

TRADING SYSTEMS

"Trading Systems" are technical analysis based computer models which generate specific buy and sell signals in one or more futures markets by analyzing historical and real time price data. Systems guarantee your trading decisions are consistent and disciplined by making them for you automatically.

Example

A simple example of a trading system would be the following 'trading rules'

1. If the current market price is higher than the 200 day Moving Average of prices
Buy at market.
2. If the position is losing more than \$500,
Sell at market.

Technical Analysis:

The grand majority of trading systems are based upon technical analysis rules, strategies and indicators which aren't fully disclosed to the investor. This type of system, in which the code is not disclosed is called a Black Box system - as no one knows what's inside. The technical analysis inside of the system can be as basic as moving averages, oscillators, and relative strength indicators; or very complex with the use of Fibonacci retracements, Gann Fans, Elliott Waves, artificial intelligence, chaos theory, and more.

System Assist Brokers

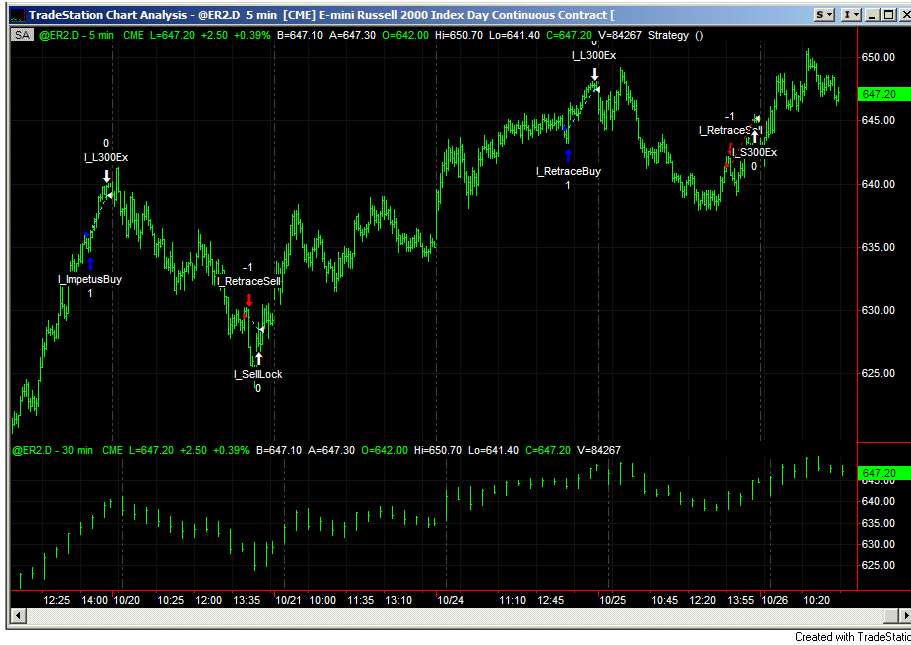
Most systems are developed by third party scientists or market specialists. While they used to sell the system to investors in the old days, the norm now is for the developer to simply lease the use of the system to clients on a monthly basis through a system assist broker such as Attain. The system assist broker runs the system software on its machines on behalf of the client and monitors the system signals minute by minute throughout the trading day, entering any buy and sell signals issued by the system into client accounts, while a monthly fee for the system comes out of the client account.

Types of Systems:

There are hundreds of different futures trading systems which operate on everything from Crude Oil to stock market futures like the e-Mini S&P. Systems generally operate on one of three time frames:

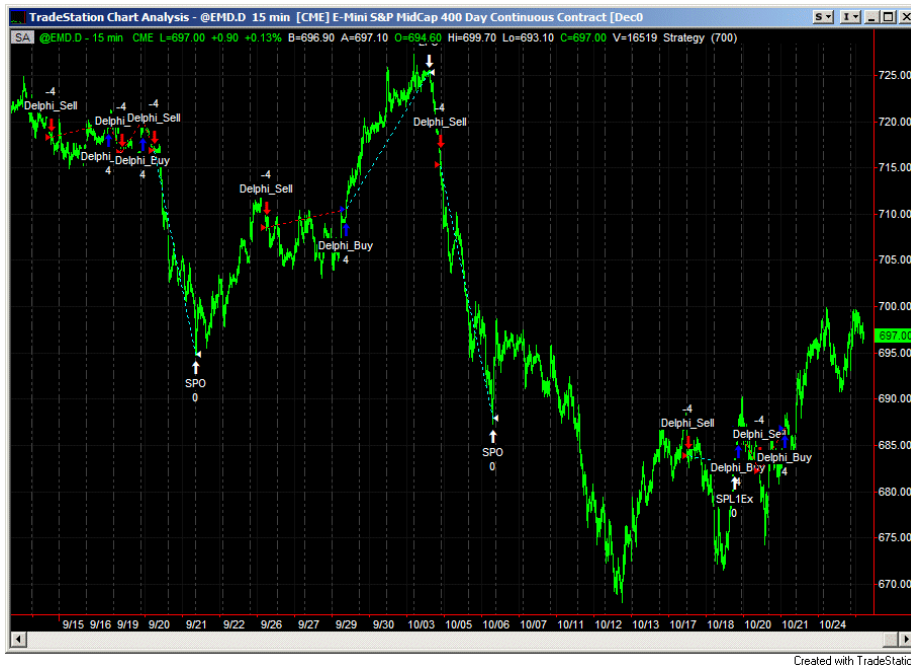
Day Trading:

