

# Overview of Products & Design Methodology

An overview of our Active Trader (NQ) Package, design specifications, correlation analysis versus the S&P 500, post trading support methodology and product dashboard.

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## Introduction to Automated Trading

For most automated trading system developers, the following cycle will look all too familiar. They will start with a faulty trading strategy, only to convince themselves it is perfect, then trade live only to see horrible performance.



Next, they rationalize the poor returns. They might say, “If only my stop was X instead of Y, the performance would have been amazing!” Then they modify the design — or re-optimize — only to find that they continue to experience bad results.

When it comes to automated trading system development, it really is a matter of art and science. As most developers know, there is a big difference between trading systems that appear favorably based on back-tested results, and those that perform well live.



Coding a solid trading strategy is certainly the first step, but not all automated trading systems are created equally.

At AlgorithmicTrading.net, we have a very detailed design methodology that we follow with few exceptions. Furthermore, we have quality control processes in place to ensure we remain on the right track.

In this white paper we will provide details on our trading system design methodology, and the quality control processes and details on each algorithm, and provide an in-depth analysis of the products we offer. We will also highlight the potential pitfalls prevalent in automated trading system development, as well as how to avoid them.

## A Complete Trading System

AlgorithmicTrading.net currently offers four different trading packages. Each package trades multiple uncorrelated algorithms. Trading packages are allocated on a per unit basis. Each unit traded represents 1 contract being traded on each of the algorithms contained in that package.

As an example, consider the NQ Active Trader Package.

1. T2 Burst (NQ)
2. P2 Push-Pull (TY)
3. B2 Breakout (NQ)
4. S2 Breakdown (ES)
5. O2 Overnight Gap (NQ)



The allocation we use for our analysis assumes 1 contract is traded per \$15,000 in the account.

For example, on an account of \$15,000, 1 contract can be traded on each algorithm (five contracts total); on an account of \$30,000, up to 2 contracts can be traded on each algorithm (10 contracts total); and on an account of \$45,000, up to 3 contracts can be traded on each algorithm (15 contracts total).

Keep in mind that no one has the perfect system for trading. Trading futures involves substantial risk of loss and is not for everyone. There will be days where you suffer losses or give-back gains. Our algorithms should only be used with risk capital, that is money you can afford to lose.

Even with automated trading systems, there will be the urge to turn off the algorithms and not let them run. It is our opinion that those periods typically produce the best opportunities, and experience shows it's best to permit the course of the trades to run. With that said, we do not control client accounts and so individuals are able to modify the allocation of the algorithms.

While one algorithm might be in a drawdown, it is possible the others will be breakeven or profitable, helping the combined system to potentially generate positive results. Of course, there are no guarantees in trading; however, we attempt to put every odd in our favor to drive maximum probability of success.

## Predicting Market Direction

Regrettably, there is no crystal ball when it comes to trading. While we have percentage profitability expectations for every single trade we make based on the back-testing, ultimately no one knows for sure what the market will do at any given time.

To offset the unknown, we use what we do know. We know with certainty that the market will move sideways, higher, or lower, in any given period. Then we develop individual algorithms that perform uniquely based on those market movements.

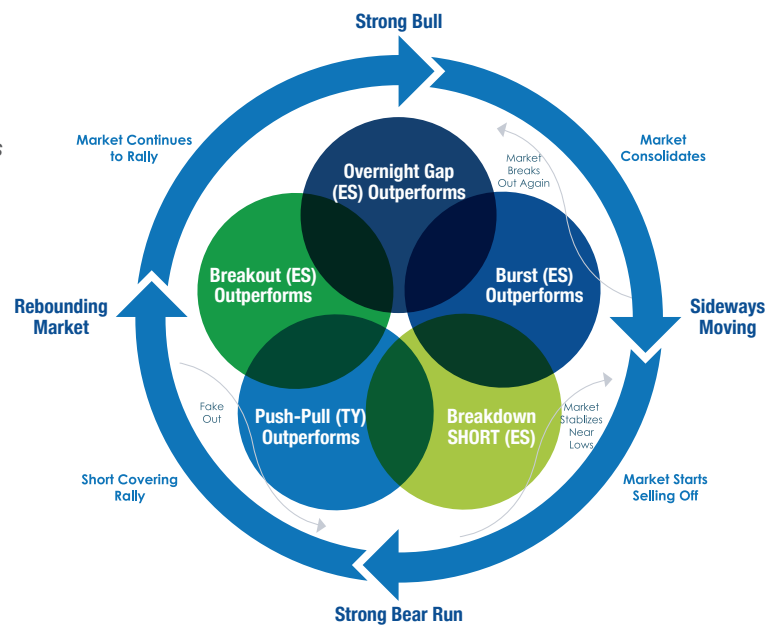
For the purpose of system development, we add an additional category called “rebounding” representing a strong move higher after a substantial down move, also called a short covering rally.

The end result is a system that is attempting to be market direction agnostic — by trading five strategies concurrently, each with its own strengths, weaknesses and expectations for the different market conditions.

The following diagram captures each market condition along with the expectations of positive performance for each algorithm contained in the NQ Active Trader Package. Each algorithm has a strongly positive expectation for one of the four conditions, along with weaker positive expectations where the overlaps occur.

The ideal conditions for the algorithms are when the algorithms performance overlap since that implies multiple algorithms are performing well. In fact, we have had months where all five algorithms on the NQ Active Trader Package are profitable resulting in exceptional returns in the hypothetical account for those periods.

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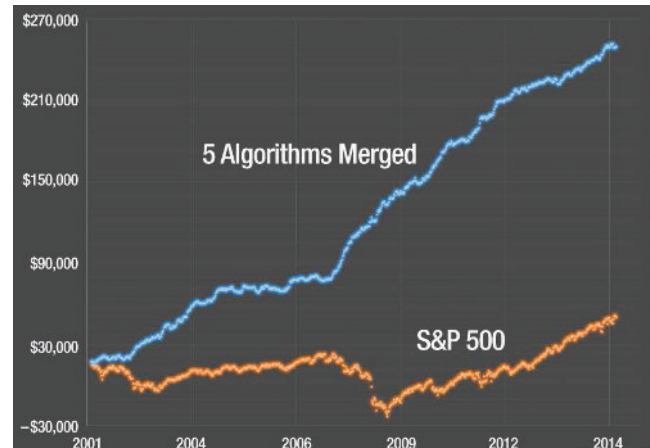
## Performance vs. the S&P 500

The equity curve to the right shows the back-tested performance of the five merged algorithms, in the ES Active Trader package, as compared to the S&P 500. In order to create this equity curve, we took the five algorithms and applied them to the ES. This was done so that we can do an apples to apples comparison vs. the S&P 500. While this equity curve looks quite Impressive, it is based on back-testing which has limitations as the CFTC RULE 4.41 explains.

