

An aerial, high-angle view of a dense city skyline, likely New York City, featuring numerous skyscrapers and buildings. The image is in grayscale with a dark, semi-transparent overlay. The text is centered in the middle of the image.

**DOES YOUR TRADING SYSTEM
NEED ANOTHER FILTER,
OR JUST A BETTER EXIT?**

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FREE TRAINING VIDEO

This eBook outlines the most essential components of any good trading system. We also go through a complete trading methodology that is actually being traded live by thousands of traders worldwide!

While you are welcome to read through the complete eBook on your own, the best way to learn the concepts introduced here is to follow along with our free training video!

During the training, we dive deep into the information contained in this eBook, and even a few little extras we couldn't fit here!

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INTRODUCTION

Most traders fail. This is a popular statement in the trading community and is absolutely true. The part you don't hear as often is WHY they fail.

There are just too many reasons to list, each one specific to the individual trader. Most of the traders I meet who fall into this category lost some or all of their trading account and gave up. It isn't that they "failed" so much as it is they quit while they were behind.

Ask any trader what their biggest mistake is in trading and they will probably give an answer about timing; "I close trades too early" or "I close trades too late"

Very rarely do you hear someone say, "I am terrible at picking the direction to trade in." People in general have a tendency to jump into something quickly, knowing or believing the direction is accurate, just like in trading. They may be correct, and often times are; but just like in trading, give little thought to how they will manage it, and have no exit strategy.

For our trading to produce a desirable outcome, we need a solid trading strategy. Let's take a look at what components make a solid trading strategy.

STRATEGY COMPONENTS

A trading system is made up of many moving parts; but essentially they all boil down to several key components that encompass all those parts. You have your trigger mechanism, your filter(s), your exit strategy, and your trade size. (*Trade sizing is beyond the scope of this eBook.*)

The trigger mechanism is what initiates your trading system. From a computer programming perspective, it is the function that tells the program “It’s time to start running.” For a simpler example, think about a football game. The players line up in a specific formation, each with their own instructions, but nobody moves until the quarterback initiates the play. That’s the trigger.

A trigger mechanism can come in any shape or size, it is mainly there to serve as a starting point, and this is where your system gets its accuracy. It is quite common to believe that the trigger is the most important component of a system, and if you get that part right then you have a great system. We will spend some time exploring why that is simply untrue later on.

STRATEGY COMPONENTS

This brings us to the filter. The primary purpose of a filter in any trading system is to reduce the number of trades placed by your trading system.

A common assumption is that filters are there to increase the accuracy of the signal being produced. This is not true. The *accuracy* of the signal is derived from the trigger mechanism for your system. If your trigger mechanism is inaccurate then you will have an underperforming or unprofitable system.

Filters provide *precision*, which is not the same as *accuracy*. The mark of a good trading system is its ability to consistently do the same thing and achieve the same results often enough that it can be profitable over an extended period of time. In super simple terms, *accuracy* is the ability of the trigger to pick the correct direction, and *precision* is the ability of the trading system to pick the best triggers on a consistent basis, which is achieved using filters.

A filter can be anything from another indicator, to a specific time of day or even day of the week. There is no such thing as a “one size fits all” filter because there is no such thing as a “one size fits all” trading system. In essence, the filter is there to FIT the trading system TO the trader.

STRATEGY COMPONENTS

Finally, we have the underappreciated, often overlooked, but arguably the MOST crucial element of any trading system...the exit strategy.

This isn't referring to just the stop loss and profit target; it is a specific set of rules, guidelines, triggers, filters, percent gained or lost, economic events, highs, lows, or anything else you use to determine when a trade is complete.

The efficiency of your system is directly dependent upon your exit strategy. If you eliminate everything else and just have a great exit strategy, you could almost make it. Over the years I have met some GREAT traders who were profitable for years based solely on their exit strategy.

If you have a system that predicts market movement with unbelievable accuracy, it doesn't count for much if your exit strategy gets you out too early, too late, or is changing constantly. You can often spot a phony trading educator based on how they teach the exit strategy, if they teach it at all. Professional traders, the ones who make money consistently for long periods of time, have their exit strategy mapped out and follow it religiously.

FREE TRAINING VIDEO

The rest of this eBook will be outlining a simple trading system, variations of the system, and the results for each of the variations.

While you are welcome to power through the rest of the book on your own, the best way to learn the concepts introduced here is to follow along with our free training video!

