

www.StockSpotter.com

Real World Trading Signals for Active Traders

There are plenty of proprietary trading systems out there hoping to impress you with their historical performance results. StockSpotter.com is unique in that it provides daily short-term trading signals in advance and tracks its own performance for each and every trade.

Structure and Mode of Operation

StockSpotter.com locates daily short-term trading opportunities from a basket of 3000 listed U.S. stocks. Algorithmic buy/sell trading signals are published on the website each evening for intended execution at the next market open. StockSpotter gives an entry signal the night before and then simulates trade entry at the next open. Open trades are monitored with profits updated as each trade progresses from entry to exit.

Exit signals are specified for each open trade. StockSpotter is a short-term (swing) trading system that gives an exit signal within ten market days of entry. As with entry signals, exit signals

are published on the site the night before for execution at the next open. The website provides a convenient watch list feature allowing you to follow open trades of interest and be alerted to their exit signals in advance.

The Algorithm

StockSpotter's trading signals are algorithmic with no human intervention or consideration given to fundamental analysis, earnings reports, or news events. StockSpotter uses a proprietary algorithm developed by veteran trader and author John F. Ehlers, pioneer of the MESA trading technique. The same robust algorithm is used for all tickers at all times. Ehlers is well known for his 20+ years of work

involving the use of digital signal processing (DSP) to analyse market cycles and trends. StockSpotter's approach is based on Ehlers' technique for detecting the dominant cycle of daily price fluctuations and advancing the phase to buy on cycle troughs and sell on crests when the signal strength is optimal.

Signal Ratings

Each new entry signal is published along with a signal rating ranging from two to five stars. The signal rating represents an estimated signal quality based on statistical data mining techniques. By including the signal rating, StockSpotter permits historical performance results to be viewed by signal

rating. Ehlers points out that the signal rating is statistical thus it should be taken with a grain of salt with regard to any individual trade. Says Ehlers "Neils Bohr said 'Prediction is difficult, especially about the future'. This is the nature of prediction. It is difficult enough to forecast the correct direction, yet alone assign a confidence level. None the less we have found StockSpotter's signal rating to be a useful metric and have included it in our approach".

Performance Results

Once a trade closes the details are retained in StockSpotter's internal database. The website provides several convenient methods of viewing performance.

Historical and open-trade performance can be viewed for both individual ticker symbols and aggregated by signal rating. If you want a more detailed analysis, a CSV file can be downloaded containing trade-by-trade details for import into Microsoft Excel or other analysis software.

You can view performance results summary information containing metrics you would expect including profit factor and percent wins, average profit per trade, and others. StockSpotter also includes an equity growth chart and a detailed trade-by-trade grid that provides a chronological listing of each trade's entry and exit dates and prices along with percentage gain and signal rating.

Ease of Use

The StockSpotter system is intended for several types of active short-term traders including: (1) those that do not have time to do their own detailed analysis, (2) those that have not been successful with their own analysis techniques and (3) those who wish to use the trading signals as a starting point for their own further analysis. We found the website to be very easy to understand and navigate. There are no backtesting tasks to perform, no technical charts to interpret, and there is no coding involved.

Monte Carlo Simulation

The StockSpotter trading system performs a daily analysis for each ticker symbol. A typical day might produce several to a dozen or more new trading signals. As a result, the number simultaneous open trades can vary considerably at any given time. An individual trader or small fund could not possibly take all the trades all the time. This makes overall system performance measurements difficult. To accommodate this, StockSpotter includes a Monte Carlo simulation tool to estimate profit based on a single \$5000 investment always in the market. The Monte Carlo tool also gives you an estimated drawdown based on this same \$5000 investment. Although no method based on historical performance can be counted on for future performance, the Monte Carlo simulation technique is generally well-regarded and superior to other risk estimation methods such as the risk of ruin.

Options Strategies

StockSpotter is a statistical edge equity trading system that attempts to achieve moderate gains with holding times of two weeks or less. This suggests a couple of options strategies. One is to buy a call (or put in the case of short signals) near the money with a month or two until

expiration. Since the expectation is for a small gain within a short period of time, a slightly more complicated but typically less risky strategy would be to execute a bull call spread (or bear call spread in the case of short signals), buying the bullish leg at the money and selling the bearish leg one or two strikes out of the money.

Conclusion

StockSpotter.com can be a valuable tool for active short-term traders. The service costs \$120 USD per month and offers an initial \$30 for 30 days evaluation period.

We found the website to be very open and realistic about its performance. Unlike some black-box systems, StockSpotter provides 100 per cent of all trading signal results. The website publishes all entry and exit signals in advance effectively making each simulated trade out-of-sample and independently verifiable. Since all trade entries and exits are taken at the next market open without stops or limits, the simulated trading results should typically be very close to what you could have expected to achieve in the real world.



F1) Entry Signals



Figure 1 shows an example of StockSpotter's daily entry signals for the next open. The system produces both long and short trading signals.

Source: www.stockspotter.com

F2) Equity Growth Chart



Figure 2 shows the equity growth chart resulting from StockSpotter's simulated trades.

Source: www.stockspotter.com