Trading System will do for you.

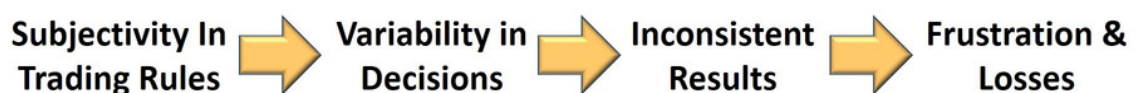
Hence, if you don't have a complete Trading System right now, if you have to look at the charts and judge if you should place the trade if you have to decide business, how big should I go? How many shares should I buy? Or should I buy today, or should I wait for a little bit longer? Those are all points of subjectivity, and that subjectivity creates uncertainty. It makes a variation, and it produces inconsistent results. You must use complete objective trading systems if you want to be profitable and consistent in the long-term.



Subjectivity in Trading Systems:

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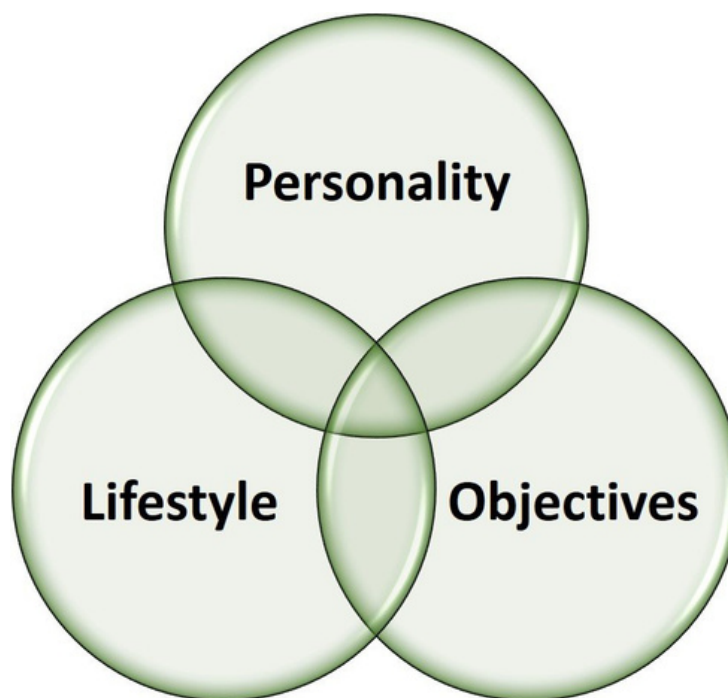
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ENSURE YOUR TRADING SYSTEM FITS YOU

The second principle critical for building Go Live Confidence is to ensure that your system fits you. You need to understand who you are as a trader so that your system will serve you. Your Trading System needs to feel natural for you and your personality. When you think about trader personality, some of the important things are trade duration. How long are you comfortable to patiently wait for your trades to play out? Do you want to be in and out in a day or two, or do you start to get itchy in business after one or two days and you want to get out and move on to the next thing, or are you a patient person who is happy to sit back and let a trade play out for months or if it continues to move in your favor? These sorts of things will tell you a lot about what type of system is right for you.

Some people like to sit back and just let the market do its thing, let their trades play out. These people allow and follow the trend, while others prefer more activity. Thus, they want to be in and out quickly, and they make much of the mean reversion traders because they are in and out much more rapidly than the trend-followers. Also, personality-wise, trade frequency is significant because some people like a lot of action and activity, trading all the time, other people like to trade infrequently and very selectively. Now, different systems have a different frequency kind of profile. And, if you like lots of activity, you will need a system that will trade very regularly and give you lots of signals so that you have a lot of that activity to keep you focused and interested and on task. But if you want to be more considered and have fewer trades, less activity, then you need a slower system.



One might not be right or wrong, but definitely, there is right or wrong for you. If you are a very slow considered kind of person and don't want to have too much activity, having a system that trades five or ten times a day will stress you out. That stress is going to cause frustration and mistakes and even losses. The final part of personality is the trade profile. When you think about the profile of winning trades and losing trades, if you like lots of small winning trades with the occasional larger loss, or prefer lots of small losing trades but big wins. You can make money with either of the profiles, but some people are comfortable with one and not the other.

The Need to Understand Yourself with the Trading System:

Understanding yourself makes you choose a system that will give you a profile of trade outcomes that you will make you comfortable. Imagine if you are satisfied with your trading, the trading outcomes you have, the size of the wins, and the size of the losses; if you are comfortable with these, it will be relatively easier to keep following the system. Against this background, this is why personality is important. Start by understanding yourself and then find the strategy that suits you; that way, the process will cause less friction, and you will have fewer losses.

The Need to Understand Yourself with the Trading System:

It's not just personality but also objectives. Your Trading System has to give you what you want, what you want in terms of drawdown tolerance, and what you want in terms of returns. These two are tightly linked, and it is tempting to say that I want to know drawdown, I like huge profits, and I want to double my account every year.

There is indeed drawdown, we won't avoid it, but we all have our drawdown tolerance. Some people are comfortable with 10 or 15% drawdown; dip in their account. Some people are comfortable with 30, 40, 50% drawdown or dips in their performance, provided the returns are there to compensate them for the risk that they are taking. Drawdown is just the percentage drop in your account from the peak before going on to make a new high. I find that when the drawdown of a system exceeds the trader's tolerance, the stress levels go up immediately. They start second-guessing the system, and they start sabotaging the system. They start skipping trades; this is the behavior that you need to avoid.

Even the very best trading strategy or system will be ruined by trading mistakes if it does not fit you:

A Great Trading Strategy...