As you can see, the combined automated trading strategy performance is spectacular during both bull and bear markets.

As the equity curve shows, there is little correlation between our five merged algorithms and the S&P 500. Our back-tested performance is not tied to the performance of the S&P 500.

**Five Algorithms Merged vs. S&P 500**  
**ES Active Trader Package, Non-Compounded**  
**(06.03.01 – 03.01.15)**



*\$17,000 Starting Account Size, 1 Contract per  
 Algorithm (1/1/1/1/1), hypothetical account*

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## Mathematical Proof of Correlation

The correlation coefficient is a percentage that represents how interrelated two data sets are. In trading algorithm development, a designer will typically measure the correlation of their algorithms to the S&P 500 to determine how correlated an algorithm is to the broader market performance. Since the goal of most auto trading systems is to outperform this index, it only makes sense to measure the correlation between the trading strategy developed and the S&P. Here is a commonly accepted definition of what different values imply:

- + .70 or higher** ----- Very strong positive relationship
- + .40 to + .69** ----- Strong positive relationship
- + .30 to + .39** ----- Moderate positive relationship
- + .20 to + .29** ----- Weak positive relationship
- + .01 to + .19** ----- No or negligible relationship
- .01 to - .19** ----- No or negligible relationship

A value of 100% would imply that the two data sets are equal. A value of 0% would imply two fully random data sets. A negative value would imply an inverse relationship.

### **NQ Active Trader Package (ES) Correlation Coefficient as compared to the S&P 500 = .03%.**

This analysis shows our complete algorithmic trading systems back-tested performance is not driven by the S&P 500 performance. As the merged equity curve showed on the previous page, and correlation coefficient confirms, our automated trading system has no relationship to the performance of the broader S&P 500 on a back-tested basis.

In our opinion, any correlation below 50% is positive news. If the goal is to outperform the S&P 500, then anything more than 50% would defeat the purpose of implementing an algorithmic trading system since the trader could simply buy and hold the S&P and not waste their time with trading. As our merged equity curve demonstrates, our expectation is for continued positive returns independent of market conditions.

## **Correlation of Each Algorithm to the Others**

Digging deeper into our correlation to the S&P 500, we can also determine the relationship between the five different trading algorithms to one another (non-merged) on a back-tested basis.

The NQ Active Trade Package trades five separate futures trading systems for a reason. The goal of our system is that at all times, one trading system may be strongly up, one slightly up, one breakeven and one slightly down. This results in a net positive automated trading system based on the back-testing.

Taking a close look, the Push-Pull (TY) algorithm vs. the S&P 500 has a moderate inverse relationship (-30.70 %), while the Breakdown SHORT (ES) algorithm has a -23.84% inverse relationship to the S&P 500. These two algorithms work together in order to try and hedge against downward moves on the broader market.

The Breakout (ES) has little to no correlation to the other algorithms demonstrating its value to our trading system.

The Burst and Overnight Gap are the most correlated algorithms in the grouping — to each other and to the S&P 500. That correlation is the primary reason why in the back-testing our system is profitable during sideways or upward moving markets.

**Why do we care?** The correlation coefficient of .03% suggests zero correlation to the S&P 500. In other words, our algorithms' performance is not tied to the performance of the S&P 500. When the market goes up, down, or sideways, our algorithms do everything they can to be market direction agnostic.

### **Correlation Coefficient Results**

**All 5 Algorithms  
Merged vs S&P 500** **.03%**

CORRELATION RESULTS	CORRELATION COEFFICIENT
Push-Pull (TY) vs Breakout (ES)	-11.56%
Push-Pull (TY) vs Burst (ES)	-15.24%
Push-Pull (TY) vs Overnight Gap (ES)	-19.90%
Push-Pull (TY) vs Breakdown SHORT (ES)	15.49%
Breakout (ES) vs Burst (ES)	9.80%
Breakout (ES) vs Overnight Gap (ES)	2.52%
Burst (ES) vs Overnight Gap (ES)	29.47%
Burst (ES) vs S&P 500	31.03%
Push-Pull (TY) vs S&P 500	-30.70%
Burst (ES) vs S&P 500	27.17%
Overnight Gap (ES) vs S&P 500	21.77%
Breakdown SHORT (ES) vs S&P 500	-23.84%

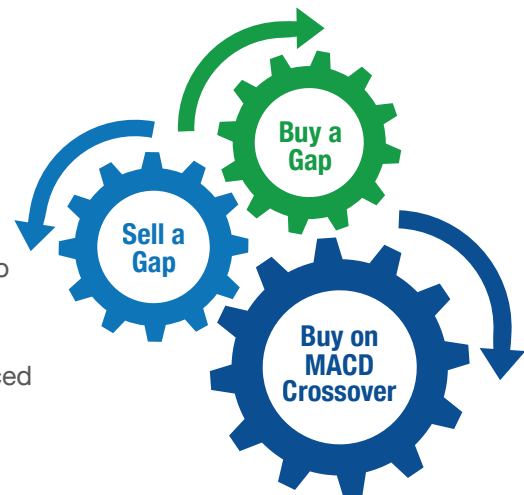
With that said, there are no guarantees that our algorithms will continue to perform well. You should carefully consider this prior to purchasing our algorithms and trading them on live accounts. As mentioned previously, back-testing has limitations per CFTC Rule 4.41.

## Typical Trading Algorithm Development Cycle

The following is a basic overview of how an individual algorithm might be developed.

### Step 1: Create an Idea

This process begins with a simple idea, which is subsequently coded and analyzed. It might start as an idea to “sell or fade a gap up at the opening bell” but then changes to see what happens if you “buy an opening gap”. After running multiple simulations, the idea is abandoned, and replaced with new options in search of something else.