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A SIMPLE SYSTEM

There are many considerations to take into account when building a trading strategy. Some considerations might be the asset class you want to focus on, or the specific financial instruments you will be trading, how long you want trades to stay open, how often you will sit down to look at charts, etc.

For the purpose of keeping it simple, here are the components for this particular system:

Asset Class: Stocks

Instruments: All stocks in the S&P 500 Index

Chart Timeframe: Daily (analysis and opening new trades once per day)

Trade Size: 2% of account cash value

Account Size: \$100,000 USD

Trigger: CCI Crosses Above 50

Potential Filters: RSI, ATR

Potential Exit Strategies: 20-Day Low, Percent P/L

A SIMPLE SYSTEM

This is not just a hypothetical system. This system is in circulation and used by thousands of traders worldwide. With only minor differences in settings it is used for trading Forex, Stocks, ETFs, Futures, Options, and even Cryptocurrencies.

We are using a 14-period CCI crossing above 50 as the trigger, and have included several variations of filters and exit strategies to illustrate how each component effects the performance of the overall system.

The trades placed are exclusively long positions, no short-selling. The system test was run from January 1, 1990 – December 26, 2018, or a period of about 29 years.

Filter Variation 1: 28-period RSI must be above 52

Filter Variation 2: 10-period ATR Percent indicator must be rising for 2 candles prior to trigger

Exit Strategy Variation 1: Price crosses below 20-Day Low

Exit Strategy Variation 2: Price crosses below recent low, with number of days fine-tuned for each stock.

Exit Strategy Variation 3: 10 Percent Profit/Loss

Exit Strategy Variation 4: Percent Profit/Loss, with percent fine-tuned for each stock.

A SIMPLE SYSTEM

The results are broken down into several categories, each one named for the trigger plus the filters being used:

1. The CCI trigger running with no filters, **"CCI Strategy"**
2. The CCI trigger with RSI filter, **"CCI + RSI Strategy"**
3. The CCI trigger with RSI and ATR Percent filters, **"CCI + RSI + ATR Strategy"**

Each of these strategy/filter combinations was tested against each of the 4 exit strategies.

The 20-Day Low Exit Strategy finds the lowest price in the last 20 days and uses that value as the exit price. It updates with each new day, finding the new 20-Day Low.

The 10-Percent Exit Strategy closes out a trade whether it is 10% in profit or 10% in loss.

The Variable-Day Low Exits ranged between 10-50 day lowest lows.

The Variable-Percent Exits ranged between 5%-20% depending on the stock.