...Ruined By Trading Mistakes



The part of Go Live Confidence has the objectives; having your goals clear, particularly in terms of drawdown and returns, and making sure that the system delivers those because a system that is pushing 30, 40% per year is impressive. Still, if it has a drawdown that you are not comfortable with, you will start making mistakes, and you can lose money when the drawdown comes. Thus, you have to understand both parts of the equation and make sure that the system fits you; that way, it will cause less friction, have fewer losses, and then make more money as a result.

The third part of fitting the Trading System for you is that it will work with your life, especially to some that are not traders. I learned the hard way in my initial start that if a Trading System doesn't fit your life, it will be hard to follow it consistently and accurately. As soon as you are not following consistently and accurately, you will start losing money because the system may be profitable. An excellent trading strategy has wins and losses, but if you make mistakes and stuff up the wins and losses profile, even the best plan gets ruined by trading mistakes. One of the biggest causes of trading mistakes is when the Trading System or your approach doesn't fit your personality, objectives, and lifestyle.

Hence, having a system that fits you is critical for you to build the Go Live Confidence. If it doesn't work, you won't follow it well.

Here are some tips to know:

- Don't use a Trading System that requires you to stay awake until 2:00 AM in your time zone to place the trades in another time zone.
- Don't use a Trading System that requires you to be at the job or the computer all day if you have other appointments.
- Don't use a Trading System that needs you to make decisions that stress you out.
- Don't use a System that trades short term moves if you are more comfortable with long-term activities and vice versa.
- Don't use a system with many small wins and a few large losses if that causes you to lose sleep at night.
- Don't use a system that trades a mean reversion if you are more comfortable with trend following.

You have to take the whole universe of profitable trading methods and zero in on how you can use that fit you. That's how you will make money and build your Go Live Confidence that you can follow through your system.

In ending this part, there are some questions you should ponder; do I feel calm and comfortable executing my Trading system? Can I follow it consistently and efficiently every day?

If you can honestly answer yes to this question, then you probably have the right system for yourself. It will be wrong and a bad day for you if your answer is no. There's probably something wrong, something misaligned between you and your system. This will cause you problems down the track; this is an area for you to investigate.

BACKTEST YOUR SYSTEM CORRECTLY

The third area for you to building your Go Live Confidence with your trading system is to Back-Test your system correctly.

On the first instance and consideration is the issue of Data Mining or catching a real Edge. Data Mining means sifting through the data with lots of mathematical rules, throwing a whole lot of ideas out, and hoping that one of them will appear profitable. You can find Trading Systems that appear worthwhile quite easily through Data Mining, but the question is if it's real? Will it continue to make money in the future?

However, here are some examples of Poor Practice in Trading System Development:

- The stochastic crossing below 18 generates buy signals on XYZ stock.
- The 17-day moving average crossing above 41 is a profitable signal on ABC stock.
- Find a strategy in a forum and optimize it.
- Brute force optimization to find the best parameter values every indicator in your system

The above lists are some of the issues and poor practice in systems that won't work in real time trading; you need a different approach if you build Go Live Confidence.

Thus, what is Good Practice? Use a strategy that is based on real, observable market behavior;

- Observe that stocks tend to have long trending periods
- Observe that small caps trend better than Large caps
- Observe that stocks tend to rally on certain days of the month
- Observe that stocks that are trending and have a sudden setback tend to rally soon after

More so, a vital question you should ask, do my Trading Rules capture profits from real observable market behavior, and can I explain my Edge simply to someone else?

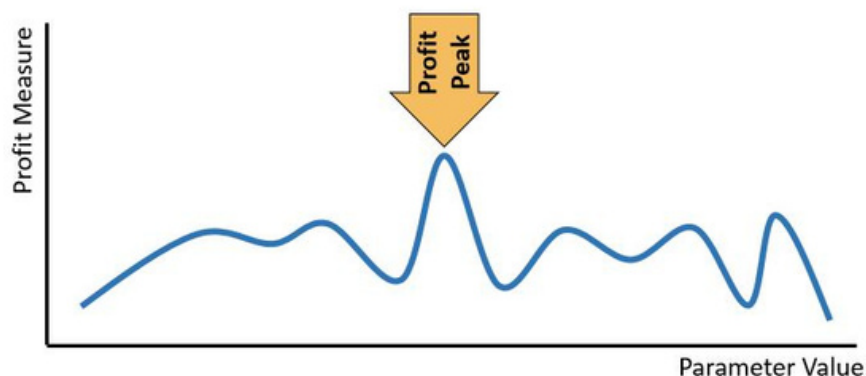
You need to explain in 30 seconds in simple terms that they can understand how your approach generates profit from the market. If you can't, chances are it's not a real Edge, and it's probably Data Mining. Answer this question for yourself, and you will find that you are either on the path to having Go Live Confidence or you muddle around it, or you are not sure. It tells you a lot about the area you need to focus on and improve your trading going forward.

The Real Purpose and Impact of Optimization:

The next thing I want you to think about is the real purpose of optimization. Interestingly, we have this powerful trading software that we can use to optimize our trading rules and find the best indicators, the best parameter values. But the trouble is that the software set up is driving to the wrong behavior, the behavior that is not profitable. Thus, we need to do something more to find the best Back Test. We need to find something stable, something that will continue to work in the future.

