

OPTIONS "40 IN 4"

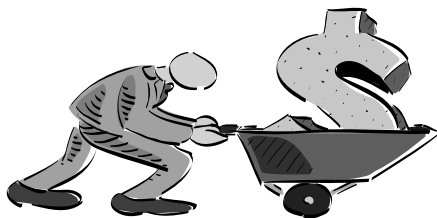
Win ratio consistent near 80% for 10th year.
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"SPP": SELL PRICE PREDICTOR

- ▶ **Objective:** +40% gain or more, within 4 days
- ▶ **Homework:** 10 to 20 minutes after the close
- ▶ **Data needed:** S&P 100 index options prices only
- ▶ **Signal Logic:** Plain math gives you your next day's *Trading Edge* value, which controls the profit outlook
- ▶ **Boost "Slow Starters" to Gains:** "SPP" formula tells you at the end of your first day the % rebound to hold for, and how long (maximum three days).

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TRADERS' TIPS (Continued from page 83)

The statistics are shown in Figure 11:

NASDAQ Composite	Month-end Only 12-period ROC	Daily 252-period ROC	Daily 252-period MSROC
Number of Trades	14	45	15
Number of Wins/Losses	11/3	19/26	10/5
Percent Profitable	78.57	42.22	66.67
Max Win	1667.97	1739.25	1496.42
Max Loss	-467.37	-545.37	-323.53
Average Win	285.21	207.75	337.11
Average Loss	-216.61	-48.84	-94.70
Profit, Loss(-)	2487.57	2677.32	2897.60
# of periods in dataset	245	5130	5130
Starting value	247.00	244.70	244.70
Annualized rate of return:	11.98%	12.47%	12.91%

FIGURE 11

Testing the month-end ROC system and our two tradable variations (daily ROC and daily MSROC) on the Dow Jones and S&P 500 market indexes showed similar improvements. However, US stock market indexes have high correlations, and the fact that a successful NASDAQ trading program also worked for the Dow and the S&P 500 does not prove the system is robust. To gain comfort with our approach, we therefore ran the identical systems on other datasets representing a broader sample of market activity. The profitability improvement on all tested datasets constituting a diverse range of markets is presented in Figure 12.

The worst performer here was the Nikkei, but the proposed

Series Tested	Data Beginning (Year)	Dataset Length (Days)	Percent Profitability ROC	Percent Profitability MSROC
NASDAQ Composite	1984	5130	42.22	66.67
Dow Jones Industrials	1985	5104	32.89	50.00
S & P 500	1985	5104	40.24	66.67
FTSE	1985	5113	40.91	66.67
NIKKEI	1985	4975	26.32	33.33
DJ Utilities	1985	5103	40.62	54.54
DJ-CBT Treasury Index	1988	4159	43.39	50.00
DJ Corp Bond Index	1997	2068	61.54	100.00
DJ-AIG Commodity Index	1997	2067	45.71	100.00

FIGURE 12

strategy was a long-only program, and during the test period, the Nikkei experienced a prolonged downtrend. This example was not anecdotally selected, but a published system we have improved by a simple change of the yardstick. This author does not recommend the published system, only that a trader enamored with that system consider changing the momentum measuring device to the MSROC.

I don't have to tell this trading audience that market prices are fractal; if a market trading tool works on annual or quarterly data, it most likely works on daily or intraday data also. If you are using rate of change (ROC) or relative strength (RSI) as a momentum tool, you ought to look at using MSROC to improve your results.

— William Rafter, *Mathematical Investment Decisions, Inc.*
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