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PHALANX FUTURES TRADING™

Past Illuminating Future

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Past Performance Does Not Guarantee Future Results. This is a standard decrepit disclaimer that is as well recognized as it is ignored [1]. It is given for legal liability in the event that a consumer of the advice acted on it and the results proved to be less than expected, or even the opposite. In addition to its futility as a warning, it flies in the face of reality: all trading strategies are based on past performance. Past performance is all we have and if not past performance, what better metric would exist to determine what trades to take? Past performance is accurate for the past and is always 100% correct, where in lies its elegant authority: any question we ask it will always yield a truthful answer. So if we ask the right questions of past performance, perhaps it might just illuminate future results. I have been mining past performance to mathematically prognosticate future results for many years, spanning over 200,000 historical trades. The system I use to evaluate historical data is called Phalanx Futures Trading™ (globaltradetitans.com); is the same system used in True North Trading. This paper will cover the critical features of what I have learned and how you can apply this trading system to any room you trade in or to your own trading.

Phalanx Data Compiling and Stratification:
Futures trade data, extracted from the past or captured in real time, needs to be organized in your spreadsheet so as to permit specific assessments. These are the main types of stratification and shown below and data from various other trade rooms is included for illustration.

1. Stratify by index. Not all indices are traded equally. With almost all specific trading methods or logics, uniform application to futures trading will reveal differences in average index trade profits. This is true for human trading; somewhat for robot trading. Any individual trade method will show moderate to large differences in profitability among the indices for reasons that are oblique or hidden but present consistently over time. Do not expect average trade profits on indices to be comparable; what is reasonable is that some indices will outperform others. By watching some 20-40 trades in each index, you will observe such average P/L differences, so be prepared to bench the weakest indices for continued sim trading until they can demonstrate sustainable and acceptable profit levels.

Of note: I have seen some rooms where it seems their methods are equally successful to all indices: consider ***Open Range Trader (Joe Dupont head trader)***, where exceptional ~$11,000 per month; individual weeks at $3345 and even $6000/trade reveal all indices in full profitability.

2. Stratify Buys vs. Sells: In well over 100 rooms where I have evaluated track records in great detail spanning many months and thousands of trades, I have seen fairly consistent differences between P/L for buys vs. sells, such that one is superior and the other inferior. This presumably reflects clandestine strategy alignments with index price moves that result in either longs or shorts being favored one over the other. The financial horsepower and trade commitment needed to raise price are different from that needed to lower it. Long/short superiorities can be easily identified by stratifying historical trade results as average trade profit from all long and short trades, as cited below:

- CL shorts; 100 trades; 3 contracts per trade: -$18.90 average P/L.
- CL longs; 100 trades; 3 contracts per trade: $104.55 average P/L.

So the first facet of the Phalanx Trade System: look at what indices perform best and then stratify trade results based on longs vs shorts.

3. Stratify by Time: Time is a silent sovereign over profits. We perceive time as linear and constant but the time frame by which a trade is taken can affect its outcome. I stratify trades by time to capture P/L effects based on the day of the week (diurnal variation) or based on time of day (circadian rhythm). In this manner we may observed what days (or time of day) that achieve maximal trade profit in a manner shown below.

I average P/L as a function of day of the week (M-Tu-W-Th-F; normalizing to a uniform number of trades) and very often I consistently see days that are extremely profitable and others that are not. I observe results for 1-2 months to avoid temporal distortions. After evaluation, I avoid days that exhibit an anemic P/L and increase contract sizes on days that are the most profitable. As with all assessments, I keep this data in a running evaluation format so as new data is added, the oldest data is jettisoned. My evolving observations form clear dichotomies in overall performance. An example time stratification was seen in Alpha Wave Traders, where over 6 months I observed an average P/L of 296/3 contract trade on Thursdays and $27/3 contract trade on Fridays (*MarketClips 05.06.2013*). This is a precise expression of diurnal variation, an observation that was met with severe consternation by that group as they were unprepared to accept much less adapt to such information.

It is possible that exceptional trade performance can be impervious to diurnal variation: in ***Trading Futures in Action (Bob Amico Head Trader)*** their weekly $2512 weekly average (over last 27 weeks) reveals strong daily performance: Mon: $299; Tue: $338; Wed: $683; Thu: $688; Fri: $622. Furthermore, ***Trading Futures in Action*** may in fact minimize diurnal variations through their recognition and responses to changing market conditions, wherein they have changed the indices they traded, adjusted targets/stops and even began opening the room 1 hour earlier to capture more of the European opportunities.

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An excellent example of circadian rhythm comes from Strategy Lab, where I observed remarkable differences between P/L in the morning vs. the afternoon in the same index (*Market Clips 08.19.2013*):

- TF longs at 3 contracts/trade: am $240 vs. pm $61
- ES sells at 3 contracts/trade: am $2 vs. pm $161

These are official entries and exits and results according to official posted P/L value. So remember: not all days of the week are created equal nor are times of the day. Most amazingly, trade strategies will serendipitously have better and worse days of performance as well as better performances in the morning vs. afternoon.