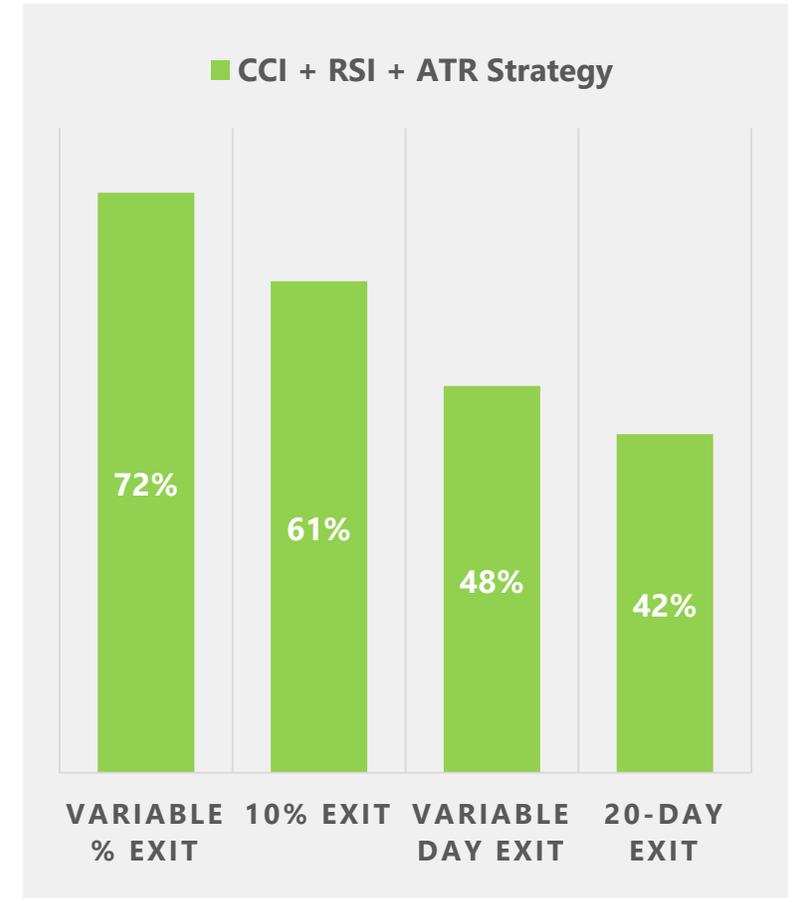
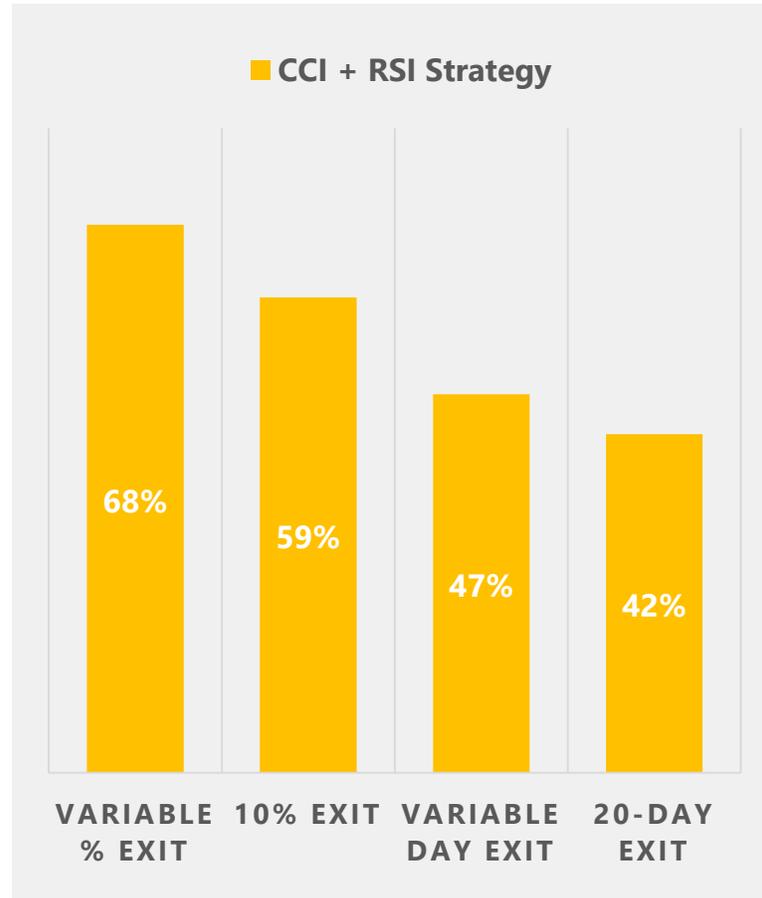
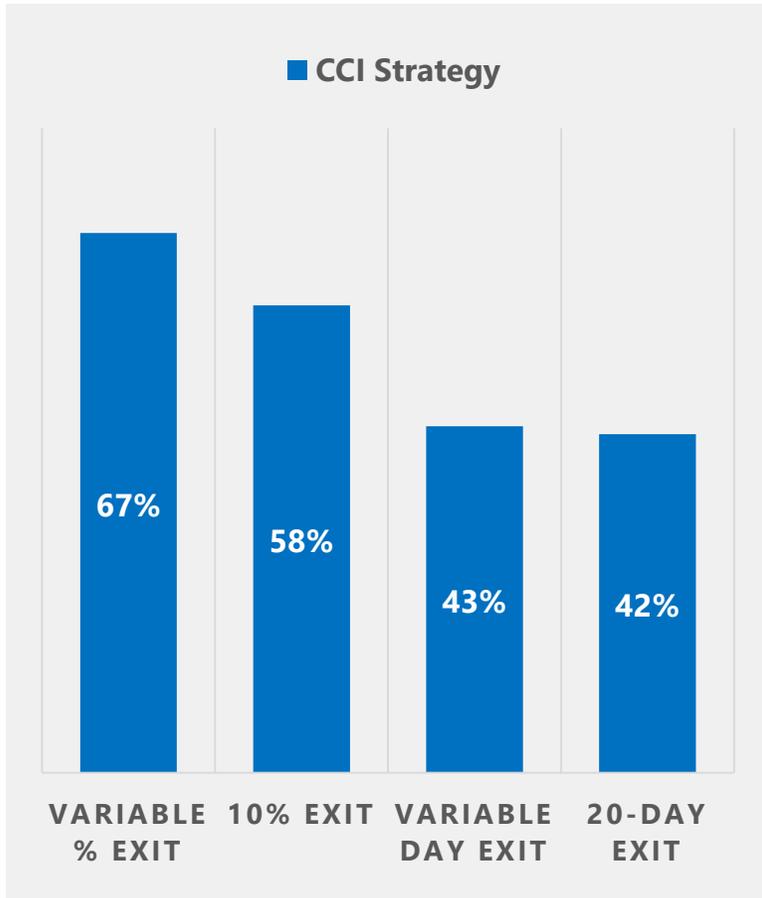
STRATEGY RESULTS

