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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.

Gilligans Island v.1

Investment Strategy Testing Summary

The Crash Burn Profit v.1 strategy is a short-term **trend-reversal system** that capitalizes **on the weakening of a very strong trend.** In a classic setup, the market is in a clear directional movement, as confirmed by the relationship between **the DIPlus** and **DINeg indicators,** and **the ADX indicator** reaches high values. When **the ADX begins to decline after a period of growth,** the system interprets this as **a signal of fading trend momentum** and **opens a position opposite** the current market direction in the following session. The strategy **does not use a stop loss order,** and the position is **closed after a predetermined number of days,** making it a short-term play on a pullback after an overheated move.

Although the strategy is based on **rational assumptions** and attempts to exploit **the stock market effect,** its **effectiveness in real-world trading remains questionable.** It has not even passed **preliminary testing,** meaning **it is not recommended for use in real-world trading.**

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. **I can't** emphasize enough that for **a strategy to work** in real-world conditions, it must also perform under **suboptimal parameters** and **conditions.** 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

The Crash Burn Profit v.1 strategy assumes that **a very strong trend doesn't last forever,** and a particularly interesting moment is when **the movement's dynamics begin to weaken. The ADX indicator** is used to assess the strength of the trend, while the direction of the dominant movement is determined by **the relationship between DIPlus and DINeg.** If the market is in **an uptrend,** meaning **DIPlus is ahead of DINeg,** and **the ADX value reaches a high level,** the system assumes that **the movement is already developed and may be susceptible to a short-term rebound.** When **the ADX then begins to decline relative to the previous day,** it is interpreted as the first **signal of weakening momentum.** In such a situation, the strategy doesn't wait for further price confirmations, but **opens a short position at the opening of the next session,** assuming the market may at least enter a correction phase. For long positions, the logic is mirrored.

The strategy **doesn't use a classic stop loss** and doesn't attempt to "drive" positions based on subsequent price signals. **Instead, it assumes the system's advantage will manifest quickly,** so each trade is **held only for a short, pre-defined period.**

The strategy uses:

- **DIPlus/DINeg relationship** – to determine the dominant trend direction;
- **High ADX level** – as a filter for strong, developed traffic;
- **ADX decline day by day** – as a signal of fading trend momentum;
- **Entry at the opening of the next session** – simple and mechanical execution;
- **Timed exit** – closing a position after several sessions;
- **No stop loss** – the strategy is fully based on a short time horizon and the assumption of a quick recovery.

Characteristics of the strategy and its strengths and weaknesses:

- It takes advantage of **the natural phenomenon of weakening momentum** after strong trend movements;
- **The rules are very simple** and easy to automate;
- **Entering against the prevailing trend** can provide profitable opportunities in overheated markets;
- **Short time-exit** limits the time of exposure to the market;
- **The absence of a stop loss increases the risk of larger drawdowns** if the trend continues;
- In very strong trends, **a single drop in ADX may turn out to be only a temporary pause** and not a real reversal;
- The effectiveness of the strategy **strongly depends on the selection of the ADX threshold** and the length of holding the position;
- **It works best in markets that tend to pull back in the short term** after strong impulses.

The Crash Burn Profit v.1 strategy is a tool for traders who want to capitalize on short-term momentum fading after very strong directional moves. **Despite its simple logic, it requires significant discipline, as trades are placed against the prevailing trend, and the lack of a stop loss means position sizing must be managed with extreme caution.**

Step 2: Determine investment principles

Below is **the pseudocode** for the **Crash Burn Profit v.1 strategy** on daily charts:

1. **Calculating Indicators:**
    a. **ADX(XX)** – Average Directional Index calculated from the XX period;
    b. **DIPlus(XX)** – positive directional indicator from the same period;
    c. **DINeg(XX)** – negative directional indicator from the same period;
    d. **ADXThreshold(Y)** – the level considered high for ADX;
    e. **ExitBars(Z)** – number of sessions (Z) to maintain the position (timed exit).
2. **Setup Identification – Short Position (sell setup):**
    a. **Trend:** the market is in an upward trend, i.e. DIPlus > DINeg;
    b. **Strong momentum:** ADX value is above ADXThreshold(Y);
    c. **Weakening Signal:** Today's ADX value is lower than the previous day's value.
3. **Entry – Short Position:**
    a. **Order:** After a setup occurs, open a short position at the opening of the next session.
    b. **Initial Stop:** The strategy does not use a stop loss order.
4. **Setup Identification – Long Position (buy setup):**
    a. **Trend:** the market is in a downtrend, i.e. DINeg > DIPlus;
    b. **Strong momentum:** ADX value is above ADXThreshold(Y);
    c. **Weakening Signal:** Today's ADX value is lower than the previous day's value.
5. **Entry – Long Position:**
    a. **Order:** After a setup occurs, open a long position at the opening of the next session.
    b. **Initial Stop:** The strategy does not use a stop loss order.
6. **Closing a position:**
    a. **Timed exit:** close the position at the session open after Z sessions have elapsed since the entry date.
7. **Daily Monitoring:**
    a. Update ADX, DIPlus and DINeg values daily.
    b. The system detects a long/short setup based on the DI relationship, high ADX and its decline from the previous day, and then opens a position at the next opening.
    c. For open positions, the system runs the counter to ExitBars(Z) and closes the position according to the time-exit rule.