The most popular type of systems, these usually operate on highly liquid markets like S&P 500 and e-mini S&P futures. A day trading system's defining characteristic is it will NOT hold a position overnight. All positions for day trading systems are exited by the end of the day. On common misperception about day trading systems is that they trade very frequently. This is not necessarily the case, as many wait for the optimal market "set up", and therefore do not trade on several days each month.



Swing Trading:

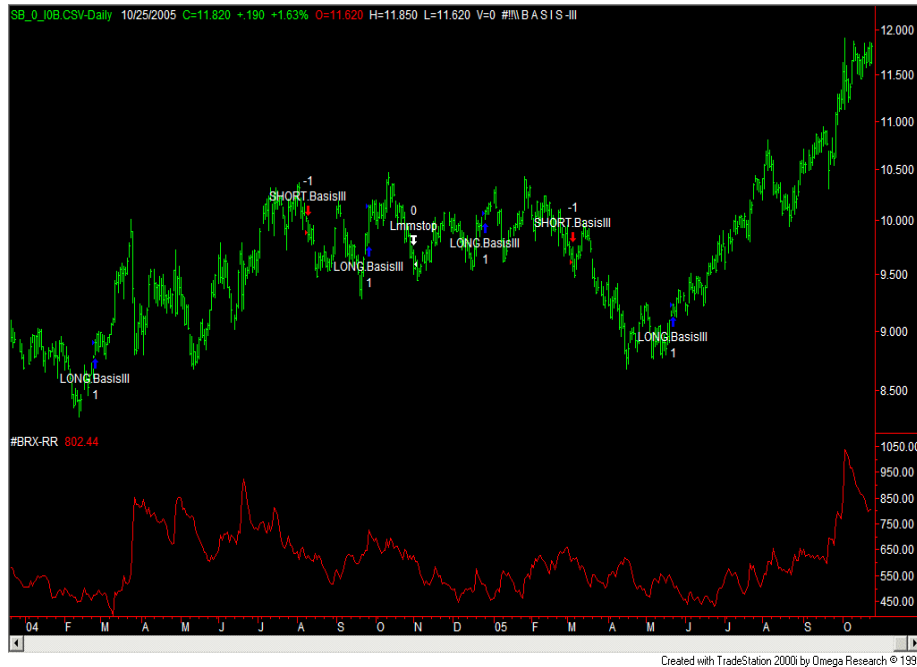
These types of systems hold positions for several days to weeks, and again operate mainly on highly liquid markets like the stock index futures, bond futures, and more recently energy futures. Their general approach is to ride market "swings" for a few days, then exit or reverse the position and ride the swing the other way.



Trend Following:

The "old man" of trading systems, trend following is the classic approach employed by some commodity indexes, billion dollar hedge funds, and the infamous "Turtles". [link to Turtles pop up from pfg.attain site] Trend following

systems generally operate on a portfolio of commodity markets across the grains, energies, metals, softs, interest rates, and currencies. They continuously monitor each market, waiting for each one to "break out" of its normal trading range and begin a long term trend. The system attempts to ride these trends as long as possible. With huge, multi-year trends like Crude Oil going from \$20 to \$70 and Euro Currency futures moving from .85 all the way to 1.35 - the allure of trend following systems is easy to see.



Transparency & Liquidity.

Two big advantages a trading system investment has over alternative investments in vehicles such as hedge funds or real estate is full transparency and nearly instant liquidity. Investors can see all of their positions at all times marked to the market, and per the limited letter of direction will not see any surprises. Should an investor need cash for any reason, wires can be processed the same day if received by 11AM.

Tax Benefits

Futures based Trading System accounts are taxed based on their value at the end of the year. This is good news for investors, as futures gains or losses are treated as 60% long term capital gains and 40% short term capital gains, NO MATTER the holding period. For example, an investor who holds a futures position for just a few minutes, or hours, can book 60% of the profits on that trade as long term gains - even though the trade was anything but long term.

What a deal!

There is also no trade by trade accounting in futures, no wash sale rules, and losses can be carried back three years on futures based investments.