However, the real purpose of optimization (the trouble that we as traders have when we are optimizing our systems) is that whenever we optimize a parameter value, we tend to pick unsustainable profit peaks like this. When you then trade in real-time, you would be wondering why you are not making as much money as your Back Test. But the fact is that it was an unsustainable profit peak. It wasn't representative of what you can expect in real-time trading. What you should be doing instead is trying to avoid this curve-fitting problem. We need optimization to check if our system is stable over a wide range of parameter values. Optimization shouldn't be used to find the best parameter value; it should be used to find an area of stable performance so that you know if your system will continue to work in the future even if the market shifts a bit. Hence, it's rethinking how you use optimization in our trading software.

Moreover, the reason we optimize is to find stability, not maximum profits. If you are finding maximum profits with your optimization, you will be disappointed in real-time trading because the maximum profits are always unstable. Instead, we want to look for maximum stability across all of our trading rules. This is a mindset shift on how you use the software to Back Test and optimize your Trading Systems, and it makes a huge difference to how well your system will perform in the future.



Ask yourself this question, are my trading rules profitable over a wide range of parameter values, or is it a particular combination of parameters that produce a profit in my Back Test? If it's profitable over a wide range of values, then you can have a greater level of Confidence that you will make money in the future in real-time trading. But if it's one precise combination of parameter values, the profits and everything else fall apart; then, you don't have Confidence because the market will indeed shift in the future.

Hence, are my trading rules profitable over a wide range of parameter values? That's the indication to know if you are on the right path to building Go Live Trading Confidence.

The Real Purpose and Impact of Optimization:

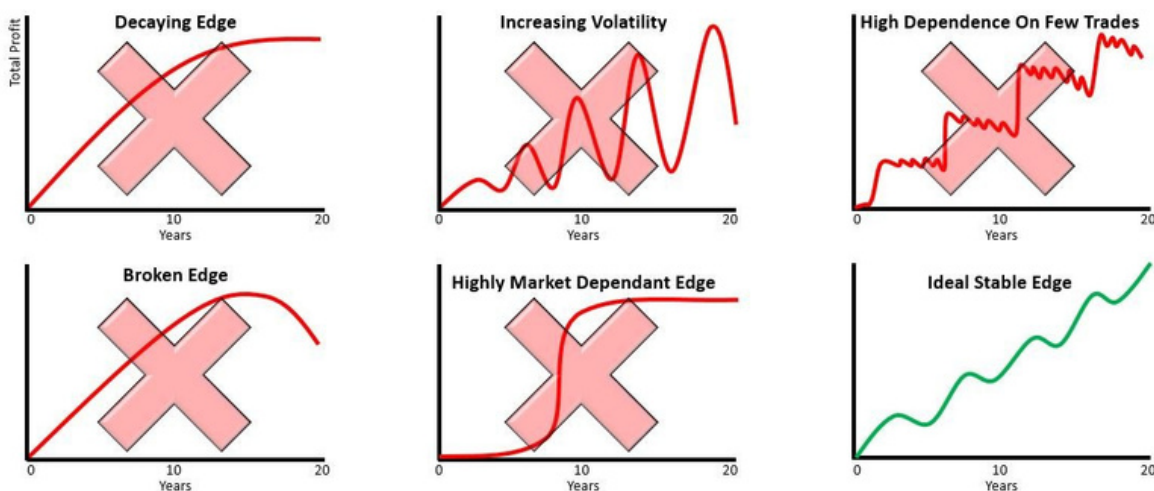
The next part of backtesting is to use it to ensure your Edge is stable. It's really easy to get excited by your Back Test results. However, you should step back from that excitement and ponder more deeply about how stable the Edge is in your trading system. One of the problems is that we tend to look at our Back Test as a compounding mechanism. You need to run a different type of Back Test. Back Test with constant position sizing so that the position size will be the same for the Back Test's life. What that does is to give you a linear equity curve and a linear Back Test. The great thing about it is that you can tell if your Edge is stable and avoid the Trading System with a decaying edge. If you are on your backtest and it was making money, and now you are in a big drawdown, and there is no sign of that drawdown disappearing, that Edge is broken. That is definitely a problem when you want to avoid it.

The next pattern that is a real concern for trading systems is increasing volatility in the equity curve. What you see often is a system that is making money, it keeps making you equity highs, but the drawdowns are getting bigger over time. When that happens, it's just a matter of time before you get a big drawdown that will wipe you out.

If your drawdowns are getting bigger over time, it's a real warning sign because sometimes it's in sync with the market, and sometimes it's giving back a lot of profits and more, and you want to avoid a system that backtests like this. This is a problem because you are never sure how big the next drawdown is going to be and if you will tolerate it. Thus, you don't want a Back Test that has increased volatility in the equity curve. You also don't want to backtest when the Edge is positively market dependent. Against this, I tend to avoid Trading Systems that have a high market dependent Edge. I want to see more consistent profits over time so that I will prevent that.

Finally, the last one to avoid is systems or equity curves with a very high dependence on a small number of trades. You aim for the ideal stable Edge that you can see in the bottom right slide; when you find a system that has that, you will be greatly confident in your Trading System and live well knowing that the Edge is stable and it's likely to continue to keep working.

Thus, ask yourself this question, am I confident that my systems are just stable over time? Can I see that in my backtest? When you backtest your trading system, the resulting equity curve will tell you a lot about whether your system's edge is stable as illustrated below:



Meanwhile, if you haven't backtested your system, now is the time to start. It would help if you put your rules into some trading software like AmiBroker, learn how to backtest it correctly and backtest over 20, 30 years of history, and check that the Edge is stable because it's not you better stop trading and find a system that is. If it is stable, you can have more Confidence to better approach the markets more consistently.