Now we know what indices trade the best, whether longs or shorts, the best day(s) of the week and if you trade all day, and (if you trade all day) how do mornings compare to afternoons. That data alone is informative but lacking sufficient dimension to provide an optimal understanding of futures results. What we need to do is to generate much more past performance for any single trade, say 1000% over its current data content. The Nested Bracket Trade technique does this (*Futures Truth #1, 2016*) as detailed below.

4. **Stratify P/L from Nested Bracket Trades:** Any one individual trade most often has a single entry and a single exit (target or stop). Mathematically speaking, this is wafer thin data so I developed NBT, where the original entry is examined against as many as 10 target/stop choices, each designed to ask for more profits. My selection of targets is based on frequency histograms of historical price deltas but yours can be based on simply larger and larger profit choices, each having a correspondingly larger stop (i.e. 1:1 risk/reward ratio).

Longs
Strategy 1
Strategy 2
Strategy 3
Strategy 4
Strategy 5
Strategy 6
Strategy 7
Strategy 9
Strategy 10
Pullback
Your P/L

By using NBT amplification through 10 different target/stop ratios, we can increase historical data 1000% over the actual single-trade P/L results, forcing the past to yield 10-fold more data than originally occurred. Now the data from one original trade will yield data from 10 trades, each having the same entry but different targets. So at the end of 100 trades, we will have data from 1000 trades. While most of us would normally average the P/L values to get a mean performance, trade data is not normally distributed but instead bimodal, consequently means or averages are corrupt values and will do you a disservice. Rather add up the total net profit of any bracket trade over say 10 trades (i.e. total reward), divide by the stop size times the number of trades taken (i.e. total risk) and if the risk/reward ratio is 0.4 or greater you have a strategy that is fit for use. Next choose the strategy that yields the greatest overall profit and you will have your best strategy.

5. **Pullback (PB): Observe, record, apply.** Virtually all trades exhibit pullback (heat) after entry but it turns out that the pullback in trades destined to succeed is indistinguishable (except in magnitude) from pullback in trades destined to fail (*TraderPlanet 141; 03.24.2015*). So how to know the difference? Measure the amount of pullback for all successful trades and find the average. That average will tell you where about 50% of all successful trades will pullback. So after your official entry, ask and answer this question for each modeled trade: If you added an additional contract at the pullback average, how did you do? While PB entries occur less often than the official entry, they afford extra time to

execute - a bonus in fast scalping times and perhaps better fill rates in low volume markets. And as they are limited orders, you avoid market entry costs.

Putting It All Together: The Phalanx Futures Trading™.

Phalanx is a trading system that puts past performance on steroids, then sorts and stratifies that performance output and harnesses the final data to provide trade strategies to choose best to maximize future P/L. Each futures trade is tethered to its detailed historical counterpart, aligned for index traded, trade type (buy vs. sell) and time frame for execution (diurnal variation, circadian rhythm). By modeling each trade with up to 10 different targets using the NBT, it is possible to amplify historical data by 1000% or more. Add to this trade heat signature from pullbacks and this total package of data yields far greater insight related to optimal profits and best strategies to achieve those profits.

Of the several new rooms I am evaluating, Trade for Greatness is a private trade room run by April T, CEO & Founder, that employs trade modeling to account for index and type of trade, time and day and other historical assessments relevant to immediate trade selection and strategy (analogous to True North Trading). Consistent with Phalanx type of assessments, this room will project trade expectations and outcomes before trades are executed. April operates Trade for Greatness as truthful, transparent and profitable and soon to be the next Global Trade Titan.

The Phalanx Trading System and recent room reviews are located at globaltradetitans.com, as are short video on subjects such as Chat Room vs. Trade Room, Greed is Good, Track Records – Legal or Not, Trade with God and over two dozen rooms reviews as well. These videos are short, factual, to the point – no-nonsense.

Global Trade Titans are trade rooms that trade truthfully, transparently and profitably. These attributes distinguish them among the 1088 sites/rooms I have evaluated and place them at the 99th percentile of performance. There are many hundreds upon hundreds of "*trade rooms*" that fail to post a track record, fail to execute trades in real time or fail to net at least $50K per year in profits. Such rooms may not be in your best interests.

Author disclosures: All of my publications, videos, room evaluations and Trade Titan recommendations are at my free library: globaltradetitans.com. In addition to futures trading, I offer futures trading consultation on the Titans, any other room, strategies or methods for trading as well as the Phalanx Futures Trading. I sincerely thank John Murray for his expert editing and editorial revisions to this paper.

Reference: *http://www.forbes.com/2010/04/16/fund-performance-ads-personal-finance-sec.html*