

Could you use a purely mechanical timing formula that has produced 30 percent gains a year since 1986 with strictly controlled risk? Nelson will teach you everything you need to trade the Pankin Sector Fund Strategy for exceptional profits and reduced risk. The Pankin Strategy trades Fidelity Select sector funds. Sector funds tend to trend more consistently than individual stocks or commodities and produce unusually reliable trading patterns. If you had traded this simple but powerful system over the past twelve years, you would have outperformed 99 percent of all Commodity Trading Advisors, yet the Pankin Strategy takes just a few minutes each week to update, uses straightforward logic and works for virtually any size account.

The Pankin Strategy has a superb hypothetical track record—35 percent annual gains since 1986 (real-time performance has been just as strong). However, the original strategy requires withstanding drawdowns most individual traders find unacceptable. Money manager Mark Pankin, developer of the system, posted returns of 57 percent in 1995 and 45 percent in 1996, but the drawdowns sometimes represented as much as 25 percent of total equity.

To better gauge the risk, Nelson tests the Pankin Strategy over a wider range of market conditions. In this workshop he will simulate Pankin trading back to 1970 (considerably longer than the Fidelity Select sector funds have actually been traded). You will see that the original strategy would have generated reassuringly strong profits throughout the past twenty-eight years, but with frequent and often punishing equity drawdowns (the maximum equity dip would have been an unacceptable 45 percent).

To help curb the risk, Nelson will introduce you to a variety of defensive tactics he uses in conjunction with the original Pankin Strategy. As he adds risk-control measures, you will observe a powerful trading system unfold. To insure that the evolving system is theoretically sound, he will test the findings across multiple portfolios, time frames and signals. The resulting variant of the Pankin Strategy has gained 30 percent a year since 1986 with just 12 percent drawdown!

Central to this final comprehensive trading system is a filter Nelson uses to confirm Pankin signals. He will demonstrate how this indicator is almost certain to capture every major stock market trend. With this and other defensive measures, you will trade the Pankin Strategy more confidently to achieve aggressive profits with limited risk.

* * *

Nelson Freeburg is editor of *Formula Research*, a monthly financial letter that builds systematic timing models for the futures, fixed income, cash and stock markets. Nelson took up trading while pursuing a Ph.D. at Columbia University. Totally absorbed by the financial markets, Nelson left academia. He decided to let the markets, rather than the university, provide his education. He began publishing *Formula Research* in 1991 in order to share his findings with a small nucleus of professional traders. Today *Formula Research* serves hundreds of money managers and serious researchers in the cash and futures markets. Nelson's subscribers include many of the leading names in global trading and finance.

Nelson initially confined his research and trading to chart signals. When overall results proved poor, he began to examine point and figure, Elliott Wave, Market Profile, candlestick analysis and an assortment of other technical theories. Nelson considers all of these methods deficient in their application because of their reliance on subjective judgment. In particular Nelson feels that chart patterns become elusive in fast-paced, highly leveraged markets (such as cash foreign exchange) and that the clear buy and sell signals illustrated in textbooks rarely appear as clearly and reliably in practice. To address these shortcomings, Nelson began testing the theories of leading technicians as well as his own theories against an extensive historical database covering a broad variety of traded market items.

Nelson uses the financial database which he built (that reaches back into the last century) to test systems in which he can examine clearly defined and precise mechanical buy and sell signals, devoid of subjectivity. Using these objective standards Nelson can rigorously evaluate complex system features. Additional rules such as the user's profit targets and stop orders, or mental stop points, can further strengthen this testing process. As a result of his research, Nelson has developed an impressive number of advanced trading systems.

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Trading the Pankin Strategy for 30 Percent Annual Gains and Low Risk

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The Pankin Strategy

I. Introduction to Sector Investing

A. Origins of the Pankin Strategy

1. Who is Mark Pankin?
2. The Fidelity Select Sector Fund Family

B. Pankin I

1. Trading Rules
2. Risk and Reward: 1986-97

C. Pankin II

1. Trading Rules
2. Comparative Performance Edge: 1986-97

D. Testing Robustness

1. Parameter Sensitivity
2. Search for Concealed Risk

E. Pankin Model: Historical Simulation

1. Nature of Test
2. Controls and Checks
3. Results of Rigorous Testing
4. The Pankin Track Record:
 - i. On the Plus Side: Strong Profits
 - ii. On the Minus Side: Potentially Heavy Risk

II. Trading the Pankin Strategy with Risk-Control Tactics

A. Review of the Pankin Trading Rules

B. Testing in Historical Depth

1. More In-Depth Simulation Back to 1970
2. Customizing the Pankin Formula

C. Cutting Risk with a "Stop Loss" Exit

The views expressed by the speakers at the Technical Analysis Conference are solely the views of such speakers and are not the views of Dow Jones Markets. Such views are not intended to constitute investment advice and should not be relied upon to govern action in particular circumstances.

D. Protecting Profits with a Retracement Stop

E. Adding Price-Trend Confirmation

1. "A Hitch to the Switch"

F. More Price-Trend Confirmation

G. Applications in Practice: Useful Guidelines for the Risk-Averse

1. Simple Steps to Protect Profits and Cut Risk

III. Intense Testing of the Pankin Strategy

A. Taking Stock

1. A User-Friendly Summary of Findings So Far

B. Answers to Key Questions

1. Which is Better: Daily or Weekly Signals?
2. Does It Matter if You Wait Until Monday to Trade?
3. Is the Phenomenal Pankin Track Record an Artifact of Statistics?
4. Does the Pankin Strategy Work Well with Other Funds or Sectors?
 - i. Rankin' by Pankin

IV. Confirming Pankin Signals with a Timing Model

A. Search for a Trend-Sensitive Filter

1. Background
2. Test Assumptions, Controls and Constraints

B. Initial Findings

1. Six Timing Models Tested
2. A Surprising Letdown

C. Shifting Course: Introduction to the PENTAD Timing Model

1. A Powerful Trend-Following System
2. Will Capture Every Sustained Market Move
3. Background: Two Types of Signal Confirmation
 - a. Filtered MA Crossover
 - b. MA Percent Swing
4. Mechanics of PENTAD

5. **Actions Rules:**

- i. Buy When 5 of 5 Components Bullish
- ii. Sell When 2 of 5 Components are Bearish

