Legal Disclaimer

These materials are provided for educational and informational purposes only. They do not constitute investment advice, an investment recommendation, or any other brokerage service within the meaning of applicable laws and regulations. The content is not tailored to your individual situation, knowledge, objectives, or risk profile.

The results presented may include historical simulations (backtests) and may not reflect all execution costs and constraints (including commissions, spreads, slippage, taxes, and liquidity limitations). Historical or simulated performance is not a guarantee of achieving similar results in the future.

Investing, especially in derivative instruments (e.g., futures, CFDs), involves high risk, including the risk of losing your entire invested capital and, in some cases, an obligation to provide additional margin.

These materials do not constitute an offer or solicitation to enter into any transactions. Do not copy the transactions or strategies presented. All investment decisions are made independently and at your own risk.

The results shown in the reports are indicative only and depend on the adopted methodology, data selection, parameters, assumptions, and the way risk and return measures are calculated. Actual results may differ materially from historical or simulated results.

The author may hold positions in the instruments discussed or may apply a similar approach in practice. The information contained in the reports may change without prior notice.

Methodology

TradingEdge.Pro's methodology describes a multi-step process for building and validating trading strategies, structured into two parts: strategy development and testing, and practical use. In the testing phase, a strategy is defined as a set of objective rules, validated through initial tests, optimised, and assessed for stability (robustness), and then evaluated using Walk-Forward Analysis. The detailed testing assumptions (including the instrument universe, in-sample/out-of-sample periods, data sources, transaction costs, and execution rules) are described in the "Testing Specification" document. The full methodology and metric definitions are available on the TradingEdge.Pro "Methodology" page.

Non-ADX 1-2-3 Pullbacks v.1

Investment Strategy Testing Summary

The Non-ADX 1-2-3 Pullbacks v.1 strategy is a swing trading technique developed by Jeff Cooper (a variant of the classic 1-2-3-4 Pullback without the ADX filter). This version combines **a strong uptrend** with **a three-stage price correction** (three consecutive candles with progressively lower highs and lows), followed by **entry through a breakout** above the high of the last correction candle – similar to a short position. Risk is defined by a fixed stop below the minimum of the entire correction and the position has **a predetermined time horizon.**

Although the strategy's logic seems sound, <u>**it has not even passed the initial test**</u> because, on the one hand, **its results do not indicate a market advantage, and on the other, the number of test transactions is low, which further prevents drawing reliable conclusions. Therefore, <u>it is not recommended to use it in real transactions.</u>**

Our goal is to have a strategy that remains **profitable and effective across a wide range of parameters,** because the market is a volatile organism, and optimal parameters can change over time. <u>**I can't**</u> emphasize enough that for **<u>a strategy to work</u>** in real-world conditions, it must also perform under **suboptimal** <u>**parameters**</u> and **<u>conditions.</u>** In short, **it must be stable** to changing market conditions.

I don't know who said these words, but they perfectly capture the problem of many optimizations:

"I've never seen a strategy that didn't work in backtests."

We don't know the future, we don't know future market conditions, but if we know that our strategy **has historically generated acceptable results** in various market conditions and across various parameter ranges, then we are **one step ahead of other** market participants.

Contents

Step 1: Formulate an investment strategy

Non-ADX 1-2-3 Pullbacks v.1 strategy is a swing trading system that aims to **join a prevailing uptrend after a shallow, three-stage correction.** The trend context is confirmed **by two moving averages** (one faster and one slower) above which the closing price remains, and the fact that **a new multi-week high was recently established.** Following such an impulse, the market executes **a sequence of three consecutive candles with progressively lower highs and lows;** if the price then breaks above the high of the last candle, we consider this a resumption of the upward movement.

Entry is executed with a buy/sell stop order 1 tick above/below the high/low of **the last correction candle;** a stop loss is set 1 tick above/below its low/high. **The order to open a position remains active during the next trading session.** The position is closed several trading sessions after entry (time-exit), if the stop hasn't been triggered previously.

The strategy uses:

- **Direction filter (MA fast & MA slow)** – candle close above/below both averages, for long/short position respectively;
- **Momentum context (multi-week high/low)** – in recent sessions the market has reached a new multi-week high/low;
- **1-2-3 correction structure** – three consecutive candles with progressively lower high and low for a long position and progressively higher high and low for a short position;
- **Trigger T+1** – buy/sell stop 1 tick above/below the high/low of the last candle;
- **Constant risk management** – stop loss 1 tick below/above the low/high of the last candle;
- **Timed exit** – closing a position after several sessions.

