

Times are Changing



Part 3 : **Entry Strategies**

Do we need to change our entry strategies to suit the different market dynamics?

Will the old moving average cross system work or do we need something that is more aggressive but also more selective?

By Neil Wrightson

Times are Changing – Entry Strategies

Do we need to revisit our Entry Techniques?

In the 2003 to 2008 period we were in a long term trending phase. The decision to enter the markets was easy and did not require much in the way of talent or knowledge.

Various people took entries based on

- News Items
- BBQ Talk
- and hopefully a little bit of TA

Times are Changing – Entry Strategies

Entries based on simple moving average cross over's worked well during this period.



Times are Changing – Entry Strategies

In a trending environment we can suffer lots of small losses because the big wins far outstrip the losses. So 30% winners and 70% losses in a trending environment can still be quite profitable. 30% winners in a swing environment (short term trend) will kill us, or send us into the street.

So we need 50% winners or better, this is where the Entry Strategy gives us (hopefully) a better edge.

Mind you, so far we are talking purely from a analytical perspective. Having 70% losses has surely got to turn us into blubbering cry babies and ultimately pull the plug on what could turn into a winning system.

Times are Changing – Entry Strategies

I have read lots of books, watched many DVD's/Movies and attended all kinds of seminars. I feel that not enough time has been properly spent on evaluating Entry Strategies.

Most times the Entry is blended into the Exit and the money management .

So when back testing is performed and the system does not work, where lies the fault?

Various well known professional figures tell us we could make money on a coin toss. As long as we have appropriate money management rules and exits we don't need to worry about the entry.

A 50c coin will guide us.

Not for me!

Times are Changing – Entry Strategies

So in the Trading business, where does the Entry Strategy fit into the equation?

Remembering back to our trading plan. It is only a part of the big picture of trading.

In our trading plan, We have already decided what market instrument we are going to trade i.e. EUR/USD, what time frame we are going to trade, what position size we can have, what our allowable risk is. All of this is decided before an Entry Strategy is formulated.

The other decision we need to make is, what is the expected number of bars our trade strategy is to run over?

Times are Changing – Entry Strategies

Remember that the number of bars we expect the trade to last is different to the actual time base of the bars. We could expect the trade to last for 10 bars but the bars could be 5min, 4hr, 1day, 1week, etc.



Times are Changing – Entry Strategies

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MONTHLY

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Times are Changing – Entry Strategies

So before we develop an Entry Strategy, we have a few important questions that need answering first.

1. What is an Entry?
2. What do we expect from an Entry?
3. How do we measure if we have a good Entry?
4. What do we use as a measuring tape to see if the Entry has merit?
5. When does the Entry stop and the Exit take over?

Times are Changing – Entry Strategies

1. What is an Entry ?

An entry is only a signal of when to enter the market. It is a series of conditions that when they are all satisfied gives us the entry signal and entry price.



Times are Changing – Entry Strategies

2. What do we expect from an entry ?

An entry strategy is something that alerts us to a possible thrust in the desired direction.

It is not the thing that finishes the trade or looks after money management etc.

It hopefully gives us better than a 50/50 coin toss.

Good initial thrusts, 60% of the time or better, would be ideal.

Times are Changing – Entry Strategies

3. How do we measure a good entry ?

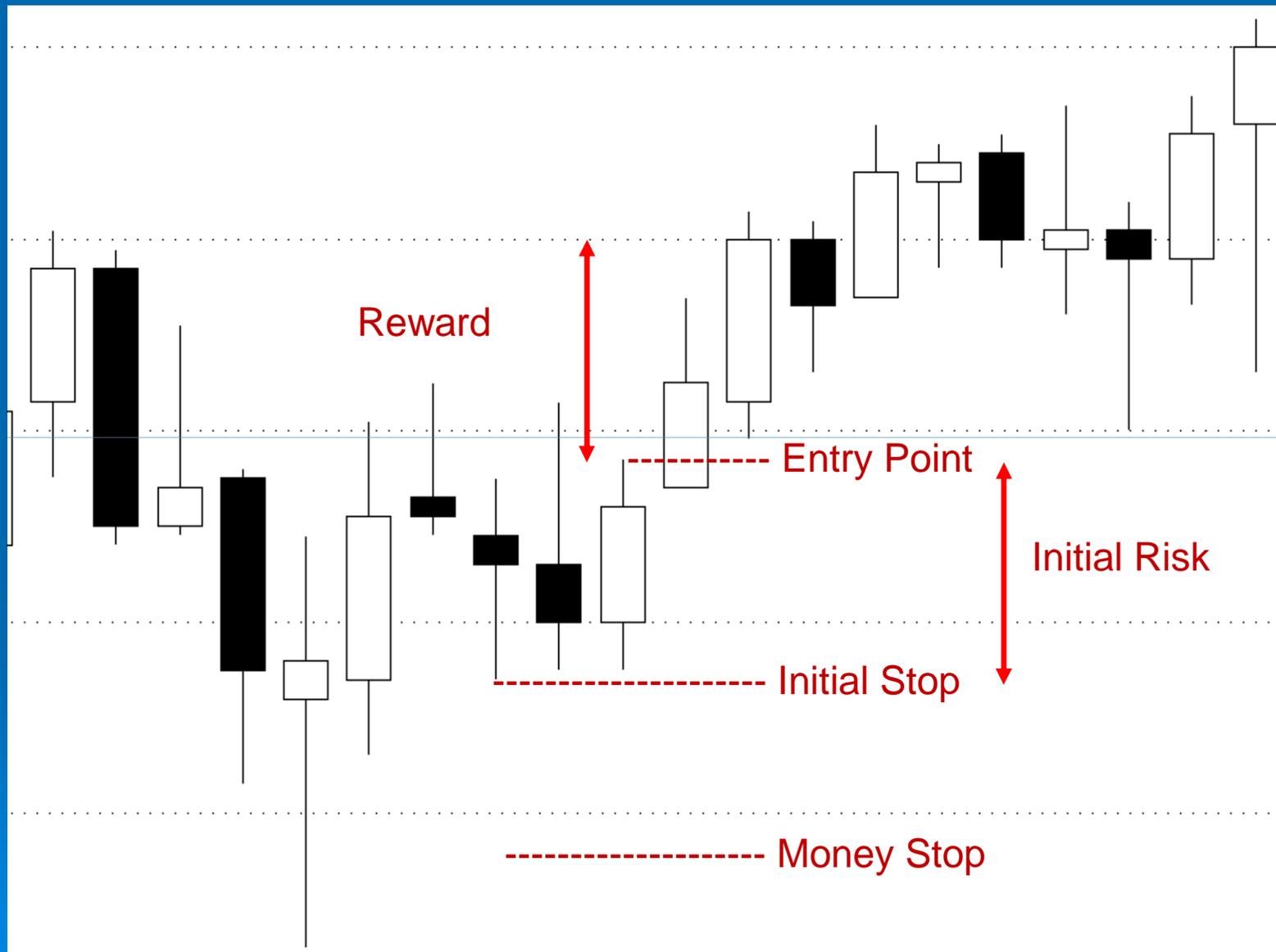
If you had to risk 1 dollar, wouldn't you at least want to make that dollar back. That is if I had to pull a hundred dollars out of my wallet and risk losing it, I want to at least make that much to cover my emotional pain, cost of trading etc.