Average Percent Profitable

 CCI Cross Above 50

 CCI Cross Above 50
RSI Above 52

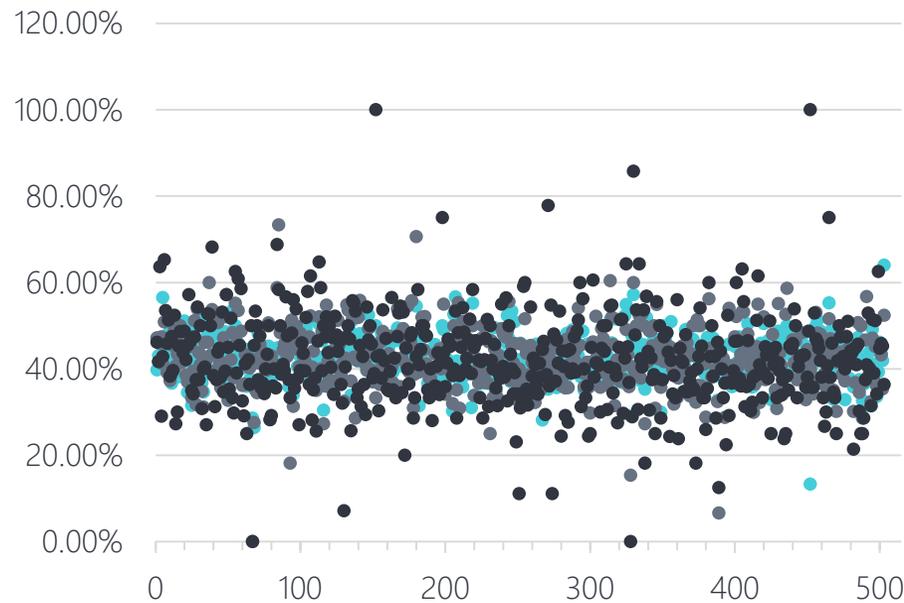
 CCI Cross Above 50
RSI Above 52
ATR Percent Increase



20-DAY LOW EXIT

This is the distribution of results using the CCI Strategy with no filters, trading the 500 stocks in the S&P 500 Index, all of which used a 20-Day Low Exit.

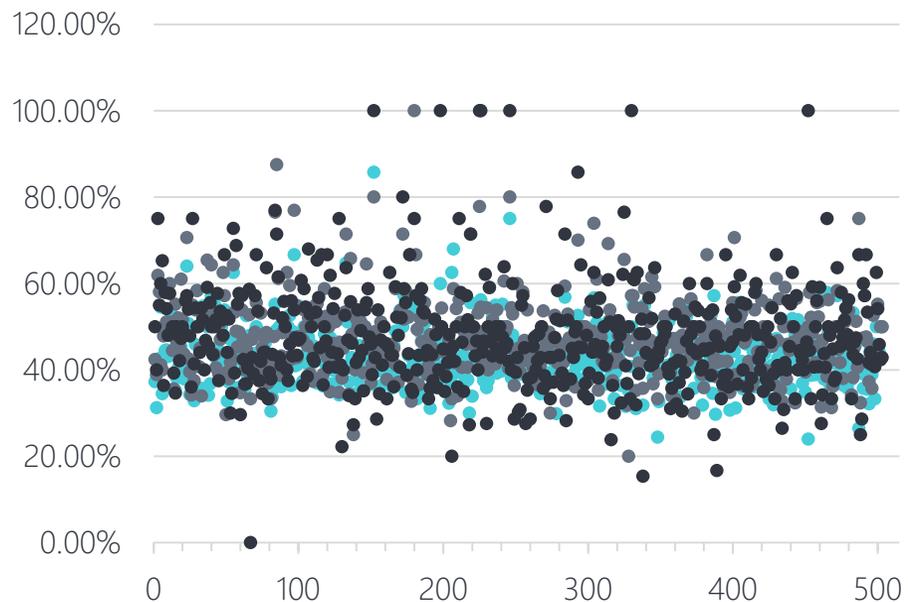
Data shows most stocks at and around the 40% profitable mark.