### Step 2: Back Test & Optimize the Algorithm

Once a basic trading strategy is coded and looks to be promising, the developer will optimize the algorithm’s inputs. This might be a stop, target, or some other technical indicator. During this phase, simulations will run, changing inputs based on the granularity selected. They will also cross-optimize the inputs to find - based on the previous history - what the most optimal inputs (stop, target, technical indicator) would have been. Trading platforms will then produce a report indicating those critical inputs. They will also generate back-tested performance reports indicating everything from maximum drawdown, percent profitability, profit factors and much more.

Once the optimization is complete, the trader in theory has a mechanical trading system that could be auto executed. However, it is our opinion that there is much more to developing a winning trading system than just running the above outlined steps.

## Automated Trading System Design Specifications

There is much more to the development of an automated trading system than just coding an algorithm, back-testing, and optimizing. The real work comes in vetting the algorithms. The goal of any system developer should be to thoroughly test the algorithms by attempting to find their weaknesses prior to going live.

At first glance, the new trading system might appear to be solid, but after rigorous testing it may be determined that it is not qualified to trade. This process is critical to the success of the trading system.

What separates AlgorithmicTrading.net from the other automated trading systems is our developer does his best to adhere to strict development and testing guidelines, varying from these principles only if the situation warrants due to unique special case circumstances.



One of the biggest errors an algorithm developer can make is cutting corners in the testing phase of the development process. The developer at AlgorithmicTrading.net takes these principles seriously. We understand that the strength of our algorithms is key to the success of our system. As an innovative, algorithmic trading system design firm, since March of 2015 AlgorithmicTrading.net has required the algorithms mentioned in this white paper to meet the following design criteria for our automated trading system, with few exceptions:



### Back-Test 10+ Years

When optimizing our algorithms, we back-tested starting from May 2001. We found that other developers only back-tested four years — and even less — which avoided the 2008 crash and market periods prior to that. To further test our algorithms, we modified the Burst and Push-Pull so it could trade on the broader index, and tested as far back as 1984 which also showed very good results.

### Uncorrelated Algorithms

Our strategy is to combine five uncorrelated algorithms to create a complete automated trading system. This can be easily evaluated using a correlation coefficient. Our target for the merged value is between 0-.50, however, it depends on the goal of each algorithm. The value is measured by comparing the algorithms' weekly performance to the S&P 500 and determining how correlated or uncorrelated the trading system is to the broader index. A final value of over 0.50 (a strong positive correlation) suggests that the system will simply perform as the S&P 500 does in most cases. In that case, there would be no value to use an automated trading system. A final value closer to zero suggests that there is little to no correlation to the S&P 500.

As mentioned before, the correlation coefficient of AlgorithmicTrading.net's five algorithms merged is 0.03%. This means our algorithms do everything they can to be market direction agnostic and do not appear to be dependent on the S&P 500.

### **Reasonable Profit Factors (1.2-2.6)**

The Profit Factor (PF) is a ratio of total gain to total loss. A broadly accepted view is that a PF below 1.2 is probably not profitable, and a PF above 2.6 is not realistic and likely achieved by violating design criteria and standards. As of March 2015, the back-tested profit factors for our system range from 1.20-2.50 depending on the algorithm.

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### **Large Average Gain Per Trade**

By averaging all trades in the complete system, winners and losers, you can determine an average gain per trade. It is important to have room for error, therefore the higher the average the better.

A common mistake in developing algorithmic trading systems is the creation of a scalping algorithm that is in and out multiple times throughout the day. These algorithms look good back-tested, but when traded live they fall apart. More times than not, this occurs because their average gain per trade is less than one tick on the index they are trading. While they appear to show great equity curves, stable profit factors and great reports with low drawdowns, the reality is that they will probably be at a loss when going live because they provided little room for error. The truth is, no retail trader should be in and out multiple times during the day, that is a job for HFT firms who have millions invested and dedicated design teams to monitor their HFT algorithms.

### **Use Look-Inside (LIB) and Intrabar Order Generation (If Applicable)**

A common mistake when developing algorithms is to turn off the look-inside bar back-testing feature. If unchecked, back-testing results will be inaccurate showing winning trades when in fact the actual trades were losers. This is a bigger issue for algorithms that trade on large candles and/or algorithms that have very tight stops or very tight targets. Problems arise when within a single candle, either the stop or target could have been hit.

For example, with LIB checked, back-testing optimizations take longer with Tradestation because they will analyze every tick within the candle to determine which was hit first, the stop or the target. Tradestation defaults to this being unchecked so that simulations are faster. However, with LIB unchecked Tradestation will use its own proprietary algorithm to determine if the stop was hit first or the target was. Unfortunately, it seems that their algorithm will more often than not err on the side of assuming a target was hit first. During our development cycle, we always run with LIB checked to ensure that the back-tested results are accurate.

By design, we do not run with Intrabar Order Generation (IOG) enabled, as it depends on the intent of the trading system whether to enable it or not.

### **Include Adequate Slippage & Commission in Analysis**

Slippage and commissions eat into any profits. Since this can vary from trade to trade, a system designer needs to be realistic with this to err on the side of caution. If an algorithm enters at the market and exits at a limit, then you can assume you will have at least one tick of slippage on the buy, and potentially some slippage on the sell even though it is a limit order to exit. The reason there is also possible slippage on the sell is that, at times, the index traded will barely hit the limit price but it will not fill. It will then reverse. The algorithm thinks you exited the trade, even though in the live account it did not fill. If this happens, our algorithms are programmed to exit at the market — typically 15 seconds later — to ensure the live account is in-sync with the algorithm.

Commission rates should also factor into the performance. In our case, we add both slippage and commission to all of our reports unless stated otherwise.

### **Use Three or Fewer Technical Indicators**

Another broadly accepted principle in trading system development is the fewer the technical indicators the better. We require three or fewer. In fact, in some cases our algorithms only have one. We do use price action heavily and pattern recognition in our algorithms, which is a different concept. The push-pull and burst algorithms also utilize a finite state machine to help define various patterns that have occurred in order to define good entry points.

If you think of a trading system as a house of cards, the more technical the indicators the more flimsy the house. Usually, algorithms with a large amount of technical indicators will result in over-optimization when back-testing is performed. As results are analyzed, the developer will add new indicators to try to avoid losses resulting in a very flimsy algorithm that will be more likely to fall apart when traded live. This principle seems to be confirmed when walk-forward analysis is done. Experience has shown us that the more indicators used, the less likely an algorithm will pass the most basic walk-forward pass/fail criteria.

