

## PRODUCT REVIEW

# Trade Oracle

## TRADING SYSTEMS ANALYSIS GROUP

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Product: Plug-in for MetaStock 8.0 or higher

System requirements: Windows 2000 or higher, MetaStock 8.0 or higher, 128MB RAM, 1024X768 screen resolution.

Price: \$697, 30-day money back guarantee

by Dennis D. Peterson



Trade Oracle (TO) is a set of indicators, experts, explorations, and system tests for use with MetaStock 8.0 or higher.

The package is composed of 90 systems selected by the Trading Systems Analysis Group (TSA Group) after testing 10,000 different systems across 4,000 different stocks. They only chose systems that performed better than buy-and-hold on more than 50% of the stocks. It has a couple of unique features that you will likely find profitable, such as telling you where your stops should go and how long to stay in a trade.

Use of the package is straightforward, and since all the code is written in C and then incorporated as dynamic link libraries (DLL), it is also fast. However, this also means you can't see the code directly on your screen. All references are to "ExtFml" — that is, external formula. However, a manual is provided that shows the MetaStock code.

Let me say again at the outset that this tool can make you money. It follows trader Gary B. Smith's "platinum rule" of trading:

((Win rate \* win percentage) – (loss rate \* loss percentage))  
\* equity per trade \* trades per year

Trade Oracle penalizes systems with few trades, and looks at win/loss rate and win/loss percentage.



**FIGURE 1: BEST SYSTEM INDICATOR RESULTS.** The title and the red horizontal lines in the upper pane show the top three performing systems based on points gained for the periods used with this chart. The answers come in pairs: First, the number of the trading system, and second, the number of points gained. In this screen capture, system number 47 performed best on QQQQ (Nasdaq) with a 36.2228-point gain. The red lines going through the prices are a 5% zigzag.

## USER INTERFACE

The manual, in addition to a set of tutorials on the website (<http://www.tsagroup.com/trade-oracle.com/support.php>), explains the setup and use of the indicators, experts, explorations, and system tests. The manual tells you that a 1024x768 screen resolution is required in order to get setup parameters established, such as whether you want to trade longs only, shorts only, trade both longs and shorts, and so on. I normally set my screen to 800x600 — my eyes aren't as good as they once were — so I had to change my screen settings temporarily to get the setup screen to appear and establish my settings. The tutorials at the website are best viewed at 1024x768, but I managed okay at 800x600.

Most users will end up going down one of two paths: method 1, which starts with a "bucket" of stocks and looks for the system that gives the best results, or method 2, which looks for

the best trading signal to use with individual stocks in a group of stocks (or a sector). Method 1 means opening each stock window individually and then applying the Trade Oracle best-system indicator. If your bucket isn't too big, this might be okay as a daily endeavor.

To look for the best trading *signal* — that is, method 2 — use MetaStock Explorer and manually select the signal part of each of Trade Oracle's 90 systems. Next, select "Use a single security list for all explorations" when the "Multiple explorations" screen comes up. You will get back 90 reports to sort through. It's a bit laborious, but this method is used by the TSA Group, and over the last six months it has rewarded them with a 6–10% profit per month. As traders, we well know about the benefits of compounding.

I'll give a quick overview of method 1, but most of you will want to use method 2.

## METHOD 1: TO BEST SYSTEM INDICATOR

This method requires you apply the "TO — Best System" indicator to each

individual stock, which means you must first have a bucket of stocks. You could create this bucket of candidates by prefiltering using MetaStock Explorer. For example, trader and frequent STOCKS & COMMODITIES contributor Matt Blackman uses this prefilter:

volume>300,000, price >\$2  
and beta >1.2 (S&P 500)

Blackman says that gets him about 1,000 stocks, filtering through US and Canadian exchanges. He uses the prefilter in conjunction with method 2. You'll want to refine this prefilter a bit more for method 1, but you get the idea. Another suggestion is to pick a sector via a business cycle model or through "Market Carpet," which is part of StockCharts.com.

Alternatively, you may want to do a fundamental analysis using a National Association of Investors Corp. (NAIC) tool called "Prospector" to search based on price/earnings, sales growth, or other such data to arrive at your candidates. Currently, NAIC membership is \$50/year, Prospector is \$59, and the database for NAIC members is \$25/year. Once you have the candidates, make them part of your MetaStock favorites list and feed that into your explorations.

When I applied the Trade Oracle best-system indicator to a stock, it took about one second with my 2.8 GHz PC (Figure 1). So you can determine the top three trading systems for a particular stock very quickly. The top three reflect the choices you made in the setup dialog: equity points or equity percentage, trade efficiency points or trade efficiency percentage. Trade efficiency, a part of the MetaStock Explorer, is a measure of how well the system does while it is in the trades. If you want to see the individual trades, you'll need to apply the expert for the particular system — a bit more on this later. The best system found for QQQQ was the Meisels overbought/oversold system, which in the manual is described as a system that uses an indicator ranging from +10 to -10 depending on whether today is an up or down day.

Now comes a word of caution: The best system indicator result was obtained using 1,255 periods for this daily



**FIGURE 2: DAILY INTERWOVEN (IWOV).** The top chart is the stochastic RSI, and the middle chart shows the equity curve. Attached to the chart is the TO#2 expert, the "two-day range switch." Green up arrows are long entries, while red down arrows are short entries. The equity curve is smooth with no major drawdowns, and looking at the entries, it appears this system is spot-on. However, TO may or may not give you a recommendation to get into a trade, depending on how many backtesting periods are used.

chart. The number of periods affects TO's result. Because TO applies a filter that encompasses a risk/reward ratio and confidence level, systems that trade poorly, or infrequently, are penalized (recall Gary Smith's platinum rule, which includes win/loss rate). Had I used a much shorter period of time, say 120 periods versus 1,255, I might have seen something quite different, such as the result in the daily chart of IWOV (Figure 2).