6. **Derivation of PENTAD**

- i. Test Procedures
- ii. Out-of-Sample Testing

7. **PENTAD Performance History**

D. Back to the Quest for a Timing Model Filter

- 1. A Promising New Insight
- 2. Case Study in Risk Control: Air Transport Stocks in 1989

E. Adding New Defensive Tactics

- 1. Initial Stops
- 2. Retracement Stops

F. Historical Simulation with the Vega Model

- 1. Test Controls and Procedures
- 2. Performance: 18 Custom Sectors, 1970-96
- 3. Performance: Fidelity Select Family, 1986-97

G. Historical Simulation with PENTAD

- 1. No Change in Formulas/Parameters
- 2. Encouraging Performance: 18 Custom Sectors, 1970-96
- 3. Strong Gains, Low Risk: Fidelity Select Family, 1986-97

H. Parameter Sensitivity

- 1. More Rigorous Simulation
- 2. Consistent Results Across Broad Signal Mix
- 3. Exceptional Returns with Strictly Controlled Risk

V. Conclusion

A. Summary and Trading Recommendations

B. Nelson's Personal Trading of the Pankin Strategy

C. Epilogue

D. Answers to Your Questions

THE PANKIN STRATEGY

Trading Sector Funds for Aggressive Profits and Limited Risk

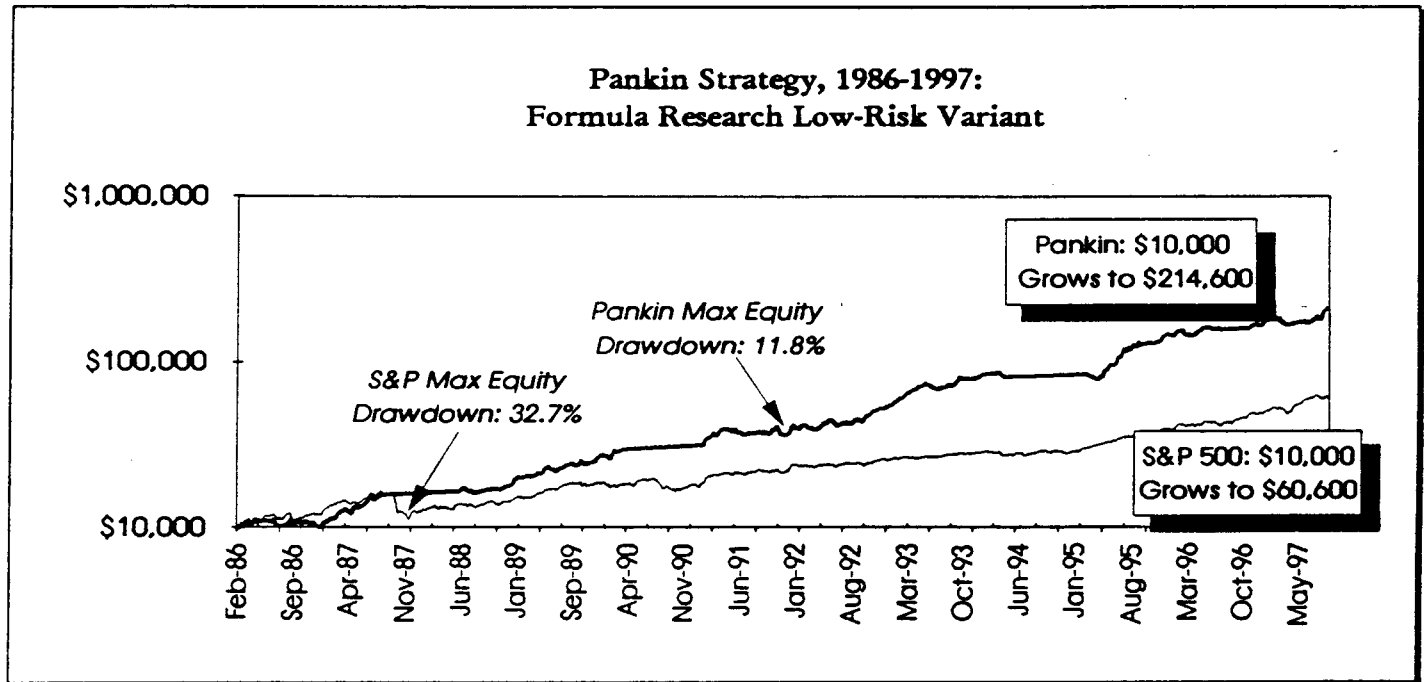


Figure 1

In Acknowledgment

Mark Pankin, Ph.D.

- ◆ ORIGINATOR OF THE PANKIN SECTOR FUND STRATEGY
- ◆ PROFESSIONAL MONEY MANAGER
- ◆ REGISTERED INVESTMENT ADVISOR

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Fidelity Select Portfolios: Performance Since 1990

| Fund | GPA | Fund | GPA | Fund | GPA |
|---|-------|----------------|-------|----------------|-------|
| Air Transport | 13.4% | Energy | 9.0% | Med. Delivery | 21.1% |
| Automotive | 17.5% | Energy Serv. | 9.4% | Multimedia | 15.2% |
| Biotech | 17.8% | Environmental | 4.8% | Natural Gas† | 10.9% |
| Brokerage | 18.9% | Fin. Services | 21.3% | Paper & For. | 12.8% |
| Chemicals | 15.1% | Food & Ag. | 16.3% | Regn'l. Banks | 23.4% |
| Computers | 27.5% | Health Care | 23.7% | Retailing | 17.2% |
| Construction | 12.0% | Home Finance | 29.8% | Software | 26.0% |
| Consumer Pr.† | 14.1% | Indust. Equip. | 15.6% | Technology | 26.8% |
| Dev. Comm.† | 22.1% | Indust. Mat'l. | 14.4% | Telecomm. | 16.9% |
| Def. & Aero. | 24.8% | Insurance | 15.1% | Transport. | 16.3% |
| Electronics | 33.8% | Leisure | 14.5% | Utilities Grw. | 11.3% |
| <i>Benchmarks</i> – S&P 500 Total Return: 16.6% - Money Market Fund: 4.8% | | | | | |
| †Fund started after 1990 | | | | | |