A Counterintuitive Way to Approach Backtesting:

The next way to use backtesting is counterintuitive and the opposite of what most traders do. Significantly is the need to reduce the rules. When we sit down with trading software, the impulse is to do the Backtest, look at the performance, and think of how to add rules. What if I add this rule, and does this make it better? You might be stacking your rules on top of each other. It will seem complicated when you do that. You don't need highly complicated, multi-variant, 10, 20 parameter systems that won't make you money; all it will do is look good in a Back Test and fail in real-time trading in the future. Thus, making your system simpler is the path to profit and having Confidence in your Trading System. Every additional rule in your system adds exponentially more risk of curve fitting. If you add an extra rule, you need to have lots of more trades and more data to have Confidence that the rule is valid.

THE USE OF PAPER TRADING

- Get comfortable with the daily trading process.
- Build an understanding of the rules and behavior of the system.
- Identify mistakes and address them before real money is involved.
- Simulate trading, so emotion doesn't take over when trading for real.
- Give you time to save and build capital to start if you need to.

What you should do is to invest more time simplifying your rules than testing additional rules. Seek the simplest way to capture your ideal move and use extra filters and rules very sparingly. The more you can do this, the more you will likely generate a Trading System with consistent profit over the long term.

MENTAL PREPARATION

The next part of building Go Live Confidence is Mental preparation. It will ensure you trade without being surprised, without getting shocked, and without getting put in a situation, you didn't anticipate. Mental preparation is critical for you to build Go Live Confidence in your trading systems.

The Major Things to Focus On and Learn During Paper Trading

Learn now and then simulate the performance;

simulate the discipline, do the trading in a demo account and save the money while learning and simulating. Because it is so powerful, you have done all the learning, discipline, and then the money appears because you have created it. You have the Confidence; you can put the money into the market and become a trader because you know deep down you can do it. These are great reasons for Paper Trade.

You are not Paper trading for 6 or 12 months; you are doing it for just long enough to identify and eliminate any issues and build Confidence with the process. If it takes longer for you to build your capital, then keep paper trading and get better at it. But you are not paper trading to test if your system works, that's not what paper trading does; that's what your backtest is for.

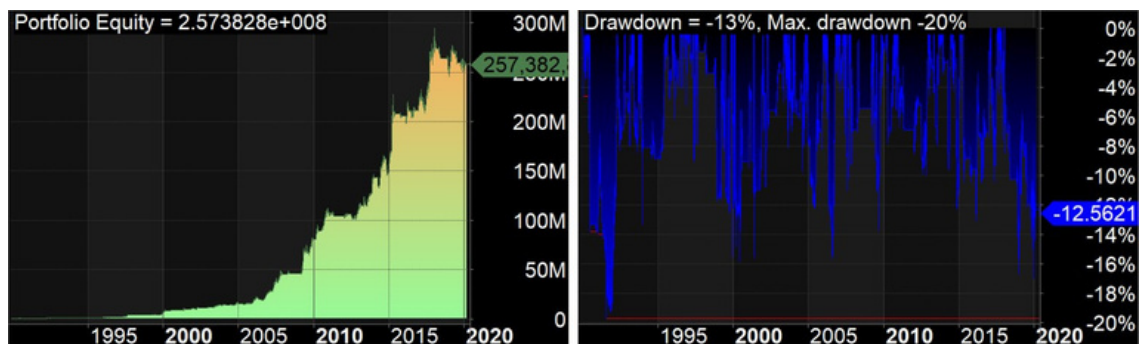
If you trade in a strategy and you think it's profitable because you have just paper traded it for a while and it made money, then the news for you is that you are at risk; because you can't paper trade for long enough to get enough information actually to have Go Live Confidence.

Thus, get the Confidence that your system is profitable, Paper trade for a short period to iron out all the kinks in the process, get comfortable, and then Go Live for real. This is the right path to trading profitably with Go Live Confidence.

If you are making mistakes, if you are fumbling over your trading, if you are not sure exactly what to do every moment, you have to practice that process and iron out the wrinkles so that you can follow that consistently and easily. That's why paper trading is useful.

► Understanding the Equity Curve;

studying Equity Curve closely and at a more detailed level than most systematic traders do is another thing to focus on. If you go into a drawdown and don't know how long it will last, then it's very hard to have Confidence that your system will come out the other side of it. Thus, study the daily equity movements, the daily activities in your equity curve, and visualize it happening in your account. Get prepared that it's going to go up and down because it will. Get prepared that you will make a new height, and then you are going to go into a drawdown; these things take time. You also want to pay particular attention to the depth and duration of the drawdowns.



It is pertinent to pay attention to the return side of the equation and the drawdown side and be true to yourself about how comfortable you are with this level of drawdown? If not, then adjust the system, the risk, and the leverage to get that drawdown in the Back Test under control to a level that you are comfortable with. If you know that the drawdowns from your system are levels that you will be comfortable, you will then follow that system and trade through the drawdown out the other side to make new equity heights.

► The Monthly and Yearly Distribution of Returns;

it's the next thing you need to study. You might go some days, weeks, months, or even some years that are not profitable with one particular system, but if you study it and you are prepared for it, you might know that from the monthly table of performance on your system. With that, you could have two or three months of negative returns in a row followed by a massive positive month that makes it back and more.

The image below shows the monthly return distribution from a stock trading system that was generated by backtesting in Amibroker. Studying these monthly returns and annual returns gives great insight into what you will need to cope with once you go live with your trading system.