So I expect my Entry Strategy to at least make me a R/R (Risk to Reward) ratio of 1:1.

R/R - The Distance from our entry point to our Initial Stop is our Risk. Now add this value to the entry price and we have our Reward.

This is a risk to reward ratio of 1:1.

Times are Changing – Entry Strategies



Times are Changing – Entry Strategies

4. What do we use as a measuring tape to see if the entry has merit ?

In Question 3 we defined a minimum return that we would expect to make - a Risk to Reward ratio of 1:1.

We can use this as the units of measure on our measuring tape.

The other key component for a measuring tape is time - how quickly should the return be achieved? So now we have a measuring tape.

So for a 10 bar trade, from the entry bar to the third bar, we should have at least made our risk amount.

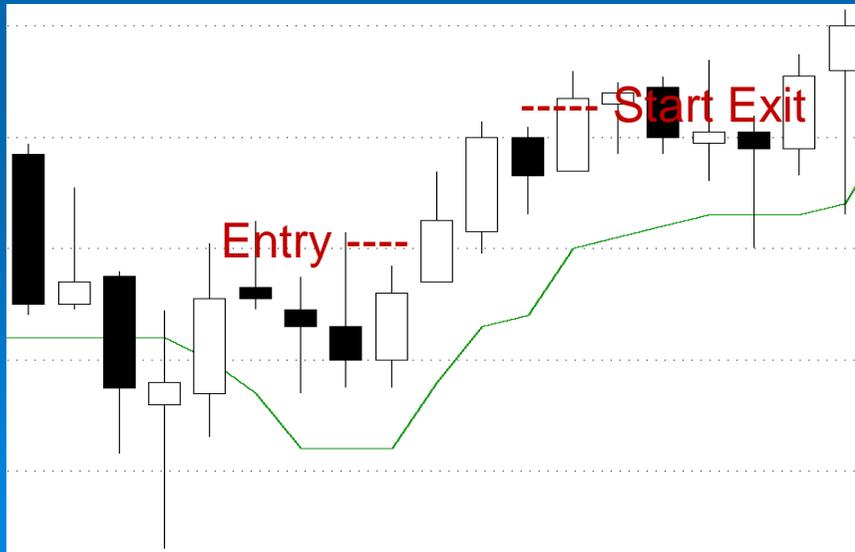
Remember that the entry gets us going in the desired direction. It is the Exit that carries us to the profits.

Times are Changing – Entry Strategies

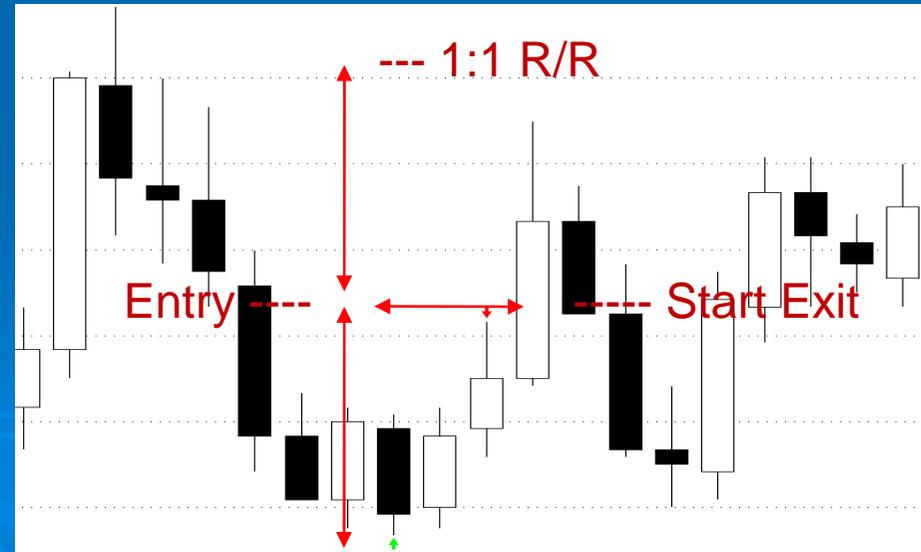
5. When does the Entry stop and the Exit take over ?

This has two answers.

- 1. When the price reaches our required reward level, the exit takes over and continues the trade.*
- 2. Basically this should happen within a few bars of the entry. If not then the Entry Strategy has failed it's purpose and the exit takes us out.*



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MAE & MFE

By looking at the MAE (Maximum Adverse Excursion) and the MFE (Maximum Favourable Excursion) over a series of trades, we can determine if we indeed have a winning Entry Strategy.

