## An Equity Note

Brandon Beylo

brandon@macro-ops.com

### What's Inside:

➢ *Reviewing 2021 Classical Charting Protocol*
➢ *My issues w/ 2021 results*
➢ *The Revamped Protocol (BAT + 8EMA Hard Stop)*
➢ *Revamped Protocol Results*
➢ *Playing with Risk Per Trade*

### Companies Mentioned:

➢ *N/A*

# Equity Note: Backtesting The BAT & 8EMA Hard Stop Rule

This weekend's *Equity Note* is inspired by Collective member Mike Gyulai.

Mike is a classical chartist. He *only* trades price action across 80 global markets. If you haven't watched his *Collective Members Webinar,* check it out here.

Last week, Mike released a video on a new aspect of his trading strategy: **The Hard 8 EMA Stop Loss Rule**.

Mike suggests that traders exit once price hits the *previous day's* 8 EMA target. Don't worry if that sounds confusing. We'll explain it later.

This simple rule produced tremendous results for Mike's 57-trade backtest. Every KPI improved:

➢ Reduced average (and largest) drawdowns
➢ Higher Calmar Ratio
➢ Higher Expectancy
➢ Higher SQN

I was so impressed with Mike's results that I had to backtest them on the 2021 Classical Charting data.

By leveraging the BAT and 8 EMA Hard Stop rules, the 2021 Charting Data produced:

➢ Fewer trades
➢ Smaller drawdowns
➢ Higher win rates
➢ High Calmar Ratio
➢ Lower average losses

The most exciting part about this backtest was the system's specificity. There's no guessing where to place your initial stop-loss. No guessing on when to exit.

Simple rules followed diligently can result in superb returns.

Let's dive into the numbers and see why I'm excited.

# Reviewing The (Original) 2021 Classical Charting Trade Data

Let's recap last year's data and performance. The Classical Charting Protocol took 155 signals the previous year and completed 150 trades (five open trades at year-end). Total R Return ended at 42.12R with 43.93% Portfolio Returns.

Out of the 150 closed trades, the Protocol generated 37 winners and 113 losers, or a **24.67% win rate.** Winning trades averaged a 4.41R return, while the losers posted an average loss of -1.08R. Good enough for a 2.17 Expectancy Ratio.

There are a couple of reasons for the low win rate. First, the Protocol took **30+ Symmetrical Triangle trades**. That's ~21% of total signals traded on the *least* probable winning pattern. I can hear Mike screaming through the Interwebs.

Second, the original Protocol implemented a Go-or-No-Go rule. The pattern either hit its target or hit its 1R stop-loss. It didn't move stops as the price moved in favor of the profit target.

Then there are the drawdowns. The Protocol averaged a **-4.78% drawdown,** with its worst at **-33% peak-to-trough**. Such drawdowns coincided with the Protocol's longest losing streak of **16 consecutive trades**.

Finally, the Protocol generated a 1.33 Calmar Ratio (% Return / Largest Drawdown) and a 12.22 SQN (buoyed by the 4.41R average winning trade).

## Examining The Equity Curve

I'm pleased with the above results. But it took an iron stomach to live through the volatility. Check out the Protocol's Equity Curve below.

Equity Curve Traditional

There are a few lessons from examining this Equity Curve. First, the Protocol performs *very well* during bull markets (from August until November). Notice the flat-ish drawdown periods before November.

However, look at what happens *after* November. The Protocol can't *buy* a positive trend. Drawdowns beget drawdowns. And without a rule to move stops, the Protocol dies the death of a thousand 1R-loss papercuts.

By the end of the year, the Protocol turned $100,000 into $143,932. But could *you* stomach that year-end drawdown of 13 consecutive losing trades?

This brings me to my final point on last year's results: **the issues.**

## My Issues w/ 2021 Classical Charting Protocol

There are three issues I have with the previous year's Classical Charting Protocol:

1. **Ambiguous profit target and initial stop-loss placement**

The old Protocol used "traditional" classical charting rules where one finds the profit target by taking the height of the pattern and extending it upwards.

Though that works, it's difficult to replicate across various patterns and between different traders.

Second, I had no systematized initial stop-loss rule. Sometimes I'd nestle the stop-loss below the current bar's lows. Other times I'd put it below the previous day's lows. I went "by feel."

2. **No system for reducing risk as the position moves in favor of the profit target**

As we mentioned above, the old Protocol didn't use trailing stops. It either hit the profit target or hit the -1R loss target. This rule resulted in violent drawdowns during bear markets as we didn't have a mechanism to reduce risk during a trade.

3. **Magnitude of Drawdowns and losing streaks**

Finally, the magnitude of the Protocol's drawdowns and losing streaks makes me question the ability of *anyone* to follow such a program.

How willing are you to lose three out of every four trades and endure a 33% peak-to-trough drawdown? Can you take 16 losing trades in the mouth and keep fighting? That's asking a lot from *any* trader.

So far, I've outlined the Original Protocol's results, metrics, and weaknesses/issues. Next, let's see what happens when we implement the BAT and Hard 8 EMA rules in the same basket of trades.