Figure 2

Comperative Annual Returns:
Pankin I vs. S&P 500, 1986-1997

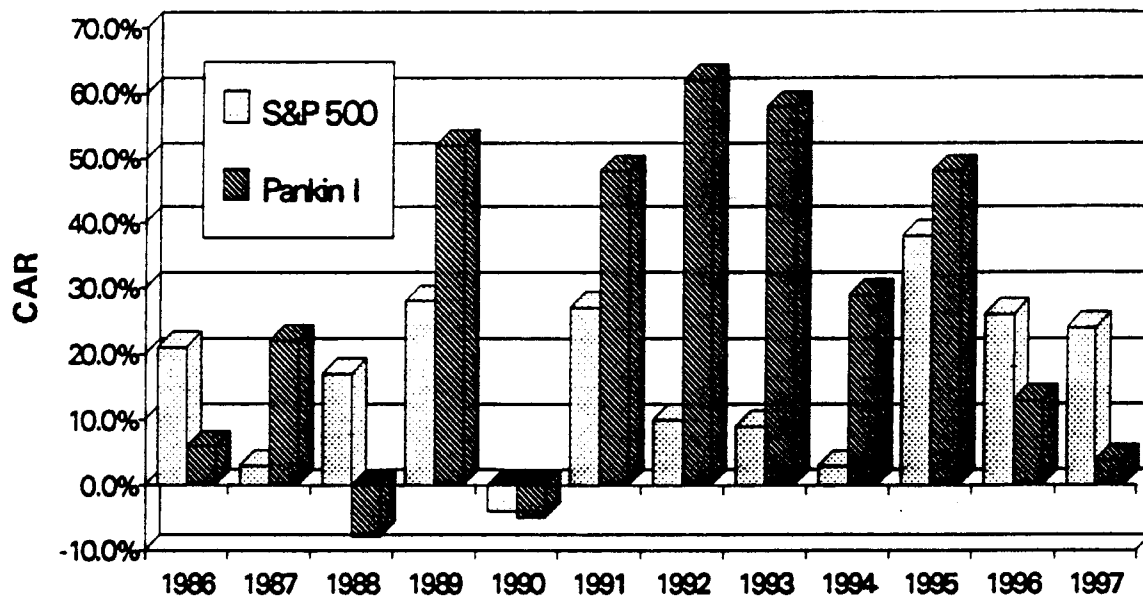


Figure 3

Performance Statistics: Pankin I vs. S&P 500, 1986-97

| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
|----------|-------|----------------------|--------|---------------|----------------|--------------------|
| Pankin I | 25.7% | \$146,125 | 19.9% | 83 | 56 | 67% |
| S&P 500 | 16.9% | \$62,256 | 32.7% | n.m. | n.m. | n.m. |

Figure 4

Performance Statistics: Pankin I, II & S&P 500, 1986-97

| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
|-----------|------------|------------------------------|---------------|-----------------------|------------------------|----------------------------|
| Pankin II | 37.3% | \$399,846 | 24.6% | 49 | 66 | 74% |
| Pankin I | 25.7% | \$146,125 | 19.9% | 83 | 56 | 67% |
| S&P 500 | 16.9% | \$62,256 | 32.7% | n.m. | n.m. | n.m. |