Our philosophy is to develop a reliable algorithm that works when traded live and accept a lower profit factor, than one that looks good on back-testing but performs poorly after going live.

### **Perform Monte Carlo Simulation**

Monte Carlo Simulation randomizes the back-tested trades to ensure there are no hidden patterns that exist only due to unique market conditions. It is another way to try to break the algorithmic trading system during the testing process and evaluate its performance with the same trades executed randomly. This is helpful in determining a worst-case potential drawdown.

### **Modify Inputs +/- 10% To Ensure Minimal Impact**

Once optimization is performed, we modify all inputs randomly by +/- 10% to determine how flimsy the algorithm is. For example, after optimizing an algorithm we might determine that the most optimal target is 10 points. We will then go back and modify the target to be 9 points and 11 points to ensure that the algorithm still looks acceptable. If it falls apart at that point, that is a warning sign that it has been over-optimized.

**At Least 200 Trades in Back-Testing History**

In general, the bigger the data set the better when analyzing an algorithm. Our complete system has over 3,300 trades as of the time of this paper. We believe if an algorithm has less than 200 trades there is not enough data to make a case for that algorithm's performance going forward.

**Trade Live Prior To Offering To Public**

Any algorithm should be traded live prior to making any strong conclusions about it and offering.

**Drawdown Scalable To Meet Various Customer Needs**

The drawdown should be scalable to meet an individual's needs. Our algorithms can be scaled by adjusting the number of contracts traded times amount of dollars in the account. For example, if someone is uncomfortable with a 30% drawdown potential, they could trade 1 contract per \$30,000 in the account instead of 1 contract per \$15,000 in the account. This cuts the expected maximum back-tested drawdown from 30% to 15%, but would also cut the potential gains in half.

AlgorithmicTrading.net is not a registered CTA and does not provide any risk management services. The ability to scale the number of contracts traded simply refers to the fact that someone can trade less than the maximum allowed contracts (1 per \$15,000). This decision has to be the customers and we will not provide any custom advice tailored to your specific needs. The maximum drawdown numbers we present are based on back-testing and actual losses can exceed those numbers.

**Do Not Over Optimize**

Once an algorithm is coded, it is optimized to determine the best possible values for each input. These values can be optimized with as much granularity as a developer wants. While we could optimize down to 0.0001 points or lower for any give input, we choose to use a much higher granularity to further reduce the risk our algorithms are over-optimized.

**Independent Third Party Evaluation**

Ideally, a third party should evaluate any algorithm or complete trading system prior to a final seal of approval. The intention is simple, get one more set of eyes on the product.

Some of our algorithms were evaluated by an independent design firm. We received a report that gave our algorithms very high marks. The evaluator spent over one month trying to break our algorithms, to no avail. The final report was extremely positive and recommended forward testing the algorithms. The entity funding execution of the report decided not to proceed with this final step since the previous optimizations showed live trades over-performed over the previous 6 months. In our opinion, this was better than conducting any forward testing as the analysis would have required a fresh optimization — changing the inputs to the algorithms as they are now — and re-run on the same data set that we already had live returns for. While it would provide another angle at examining each algorithm, it was deemed unnecessary given that we already had live returns for the existing optimizations. To view the third-party evaluation visit <http://bit.ly/1H5CeF6>.

### **Scalable System – Can Handle Volume**

Any successful trading system should be able to handle a large account size and have the ability to scale higher with the success of the system (i.e. increasing contract size as the system performs). The key is to only trade markets with the greatest amounts of liquidity. Our system trades the Emini S&P 500 Futures (ES), Emini NASDAQ Futures (NQ) and the 10-Year Note (TY), which are some of the most liquid futures instruments traded. While futures trade 24-hours per day, we ensure the algorithms can handle volume at all hours by limiting our trading to only when the equity markets are open. This helps to ensure when a trade is triggered, there will be enough liquidity to ensure our slippage is minimized.

According to the CME Group, the average daily volume (ADV) on the ES is almost 2 million contracts. At an initial margin rate of \$5,000 per contract traded, this amounts to approximately \$10 billion in trades on the S&P every day. The TY has an ADV of almost 1.5 million contracts, which is equal to approximately \$2.2 Billion worth of shares traded every day. Averaged over a 24-hour period, it is our opinion that this allows for plenty of liquidity to handle our algorithms traded with very large accounts across multiple customers.

### **Final Sanity Check**

This final step is slightly less structured and difficult to quantify, so we do not list it as an actual design requirement. Simply put, the concept or principles behind the automated trading strategy should make sense and pass a basic sanity check.

For example, it is not sufficient to stumble upon a random pattern and justify it as a reliable basis for an algorithmic trading system. Algorithms must have reasons behind their expectation for success.

For the Breakout algorithm, we are capturing short covering rallies and buying when it is difficult (i.e. on a gap up). When most day traders are shorting the large gap up and expecting it to fill the gap, we will typically buy the breakout. Once it has made a large up move from our entry and most daytraders will feel it has moved to far and get out, the back-testing data suggests that you should hold until the end of the day, so our algorithm holds.

Our Breakdown SHORT algorithm is similar, however instead of buying into strength it will sell into weakness. When most retail traders are buying a gap down thinking that the market has gone too far and will rally, the best trade in our opinion is once again the harder trade, namely shorting into the weakness.

The logic behind the Burst is to buy breakouts within range bound or sideways moving markets but exit quickly in case they are false breakouts. The Burst also buys the bottom of the range in sideways trading markets, allowing for a larger target, and exit once the futures trade back towards the top of the range. The Push-Pull is similar to the Burst, except that we hold longer and typically only buy on dips.

The principle behind the Overnight Gap is equally straightforward. It buys into strength during upward trending markets, attempting to exit the following morning when the equity markets open. This tendency to gap up is, in our opinion, due to the ramp in futures that tends to happen in strong markets during the overnight light volume trading session.

At AlgorithmicTrading.net, our number one principle when designing algorithms is to think in terms of “Why do most day traders fail?” We believe it is because they make comfortable trades instead of the difficult ones. They are reluctant to buy breakouts because they feel it has already moved too far, so they sit around waiting for the pullback to happen. When it does happen, they tend to get scared and will not buy out of fear that the market will finally crash. If the pullback intensifies, they will finally feel like the market has moved too far down and cannot go further and then they buy, which is typically the exact wrong time. They take the comfortable trade instead of the right trade.

