

## **The Trading System Myth**

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The myth that a so-called mechanical trading or investing “system” may be purchased that will provide consistent and significant profits over time is a sad reminder that a significant portion of the population has more money than brainpower or at least some money and an occasional lapse of brainpower. What is a “mechanical trading system?” It is a specific and objective set of rules that signal when to buy and sell. The rules may be programmed into software or simply written down. The basis of all these systems is that the user does not have to know anything about the market or trading and investing and will profit by simply following the rules or system signals.

As long as there has been trading and investing, there have been trading and investing systems sold to the public for anywhere from a few hundred dollars to many thousands. I don’t believe there has ever been a system sold to the public that the purchaser has profited from over a period of more than a few months. The relatively brief period of profitability always seems to be followed by consistent losses that wipe out any accumulated profit in a short amount of time. Many “systems” sold are nothing but scams. Some probably have value in the hands of the developer who knows the market conditions under which the system was developed and would recognize when the conditions have changed and the system is no longer applicable.

Not long ago, I challenged all of the readers of the Club 3000 newsletter to provide any evidence of ever having had a single, profitable year from taking every signal of a system that they had purchased. The Club 3000 newsletter was originally begun to provide comments and reviews by system purchasers. I am sure just about every system purchaser and developer in the trading and investing universe subscribes to this newsletter. Not a signal system purchaser or developer was able to provide any evidence of having had a profitable year trading a purchased system! Surprised? I’m not.

### **Success Can’t Be Purchased**

Why does the trading system illusion continue? I believe there are two reasons. The first is the attitude about the business of trading. Most people who are attracted to trading have had success in another job, career, business or profession. They are smart people who have taken years to develop the skills and experience to be successful in one line of work. They feel they master just about any kind of job or challenge. They’re right. They can. If they take the same time to study, learn and gain

experience with the new business of trading as they took to learn how to succeed in their former business.

Unfortunately, the new and inexperienced trader often considers that trading is a relatively simple matter of learning a few chart patterns and identifying some mathematical formula that will consistently predict the future market behavior. They completely ignore their own personal experience that made them a success in their own job, business or profession. They ignore that it took them a great amount of education and experience to be successful. Their former success did not come easily and did not come cheaply. Why is it that so many believe successful trading will come quickly and cheaply?

**There Is No Easy Way. But Some Are Easier Than Others.**

It is probably because many of us want to believe that there really is an easy way. Many of us want to believe that there really is a formula that can be purchased or discovered and will guarantee success. Whole industries are built on this illusion. Stay up late at night and channel surf and you will see how alive and well is this illusion. Almost the entire trading industry is built upon the myth that you don't have to know what you are doing to be successful. From data vendors to book sellers to workshop promoters to system software sellers the message, real or implied, is trading is easy and big profits will be made in a matter of weeks or months. They try to convince you with a few tools and a little knowledge you will make hundreds of percent profit per year, even per month! They try to convince you that the business of trading is different from every other business. That it is easy to learn and easy to be successful. Shame on them! They know better and should deal honestly with their customers.

The vast majority of vendors and promoters who create and sell trading products and services have never had a successful trading experience. In other words, they have absolutely no idea what product, service, information or knowledge is necessary to become a successful trader. But they do know what sells. They know what the public wants to buy into. They know what are their hopes and dreams and aspirations. They know that the buying public will pay big bucks to buy success. At the same time they know that success cannot be sold, and they can't really deliver on their outrageous promises.

This is not to say they many of the trading products and services sold to the public are not valuable to traders. If we required every educator to be the best at what they taught, our educational system, particularly at the university and college level, would disappear overnight. The shame of the large portion of the trading industry who sell products and services to the public is that they continue to sell the false illusion that their products and

services will do what they know cannot be done. They cannot sell success. They can only sell the education that helps someone to gain the knowledge and provide the tools for a trader to make an informed, high-probability trading decision. They cannot sell success.

### **System Testing Software Promotion Perpetuates The Myth**

I believe the second reason for the perpetuation of the successful system trading illusion is the relatively recent plethora of system testing software. With the advent of the popularity and wide spread use of the personal computer in the late 80's to early 90's, the trading software industry exploded. The majority of trading software sold is primarily for system developing and testing. The promotional activity of the system software vendors has convinced the inexperienced trading public that not only can a consistently successful and profitable trading system be developed, but it is the only way to be successful. Shame on them again. They know better. At least they do if they have ever had any contact with experienced professional traders.