Figure 5

Growth of \$10,000: Pankin I, II and S&P 500

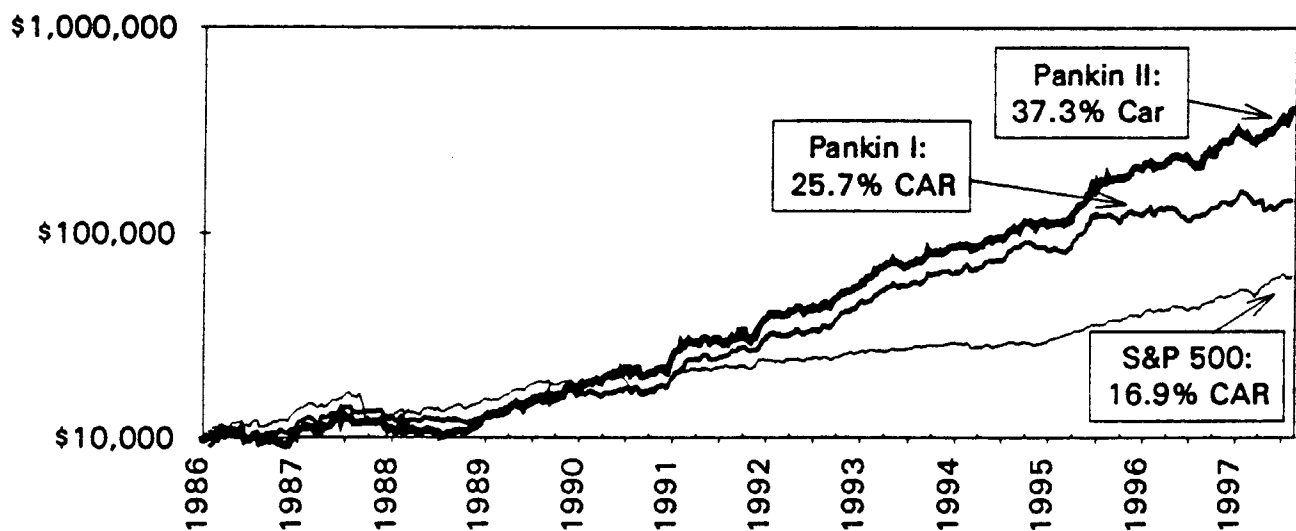


Figure 6

**Comparative Annual Returns:
Pankin I, II and S&P 500**

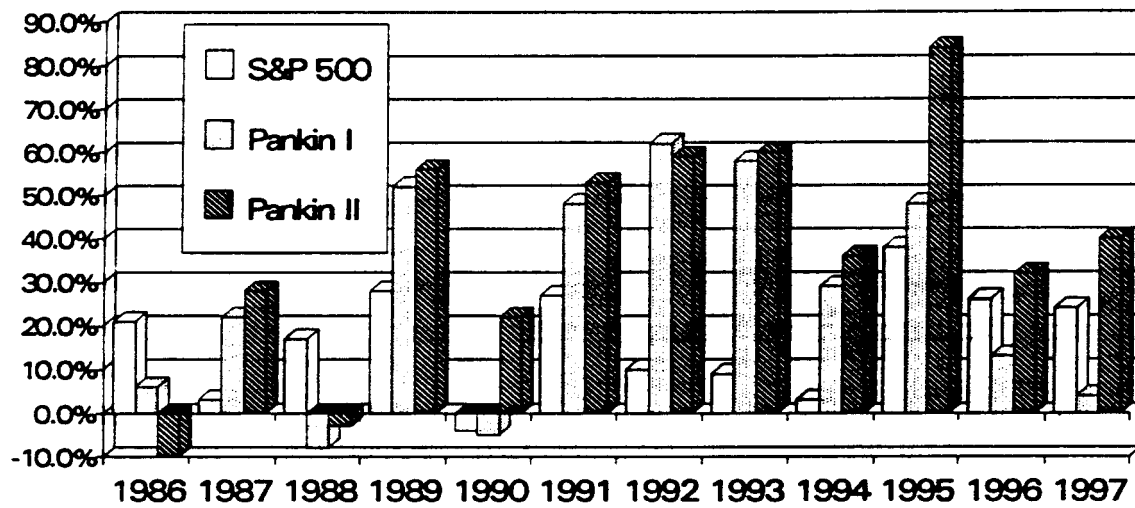


Figure 7

| 17 Custom Industry Groups | | | |
|---------------------------|-----|-----|------|
| Air Transport | AMR | DAL | UAL |
| Automotive | F | GM | GT |
| Brokerage/Invest | MER | PWJ | TA |
| Chemicals | DOW | DD | UK |
| Computer | HWP | IBM | MSFT |
| Consumer | EK | GS | MO |
| Defense | BO | GD | MD |
| Energy | AHC | CHV | XON |
| Energy Service | DL | HLI | SLM |
| Financial Service | AXP | FNM | JPM |
| Food | K | MCD | PEP |
| Health | BMJ | MRK | JNJ |
| Ind. Equipment | ALD | CAT | GE |
| Leisure | DIS | HIL | PRD |
| Paper | BCC | GP | IP |
| Retail | KM | TAN | S |
| Utilities | AEP | D | GTE |

Figure 8

Growth of \$10,000: Pankin II vs. S&P
Cash & Total Return, 1970-1996

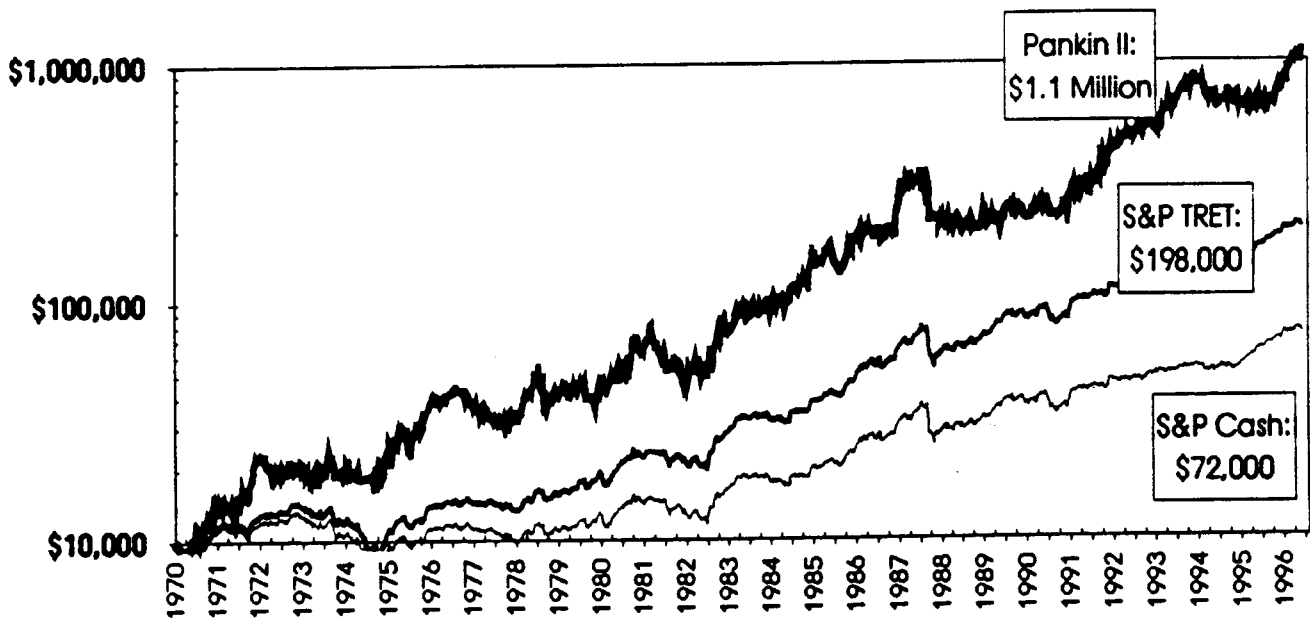


Figure 9

Historical Simulation: Pankin vs. S&P 500, 1970-1996

| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
|---------|-------|----------------------|--------|---------------|----------------|--------------------|
| Pankin | 19.4% | \$1,098,100 | 44.0% | 172 | 110 | 63% |
| S&P 500 | 12.1% | \$206,700 | 44.7% | n.m. | n.m. | n.m. |