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Yr% |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 1990 | 0.0% | -1.4% | 0.1% | -1.7% | 2.4% | 10.3% | 5.4% | -9.7% | 0.0% | 0.0% | 0.0% | -0.3% | 4.0% |
| 1991 | -0.0% | 3.4% | 1.6% | -2.2% | -2.8% | 0.0% | -0.9% | -4.3% | 0.1% | -0.3% | -0.5% | -0.2% | -6.3% |
| 1992 | 2.6% | 4.2% | 2.4% | 5.3% | 14.1% | -3.0% | -3.1% | -0.1% | -0.1% | 4.1% | 0.2% | -1.1% | 27.3% |
| 1993 | -0.8% | 0.8% | 4.7% | 4.8% | 5.3% | 5.7% | -5.5% | 2.0% | -2.0% | 17.9% | 3.0% | 14.8% | 60.7% |
| 1994 | -4.3% | -0.2% | 0.0% | 0.0% | 0.0% | 0.0% | -0.0% | -0.3% | 0.5% | -1.1% | 0.0% | 0.0% | -5.4% |
| 1995 | 0.0% | 0.0% | 0.6% | 0.3% | 1.6% | 3.9% | 1.5% | 0.8% | -1.4% | -2.2% | 1.5% | 0.3% | 7.0% |
| 1996 | 11.8% | -1.7% | -1.0% | 1.0% | 0.7% | 0.4% | 2.8% | -1.3% | 5.9% | 7.2% | 6.1% | 3.1% | 40.1% |
| 1997 | 1.9% | 3.4% | -1.4% | 0.9% | 9.4% | 0.3% | 16.0% | 12.8% | 38.6% | -0.3% | 0.0% | 0.0% | 107.6% |
| 1998 | 0.0% | 0.2% | -0.2% | -1.3% | -0.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.6% | -1.6% | -7.8% | -10.0% |
| 1999 | -0.0% | 0.0% | -0.1% | 12.3% | -0.1% | 2.4% | -5.6% | -0.6% | 5.3% | -3.0% | 15.2% | 32.5% | 68.1% |
| 2000 | 9.8% | 7.9% | 14.4% | -0.7% | 0.3% | 0.2% | -0.1% | 2.8% | 0.7% | 0.0% | 0.0% | 0.0% | 40.0% |
| 2001 | 0.7% | 4.0% | -4.5% | 0.0% | 9.2% | 1.8% | 0.2% | 0.0% | 0.0% | 0.0% | 3.1% | 3.9% | 19.4% |
| 2002 | 1.4% | -3.5% | -3.3% | 6.8% | 7.7% | -0.8% | 0.0% | 0.0% | 0.0% | 0.0% | -0.0% | 1.2% | 9.2% |
| 2003 | 1.7% | 0.5% | -0.6% | 0.0% | -0.2% | 6.1% | 4.7% | 8.7% | -1.7% | 5.9% | -4.5% | -0.1% | 21.6% |
| 2004 | 2.1% | 5.5% | -4.6% | -0.6% | 0.0% | 0.1% | 2.0% | -6.2% | 4.2% | 0.8% | 10.9% | 5.5% | 20.2% |
| 2005 | -5.9% | -0.3% | -2.8% | 0.4% | -1.4% | -0.7% | 5.4% | 2.1% | -0.9% | -0.7% | -1.4% | 4.2% | -2.5% |
| 2006 | 17.3% | 1.9% | 11.7% | -2.0% | -8.0% | 0.0% | -0.5% | -2.5% | 6.3% | 8.6% | 18.1% | 3.6% | 65.0% |
| 2007 | 1.6% | 5.1% | -1.8% | 1.4% | 23.5% | 2.3% | 14.6% | -9.0% | 10.6% | 15.2% | -1.6% | -3.0% | 70.3% |
| 2008 | 0.0% | 0.0% | 0.0% | 0.8% | 1.8% | -1.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 1.6% |
| 2009 | 0.0% | 0.0% | -1.0% | 16.8% | 30.6% | -2.9% | 9.3% | -9.8% | -2.4% | 9.1% | 7.8% | 5.2% | 74.7% |
| 2010 | 0.4% | 0.0% | 5.8% | 8.8% | -4.6% | 0.0% | 1.2% | 1.9% | 7.1% | 5.3% | 6.0% | -1.6% | 33.9% |
| 2011 | -3.5% | 1.7% | 0.5% | 1.0% | -3.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | -3.7% |
| 2012 | -1.5% | 2.7% | 0.4% | 0.8% | -0.5% | 0.0% | -3.6% | -0.5% | 2.8% | -3.0% | 5.5% | 1.9% | 4.7% |
| 2013 | 2.4% | 3.6% | -0.6% | 0.1% | 7.0% | -5.8% | -1.5% | 4.5% | 5.4% | 0.3% | 1.6% | 12.0% | 31.6% |
| 2014 | 0.2% | -0.1% | 0.0% | -6.8% | -0.6% | 7.7% | 6.5% | 2.1% | 2.0% | 1.5% | -5.7% | -3.2% | 2.8% |
| 2015 | 7.3% | 6.1% | 2.0% | 26.0% | -3.0% | -0.6% | 0.0% | 0.0% | 0.0% | -0.3% | -0.8% | 0.2% | 39.6% |
| 2016 | 0.0% | 0.0% | -0.5% | 7.3% | -4.1% | 0.2% | -3.5% | 3.0% | 0.5% | -0.2% | 0.4% | 0.0% | 2.8% |
| 2017 | 4.8% | 1.1% | -0.3% | -1.1% | -1.2% | -1.6% | 5.7% | 3.3% | 1.7% | 13.0% | 0.8% | -1.3% | 27.0% |
| 2018 | 6.4% | -3.7% | -0.6% | 0.0% | 0.4% | -3.8% | -0.0% | 0.0% | 0.0% | 0.0% | -0.4% | -3.0% | -5.0% |
| 2019 | -3.2% | 7.0% | 2.5% | 1.2% | -1.8% | -0.0% | -1.4% | -2.1% | 0.0% | 0.0% | 0.7% | -0.7% | 1.6% |
| 2020 | -5.4% | 4.7% | 0.5% | 0.0% | 0.0% | -0.3% | N/A | N/A | N/A | N/A | N/A | N/A | -0.7% |
| Avg | 1.5% | 1.7% | 0.8% | 2.6% | 2.7% | 0.7% | 1.6% | -0.1% | 2.8% | 2.6% | 2.2% | 2.2% | |