At AlgorithmicTrading.net, we determine “What’s the hardest trade to make?” and execute on that trade. We focus our time, energy and resources on developing the trading strategy so we have a confident and trust it once it goes live, and just let the trades play out without any emotions being involved. We simply let the robotic trading system run our trading.

## **Algorithmic Trading Packages**

### **The S&P Crusher Package**

This package is our flag ship trading system, designed to maximize gain while also attempting to minimize losses. This package is a combination of the ES Weekly Options & The Gambler packages. The combined result (based on the back-testing) is what appears to be an extremely robust system. The strength of this package lies in it’s ability to potentially out-perform in bull, bear and sideways moving market conditions. When the market goes higher, the F1 Bull-Fire will place well timed swing trades on the ES and the O1-Onightgap\_sPuts algo will sell out-of-money weekly puts on the S&P Futures. When the market is rebounding in a short covering rally, the B3-Breakout shines placing a day-trade in the morning then ex-its at the close. During market sell-offs, the F1-BullFire & O1-Onightgap\_sPuts algo are de-signed to get on the sidelines while the S3-Breakdown places short day-trades, S2-Breakdown\_sCalls sells out of money calls and P2-PushPull takes a longer term bearish po-sition. During periods of sustained sideways movement, the S2-Breakdown\_sCalls and O1-Onightgap\_sPuts algo sells weekly options potentially adding to gains seen in the preceding directional periods. By combining the ES Weekly Options package with The Gambler, the equity curve smooths out substantially without sacrificing potential gains (lower back-tested drawdown). Trades the highly liquid ES and TY futures markets (lower slippage) as well as weekly call and put options on the ES. At most, it could be long 1 ES contract, 1 ES weekly call or put (not both) and 1 TY contract per \$30k traded. A fully automated trading system designed with the highest standards, this might be the best algorithmic trading system we have ever designed. With that said, trading futures and options does involve substantial risk of loss and is not appropriate for all investors. You should only trade our algorithms with risk capital. Read on to become familiar with each of the six Algorithmic Trading systems, traded in this package.



## F1 Bull-Fire

### Key Features

- Trades the Emini S&P 500 Futures (ES) on 385 minute increments
- Extremely effective during up moving markets
- Can place swing and short term trades, depending on market conditions

### Entry-Exit Points

- Enters long at 3:55 AM EST if certain market conditions are present
- Exits when either the stop or limit (target) is hit



*Example Trade (Image, Above): This sequence shows 6 trading days (between 3/1/2016 and 3/8/2016). During this period, we closed out five winning trades (the blue dotted line indicates a winning trade) in the live account. It placed a swing trade first, followed by four shorter term trades. Past performance not indicative of future performance.*

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## P2 PUSH-PULL BOND

### Key Features

- Trades the 10 Year Note (TY) on 120 minute increments
- Extremely effective during down moving markets (best back-tested year was 2008.)
- Performs very well during all other market conditions

### Entry-Exit Points

- Potentially enters at closure of 120 minute candles (10 AM EST, 12 PM EST, 2 PM EST, 4PM EST or 4:59 PM EST) if certain market conditions are present.
- Exits when either stop or target is hit. (Can hold overnight.)



*Example Trade (Image, Above): While the market was selling off in the early part of January-February*

2016, the Push-Pull TY algorithm had an incredible run. This algorithm compliments the others very well (i.e. while the equity markets are dropping, the Push-Pull algorithm will typically be hitting it out of the park with winning trades, profiting during down moving markets).

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### B3 BREAKOUT

#### Key Features

- Trades the Emini S&P 500 Futures (ES) on 9 minute increments
- Extremely effective during down moving markets (captures short covering rallies)
- Profitable during most other market conditions as well
- This is a very low risk day trade — in at the morning and out at the close with a very tight stop). Uses a trailing stop once a certain price level is reached.



#### Entry-Exit Points

- Enters at 9:48 AM EST if certain market conditions are present
- Exits at the market close, unless stopped out

*Example Trade (Image, Above): This sequence shows 6 trading days (between 5/26/2015 and 6/2/2015). During this period, we closed out 1 winning trade on a short covering rally (the blue dotted line indicates a winning trade) in the hypothetical account.*

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### S3 BREAKDOWN

#### Key Features

- Trades the Emini S&P 500 Futures (ES) on 9 minute increments
- Extremely effective during longer term bear markets
- Great hedge against a sustained bear market.



#### Entry-Exit Points

- Enters short at 9:48 AM EST if certain market conditions are present
- Exits at the market close, unless stopped out

*Example Trade (Image, Above): This sequence shows 5 trading days (between 8/20/2015 and 8/26/2015). During this period, we closed out a two winning trades (the blue dotted line indicates a winning trade) in the hypothetical account. As demonstrated, shorting into the weakness was the correct trade. These gains were huge, which contributed greatly to our incredible run in August 2015 when the equity markets were selling off huge.*

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### O1 OVERNIGHTGAP\_sPUTS

#### Key Features

- Sells the weekly Puts on the S&P 500 Emini-Futures (ES)
- Extremely effective during up and sideways moving markets
- Typically sells the puts trading 10-20 points out-of-the-money (approximately 1%)

#### Entry-Exit Points

- Enters at 3:59 PM EST if certain market conditions are present, Monday – Thursday
- Attempts to buy back the option at 0.15 points
- Holds until options expiration on Friday. If option expires in-the-money, it will execute an order to offset the option



*Example Trade (Image, Above): This sequence shows 5 trading days (between 2/29/2016 and 3/4/2016). On Monday (2/29/2016) this algorithm sold the 1910 Put collecting \$475 in premium. This diagram shows the full profit zone, partial profit zone and loss zone. The market rallied in our favor and we bought*

back the option at 0.15 points just prior to expiration. Total gain on this trade factoring commission was \$443 per \$20,000 traded.