The left-brain junkies have a field day with the system testing software. Most of these users do not understand that a set of rules may be developed to show a profit on any set of data! Even data randomly generated. But wait until you apply those rules to a new set of data generated under different market conditions. Not only do software promoters feed on the system illusion by heavily promoting the system testing routines in their software, but trading magazines continually have articles on system development written by academics or professional writers with no actual trading experience.

### **Beware Testing With Phony Data**

Even more mind boggling (to me at least) is that it is constantly promoted to test trading systems on back-adjusted, continuous data and then make real-money, real-time trading decisions based on the results of a system developed with adjusted data. Adjusted, continuous data contracts are "phony" data, it never occurred in the real world. It can never accurately represent trades that would have been taken trading a real contract! At best, testing a trading system or method on back-adjusted data may provide an indication of a successful approach.

Every trade must then be tested on the actual contract that would have been traded in order to get any realistic idea of what the actual results of the trades would be. I challenge you to find a single consistently successful trader who makes his or her living by making trading decisions based on the results of a system or approach developed solely from testing back adjusted data! If you want to make trading decisions based on the results of testing on adjusted continuous data that never actually occurred,

be prepared for a swift and rude awakening. Be prepared to have your trading account decimated.

John Hill, the owner of Futures Truth which tracks the performance of trading systems offered to the public once said, “Cut the profits in half and double the maximum drawdown of hypothetical trading system results and you will have a more realistic idea of how it may perform in real-time trading.” Trading systems sold to the public never perform even close to the level of their hypothetical results.

### **Do Trading System Sellers Have Faith Their Product Will Perform For You?**

Do trading system sellers actually believe their product will benefit you, the purchaser? There is a sure way to find out. If you ever have a case of temporary insanity and are considering buying a trading system, ask the system seller what is their guarantee. If they have anything less than an unconditional money back guarantee you know without question that they do not believe their product will perform up to the level they claim.

No system purchaser would even consider returning a trading system that performed up to the expectations of the promotional hype. Who would ever want to return a system that consistently made money? You probably cannot find a single system seller that offers an unconditional money back guarantee. They know the trading system will never perform to the level of their hypothetical results. They know because the systems sold have never actually performed in real-time trading, only in the manipulated world of hypothetical system testing where a system can easily be optimized to show profits on any randomly generated historical data.

All legitimate, well intentioned trading products vendors provide unconditional money back guarantees for their products or provide a low cost trial period. The legitimate vendors are like all other legitimate businesses that sell a product they have pride and confidence in. They will be happy to take the product back and refund the purchase price to an unsatisfied customer. They know the long term success of every business is built on the satisfaction of repeat customers.

*Success can't be purchased.* It must be earned. Trading and investing are the same as any other business. You must gain a certain amount of knowledge and make decisions. Judgment will always be required for success.

### **The Real-Time Track Record of System Traders**

Still interested in system trading? The best way to get a realistic, objective view of the value of system trading is to observe the actual trading results of systems traders. How do we do that when the system sellers will only provide “hypothetical” results and we can't find a single system purchaser who has been successful?

*Futures Magazine* tracks the results of most of the public futures trading funds. Public trading funds are almost all system traders. They are usually required in their disclosure documents to follow a specific system. For practical purposes, they have *unlimited* financial, computer and brain power resources to develop trading systems. In 1995, the S&P was up 35% for the year. In 1995, the average gain of the 205 funds tracked by *Futures magazine* was just 12.11%. The average futures trading fund had a little more than 1/3 of the gain of the S&P for the year. If you had bought and held an Index Fund for the year, you would have had almost a 300% greater gain than the average futures fund for 1995.

In 1995, about one quarter of the funds were down for the year. Only nineteen or less than one out of ten funds beat a buy and hold strategy for the S&P for the year. *Futures magazine* does not report on multi-year returns for these funds, but I will give very high odds that none of them has ever beaten the S&P in each of three years in a row. These organizations with unlimited resources to develop a consistently profitable trading system are unable to succeed. Each year the results have been similar to those in 1995. If you believe you can develop a consistently profitable trading system with your system testing software that cost a few hundred dollars are you dealing with reality?