The strategy encompasses **both long (buy) and short (sell) positions.** The key element is the precise placement of trigger orders and **strict risk management through stop loss orders.**

Characteristics of the strategy and its strengths and weaknesses:

- **Simple logic, easy automation** – clear trend conditions, correction and entry structures;
- **Synchronizing momentum with a breakout entry** – eliminates the "catching the lows" part;
- **Risk of a "false bounce"** – in a weakening trend, a breakout may be quickly negated;
- **Gap sensitivity** – morning breakouts may cause slippage from the planned entry level;
- **Strong momentum context** – new highs and moving averages filter out instruments with real strength.

Non-ADX 1-2-3 Pullbacks v.1 strategy, although rare, is a valuable addition to the "trend continuation" portfolio, allowing you to enter after a temporary market correction, when many players have already capitulated from their positions.

Step 2: Determine investment principles

Below is **the pseudocode** for the **Non-ADX 1-2-3 Pullbacks v.1 strategy** on daily data:

1. **Trend and context conditions**
   a. **Define two moving averages –** MA_fast (e.g. XX-day) and MA_slow (e.g. YY-day).
   b. **Uptrend –** closing price of the instrument above MA_fast and MA_slow.
   c. **Downtrend –** closing price of the instrument below MA_fast and MA_slow.
   d. **Upward momentum –** before entering the 1-2-3 correction, the market formed a ZZ-day high.
   e. **Downward momentum –** before entering the 1-2-3 correction, the market formed a ZZ-day low.

2. **Identifying a 1-2-3 Correction (Three-Day Downward Sequence)**
   a. **Correction in an uptrend –** three consecutive highs and lows must be lower and lower.
   b. **Correction in a downtrend –** three consecutive highs and lows must be higher and higher.

3. **Entry – long position**
   a. **Order –** Set a buy stop order one tick above the high of the last correction candle.
   b. **Order validity –** the order remains active in the next session.

4. **Entry – short position**
   a. **Order –** Set a sell stop order one tick below the low of the last correction candle.
   b. **Order validity –** the order remains active in the next session.

5. **Risk management**
   a. **Initial stop of long position:** 1 tick below the low of the last correction candle.
   b. **Initial stop of a short position:** 1 tick above the high of the last correction candle.

6. **Closing a position**
   a. **Timed exit –** if the stop loss has not been activated earlier, close the position after WW sessions from the entry day (the next day for opening).

7. **Daily monitoring**
   a. After each session, check whether the conditions described in **"Trend and Context Conditions"** and then in **"Identifying a 1-2-3 Correction" are met.**
   b. Once all conditions for a long or short position are met, set appropriate orders (buy stop or sell stop) for the next trading day.

The above rules are described in a way that allows them to be directly converted into a script in the chosen testing platform, which ensures the accuracy of the historical simulation and the reliability of the test results.

Testing is performed assuming that **the risk of one position is 1.0% of total capital.**

Step 3: Pre-test your investment strategy

Below are some purchase and sale transactions that allow you to verify the following aspects:

- **Correctness of generated signals;**
- **Direction of opening a position;**
- **Moment of opening the position;**
- **The opening price of the position;**
- **Moment of closing the position;**
- **Closing price of the position;**
- **Compliance of the transaction with the theoretical assumptions of the investment strategy.**

At this stage, **it doesn't matter** whether the trades are **profitable,** what **instrument was used,** or whether they occurred **recently** or **in the distant past.** The key is **to verify that the trades are generated correctly** and in line with the assumptions described in the previous step.

Our first transaction is on a crude oil futures contract. At the end of April 2008, the price **was in an uptrend (price above the 50-day and 150-day moving averages), creating a 50-day high** (first candle in the left-hand rectangle). Next, a 1-2-3 correction was formed, with three progressively lower highs and lows (the second, third, and fourth candles in the left-hand rectangle), thus **meeting the conditions for setting an order to open a long position.** The following day, **we placed a buy stop order one tick above the previous day's high** (the fifth candle in the left-hand rectangle), which was executed. **A defensive sell stop order (red dots) was also automatically set,** one tick below the previous day's low. **The system worked correctly.**