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.

The tests are carried out assuming that the risk of one position is **1.0% of the total capital,** with **a hypothetical stop loss order located 2 x ATR (40 days)** away from the position opening point.

Step 3: Pre-test your investment strategy

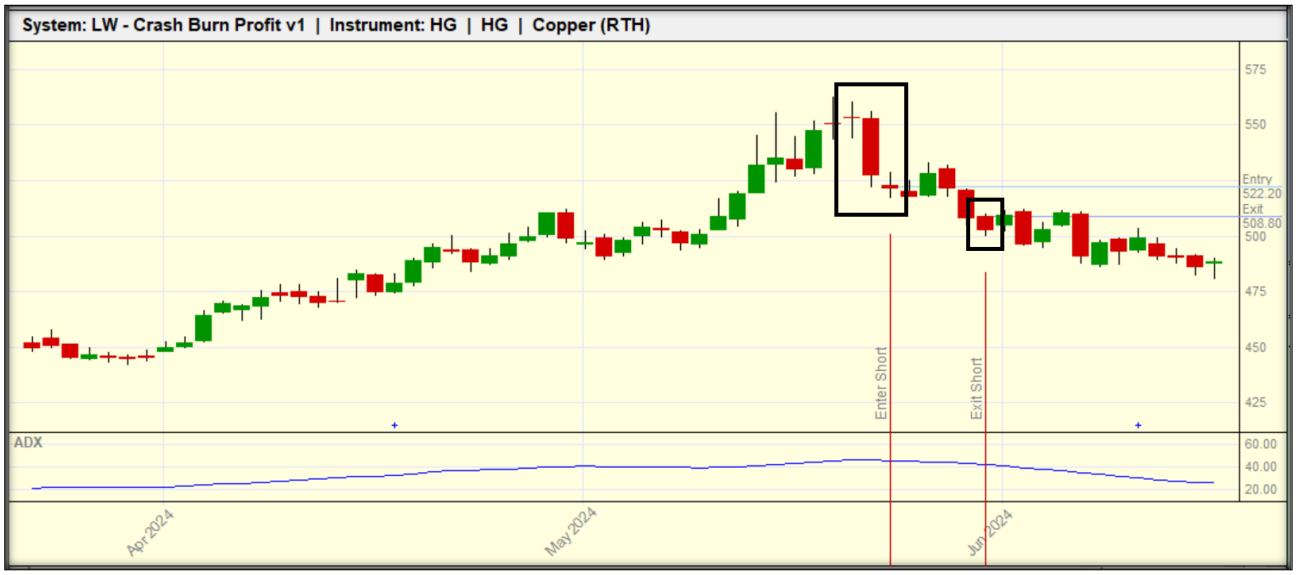
Below are some purchase and sale transactions that allow you to verify the following aspects:

- **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.

