

 Wiley Trading

# MECHANICAL

Pairing Trader Psychology

# TRADING

with Technical Analysis

# SYSTEMS

— RICHARD L. WEISSMAN —

# Praise for **MECHANICAL TRADING SYSTEMS**

"Mr. Weissman's work is a metaphysical journey through the art of war. One need only read his preface to gain the true wisdom of market trading. What follows is a clearly marked guide to trading discipline and market mathematics ... a stand out in a forest of technical works."

— **Timothy Kelly**, Founder and CEO, FOREX Television

"Mechanical Trading 101. The most complete, concise, and thorough analysis of every aspect of mechanical trading, from detailed case studies to enlightening reviews of psychological trading profiles. A real systematic approach to mechanical trading that will certainly improve your trading at any stage of your career."

— **Frédéric Bettan**, Business Development Manager  
Institutional Clientele, Montréal Exchange

"A serious and sophisticated book for the advanced technical trader. Mr. Weissman emphasizes exactly the right aspect of designing and using a trading system—it has to match your character and personality to be of practical day-to-day use."

— **Barbara Rockefeller**, author of *The Global Trader* and  
*Technical Analysis For Dummies*

"A great contribution from a brilliant thought leader. . . . Mr. Weissman offers intriguing insight into trading by traveling across many disciplines in the process. His analysis of transformational psychology within the context of a mechanical trading system is a must-read for everyone involved in investment management. I am sure that institutional investors will benefit a great deal from his intuitive and innovative style."

— **Kurtay Ogunc, PhD, MBA, CMFC**, Managing Partner and CIO  
Alpha Dynamics Group, LLC

"Mr. Weissman synthesizes a wealth of research and observations about human behavior and the use of mechanical trading systems in order to reprogram the trader. No other book so splendidly lays out the task of mental system creation, system construction, and system testing. The tools in this book go beyond system development in aiding to defuse erroneous human behavior in trading. I recommend this book to anyone who intends to trade utilizing systematic or discretionary programs in today's financial markets."

— **Jesse M. Van Luvan**, Managing Partner,  
Ambidex Fund and CEO, South Paw Strategic Investment, LLC

ISBN 978-0-471-65435-3



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When mechanical trading systems were first introduced into the arsenal of trading tools, the trader interested in utilizing these tools would have needed programming expertise, a strong background in mathematical technical analysis, and iron-willed discipline. Today, trading system software developed by market-data vendors has become so user-friendly, that nonprogrammers with only a rudimentary understanding of mathematical technical analysis can successfully create and backtest simple trading systems like those offered throughout this book.

In *Mechanical Trading Systems*, Richard Weissman uses his experiences as a trader and trading systems expert to take this concept to a new level. Filled with in-depth insight and practical advice, this book examines the development process for choosing and using mechanical trading techniques in conjunction with trader psychology. *Mechanical Trading Systems* skillfully explores the dangers in system development and how to avoid them; how backtesting and forward testing of trading systems aids in quantification of price risk; and the methods of improving rates of return on investments without significantly increasing risk. It also provides a detailed examination of the personality traits common to the three basic types of trader—trend-following (long to intermediate term), mean reversion (intermediate-term), and short-term (swing and day traders)—and illustrates how a strict adherence to specific types of trading systems can foster a psychological flexibility that will allow you to succeed in all kinds of trading environments: countertrending, choppy, or trending.

Some of the other issues discussed within these pages include:

- Why mathematical technical analysis is an ideal building block in the development of mechanical trading systems
- How various flaws in trader psychology—fearfulness, impatience, greed, and lack of discipline—can be overcome

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- The pros and cons of various traditional price risk management methods, such as stop loss and volumetric price risk management
- The psychological aspects of price risk management and how utilization of mechanical trading systems can aid in fostering confidence during drawdowns
- How your knowledge and experience can be utilized within the framework of a mechanical trading system

*Mechanical Trading Systems* offers a wide variety of flexible trading systems that combine sophisticated technical analysis with trading psychology theory. If you plan on improving your trading skills, this comprehensive resource can help you succeed.

**RICHARD L. WEISSMAN** has seventeen years' experience as a trader and developer of trading systems. Formerly, he was president of R. Lloyd Associates Ltd. where he focused on the development and implementation of mechanical trading systems that were applicable to all trading vehicles. Mr. Weissman has written articles on technical analysis and mechanical trading system development for various industry publications, acted as a lecturer at industry conferences, and is recognized globally by industry leaders and the financial media as a leading authority in the field. He currently provides independent consultation and training services to traders and risk management professionals on technical analysis, derivatives, mechanical trading system development, risk management, and trader psychology.

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In 1987 my father and I put \$100 and established a trading system. The goal, as I explained, was to make \$200 per year. My father, who had taken meager returns in the past, so I embarked on a journey to write this book.

I wish I could tell you how I accomplished that formidable task that produced even a 100 percent return. I will say that if I had some knowledge, I would have very little knowledge. It was a difficult one in which I lost a hundred percent on my first trade.

And yet if I had known the correct return on investment, I would not have chosen speculation. I would have chosen more than mere financial discipline, objective, consistent, the results of my action while suffering from being wrong.

I am certain that there are many traders that allow their capital to be lost while mirroring the only method that I have found. The method is that of empirical technical analysis. The development of comprehensive entry, exit, and price movement backtesting and forward