An important part of building Go Live Confidence in your Trading System is studying the monthly and annual performance so you would know what's coming. You might be hit with a string of losses that you least expected because of your failure to study the performance tightly or closely enough.

You need to be comfortable and prepared for the depth and duration; the variation returns that your approach gives you. If you do that, then you are on the path to having that Go Live Confidence. However, if its otherwise, then it's time to do the backtesting and interrogate those results a little more closely; get the answer so you can be comfortable and build that Confidence.

▶ Studying what your system will do in different market behaviors;

it's the next part of being prepared mentally. I created a framework called Market System Map, and it tells us that there are nine different behaviors that the market can exhibit as illustrated in the diagram below:

| | Bull | Sideways | Bear |
|---------------------|------|----------------------------|------|
| Trend Continues | | | |
| Shock Against Trend | | *Shock in either direction | |
| Change of Trend | | | |

There are three primary directions the market can move in – You can have a Bull Market, Sideways Market, or a Bear Market. Within each of these markets, three things can happen; the trend can continue, there can be a temporary shock against the trend before it continues, or the trend can change direction and move into one of the different primary trends. Three and three give nine combinations. If you look at your trading method, what you need to think and ask is how this method will perform in each of these nine types of market behaviors?

It's not necessarily about changing the method; it's about knowing what to expect. If you have a trend following system on the long side and are highly leveraged, you will make a ton of money when there is a strong Bull Market. But as soon as the market turns, you better prepare for the big drawdown that is going to follow. If you don't expect that drawdown to come, as soon as your account starts falling, your emotions are going to come up. Your stress level is going to come up, and you will start making mistakes. But suppose you are prepared for what is happening. In that case, you know what to expect under different market conditions, it's much easier to stick to the plan, follow the system, or adjust the plan in the system so that what could happen will be what you are comfortable with.

You need to think through all these nine areas of the Market System Map. What will happen to my system if the market keeps going in the current direction? What will happen to my system if there is a temporary shock against the current trend? What will happen to my system if the market trend changes? Being able to answer these questions will give you Confidence to follow your system because you know what's coming. You also know when to turn your system off.

Ask yourself this question: am I prepared for what will happen in all different market behaviors with my system? That's the key, being mentally prepared for what will happen so that you don't freak out and have to bail out.

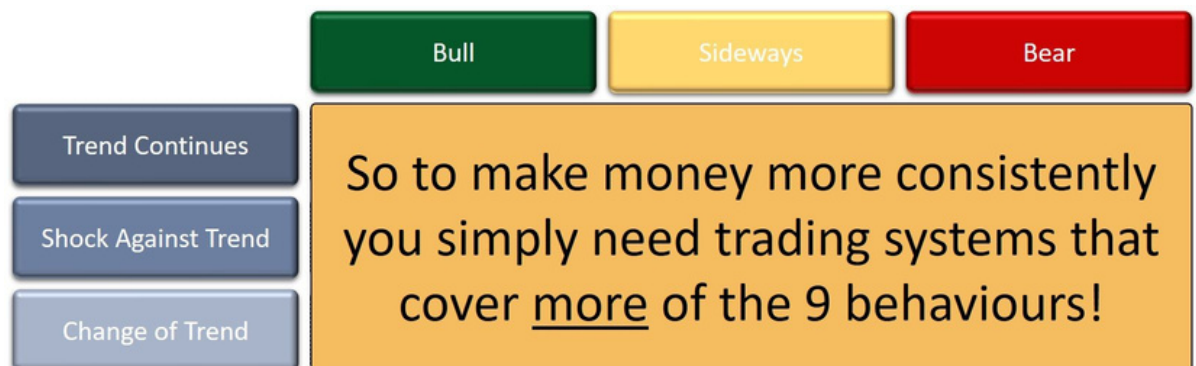
PROFIT FROM DIFFERENT MARKET BEHAVIORS

The last part of building Go Live Confidence is to profit from different market behaviors. If you have been in the market for a while, you would have noticed an amazing strong Bull Markets. There are also a volatile Sideways Markets and hugely volatile Bear Markets. If we could only profit from one type of market behavior, we would be exposed to other market behavior types.

As traders, we have a lot to worry;

- What if the Coronavirus comes back?
- What if there is another financial crisis?
- What if there is a war?
- What if there is a Bear Market?
- What if another bank falls?

I have shown that there is always something that could happen in the world in the market System Map, but the market can only do one of nine things. Within those markets, that trend could continue. It could be a shock against the trend or a change of trend. The market can only do one of nine things.



Thus, to make money more consistently, you need Trading Systems that cover more of the nine behaviors. If you have a long side trend following system, and that is all you have, you will not make much money if at all in a Bear Market. So you need to diversify, to have systems and rules that make money in different market conditions. The more market conditions you can profit from, the less it matters what the market does. .

This is a way of building your Confidence, as well. You don't have to worry about the market crash if you know you are going to profit from the market crash.

