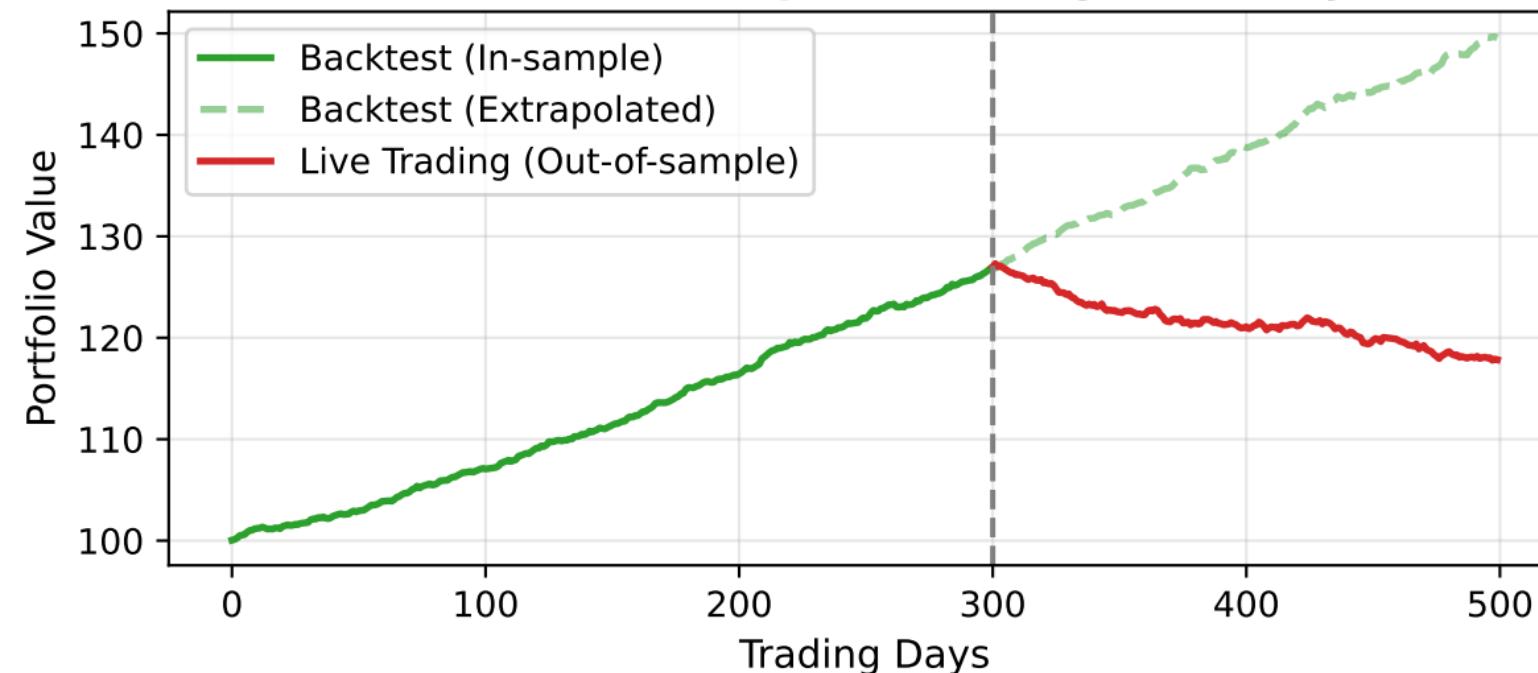


The Backtest Trap: Overfitting to History



Common Causes of Backtest Overfitting

1. Look-ahead bias

Using future data in decisions

2. Survivorship bias

Only testing on surviving stocks

3. Data snooping

Testing many strategies, reporting best

4. Transaction costs ignored

Solution:
Validation
Out-of-sample
testing