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## S2 BREAKDOWN\_sCALLS

### Key Features

- Sells the weekly Calls on the S&P 500 Emini-Futures (ES)
- Extremely effective during down and sideways moving markets
- Typically sells the calls trading 10-20 points out-of-the-money (approximately 1%)

### Entry-Exit Points

- Enters at 9:50 AM EST if certain market conditions are present, Monday – Thursday
- Attempts to buy back the option at 0.15 points
- Holds until options expiration on Friday. If option expires in-the-money, it will execute an order to offset the option



*Example Trade (Image, Above): This sequence shows 5 trading days (between 2/8/2016 and 2/12/2016). On Monday (2/8/2016) this algorithm sold the 1860 Call collecting \$750 in premium. This diagram shows the full profit zone, partial profit zone and loss zone. The market traded sideways and we bought back the option at 1.00 points just prior to expiration. Total gain on this trade including commission was \$675 per \$20,000 traded or approximately 3.38%.*

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## The Gambler Package

The strength of this package lies in its ability to potentially outperform in both bull and bear market conditions. When the market goes higher, the F1 Bull-Fire will place well timed swing trades on the ES. When the market is rebounding in a short covering rally, the B3-Breakout shines placing a day-trade in the morning before exiting at the close. During market sell-offs, the F1-BullFire is designed to get on the sidelines while the S3-Breakdown places short day-trades and the P2-PushPull takes a longer term bearish position. It trades the highly liquid ES and TY futures markets (lower slippage) and does not place any options trades. At most, it could be long 1 ES contract and 1 TY contract over the weekend (per unit traded) which is an attempt to minimize overnight exposure. A fully auto-mated trading system designed with the highest standards. With that said, trading futures does involve substantial risk of loss and is not appropriate for all investors. You should only trade our algorithms with risk capital. Read on to become familiar with each of the four Algorithmic Trading systems, which are traded in this package.

### P2 PUSH-PULL BOND

#### Key Features

- Trades the 10 Year Note (TY) on 120 minute increments
- Extremely effective during down moving markets (best back-tested year was 2008.)
- Performs very well during all other market conditions



#### Entry-Exit Points

- Potentially enters at closure of 120 minute candles (10 AM EST, 12 PM EST, 2 PM EST, 4PM EST or 4:59 PM EST) if certain market conditions are present.
- Exits when either stop or target is hit. (Can hold overnight.)

*Example Trade (Image, Above): While the market was selling off in the early part of January-February 2016, the Push-Pull TY algorithm had an incredible run. This algorithm compliments the others very well (i.e. while the equity markets are dropping, the Push-Pull algorithm will typically be hitting it out of the park with winning trades, profiting during down moving markets).*

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### B3 BREAKOUT

#### Key Features

- Trades the Emini S&P 500 Futures (ES) on 9 minute increments
- Extremely effective during down moving markets (captures short covering rallies)
- Profitable during most other market conditions as well
- This is a very low risk day trade — in at the morning and out at the close with a very tight stop). Uses a trailing stop once a certain price level is reached.



#### Entry-Exit Points

- Enters at 9:48 AM EST if certain market conditions are present
- Exits at the market close, unless stopped out

*Example Trade (Image, Above): This sequence shows 6 trading days (between 5/26/2015 and 6/2/2015). During this period, we closed out 1 winning trade on a short covering rally (the blue dotted line indicates a winning trade) in the hypothetical account.*

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### S3 BREAKDOWN

#### Key Features

- Trades the Emini S&P 500 Futures (ES) on 9 minute increments
- Extremely effective during longer term bear markets
- Great hedge against a sustained bear market.



#### Entry-Exit Points

- Enters short at 9:48 AM EST if certain market conditions are present
- Exits at the market close, unless stopped out

*Example Trade (Image, Above): This sequence shows 5 trading days (between 8/20/2015 and 8/26/2015). During this period, we closed out a two winning trades (the blue dotted line indicates a winning trade) in the hypothetical account. As demonstrated, shorting into the weakness was the correct trade. These gains were huge, which contributed greatly to our incredible run in August 2015 when the equity markets were selling off huge.*

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## F1 BULL-FIRE

### Key Features

- Trades the Emini S&P 500 Futures (ES) on 385 minute increments
- Extremely effective during up moving markets
- Can place swing and short term trades, depending on market conditions

### Entry-Exit Points

- Enters long at 3:55 AM EST if certain market conditions are present
- Exits when either the stop or limit (target) is hit



*Example Trade (Image, Above): This sequence shows 6 trading days (between 3/1/2016 and 3/8/2016). During this period, we closed out five winning trades (the blue dotted line indicates a winning trade) in the live account. It placed a swing trade first, followed by four shorter term trades. Past performance not indicative of future performance.*

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## The ES Weekly Options Package

This package places at most one trade per week. Once we sell either a put or call, we wait for options expiration on Friday. Trades can be placed on Monday, Tuesday, Wednesday or Thursday at either 9:50 AM EST or 3:59 PM EST. Options sold are typically 10-20 ES points out-of-the-money. The strength of this package lies in its ability to potentially outperform in bull and bear market conditions as well as sideways moving markets. When the market goes higher, the O1-Onightgap\_sPuts algo will sell puts on the ES Weeklies. During market sell-offs, the sPuts algo will attempt to get on the sideline while the B2-Breakdown\_sCalls algo begins selling calls. It trades the highly liquid ES weekly options (lower slippage) and does not place any futures trades except to offset an assigned in-the-money option at Fridays close. At most, it could be short either a call or put at any given time (never both). It will not hold an option over the weekend in an attempt to minimize “Black Swan Event” exposure. Trade this package as-is or in addition to any other packages we offer. Remember, trading options does involve substantial risk of loss and is not appropriate for all investors. You should only trade our algorithms with risk capital. Read on to become familiar with each of the two Algorithmic Trading systems, which are traded in this package.