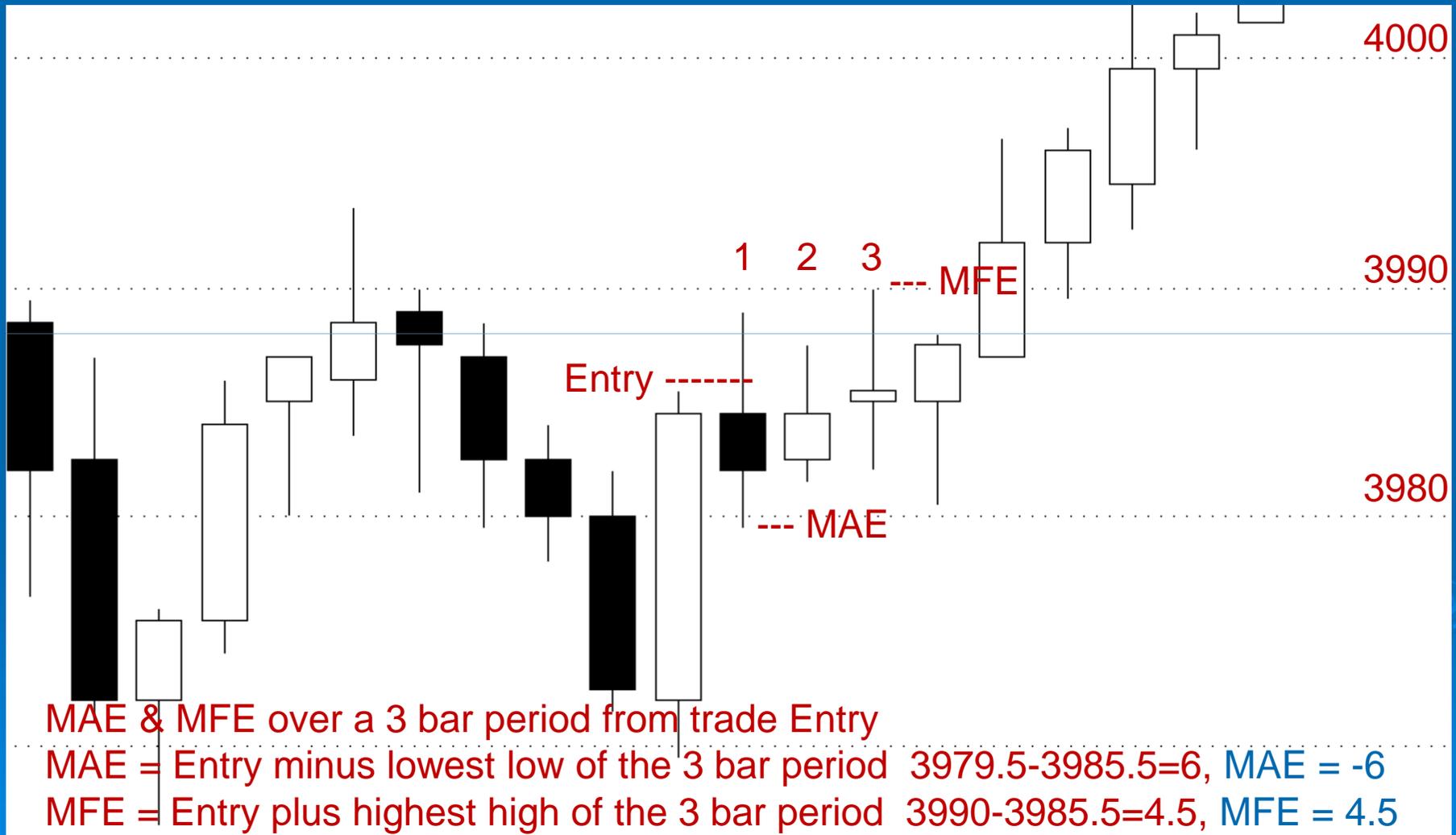
Remember that we are determining how good the Entry is. Thus we should be looking at the first few bars after the entry, to see if it is thrusting in the desired direction.

So, to perform the Entry Strategy test, we need to have a time based stop that exits the trade after 3 bars.

Remember - Our trading system may be targeting a period of 5..10 bars but our Entry Strategy must get us going in the first few bars.