The strategy assumes **closing the position after five days or when a defensive order is triggered.** Since the stop loss order wasn't reached within five days, we close the position on the sixth day at the opening (the second candle in the right-hand rectangle). **The system worked correctly.**
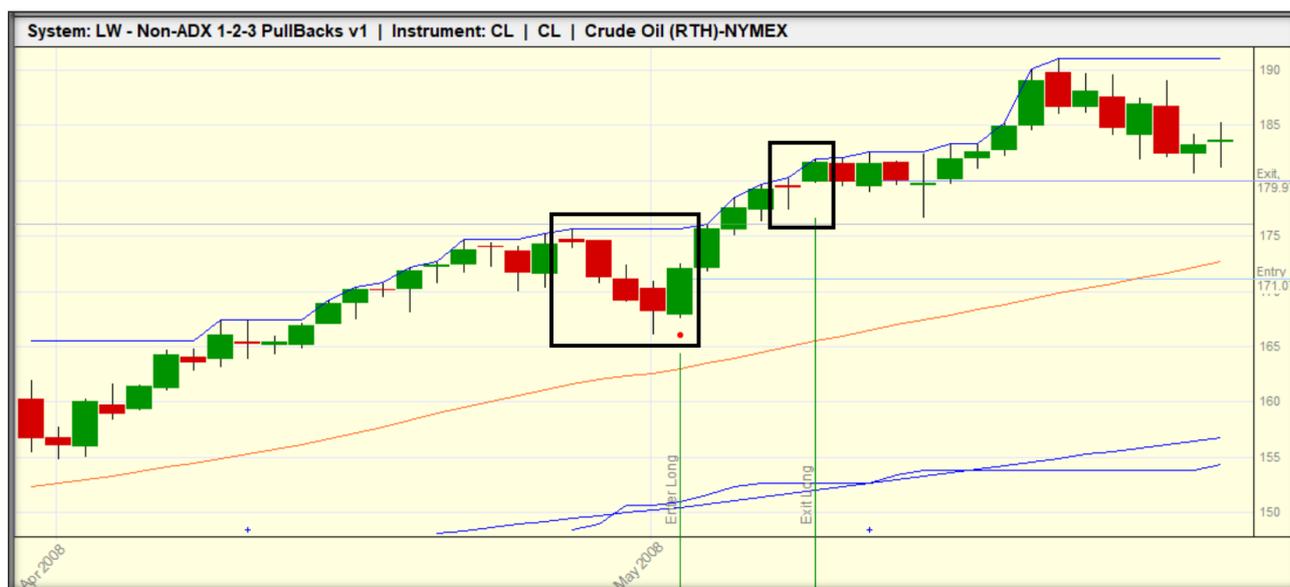
The second transaction is on a US dollar index futures contract. In early January 2021, the price **was in a downward trend (price below the 50-day and 150-day moving averages), creating a 50-day low** (first candle in the left-hand rectangle). **Next, a 1-2-3 correction** was formed, with three progressively higher highs and lows (the second, third, and fourth candles in the left-hand rectangle), thus **meeting the conditions for setting a short order.** The following day, **we set a sell stop order one tick below the previous day's low** (the fifth candle in the left-hand rectangle), which was executed. **A defensive buy stop order (red dots) was also automatically set,** one tick above the previous day's high. **The system worked correctly.**

The strategy assumes **closing the position after 5 days or when a defense order is activated.** On the fourth day after opening the position, the defense order was activated (the candle in the right-hand rectangle). **The system worked correctly.**

Once we are sure that the trades are generated correctly, **we can move on to the first test of the strategy on the full in-sample dataset**. These tests are conducted on **baseline parameters** that, in my opinion, should align with the strategy's stated goals.

First, **we reject strategies that linearly lose capital.** If a strategy exhibits this pattern, it's a clear signal that any parameter optimization is pointless.

Our basic expectation is that the strategy generates **positive results,** even if they are at a low level.

The tested output parameters are:

- **Trend conditions:**
    - **Fast moving average:** 50 days;
    - **Slow moving average:** 150 days;
- **Momentum:** The market formed a 50-day high/low before entering a 1-2-3 correction;
- **1-2-3 corrections:** three consecutive highs and lows must be progressively lower/higher;
- **Position opening method:** buy/sell stop one tick above/below the high/low of the last correction candle (for long/short position respectively);
- **Order validity:** the order remains active only during the next session;

- **Stop loss:** one tick below/above the low/high of the last correction candle (for long/short position respectively);
- **Closing the position:** 5 days after opening (6 days for opening);
- **Position direction:** long and short;
- **Position sizes:** corresponding to a risk of 1.0% of total capital.

The test result is shown below.