### O1 OVERNIGHTGAP\_sPUTS

#### Key Features

- Sells the weekly Puts on the S&P 500 Emini-Futures (ES)
- Extremely effective during up and sideways moving markets
- Typically sells the puts trading 20 points out-of-the-money (approximately 1%)

#### Entry-Exit Points

- Enters at 3:59 PM EST if certain market conditions are present, Monday – Thursday
- Attempts to buy back the option at 0.15 points
- Holds until options expiration on Friday. If option expires in-the-money, it will execute an order to offset the option



*Example Trade (Image, Above): This sequence shows 5 trading days (between 2/29/2016 and 3/4/2016). On Mon-day (2/29/2016) this algorithm sold the 1910 Put collecting \$475 in premium. This diagram shows the full profit zone, partial profit zone and loss zone. The market rallied in our favor and we bought back the option at 0.15 points just prior to expiration. Total gain on this trade factoring commission was \$443 per \$20,000 traded.*

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*Also, because these trades have not actually been executed, these results may have under-or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown.*

## S2 BREAKDOWN\_sCALLS

### Key Features

- Sells the weekly Calls on the S&P 500 Emini-Futures (ES)
- Extremely effective during down and sideways moving markets
- Typically sells the calls trading 20 points out-of-money (approximately 1%)

### Entry-Exit Points

- Enters at 9:50 AM EST if certain market conditions are present, Monday – Thursday
- Attempts to buy back the option at 0.15 points
- Holds until options expiration on Friday. If option expires in-the-money, it will execute an order to offset the option



*Example Trade (Image, Above): This sequence shows 5 trading days (between 2/8/2016 and 2/12/2016). On Mon-day (2/8/2016) this algorithm sold the 1860 Call collecting \$750 in premium. This diagram shows the full profit zone, partial profit zone and loss zone. The market traded sideways and we bought back the option at 1.00 points just prior to expiration. Total gain on this trade including commission was \$675 per \$20,000 traded or approximately 3.38%.*

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## The NQ Active Trader Package

The strength of this package lies in its ability to potentially outperform in both bull and bear market conditions. When the market goes higher, the O2-OvernightGap will place long trades on the NQ (NASDAQ Emini Futures). When the market is rebounding in a short covering rally, the B2-Breakout places a day-trade in the morning before exiting at the close. During market sell-offs, the O2-OvernightGap algo is designed to get on the sidelines while the S2-Breakdown places short day-trades and the P2-PushPull takes a longer term bearish position. During sideways moving markets, the T2-Burst algo will place trades during brief pull-backs and as the market rallies towards the upper end of its range. It trades the ES (short), NQ (long) and TY futures markets and does not place any options trades. At most, it could be long 2 NQ contracts and 1 TY contract over the weekend (per unit traded). With that said, trading futures does involve substantial risk of loss and is not appropriate for all investors. You should only trade our algorithms with risk capital. Read on to become familiar with each of the four Algorithmic Trading systems, which are traded in this package.

**UPDATE:** This algorithmic trading package has reached its subscriber limit and is not available to new users at this time. Feel free to visit the S&P Crusher, ES Weekly Options or The Gambler product pages (all of which are still available).

[Read the third party evaluation of our algorithms](#)

### T2 BURST

#### Key Back-Tested Features

- Trades the Emini NASDAQ Futures (NQ) on 120 minute increments
- Extremely effective during sideways & upward drifting market conditions
- Outperforms during down moving markets



#### Entry-Exit Points

- Potentially enters at closure of 120 minute candles (11:30 AM EST, 1:30 PM EST, 3:30 PM EST or 4:59 PM EST) if certain market conditions are present.
- Exits when either stop or target is hit. (Can hold overnight.)

*Example Trade (Image, Above): This sequence shows a period where the market traded sideways with a slight bias to the upside (10/13/2015-10/17/2015). The Burst algorithm timed the entries and exits very well. We had 2 winners and no losers in this 7 day period in the hypothetical account (The blue dotted line indicates a winning trade).*

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Also, because these trades have not actually been executed, these results may have under-or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown.

## P2 PUSH-PULL BOND

### Key Features

- Trades the 10 Year Note (TY) on 120 minute increments
- Extremely effective during down moving markets (best back-tested year was 2008.)
- Performs very well during all other market conditions



### Entry-Exit Points

- Potentially enters at closure of 120 minute candles (10 AM EST, 12 PM EST, 2 PM EST, 4PM EST or 4:59 PM EST) if certain market conditions are present.
- Exits when either stop or target is hit. (Can hold overnight.)

*Example Trade (Image, Above): While the market was selling off in the early part of January-February 2016, the Push-Pull TY algorithm had an incredible run. This algorithm compliments the others very well (i.e. while the equity markets are dropping, the Push-Pull algorithm will typically be hitting it out of the park with winning trades, profiting during down moving markets).*

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## B2 BREAKOUT

### Key Features

- Trades the Emini S&P 500 Futures (ES) or the Emini NASDAQ Futures (NQ) on 10 minute increments
- Extremely effective during down moving markets (captures short covering rallies)
- Profitable during most other market conditions as well
- This is a very low risk day trade — in (at the morning and out at the close with a very tight stop). Uses a trailing stop once a certain price level is reached.



### Entry-Exit Points

- Enters at 9:50 AM EST if certain market conditions are present

- Exits at the market close, unless stopped out

*Example Trade (Image, Above): This sequence shows 6 trading days (between 5/26/2015 and 6/2/2015). During this period, we closed out 1 winning trade on a short covering rally (the blue dotted line indicates a winning trade) in the hypothetical account.*

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## S2 BREAKDOWN

### Key Features

- Trades the E-Mini S&P 500 Futures (ES) or the Emini NASDAQ Futures (NQ) on 389 minute increments
- Extremely effective during up moving market conditions
- Outperforms during down moving markets



### Entry-Exit Points

- Enters one minute before the market closes (3:59 PM EST) if certain market conditions are present
- Exits when either stop or target is hit. (Can hold overnight.)

*Example Trade (Image, Above): This sequence shows the month of October 2015. During this period, we closed out 12 winning trades and only two losers (the blue dotted line indicates a winning trade, red dotted line a losing trade) in the hypothetical account. As the markets rallied in October 2015, this algorithm hit it out of the park; contributing to an amazing month with the algorithms.*

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## O2 OVERNIGHT GAP

### Key Features

- Trades the E-Mini S&P 500 Futures (ES) or the Emini NASDAQ Futures (NQ) on 389 minute increments
- Extremely effective during up moving market conditions
- Outperforms during down moving markets