Times are Changing – Entry Strategies

MAE & MFE Definition



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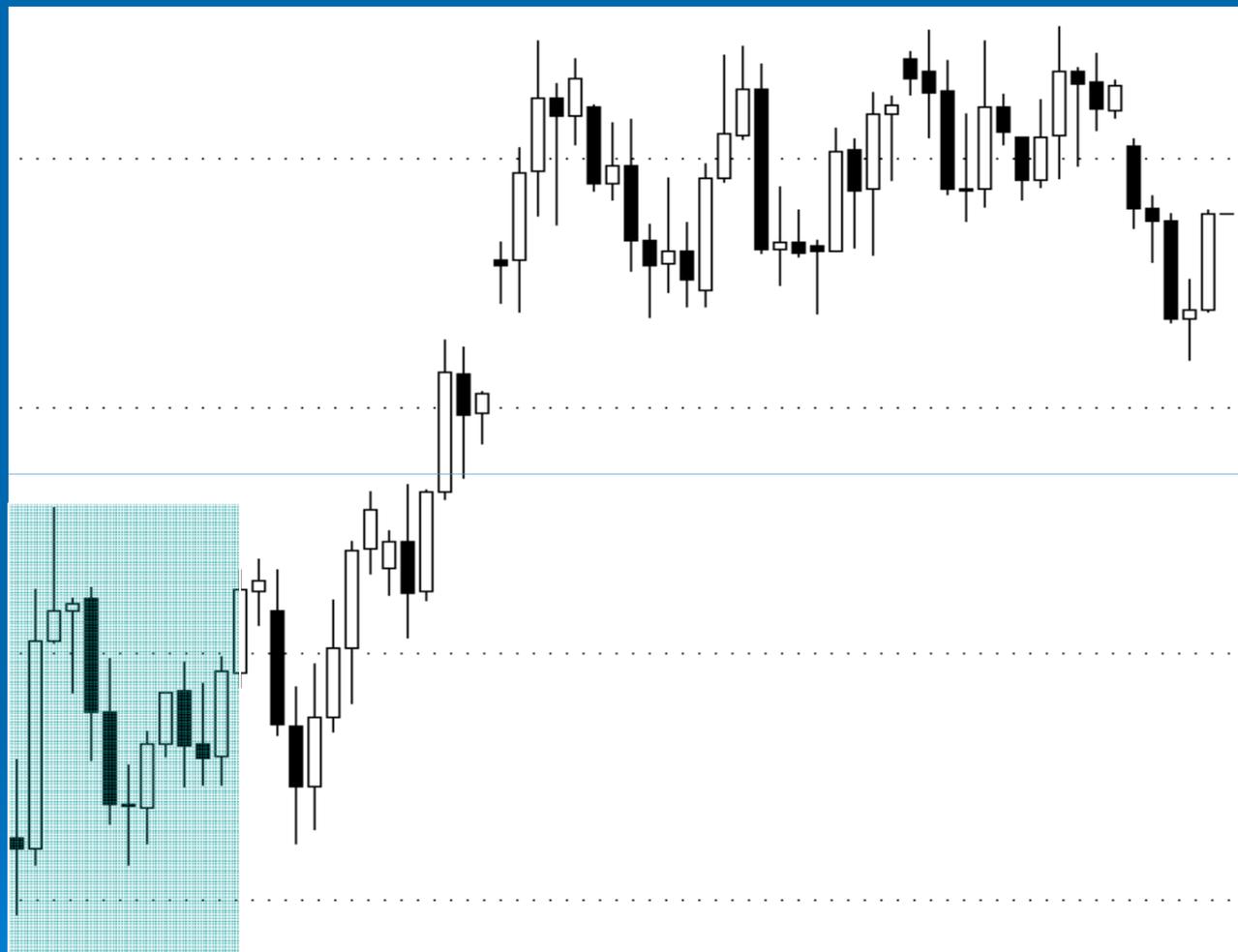
Following Demonstration Charts

The following charts are the results from an actual Entry Strategy.

The Entry Strategy is LONG only and consists of multiple rules. Some of which consist of the following criteria –

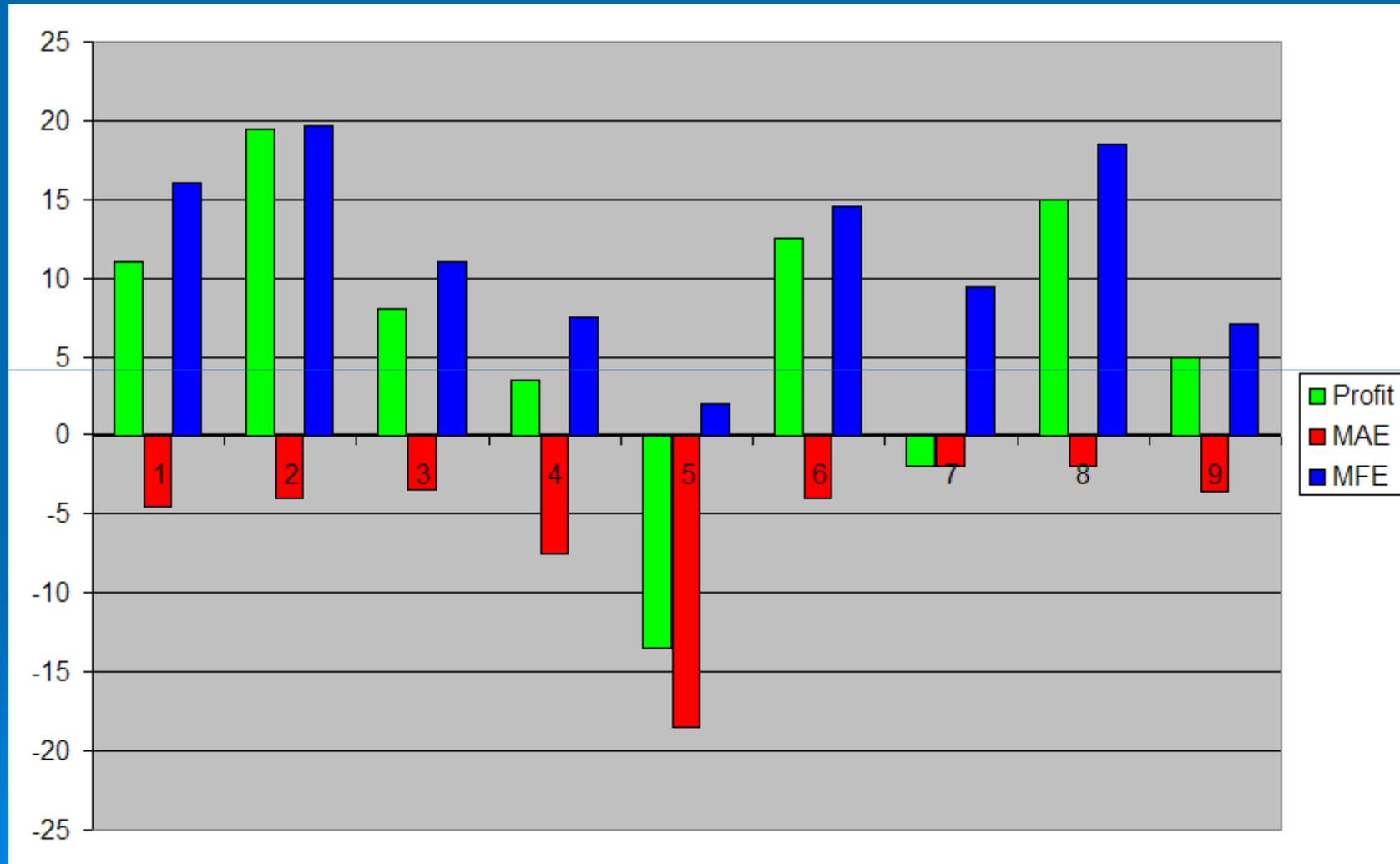
- Long period Moving Average for main trend direction
- Short period moving Average for initial setup
- Positive Pivot
- Larger volume

