BUILDING RELIABLE TRADING SYSTEMS

Tradable Strategies That Perform
as They Backtest and Meet Your
Risk-Reward Goals

Keith Fitschen

WILEY

Building Reliable Trading Systems

Traders have long been drawn to the idea of developing a reliable trading system. But before you embark on this journey, you must first have a realistic understanding of what a "tradable strategy" must encompass.

For more than twenty-five years, author Keith Fitschen—whose most popular system, Aberration, has been named "One of the Top Ten Trading Systems of All Time" by *Futures Truth*—has continuously developed and actively traded his proven systems. Now, he shares his extensive experience in this field with you.

Building Reliable Trading Systems skillfully describes the critical steps a trader needs to follow to excel in today's dynamic markets. Along the way, Fitschen touches on exactly what it takes to build, test, and implement a profitable technical trading system. You'll become familiar with everything from the dangers of curve-fitting to the importance of knowing your personal risk tolerance. You'll also gain valuable insights on entries, exits, and trading filters; money management techniques for both large and small stock and commodity accounts; as well as advice on avoiding the influence of some misguided trading lore.

Written with the serious trader in mind, *Building Reliable Trading Systems* is an accessible guide to creating a system that will generate realistic returns over time.

A tradable strategy is one that fits your own risk-reward goals *and* trades as well in real time as it performs in a development backtest. While it's not easy to create a tradable strategy, due to pitfalls ranging from excessive curve-fitting to greed, if done the right way, you can achieve a realistic level of success.

Nobody understands this better than author Keith Fitschen—a thought leader in trading system development whose most popular system, Aberration, has been named "One of the Top Ten Trading Systems of All Time" by *Futures Truth*. For more than twenty-five years, Fitschen has developed and actively traded his proven systems, and now he shares his extensive experience in this field with you.

Engaging and accessible, *Building Reliable Trading Systems* opens with a practical look at exactly what is achievable with a trading strategy. This includes documented performance from some of the best money managers in the world over the last five years, metrics that best characterize a trading strategy's performance, and a set of questions to help you define what would constitute a "tradable strategy" according to your personal risk-taking tolerance. It also addresses one of the biggest problems in developing a strategy—curve-fitting—and presents a unique methodology known as "Build, Rebuild, and Compare," or BRAC, that can be used to determine the degree of curve-fitting in your strategy development.

With this information in hand, Fitschen moves on to outline two tradable systems: one a short-term scalping system for stocks, and the other a mid-term trend-following strategy for commodities. Entries, exits, and trading filters are discussed as these systems

are developed. By the end of the process, both are "tradable" as is, but in order to tailor them to a range of risk-reward profiles—from large stock and commodity accounts to small—you'll be introduced to some essential money management techniques. Fitschen also develops a money management overlay to trade the stock and commodity strategies together, which can yield a trading solution that is better than either alone.

And for those who want even more detail about the strategies developed in this book, the trades for both systems can be found on www.keithstrading.com. At the website, you can input your user name and password to find the TradeStation Easy Language code and daily signals for them.

Written with the serious trader in mind, *Building Reliable Trading Systems* contains information that you'll be hard-pressed to find elsewhere—from BRAC to bar-scoring—and will put you in a better position to generate realistic trading returns over time.

KEITH FITSCHEN has been developing technical trading systems for the futures markets for over twenty-five years and has actively traded his systems during that time. In 1986, he developed Aberration, one of the most successful mechanical systems ever. It was commercially released in 1993 and four times has been named "One of the Top Ten Trading Systems of All Time" by *Futures Truth*. Fitschen recently developed a stock-trading system that profits in both bull and bear markets. He has spoken at numerous technical conferences and workshops, and hosts seminars across the country each year. Fitschen is the President of TradeSystem, Inc., and provides trading system information on his website: www.keithstrading.com.

BUILDIN(

Tradeab.
They Bac.
Risk-R

Kei

ISBN 97£

Trade Signals a

The TradeStation Easy Lan;
systems developed in this
web site. Your unique A
back of this card. Go t
and follow the i

CONTENTS

vi

CONTENTS

This book shows you how t
egy is one that fits your o
real-time as well as it perform
to develop a tradeable strategy
are greedy and want to trade
nalize that we can accept a lot
the large return, but in reality
draw-down before abandonin
reward goals, the first chapter
traders in the world over a re
urge you to write down the s
for you. Address risk first in
max draw-down, and longest
is greed. It manifests itself in
inclined to accept a system r
increases risk at a higher rate
curve-fitting.

Curve-fitting occurs when
the development sample. Cur
of a tradeable system: Curve-
they back-test. It is unfortun
can buy are almost universal
many bars of data from a sing
to trade that instrument. Ever