## The Classical Charting Protocol: Revamped

Let's start with the high-level data:

➢ **Total Trades:** 102
➢ **Total R Return:** 33.56
➢ **Total % Return:** 37.90%

The Revamped Protocol took **48 *fewer* trades** than the original version. This is a *big* deal for a couple of reasons. First, the Revamped Protocol took fewer *bad* setups (read: symmetrical triangles, wedges, etc.). Second, the BAT prevented us from entering *more* failed breakouts.

Before we dive into the rest of the data. I want to explain the 8 EMA Hard Stop Rule. The only thing to remember is that you use the *previous day's* EMA value to place your *current-day* stop-loss.

Check out my current Long COP trade as an example. My current stop as of Friday's close is Thursday's 8EMA value.

*Chop wood, carry water…*

MacroOps published on TradingView.com, Aug 27, 2022 16:26 UTC-4
ConocoPhillips, 1D, NYSE  O112.62  H114.25  L111.49  C112.12  +0.04 (+0.04%)
MA (50, close, 0)  93.71
MA (200, close, 0)  90.78
EMA Trail Stop [backtester] (8, close, 20)  107.86

Anyways, back to the data.

➢ **Average Stop % From Entry:** -5.92%
➢ **Average Drawdown:** -2.03%
➢ **Largest Drawdown:** -5.06%

In other words, the Revamped Protocol generated a **57% lower Average Drawdown** and an **85% lower Largest Drawdown.**

Here's more data.

➢ **Average R Per Win:** 1.87R
➢ **Average R Per Loss:** -0.62R
➢ **Winning Trades:** 39
➢ **Losing Trades:** 63
➢ **Win Rate:** 38.24%

The Revamped Protocol generated a **57% lower Average R Per Win**, resulting from the 8 EMA Hard Stop Rule reducing risk as the trade moves in our favor.

Additionally, the 8 EMA Hard Stop Rule **reduced our Average R Per Loss by 43%** versus the original Protocol.

Reducing risk via trailing stops **improved our Win Rate by 53%** to 38.24%. It's also worth noting that the longest losing streak in the Revamped Protocol lasted 6 consecutive trades (versus 16 in the original strategy).

Finally, the Revamped Protocol turned our original $100,000 into $137,899.56. That's a great return, but ~$6.5K lower than the original version.

Check out the strategy-specific metrics below:

➢ **Expectancy:** 1.34
➢ **Calmar Ratio:** 7.49 (versus 1.33 in original!)
➢ **SQN:** 8.12

Let's examine the Revamped Protocol's Equity Curve.

## Reviewing The Revamped Protocol Equity Curve

The first thing you're probably wondering is, "*The returns are good, Brandon. But they're still not as good as the original version. Is it actually an improvement?*" I'll answer that question below.

Check out the Revamped Protocol's Equity Curve.
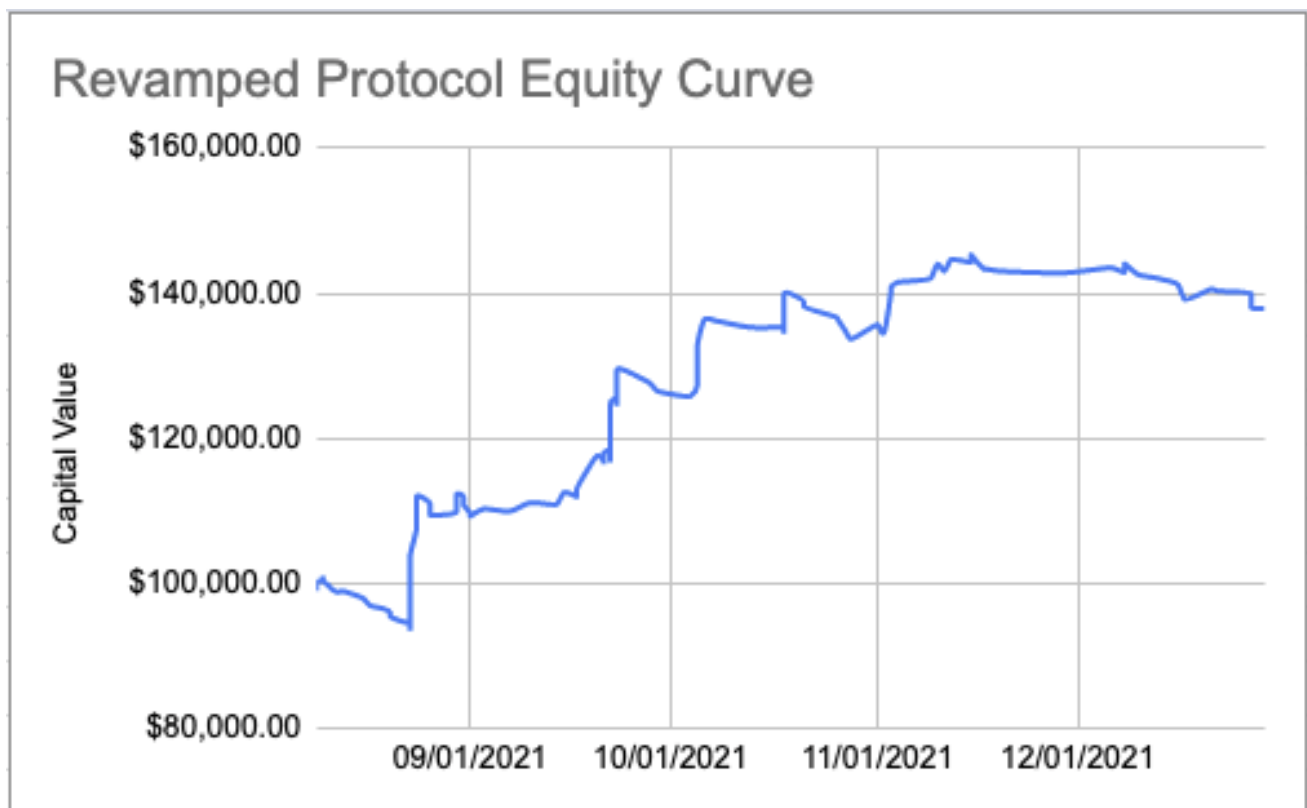
Notice the reduction in severe drawdowns. I attribute this to **trading fewer setups** and **moving stops to reduce open risk.**