For certain markets, you need long side trend following systems when the market moves up strongly. The way you profit from this is with systems like what I called the 'Freight Train.'

Freight Train System

It is a part of my Trading System collection that my students get when they join the Trader Success System. The Freight Train makes money by buying stocks that have entered really strong trending periods. It buys strongly trending and low volatility stocks that are moving up consistently, and it holds those stocks until the trend has changed and turned down in the stock; it will do this in an up-trending market. There is a clear edge trend following in a Bull Market that is a clear, profitable, and stable Edge. It makes money because it lets the profit run, you are staying in the trending stock, and the profits are getting bigger as the trend continues.



Long side trend following systems typically make strong profits in the following behaviors defined by the Market System Map:

| | Bull | Sideways | Bear |
|---------------------|------------------------|--------------------------------|------|
| Trend Continues | Trend Following (Long) | | |
| Shock Against Trend | | | |
| Change of Trend | | Trend Following (Long / Short) | |

However, if you get into a stock that stops trending and goes down, the losses get cut quickly. So you have large profits and small losses. This system requires patience because you are letting the trend play out so that you can profit from the trend. This is an example of how you profit on the long side with the system. However, you also need trend-following systems for down trending markets, which is slightly different. For a down-trending market, you need a system more like this, the Slippery Dip.

Slippery Dip System

this is another system in the Trading System collection that my students get. The Slippery Dip shorts the market, and shorts the weakest stocks when the market turns down. Like when the Coronavirus caused the market in early 2020, the whole index went down, all the stock started to go down. The Slippery Dip turned on; it shorted the weakest stocks in the market and rode those down. When then they hit the profit target, it closed all the positions and went to cash.



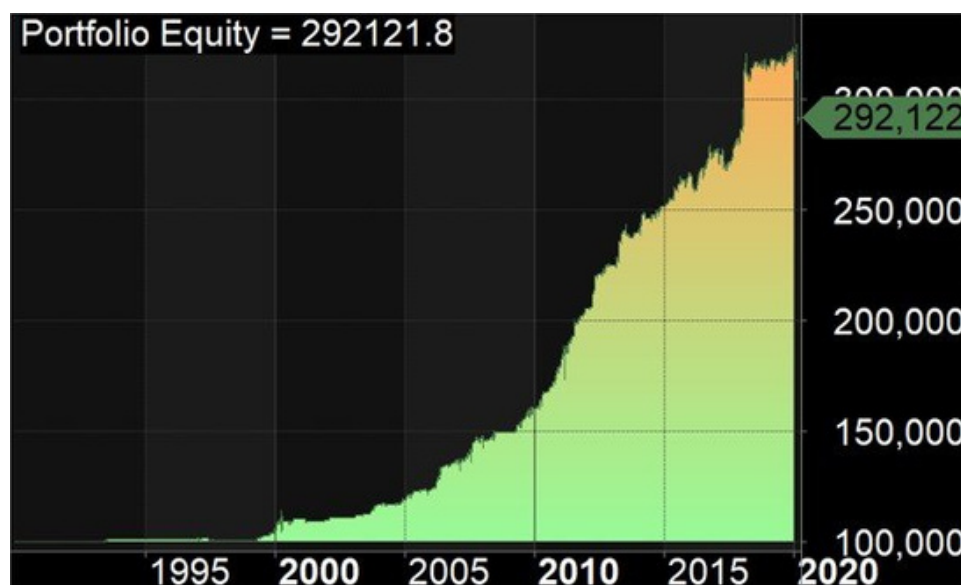
It took a great slice out of the decline because it capitalized on the momentum of the market, taking many stocks downwards. It will exit quickly if the market rallies again. Thus, this is a good way to make money in a bear market. Wait till the market turns down, you have short the weakest stocks; as soon as you have a decent chunk of profit, you cut those positions before the market rallies again. If you wait too long in a bear market and the market starts to rally, most of your profits are going to disappear quickly. Short side momentum systems like this make money in the following stock market conditions:

| | Bull | Sideways | Bear |
|---------------------|------|--------------------------------|-------------------------|
| Trend Continues | | | Trend Following (Short) |
| Shock Against Trend | | | |
| Change of Trend | | Trend Following (Long / Short) | |

Though you need to be prepared for some volatility with short side trading systems like this because I have noticed that you always have the biggest up-days and the strongest rallies in a Bear Market, like the one we see in early 2020. Some of the biggest up-days in decades in the middle of a Bear Market because people are hopeful that it is all over. The crisis is over, and they can go back to normal. The market bounces around a lot; thus, you will quickly take the profits, and the Slippery System does that.