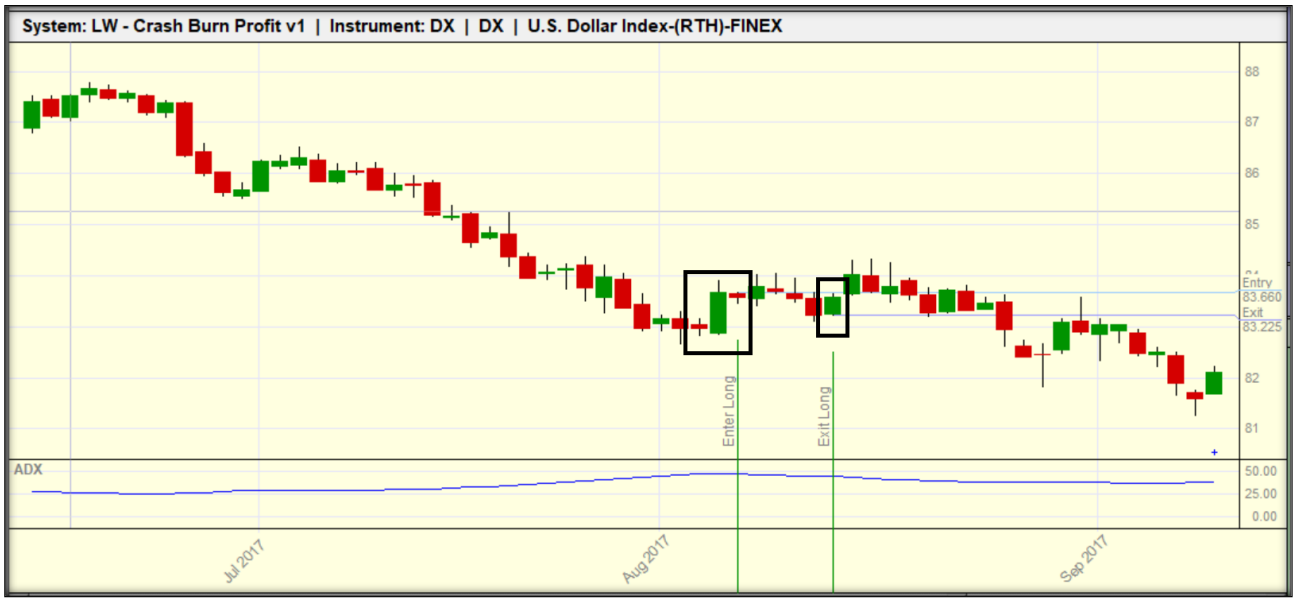
The first transaction was conducted on **a copper (HG) futures contract.** At the end of May 2024, **the market was in an uptrend,** with **the ADX(20) value exceeding the 45 level,** confirming the strength of the dominant move. At this point, a signal candle appeared (the first candle in the rectangle), with **the ADX remaining high.** The following session (the second candle in the rectangle) saw **the ADX decline from the previous day,** which, in accordance with the principles of the Crash Burn Profit v.1 strategy, generated **a signal to open a short position.**

A short position was **opened at the opening of the next trading session** (third candle – "Enter Short" line). The strategy does not use a stop loss, so the transaction was **conducted solely according to the timed exit rule.** Five trading sessions after the entry date, the position **was closed at the opening of day 6** ("Exit Short" line, small rectangle). **The system worked correctly.**



Another example. The transaction was conducted on a **futures contract on the US Dollar Index (DX).** In early August 2017, the market was in **a downtrend, with the ADX(20) value exceeding 45,** confirming the strength of the dominant move. At this point, a signal candle appeared (the first candle in the rectangle), with **the ADX remaining high.** The following session (the second candle in the rectangle) saw **the ADX decline from the previous day,** which, in accordance with the principles of the Crash Burn Profit v.1 strategy, generated **a signal to open a long position.**

A long position was **opened at the opening of the next trading session** (third candle – "Enter Long" line). The strategy does not use a stop loss, so the trade was **conducted solely according to the timed exit rule.** Five trading sessions after the entry date, the position **was closed at the opening of day 6** ("Exit Long" line, small rectangle). **The system worked correctly.**



Once we are sure that the transactions are generated correctly, we can proceed to the first test of the strategy on the full **in-sample data set.** These tests are performed on **the basic parameters,** which – according to my assessment – should correspond to the assumed goals of the strategy.

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.