Figure 10

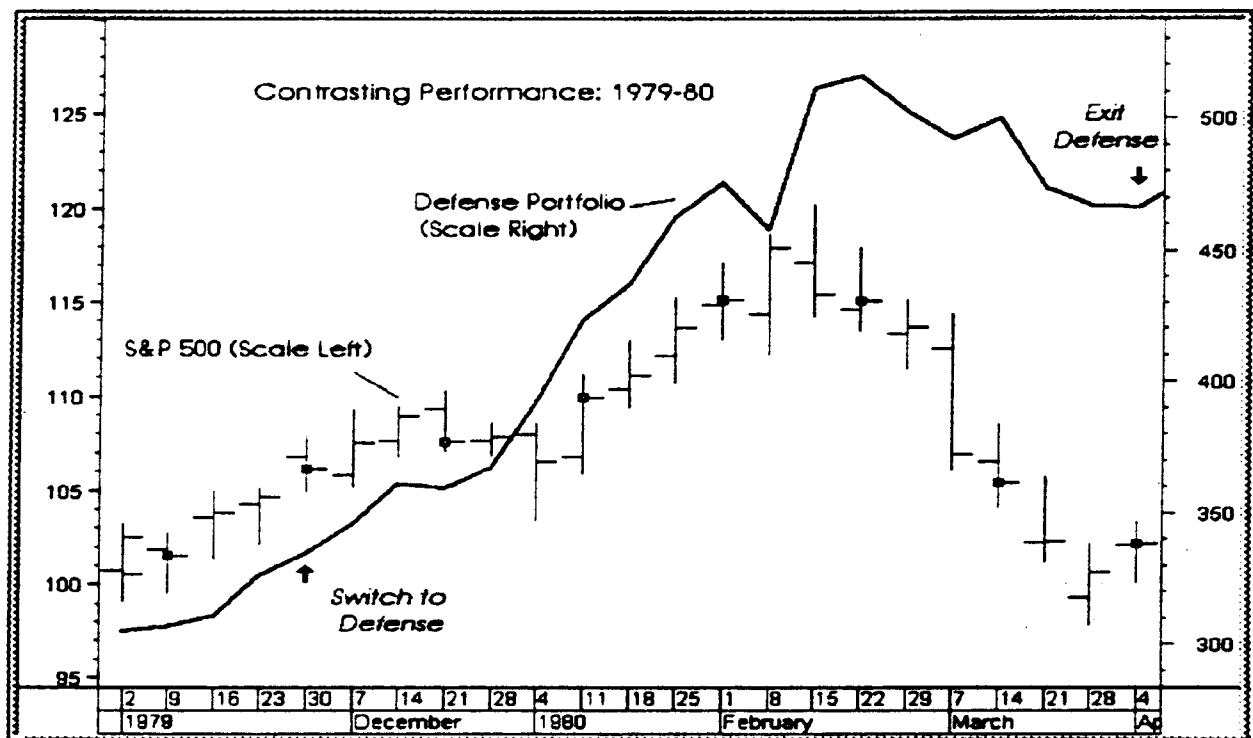


Figure 11

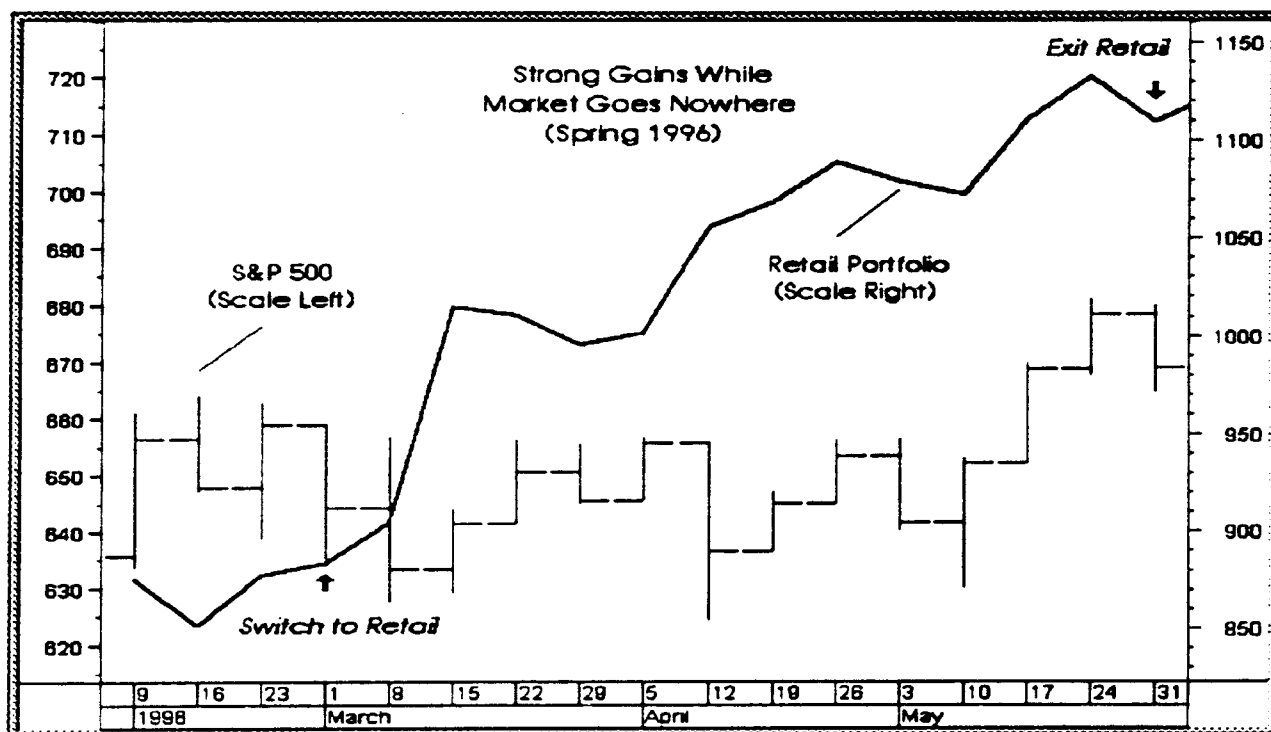


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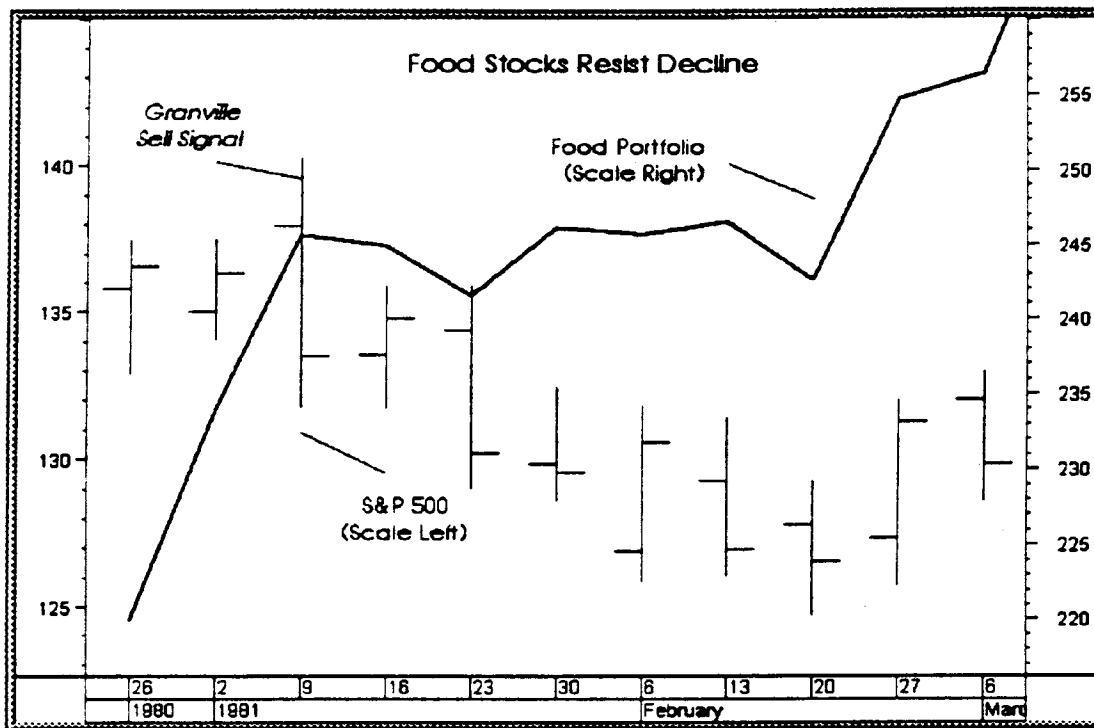