Daily FTSE100 01/04/2009..19/06/2009



Shaded area shows the period covering the following chart

Profit versus MAE & MFE



Sample trades from previous slide

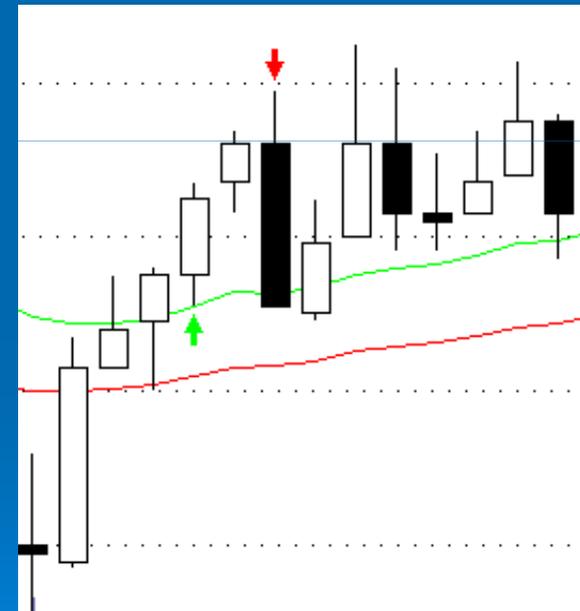
Trade 2



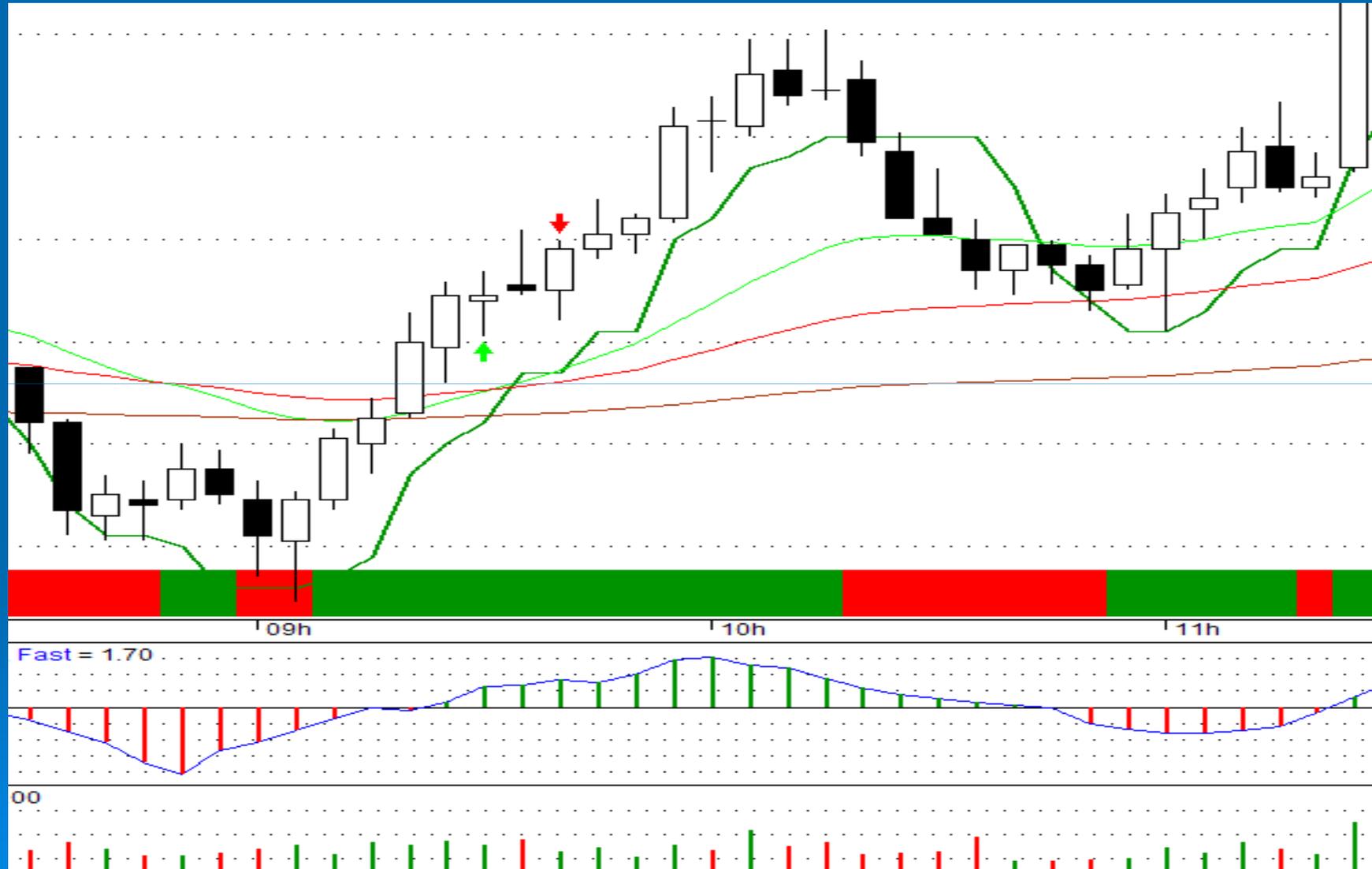
Trade 4



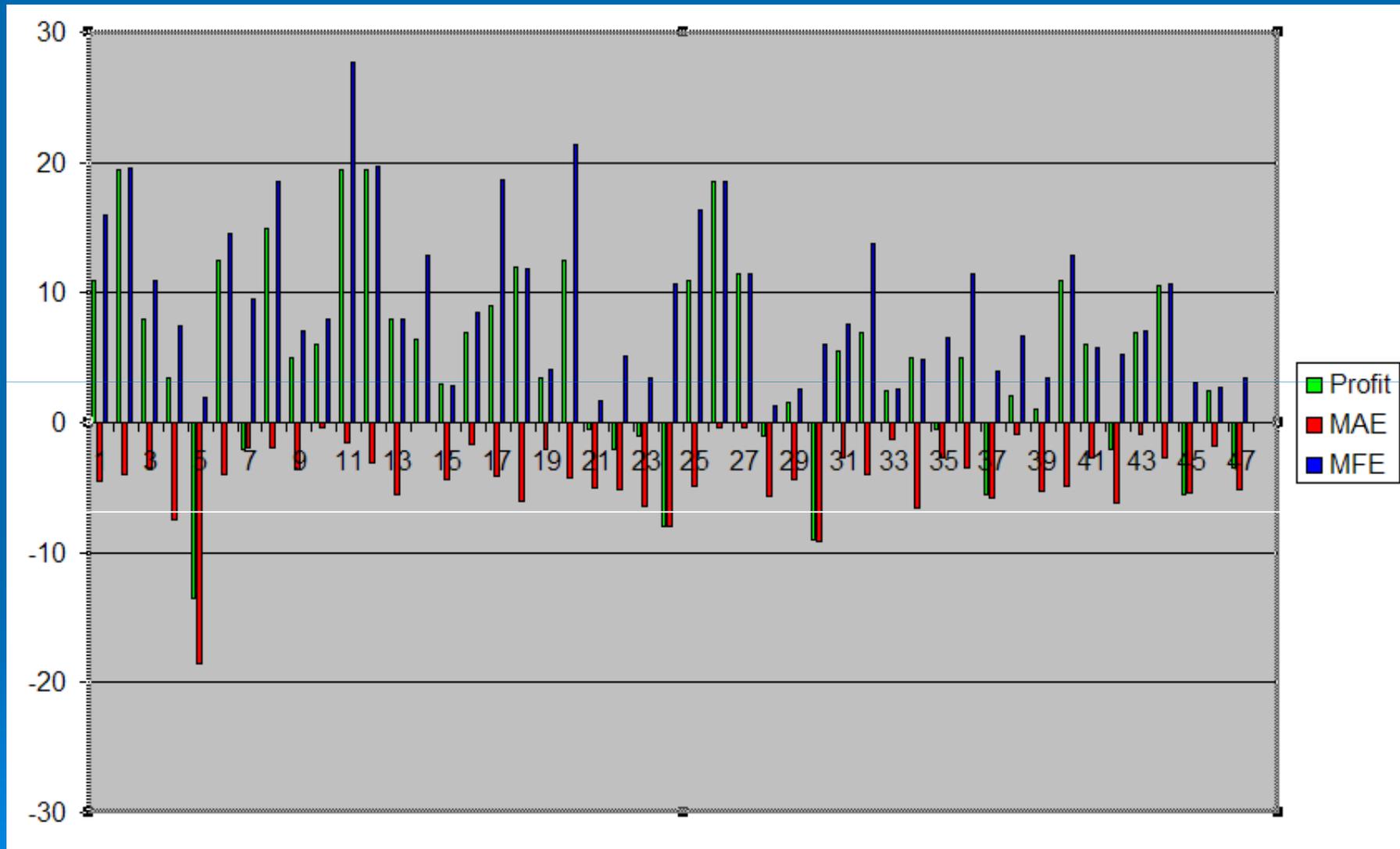
Trade 7



Trade 9 – Exit grabs more profit



Profit verses MAE & MFE



Back Testing Results

All trades

	47 (100 %)
Net Profit	234.5
Avg. Profit/Loss (Expectancy)	4.99
Avg. Profit/Loss	498.94%
Avg. Bars Held	2.96
Max. trade drawdown	-13.50
Max. system drawdown	-15.00
Max. system % drawdown	-0.07 %
CAR/MaxDD	73.45
Profit Factor	5.34
Risk-Reward Ratio	47.44
Ulcer Index	0.02
Ulcer Performance Index	3.13
Sharpe Ratio of trades	92.69