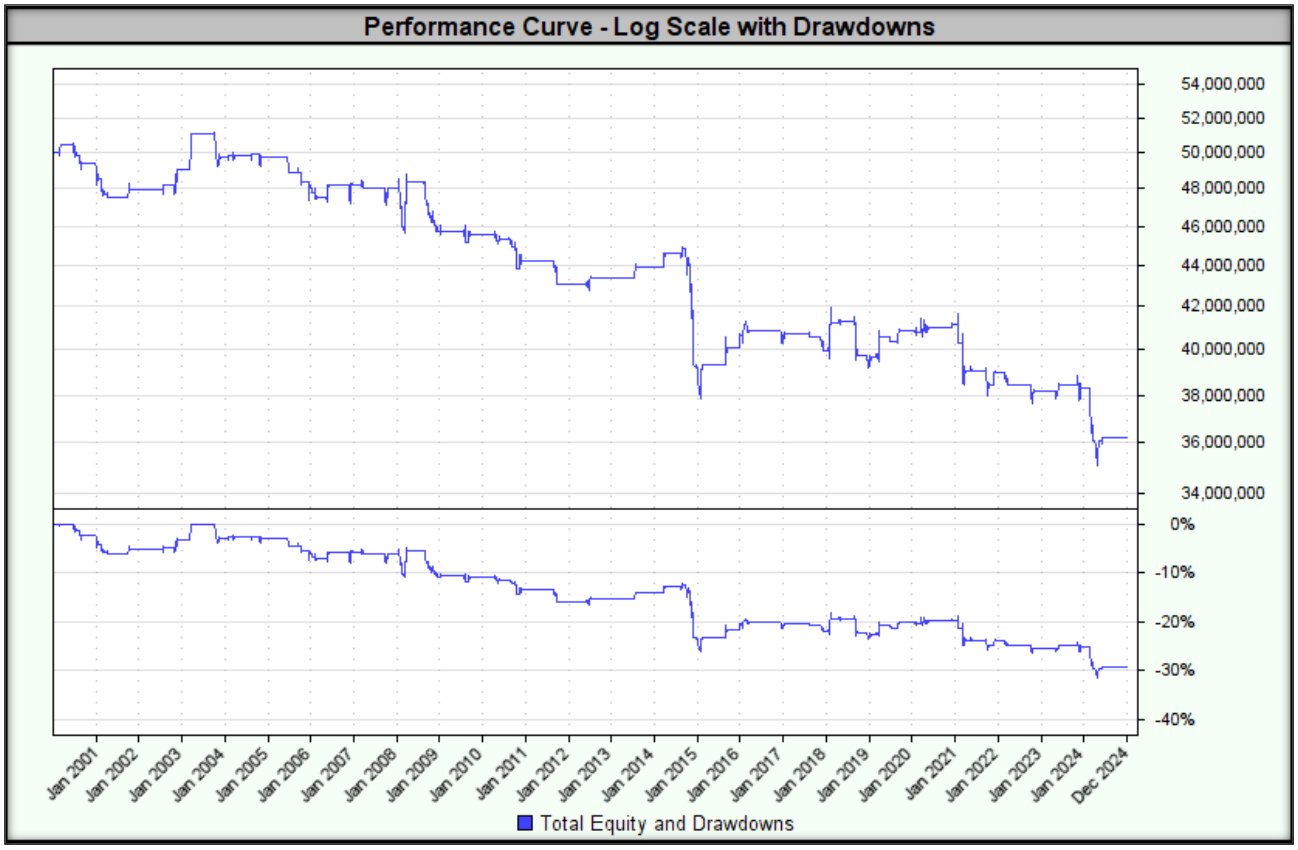
Tested base parameters:

- **ADX:** 20 days;
- **ADXThreshold:** 45;
- **ExitBars:** 5 days;
- **Position opening method:** at the opening price of the next day;
- **Stop loss:** none;
- **Position size:** 1.0% of total capital, with a hypothetical stop loss order 2 x ATR (40 days) away from the position opening point;

- **Position direction:** long (buy) and short (sell) positions.

The test result is shown below.

Historical or simulated results do not guarantee similar results in the future.



Historical or simulated results do not guarantee similar results in the future.

Indicators/Measures	Concluding a transaction at the opening price
CAGR%	-1.28%
MAR Ratio	-0.04
RAR%	-1.26%
R-Cubed	-0.03
Robust Sharpe Ratio	-0.33
Max Drawdown	31.4%
Wins	44.4%
Losses	55.6%
Average Win%	0.67%
Average Loss%	0.77%
Win/Loss Ratio	0.87
Average Trade Duration (days)	5
Percent Profit Factor	0.69
SQN	-
Number of transactions	232

In summary, the system works properly and generates signals as expected. However, **tests on the underlying parameters yielded poor results.** Therefore, **further testing of the strategy is not warranted,** as its use in real-world trading **is highly questionable.**

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 previous tests.**

2. **Monte Carlo simulation**

The step was skipped due to **failure of previous tests.**

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

The step was skipped due to **failure of previous tests.**

4. **Long/short stability**

The step was skipped due to **failure of previous tests.**

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

The step was skipped due to **failure of previous tests.**

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

The step was skipped due to **failure of previous tests.**

7. **Strategy Risk Management**

The step was skipped due to **failure of previous tests.**

Step 5: Walk-Forward Analysis

The step was skipped due to **failure of previous tests.**

Step 6: Using the strategy in real time

The step was skipped due to **failure of previous tests.**