Figure 13

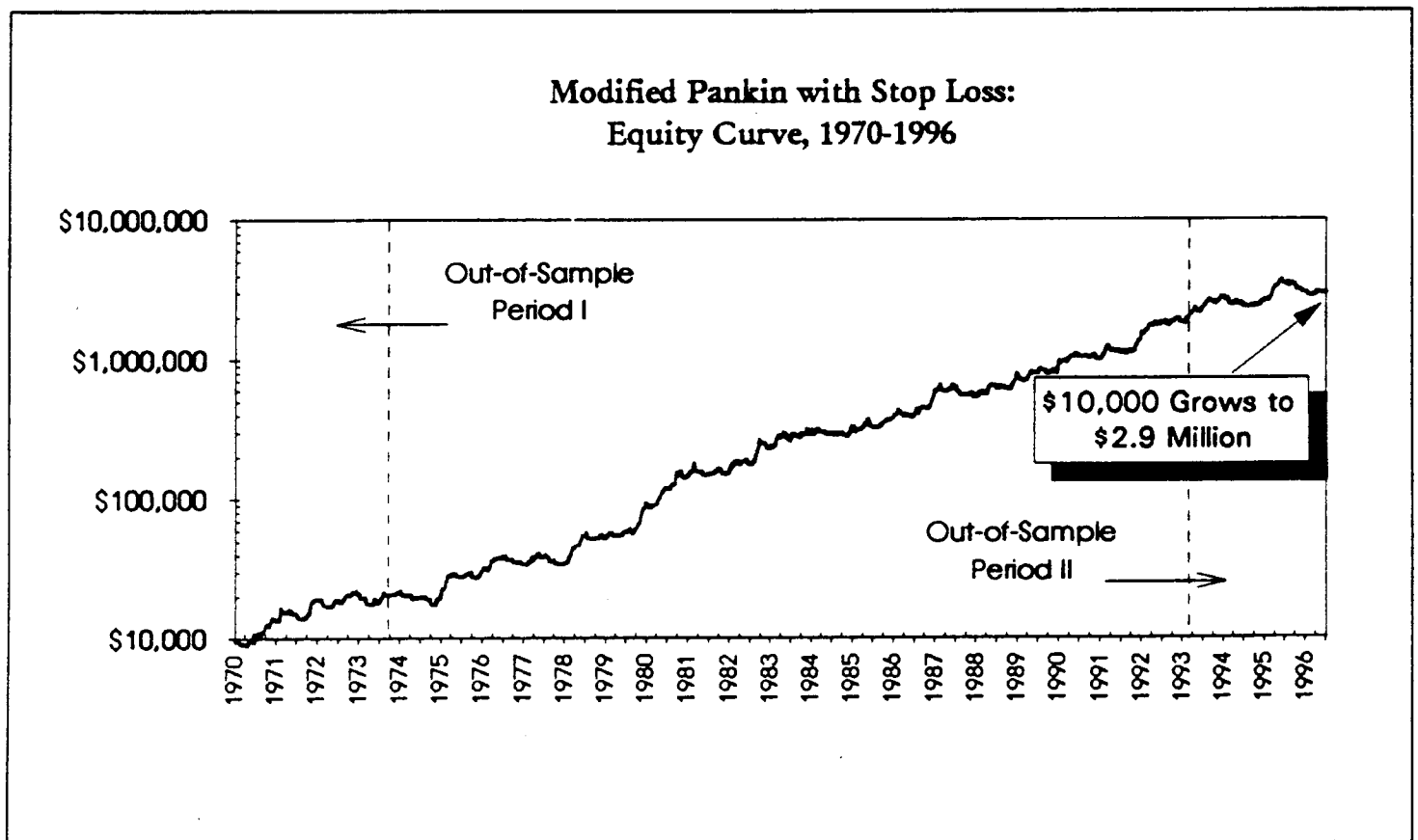


Figure 14

I Historical Simulation: Pankin Variants vs. S&P 500, 1970-96

| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
|-----------|-------|----------------------|--------|---------------|----------------|--------------------|
| Pan-Mod I | 23.9% | \$2,897,700 | 25.4% | 191 | 124 | 65% |
| Pankin | 19.4% | \$1,098,100 | 44.0% | 172 | 110 | 63% |
| S&P 500 | 12.1% | \$202,700 | 44.7% | n.m. | n.m. | n.m. |