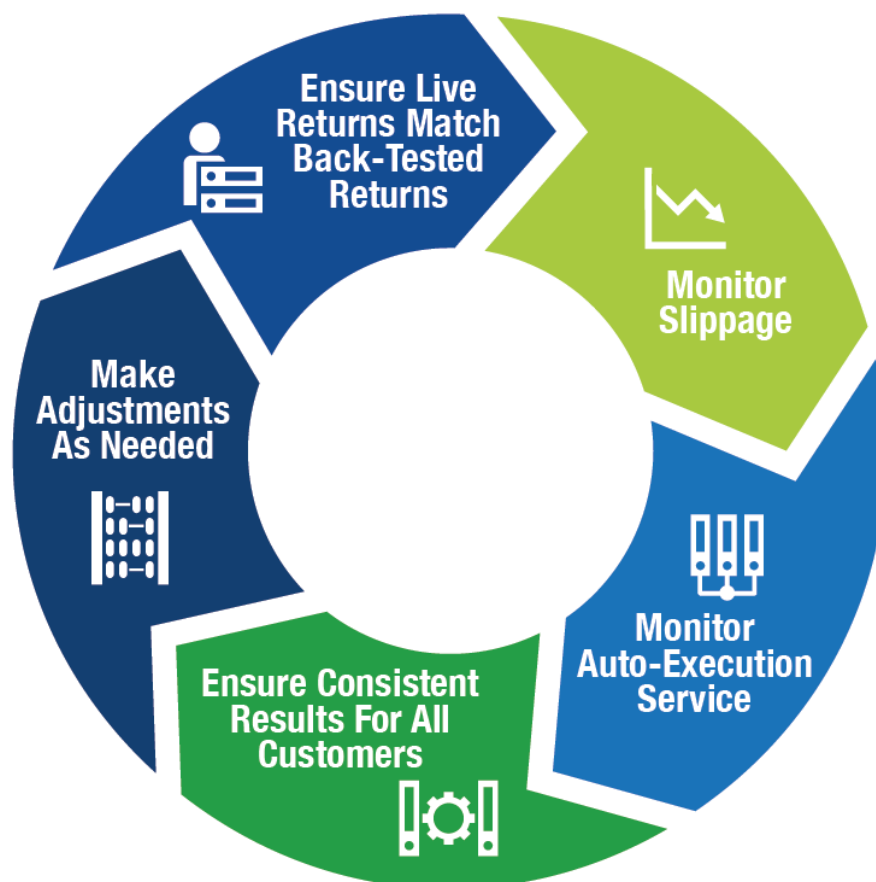
#### Entry-Exit Points

- Enters one minute before the market closes (3:59 PM EST) if certain market conditions are present
- Exits when either stop or target is hit. (Can hold overnight.)

*Example Trade (Image, Above): This sequence shows the month of October 2015. During this period, we closed out 12 winning trades and only two losers (the blue dotted line indicates a winning trade, red dotted line a losing trade) in the hypothetical account. As the markets rallied in October 2015, this algorithm hit it out of the park; contributing to an amazing month with the algorithms.*

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#### Quality Control Processes



At AlgorithmicTrading.net we have implemented the following quality control mechanisms to monitor the performance of the automated trading system and ensure its integrity to the best of our ability. This includes the following cycle that continually repeats itself:

**Monitor Live Returns**

As time goes on and more live trades are placed, we continue to monitor the performance of the algorithms and constantly compare profit factors, drawdowns and equity curves on each of the trading packages. Live returns are posted on our website, normalized to a per unit basis.

**Monitor Slippage**

Slippage is monitored closely across our live accounts.

**Monitor Auto-Execution Service**

We closely monitor the live trading accounts that are setup to ensure trades are properly executed (best-efforts).

**Monitor Actual Returns Seen by Our Customers**

The auto-execution brokers issue buy/sell orders such that the majority of the fills are at the same price. We have noticed times where a fill might be slightly different. In general, the fills our customers see appear to be the same (within reason). Tradestation customers are more likely to see different fills, however even in these cases the fills are in our opinion well within reason. The exception to this rule is if someone turns off an algorithm, or gets out early by manually overriding the algorithms.

Once our customers sign up, they have access to our online trading room where they can watch each package trade in real-time in the tradestation simulated account. They can also monitor the trades in their own account using the OEC iBroker smart phone app. This app alerts you every time a new trade is placed. As you see trades getting executed in the trading room, you can cross check with the actual trades in your own account.

**Make Adjustments if Needed**

When needed, we will provide updates to the algorithms. Updates are included as part of our maintenance agreement. Updates are determined by the walk-forward analysis which uses an out of sample period of approximately 1 year. This means that once per year, we may reoptimize the algorithms and upload them to our customers' tradestation accounts and the auto-execution brokers.

**Final Word**

AlgorithmicTrading.net is a leading provider of high quality Automated Trading Systems to not only professional CTA's, but also retail traders. Our customers receive our full attention and we devote and pride ourselves with customer service while sticking to our core competency of developing high quality algorithmic trading systems. Our team is dedicated to providing our customers with the best algorithmic trading system we can.

By using our automated trading system, our customers are able to remove their emotions from trading allowing the algorithms to excel and potentially capitalize on short-term market inefficiencies to reap profits. Since going live with the NQ Active Trader package (v2) back in March of 2015, we have done very well. However, always remember that past performance is not indicative of future performance and

trading futures Involves substantial risk of loss and is not for everyone.

While no system is perfect and we cannot guarantee continued success, it is our expectation that we will continue to do well moving forward and would love to answer any questions you might have.

## **Risk Disclosures**

Futures trading has large potential rewards, but also large potential risk. You must be aware of the risks and be willing to accept them in order to invest in the futures markets. Do not trade with money you cannot afford to lose. This is neither a solicitation nor an offer to Buy/Sell futures. No representation is being made that any account will or is likely to achieve profits or losses similar to those discussed on this website or on any reports. The past performance of any trading system or methodology is not necessarily indicative of future results.

CFTC RULE 4.41 — Hypothetical or simulated performance results have certain limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not been executed, the results may have under-or-over compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profit or losses similar to those shown.

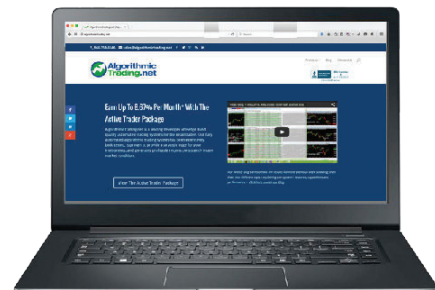
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**For more information or to schedule a live demo, visit  
AlgorithmicTrading.net or see our full contact information below:**

**AlgorithmicTrading.net**

702 W. Idaho Street  
Suite 1100  
Boise, ID 83702 USA

**866.759.6546**



Email: [sales@algorithmictrading.net](mailto:sales@algorithmictrading.net)

Facebook: <https://www.facebook.com/algorithmictrading.net>

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