Mean Reversion System

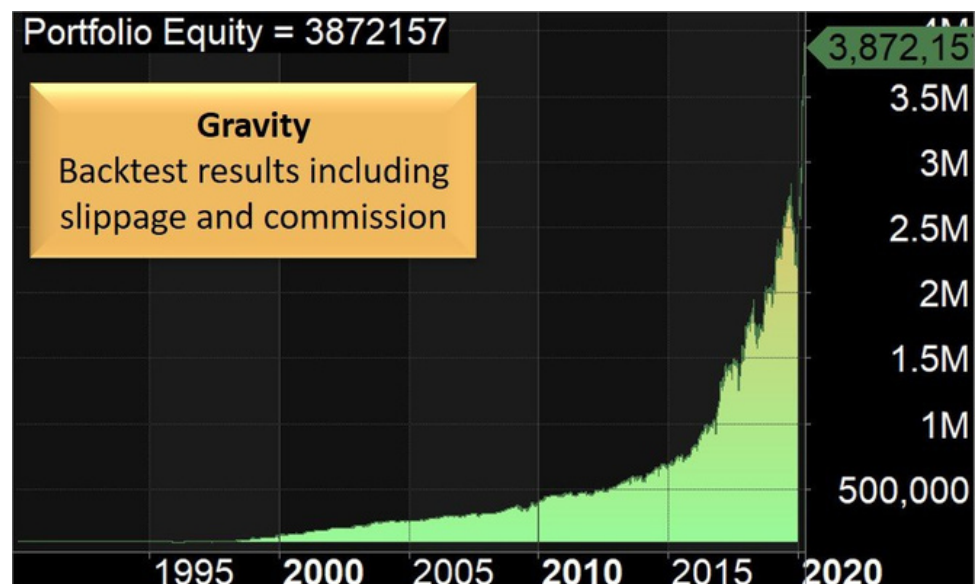
in addition to long term trend following and a short side trend-following, you also need a Mean Reversion System to profit from dips in the Bull and Sideways markets. A Mean Reversion System is a system that finds a stock that is going along either in a trend or sideways that has a temporary shock, like a rapid shock against the trend; usually, when that happens, it bounces back quite quickly. Fear Harvester is an example of a system that I use on the Australian market to catch stocks that have been suddenly penalized by the markets. The share price has taken a sudden dip. You buy those stocks, and it typically bounces back within one to three days, and you sell to catch a small profit.



Profitable on the vast majority of trades, 70% or more of trades are profitable with a system like this, but they are small profits. Every now and then, one obviously follows through to the downside, and it trends down, and it hits your stop loss, and you get out, so you end up with a slightly larger loss; however, lots of small profits offset the losses. This is an example of how to profit from the temporary corrections or shocks against the market trend. Long side mean reversion trading systems are generally profitable in the following market conditions:

| | Bull | Sideways | Bear |
|---------------------|-----------------------|-------------------------------|-----------------------|
| Trend Continues | | Mean Reversion (Long / Short) | |
| Shock Against Trend | Mean Reversion (Long) | Mean Reversion (Long / Short) | |
| Change of Trend | | | Mean Reversion (Long) |

You also want to be on a profit on the short side using Mean Reversion. A good example of this would be a short-sighted Mean Reversion system that I have called Gravity. What Gravity does is to find stocks that have gone exponentially up, and it shorts them. It shorts the stocks that have rallied the most heavily, expecting a quick correction; it takes profit before the rally continues. This is a powerful trading system because it allows you to extract profits from the short side even during a bull market (by shorting extremely overbought stocks), but when the market trend turns down, it generates profits very quickly. The equity curve for the Amibroker backtest of the Gravity system is shown below:



When a stock is extremely heavily bought, there is often a correction, and you can profit from that as well. The great thing about this system is that it allows you to profit on the short side in a Bull Market. It gives you awesome diversification because if you are only long in a Bull Market and the market collapses, you will suffer. But if you have short positions profiting in a Bull Market and the market collapses, those short positions will be hugely profitable. Gravity makes money consistently. Short side mean reversion systems like this make money in the following market conditions:

| | Bull | Sideways | Bear |
|---------------------|------------------------|-------------------------------|------------------------|
| Trend Continues | | Mean Reversion (Long / Short) | |
| Shock Against Trend | | Mean Reversion (Long / Short) | Mean Reversion (Short) |
| Change of Trend | Mean Reversion (Short) | | |

In the equity curve above, which was generated by backtesting in Amibroker, you may notice that the profit shot up at the beginning of 2020 when the market collapsed because it had all of the short positions in advance of the collapse. Thus, it makes huge profits in that situation. Having a short time, Mean Reversion System can be a really powerful addition to the portfolio. The portfolio that can cover all market behaviors and significantly smooth your returns because you can profit from all the different things the market can do.

WHAT SHOULD YOU DO NEXT TO IMPROVE YOUR TRADING RESULTS?

Ask yourself this, do I have trading systems that profit from different market behaviors? If your answer is no, then it's time to look at starting to diversify, building, or finding some different systems. So that no matter what happens in the future, you will have something that will give you some profit into your account. We can't just have one system to profit from one market behavior and expect to be profitable every year. It's not going to happen.

| | Bull | Sideways | Bear |
|---------------------|------------------------|--------------------------------|-------------------------|
| Trend Continues | Trend Following (Long) | Mean Reversion (Long / Short) | Trend Following (Short) |
| Shock Against Trend | Mean Reversion (Long) | Mean Reversion (Long / Short) | Mean Reversion (Short) |
| Change of Trend | Mean Reversion (Short) | Trend Following (Long / Short) | Mean Reversion (Long) |

If we have systems that profit from different types of behavior, then our portfolio can perform well no matter what happens in the market. Against this background, let me ask you this,

- Would you like to take your trading to the next level or take some of these principles and implement them into your trading portfolio?
- Do you want specific and actionable guidance on how to improve your trading based on what you are doing right now in the markets?
- Do you want to discover simple changes that you can make to improve your results, reduce your risk, and make you a better trader?
- If that sounds like something you want, would you like to get it all for free? If you are going to take your next step in your trading career, improve your Go Live Trading confidence for free, then register for The Millionaire Trader Code Training. In The Millionaire Trader Code, you will get 14 free video lessons, and you will discover the eight stages of Trader Evolution. Phases that all traders go through on their path to becoming a millionaire system trader. You will find your level of trader evolution based on how you are trading today.

You will know what you need to do now to take the next step on your trading journey and accelerate that. You can become a millionaire system trader more quickly. Click this link or click the image below to register now for FREE, and I will see you in The Millionaire Trader Code.

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