Historical or simulated results do not guarantee that similar outcomes will be achieved in the future.
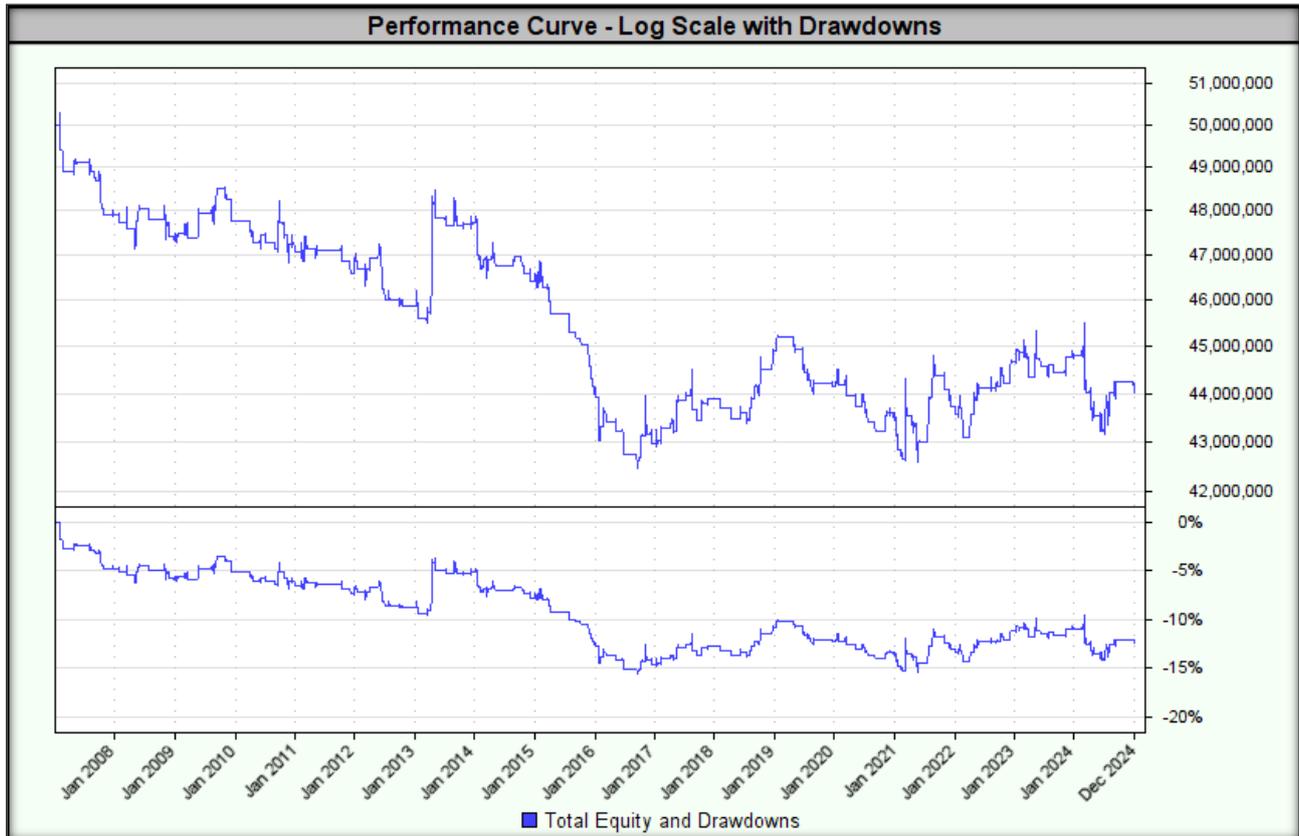
Historical or simulated results do not guarantee that similar outcomes will be achieved in the future.

Indicators/Measures	Concluding a transaction at the opening price
CAGR%	-0.70%
MAR Ratio	-0.05
RAR%	-0.65%
R-Cubed	-0.06
Robust Sharpe Ratio	-0.25
Max Drawdown	15.6%
Wins	40.0%
Losses	60.0%
Average Win%	0.55%
Average Loss%	0.44%

Win/Loss Ratio	1.25
Average Trade Duration (days)	5
Percent Profit Factor	0.83
SQN	-0.26
Number of transactions	270

In summary, the system worked well and generated signals as expected. **However, the strategy's performance was poor (multi-year drawdown),** and the number of test transactions was low, making it impossible to draw reliable conclusions. **This means that the reliability of this strategy leaves much to be desired, and we are ending testing at this stage and abandoning further development of the strategy.**

Step 4: Optimizing and assessing the stability of the investment strategy

1. **Stability across a wide range of optimized parameters**

The step was skipped due to **failure of the preliminary tests.**

2. **Monte Carlo simulation**

The step was skipped due to **failure of the preliminary tests.**

3. **Stability over a moving time window**

The step was skipped due to **failure of the preliminary tests.**

4. **Long/short stability**

The step was skipped due to **failure of the preliminary tests.**

5. **Stability in the portfolio of financial instruments**

The step was skipped due to **failure of the preliminary tests.**

6. **Money Management (Position Sizing)**

The step was skipped due to **failure of the preliminary tests.**

7. **Strategy Risk Management**

The step was skipped due to **failure of the preliminary tests.**

Step 5: Walk-Forward Analysis

The step was skipped due to **failure of the preliminary tests.**

Step 6: Using the strategy in real time

The step was skipped due to **failure of the preliminary tests.**