Most of these public trading funds have more than ten million dollars under management. Some a lot more. All together they represent several billions of trading dollars. And this is just a drop in the bucket compared with the private trading funds. How much do you think it would be worth to any one of these funds to purchase a system that is profitable? Can you count that high? Given this information, do you really think that you can buy a profitable trading system for a few hundred dollars? For a few thousand dollars? A consistently profitable trading system could easily be leased to a trading fund for tens of thousands of dollars each month. Who is really going to sell one to the public for a few hundred or even a few thousand dollars?

### **Trading Success May Have Declined With The Advent Of Computers**

It's a well known fact that somewhere between 70% and 90% of new traders go bust or quit the trading business within 6-12 months of their first trade. You would think the failure rate would be much less in recent years with the availability of personal computers with immense computing power and system development software cheaply and easily available. Are more traders successful today than a decade or more earlier before computers and software were available? No! In my informal talks with brokers, not only is the failure rate as high or higher than in the pre-personal computer era, but the average time that new traders go bust is probably less now than before computers and system development

software! Good grief. We're taking a step backward and its costing us a whole lot more for all of these computers, system workshops, books and software at the same time.

It doesn't matter how sophisticated or complex or technologically advanced the tools we use. They often provide a false sense of security. Without the knowledge and experience, everything else is irrelevant and can provide no profitable advantage. Computers and software are very advantageous tools which quickly provide all of the information necessary to make an informed trading decision. But it is the trader who must know what information is relevant and how to use the information. It is only the traders decisions that hold the promise of success.

### **A Systematic Approach To Trading, Not A Trading System**

Successful traders employ a systematic approach to making trading decisions. They master a single approach to trading and don't jump from one approach to another. They plan their business by taking the time to develop rules and guidelines which must be met before a trade can be considered. They know their success is based on their ability to make decisions based on market position and the most appropriate trading strategies for each situation.

The systematic approach to trading requires education, knowledge and discipline, the same qualities required of every other successful business. Do you think buying a MacDonaldis franchise which is probably the most systematized business in the world guarantees that franchise will be a success? Of course not. The owner must still learn how to conduct the fast food burger business. In fact, a new franchise owner is required to attend MacDonaldis Hamburger University! What if every trader were required to learn the basics of successful trading before they were allowed to open a brokerage account? The success rate of new traders would increase phenomenally. It is the education, knowledge and experience of the franchise owner that are the key components to success. MacDonaldis Corporation knows this. So must you.

### **Deal With Reality, Not Myth and Illusion And Your Success Is Inevitable**

Hopefully you are now well grounded in reality. Success cannot be purchased. It's that simple. To be a successful trader you must do what it takes to be successful in every other business and profession. You must learn the business and gain the knowledge to make decisions with low-risk and high-probability outcomes. Take the time to gain the knowledge and experience necessary to learn the business of trading. Don't begin your trading career day-trading the S&P. First prove your trading abilities in a low volatility market. If you can't make money trading with daily data in corn, soybeans, silver or another relatively low volatility market, you

definitely won't make money with intraday data in the S&P or bond markets.

### **Dynamic Traders Group Is Committed To Your Success**

At Dynamic Traders Group we are committed to providing everything possible for your success. Since 1986, we have provided products, services, education and advise to new and experienced professional traders and investors in 13 countries. Like any other successful business, our success is a result of our customers who have been with us for years. Many of our customers have been with us for a decade. Our advisory reports have over an 85% renewal rate which is three to four times the industry average. Many of our customers over the years have reoriented their entire approach to trading to our Dynamic Trading approach. Others find one or more of our methods that ideally complement their existing trading approach that substantially improves their results.

We are so confident that every trader, new or experienced professional, will benefit from what we have to offer, that we offer an unconditional money back guarantee on our Dynamic Trading book and Dynamic Trading Software and Trading Course. We know they are great, but it's only your opinion and your experience that counts. Every week we provide a free Current Trade Recommendation from the Dynamic Trader Weekly Report so prospective subscribers can see exactly what we are doing in our advisory reports, and we offer a short-term three month trial so you can experience the benefit of our educational and advisory reports to you at low cost. We know once you experience the unique benefits of our trade advisory and educational reports, you will become a long-term subscriber.

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