VARIABLE DAY LOW EXIT

This is the distribution of results using the CCI Strategy with no filters, trading the 500 stocks in the S&P 500 Index. Each stock was tested to find the most efficient number of days to check for the lowest price to use for an exit.

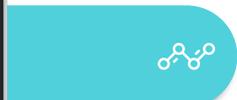
Data shows most of the stocks between 40%-60% profitable.



10% P/L EXIT STRATEGY

This is the distribution of results using the CCI Strategy with no filters, trading the 500 stocks in the S&P 500 Index, all of which used a 10% Exit Strategy. If the stock moved 10% in either direction after trade was opened, the entire position would be closed.

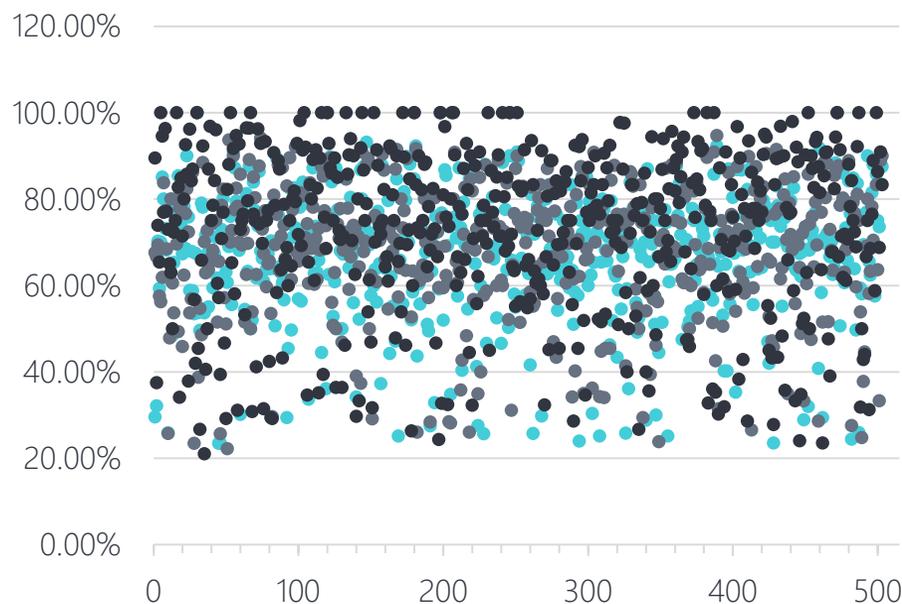
Data shows most stocks at and around the 60% profitable mark.



VARIABLE % EXIT STRATEGY

By far the most widely distributed of the exit strategies, this includes everything from longer term trades going for larger amounts of profit with wide stop losses, to shorter term trades going for smaller profits with small stops, and everything in between for a more diversified system.

This is the distribution of results using the CCI Strategy with no filters, trading the 500 stocks in the S&P 500 Index. Each stock was tested for the best combination of profit target and stop loss percentage.



43%

CCI Strategy

47%

CCI + RSI Strategy

48%

CCI + RSI + ATR Strategy

30% 35% 40% 45% 50% 55% 60%



Variable Day Low Exit: Percent Profitable

 \$3,876,515

CCI Strategy

 \$3,278,709

CCI + RSI Strategy

 \$2,460,854

CCI + RSI + ATR Strategy



**Variable Day Low Exit:
Monetary Performance**

67%



68%



72%



0% 20% 40% 60% 80% 100%



Variable Percent Exit:
Percent Profitable

 \$4,827,611

CCI Strategy

 \$4,594,920

CCI + RSI Strategy

 \$3,246,367

CCI + RSI + ATR Strategy



**Variable Percent Exit:
Monetary Performance**



THANK YOU