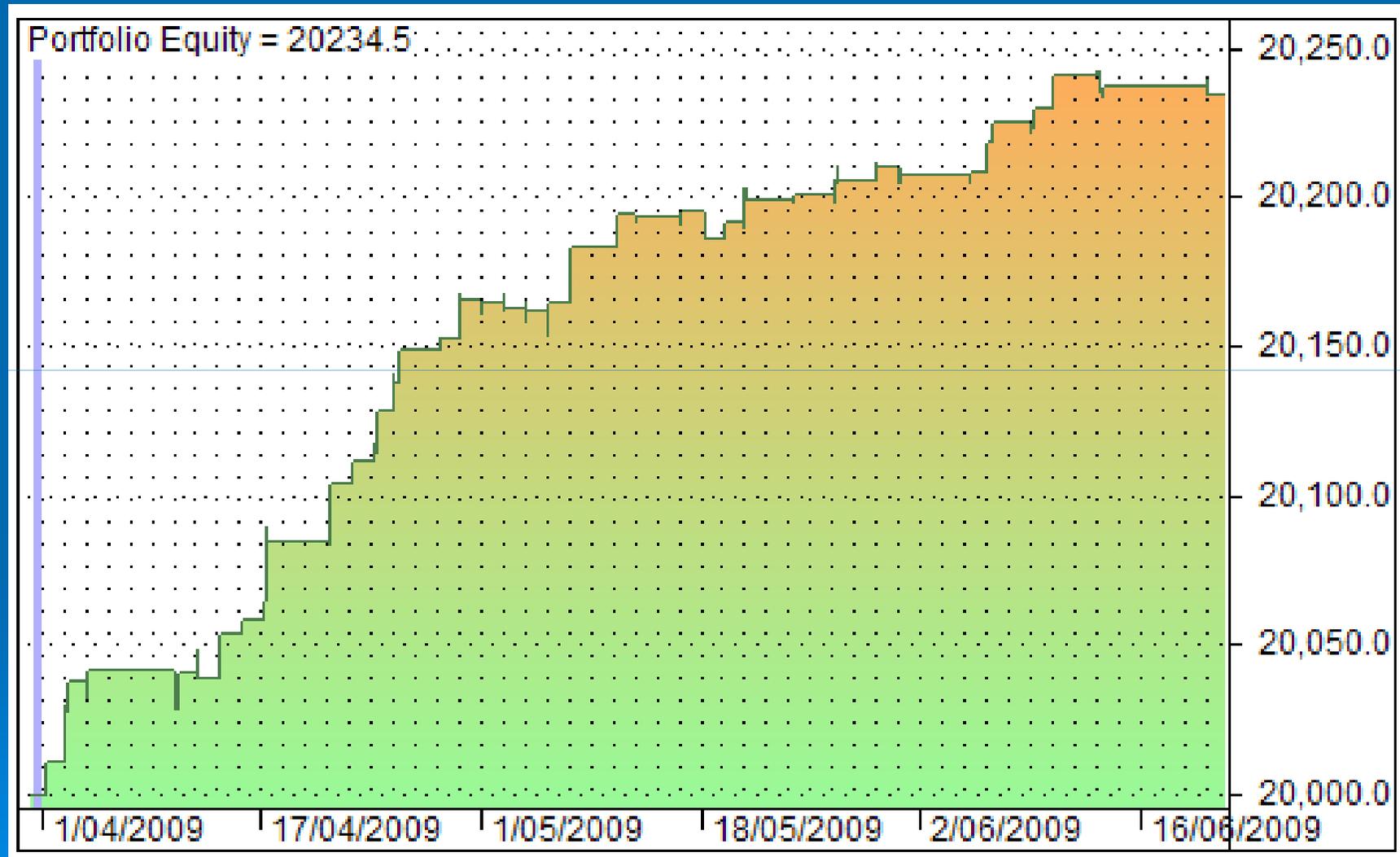
Winners

	34 (72.34 %)
Total Profit	288.50
Avg. Profit	8.498
Avg. Bars Held	3.00
Max. Consecutive	13
Largest win	19.50
# bars in largest win	3

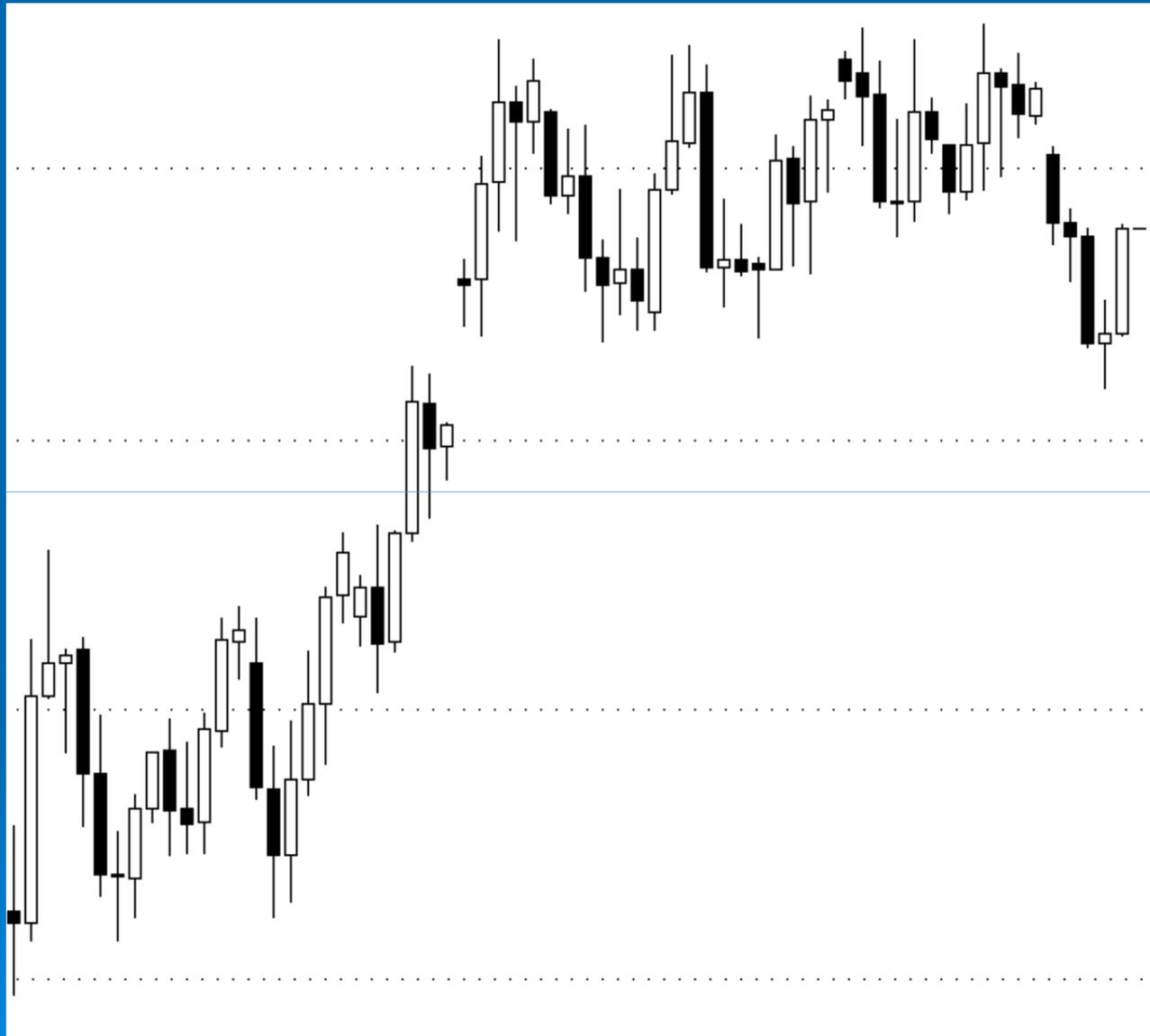
Losers

	13 (27.66 %)
Total Loss	-54.00
Avg. Loss	-4.15
Avg. Bars Held	2.85
Max. Consecutive	4
Largest loss	-13.50
# bars in largest loss	2

Times are Changing – Entry Strategies



FTSE100 01/04/2009..19/06/2009



Linda Bradford Raschke

➤ **First Cross Buy**

- - This is a pullback that is most often the first higher low that is formed after a base or consolidation period. The "pink" line, or 16 period MA of the 3/10 oscillator crosses ABOVE the zero line for the first time. The "orange line" or 3/10 oscillator pulls back below zero as the price forms a higher low. First Cross refers to the fact that it is the first pullback in price after the pink line or slow line has crossed from below zero to above zero.



