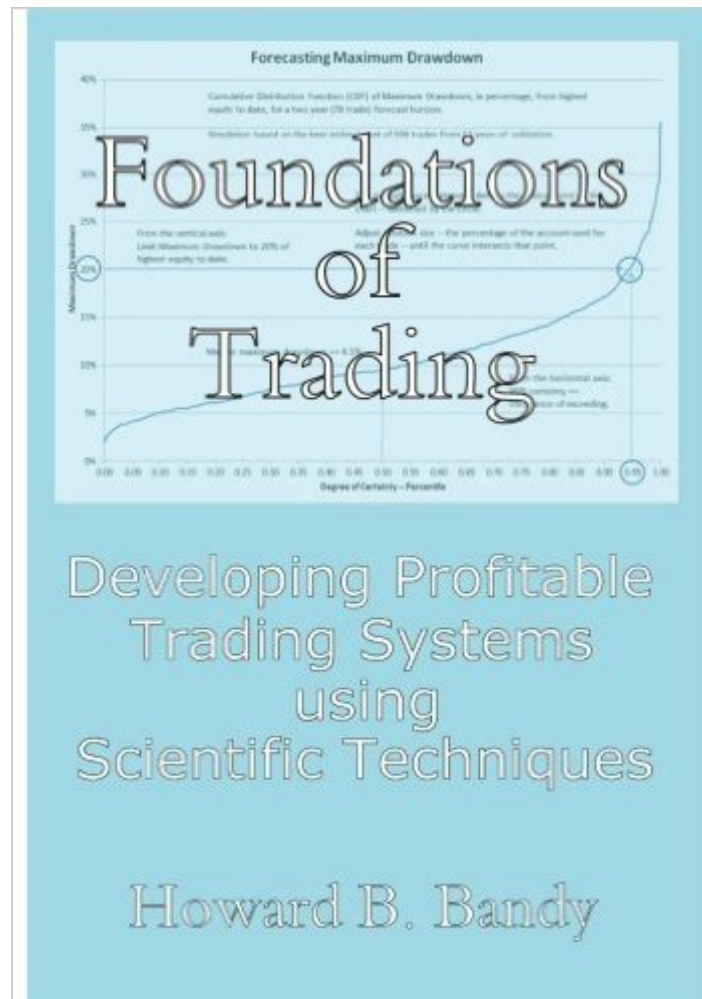


The book was found

# Foundations Of Trading: Developing Profitable Trading Systems Using Scientific Techniques



## Synopsis

The trader's universal goal: To have confidence that the signals generated by the trading system precede trades that provide rewards adequate to compensate for the risk.... The key word is confidence.... The primary limitation is risk. This book presents an approach to developing profitable trading systems using scientific techniques, melding together several key aspects:.... Personal risk tolerance.... Profit potential of the financial issue being traded.... Data analysis.... Adjusting the model to fit the data.... Validation to estimate future performance.... Comparing alternative use of funds.... Determining whether the system is working or broken.... Computing a proper position size to maximize account growth while holding drawdown within the trader's tolerance.

## Book Information

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## Customer Reviews

My approach is take my current best trading system and apply the principles provided by a book to see if that improves my return and if the effort appears profitable. In this case Dr. bandy's encouragement offered in this book is a success. My out-of-sample performance improved two-fold. It was a bit painful as I am a casual Amibroker user and known to be a bit stubborn and not prone to much effort. Resisting change may be normal. At least in my case, the applied effort appears rewarding. Mind you, I am still not "up to speed" in all that this book offers but I thought my current success is worth passing on. My first hurdle was his use of "CAR25" as an objective function. A little encouragement from Amibroker's support to read the documentation for the included Monte Carlo routine brought the reward, plug and play. It also refreshed my use of CAR plus 3 times the maximum draw-down as an objective function to be considered. The second hurdle was to

incorporate a risk measured stop loss. Here again Amibrokers' references were helpful. The third was to incorporate a limited term holding period. The beauty of the Amibroker platform is its ability to address a number of optimization parameters applied against a set of buy candidates. Those improvements to my former "best" approach brought the out-of-sample performance into three digits over the recent six plus years, the max draw-down under 8% and the Ulcer Performance Index above two digits. I still may incorporate a general market timer such as StormGuard Armor a la SectorSurfer. Dr Bandy's works are a great resource for the development and application of mechanical trading strategies. I still have much to learn from them.

Writers know writing more is easier than writing less. I have purchased all of Howard's books. This one distills a lot of the nuggets from the bigger, earlier reference-like tomes down to nectar drinkable in just one shot. Howard Bandy writes methodically and clearly covering how to think through solutions and then how to code them (more so in the larger, earlier books). This is what's needed in this sliver of technical analysis.

First of all I am a big fan of Dr. Bandy and his ideas have definitely influenced my approach to backtesting and trading system development. I've purchased all of his books. This book was brought to my attention by a trading friend and billed as a summary of Dr. Bandy's work. The book is exactly that, a nicely structured "Cliffs Notes" version of his previous work. If you are new to Dr. Bandy's work this is an excellent and inexpensive starting place to get a sense of what he's all about in terms of his approaches to trading system development. If you like what you read then there are the other books for more detail. For long time readers of Dr. B's work, this book will serve as a nice single reference location for the main concepts developed over the years. Full disclosure: I received this book free of charge on a first come basis. However, I jumped on the offer immediately based on the first two sentences of my review and my review would be the same. Dr. Bandy produces some great stuff if you are an active trader or system developer.

Foundations of Trading provides a quick concise summary of the material presented by Howard Bandy in his other systematic trading books along with some updates. The approach to trading system design in this book is logical and scientific, and I have no doubt that following the steps diligently will produce trading systems that perform well in out of sample data. The nitty gritty details and code are not in this book, meaning you can apply this method regardless of what platform you use, from traditional trading system development software to programming languages like python or

R. The logic behind each step is well presented, and Howard argues very convincingly with mathematics and simulation for his choice of short holding periods rather than long term trend following. Chapter 2 on Risk is essential reading even if you disagree with shorter term trading ideas. I have Howard's other four trading system books already, and this one makes a great addition to my bookshelf.

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