

i  **ExpertAdvisor**TM

information and ideas about Trading Systems

The Three Phases and 12 Facts of Trading System Development

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Phase I. Preparation

Fact 1: Forming the Logic

A trading system is based on **Logic**; well-formed **Logic** is the foundation of the trading system. Experience, education, creativity, and interaction with others help a trader fully articulate the system's **Logic**.

Fact 2: Testing the Logic

Testing executes the **Logic** of the system and produces a record of the system's **Historical Behavior**. **Testing** can be time consuming and at times, discouraging. **Testing** requires meticulous record keeping, **Discipline** and an optimistic attitude.

Fact 3: Qualifying the Logic, Defining the Historical Behavior

A system is robust if the input (parameters) can be varied without dramatically changing the system's **Historical Behavior**. A system is qualified when **Testing** proves the system is robust.

Fact 4: Adjusting Trader Expectations

The **Historical Behavior** of the system calibrates the **Trader's Expectations**. Realistic **Trader Expectations** encourage **Discipline**.

Fact 5: Adjusting System Expectations

The outcome of an individual trade is unknown. The outcome of a large number of trades approaches the **Historical Behavior**. Realistic **System Expectations** encourage responsible money management.

Phase II: Execution

Fact 6: Losing

Losing trades are inevitable. **Losing** is less painful when **Trader Expectations** and **System Expectations** are aligned with the system's **Historical Behavior**.

Fact 7: Winning

The trade exit is responsible for the final outcome of the trade. After a short period of time, the trade entry, along with the entry criteria, become irrelevant. Understanding where the profit or losses are generated allows the trader to apply **Logic, Testing, and Qualification** to the appropriate elements of the system.

Fact 8: Survival

The outcome of a single trade is unknown and **Losing** trades are inevitable. Lot sizes are defined to first ensure survival, and second to allow growth. Proper lot sizing encourages longevity. Longevity allows a sufficient number of trades to occur for the system to meet its **Historical Behavior**.

Fact 9: Emotions

Emotions, including the desire to overrule the logic of the system, are not fully experienced until real money is traded. Do not fool yourself with a demo account; the emotions are not the same unless the money is real.

Fact 10: Experience

A trader must trade real money to **Experience** insecurity, greed and fear. Experiencing these emotions allows the trader to exercise **Discipline** and finally to accumulate **Experience**.

Fact 11: Discipline

Discipline often means to do nothing. **Discipline** is introduced during **Testing** and is strengthened through **Experience**.

Phase III. Observation

Fact 12: Feedback

Phase III is where the real learning occurs. The sooner a trader reaches this phase, the sooner the trader can begin to accumulate real trading **Experience**.

When a trader **Observes** their own running system, they often generate new ideas or **Logic**. The development cycle begins again and the trader finds that she(he) is immersed in new and creative trading ideas!

The goal of **iExpertAdvisor** is simple: To guide a trader through each phase of the development cycle, and bring them to **Phase III** as quickly as possible.