Why is that important? From November 1 to the end of December, the Original Protocol contracted ~33%. The Revamped Protocol remained roughly flat during the same period.

So yes, the end result is ~$6.5K less than the original version. But is the extra $6.5K in profits worth the 33% drawdowns and vicious losing streaks? I'm asking because I don't know the answer.

However, one aspect of the Revamped Protocol might provide a solution.

## Playing with Risk Per Trade

We can experiment with the percentage risk per trade variable. Both strategies risk 1% of trading capital per trade.

Here's the exciting part. The Revamped Protocol's drawdown is so tiny it allows us to risk *more* per trade and generate *higher absolute* returns with *less severe* drawdowns versus the original version.

Let's run an example.

### What If We Risked 2% Per Trade?

Here are the results for the Original Version:

| Risk Per Trade | 2% |
|---|---|
| Total Trades | 150 |
| Total R Return | 42.12 |
| Total % Return | 86.02% |
| | |
| Average Stop % From Entry | -5.18% |
| Average Drawdown | -8.99% |
| Largest Drawdown | -55.38% |
| | |
| Average R Per Win | 4.41 |
| Average R Per Loss | -1.08 |
| Winning Trades | 37.00 |
| Losing Trades | 113.00 |
| | |
| Win Rate | 24.67% |
| Expectancy | 2.17 |
| Calmar Ratio | 1.55 |
| SQN | 12.22 |

And here are the results for the Revamped Protocol:

| | |
|---|---|
| Risk Per Trade | 2% |
| Total Trades | 102 |
| Total R Return | 33.56 |
| Total % Return | 84.98% |
| | |
| Average Stop % From Entry | -5.92% |
| Average Drawdown | -4.07% |
| Largest Drawdown | -9.94% |
| | |
| Average R Per Win | 1.87 |
| Average R Per Loss | -0.62 |
| Winning Trades | 39.00 |
| Losing Trades | 63.00 |
| | |
| Win Rate | 38.24% |
| Expectancy | 1.34 |
| Calmar Ratio | 8.55 |
| SQN | 8.12 |

This is where you can see the power of the Revamped Protocol with its BAT and 8EMA Rules.

The Revamped Protocol allows us to double our risk per trade and generate roughly the same returns as the Original Version – **which also doubled its risk per trade.**

However – and this is the most important part – **we achieve those returns with a <10% max drawdown.**

I hope you can feel my excitement about this Revamped Protocol. We now have over 150 backtested trades between myself and Mike. It's not exhaustive, but it's a starting point.

# Concluding Thoughts

There are two things I'm changing about my trading strategy after running this exercise:

➢ Immediate implementation of the BAT and 8EMA Hard Stop Rule into my Classical Trading
➢ Increasing minimum Risk Per Trade to 0.5% - 1% on *every* trade

Finally, consider this a Call To Action to every *Collective* member that loves Classical Charting and trading. This is your chance to add to our backtest data.

This is what the *Collective* is about. Leveraging the Hive Mind of ruthless profiteers seeking edges in markets.

I can't wait to share our 2022 Revamped Protocol data with you later this year.

## Portfolio Moves

### Buys

➢ **BOUGHT** Intrepid Potash (IPI)
➢ **BOUGHT** Sprott Uranium Trust (U.UN)
➢ **BOUGHT** Centrus Energy (LEU)
➢ **BOUGHT** Vista Energy (VIST)
➢ **BOUGHT** Pantheon Resources (PANR.LSE)
➢ **BOUGHT** Cannabis ETF (MSOS)
➢ **BOUGHT** Oct 21, 2022 $19 CCJ Puts

### Sells

➢ **SELL** MIPS (MIPS)
➢ **SELL** NASDAQ Futures Long (MNQU2022)
➢ **SELL SHORT** Ethereum (ETHUSD)