After examining the short and long entries of the "two-day range switch" (this is a system that is always in a trade), I would argue that you would be hard-pressed to find a better system. You can see entries by attaching the expert for the particular system. Expert commentary provides the recommendation (Figure 3). I looked at the stochastic relative strength index (RSI) to see how it compared with the two-day range switch.

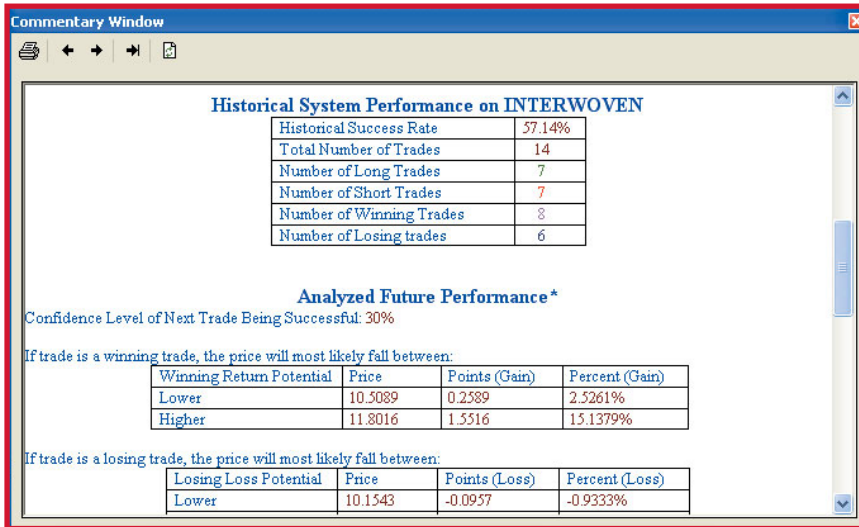
But now comes a bit of a surprise: Trade Oracle would only recommend taking trades with the two-day range switch if you use the last six months. If you had used the last 60 months, the confidence level in combination with the reward/risk ratio would not be high enough to recommend taking a trade

with this system. It turns out that while the range switch reverses quickly, it is best used with prices in a trend. A choppy market is *not* its thing.

## METHOD 2: USING SIGNAL EXPLORATIONS

The package comes with 270 explorations: 90 stock performance explorations, 90 futures performance explorations, and 90 signal explorations. Each of the signal explorations calculates data that can be put into one of six columns that will appear in the exploration report. The data recommended includes the historical success, confidence level, winning greater target percentage, losing greater target percentage, stop-loss percentage, and number of trades. That's right, this software attempts to give you targets, as well as stop-losses.

If you've done a prefilter of some sort, then MetaStock lets you reference the result if you use the "Favorites" interface. The TSA Group likes to use a prefilter that only considers stocks that trade more than \$5 million a day. You are now faced with 90 reports to go through. I wish I could give you a shortcut, but I don't know of any. To save a



**FIGURE 3: EXPERT COMMENTARY FOR SYSTEM IN FIGURE 2.** Expert commentary data gives you an idea of the type of information that comes out of a signal exploration. Higher and lower percentages for winning trades are given, which is an interesting statistic to be able to use (along with the comparable statistics for losing trades). Stop-loss percentages are also given. Further down the commentary screen, words appear in either red or green depending on whether a recommendation is being made.

little time, you could, on the setup side, rename all signal explorations to have like names so they appear sequentially. This makes it easy to select them all at once; otherwise you have to jump to every third exploration.

You will usually find a few stocks in each report. Trade Oracle requires a trade recommendation on the ending date of your input, which requires that you have the right combination of risk/reward ratio and confidence level. From the columns in the report you might, if you are conservative, choose only those trades with a confidence level greater than 40%, a 2-to-1 ratio for winning

greater target percentage to losing greater target percentage, and a stop-loss percentage less than -3%. These are the criteria the TSA Group has used for the last six months and found successful. They find one or two trades per day and stay in the trades for two to six days.

### STOP-LOSSES

Martin Pring once commented to me that he was reluctant to get into trades where his stop-loss would be too far from his entry. I like the idea of a stop-loss that is around 2%. With that in mind, if the market opens and jumps to a price where your entry is greater than the stop-loss percentage in your selection criteria, you may want to give the market a chance to settle down to see if the entry looks

better from a stop-loss perspective. It's not enough to always use a stop-loss. You have to consider whether your stop-loss placement makes sense both from a technical analysis and money management or risk/reward standpoint.

A couple of other nuances worth mentioning are that the TSA Group will accept a stop-loss as big as -5% if the winning target is substantially greater than the losing one. They also check the equity curve to make sure a big portion of the profit wasn't made with just one or two trades. Finally, they check the expected days for a winning trade versus the expected days for a losing trade. Typically, the expected number of days for a winning trade will be more than for a losing trade. If, however, the reverse should occur, then they recommend an exit as soon as the number of winning days occurs, if the trade hasn't already turned against you.

### SUMMARY

Robert Deadman of the TSA Group wrote the C code for the trading systems. On the whole, you will be impressed with the speed at which this program runs. Using a 2.8 GHz PC, it took little more than 30 minutes to run all 90 systems against the stocks in the S&P 500. I used an end-of-day folder. Trade Oracle's confidence level is unique, and although proprietary, I think it is useful because it is calculated the same way each time; therefore, you can judge for yourself what level to use after some paper or simulated trading. I like this product and I think you will, too.

*Dennis Peterson is a Staff Writer for STOCKS & COMMODITIES.*

†See *Traders' Glossary* for definition



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