Linda Bradford Raschke

- **First Cross Sell**
- - This setup coincides with the first lower high on a bar chart. The pink line, or 16-period MA of the 3/10 oscillator crosses below the zero line for the first time. The setup then occurs on the next reaction back up when the 3/10 oscillator retraces back above zero.



Linda Bradford Raschke

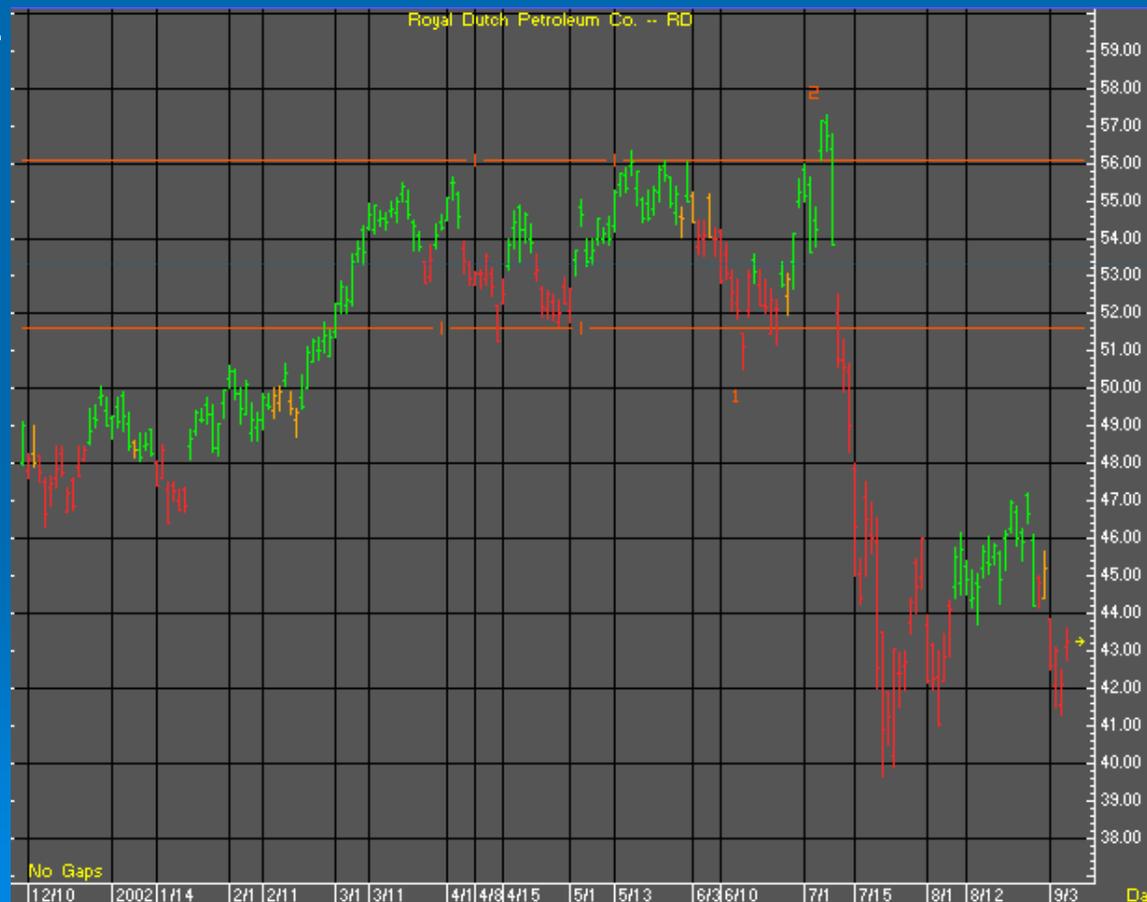
➤ *Turtle Soup Tests*

- - This is one of the trade setups that was published in the Street Smarts book. The trade occurs when the market makes a failure test of a previous 20-day high or low. The name of this trade came from Richard Dennis's "Turtle" traders, who entered trend following systems on breakouts of 20-day highs and lows. Test of previous key swing highs and lows are important psychological pivot points for the markets. At point 1, a Turtle Soup Buy is given in INTC as it makes a successful test of a previous 20-day low. At point 2, there is a Turtle Soup Sell.



Stuart Wrightson

- **Bull and Bear Trap**
- - These are false breakouts from an extended trading range. Point 1 was a Bear Trap and Point 2 obviously trapped the bulls. This is unusual to see two opposite examples so close to each other. When there is a false breakout at one end of an extended range, we then look for the market to trade to the opposite end of the range.



In Conclusion

These days the catch phrase seems to be either Money Management and or Exit Strategies.
Obviously these are extremely important areas of trading.

BUT

I hope my insight into Entry Strategies as an individual component of the Trading System and the testing of this component has been useful and interesting and will help thrust you towards your profits.

Entry Strategies
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AmiBroker Code for Entry

// Generate a Buy Signal (Entry)

EntSigSwt =

(PivotRibbon(EntRibbon)==1)

AND ((PivotHist(EntSMAPeriods,EntPivotPeriods) > 0) OR
((PivotHist(EntSMAPeriods,EntPivotPeriods) >
Ref(PivotHist(EntSMAPeriods,EntPivotPeriods),-1))))

AND V > Ref(V,-1)

AND C > (H+L)/2

AND MA(Close,TrendFilter) > Ref(MA(Close,TrendFilter),-1)

AND (TimeNum() > 080000) AND (TimeNum() < 120000)