Figure 15

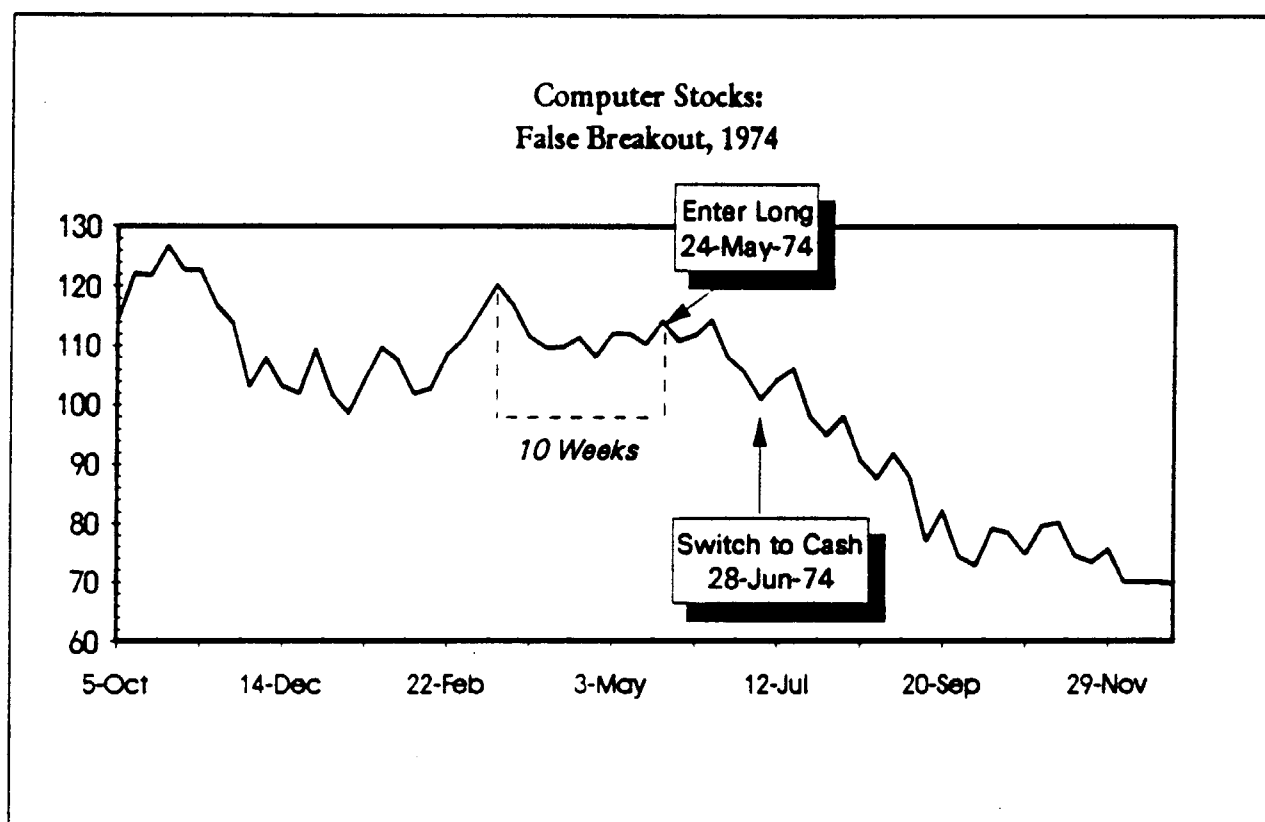


Figure 16

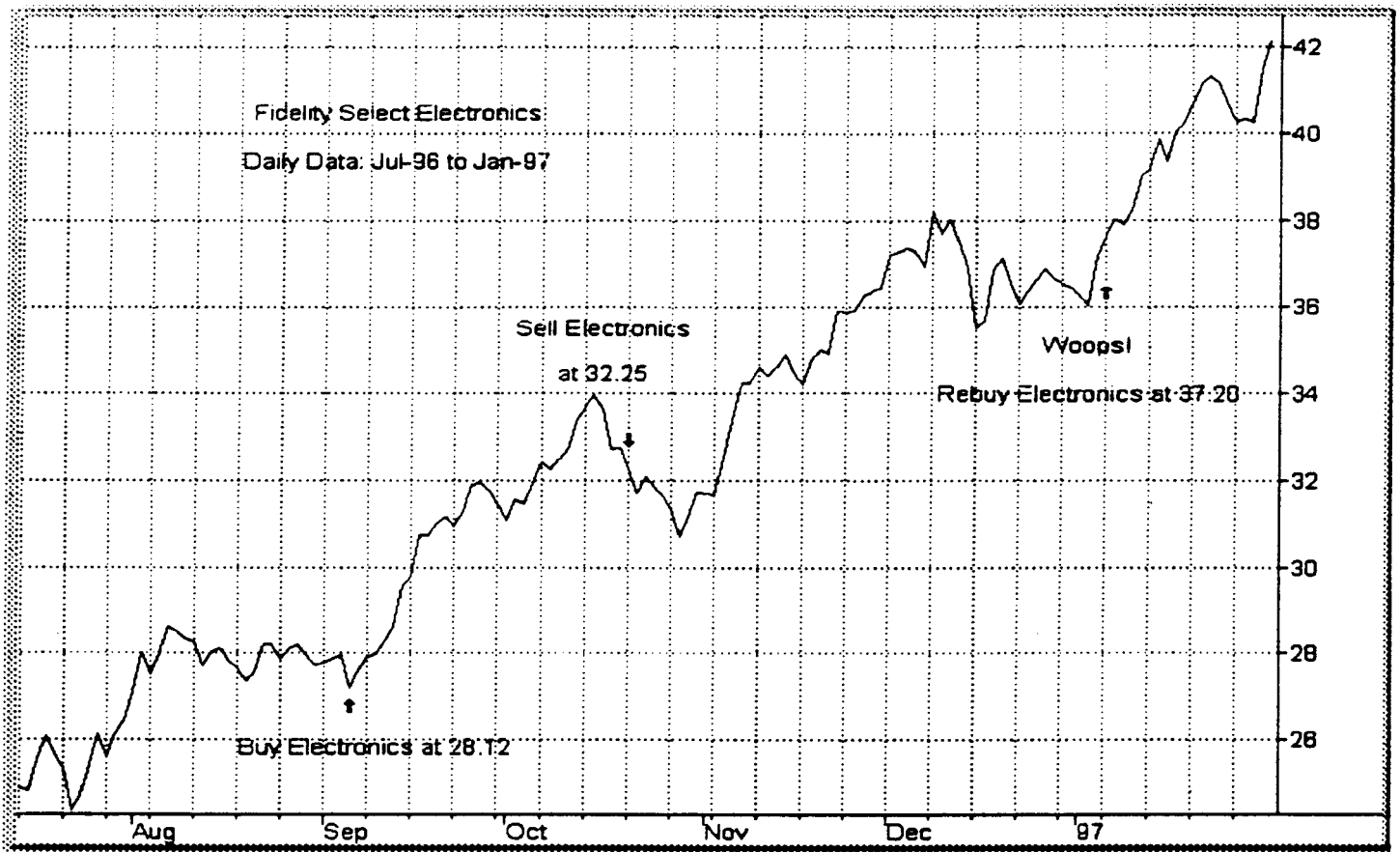


Figure 17

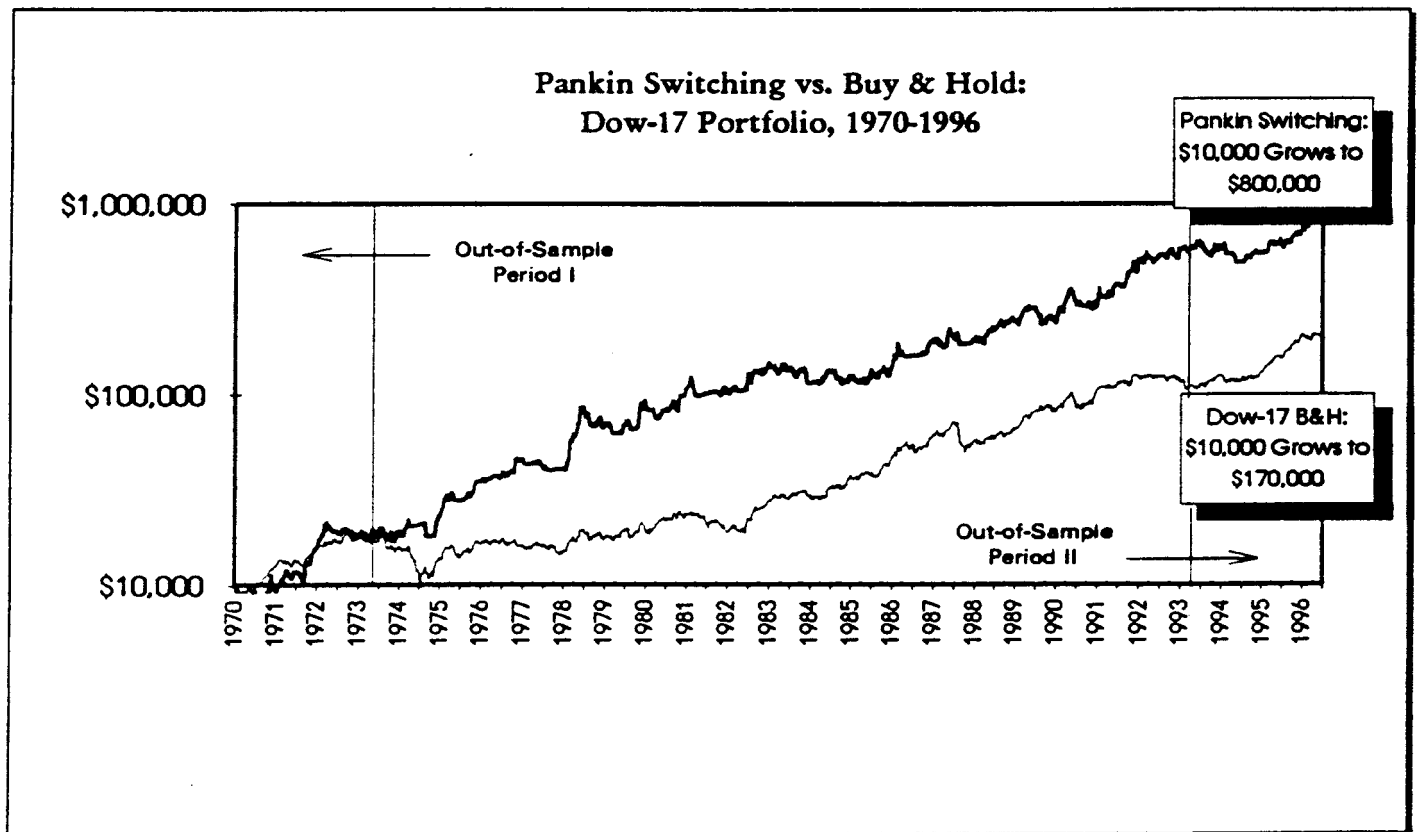


Figure 18

52-Week MA Crossover Vs. S&P 500 Buy & Hold

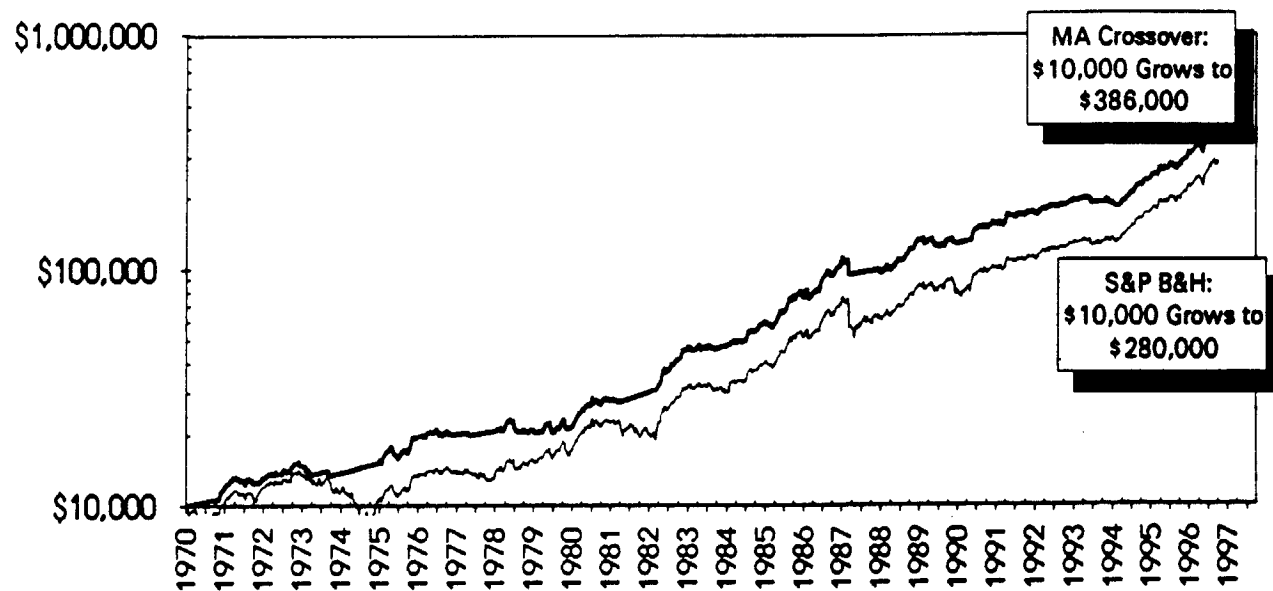


Figure 19

52-Week MA Crossover vs. S&P 500, 1970-1997

| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
|-----------|-------|----------------------|--------|---------------|----------------|--------------------|
| Crossover | 14.1% | \$386,000 | 15.5% | 16 | 35 | 45% |
| S&P 500 | 12.8% | \$280,000 | 44.7% | n.m. | n.m. | n.m. |

Figure 20

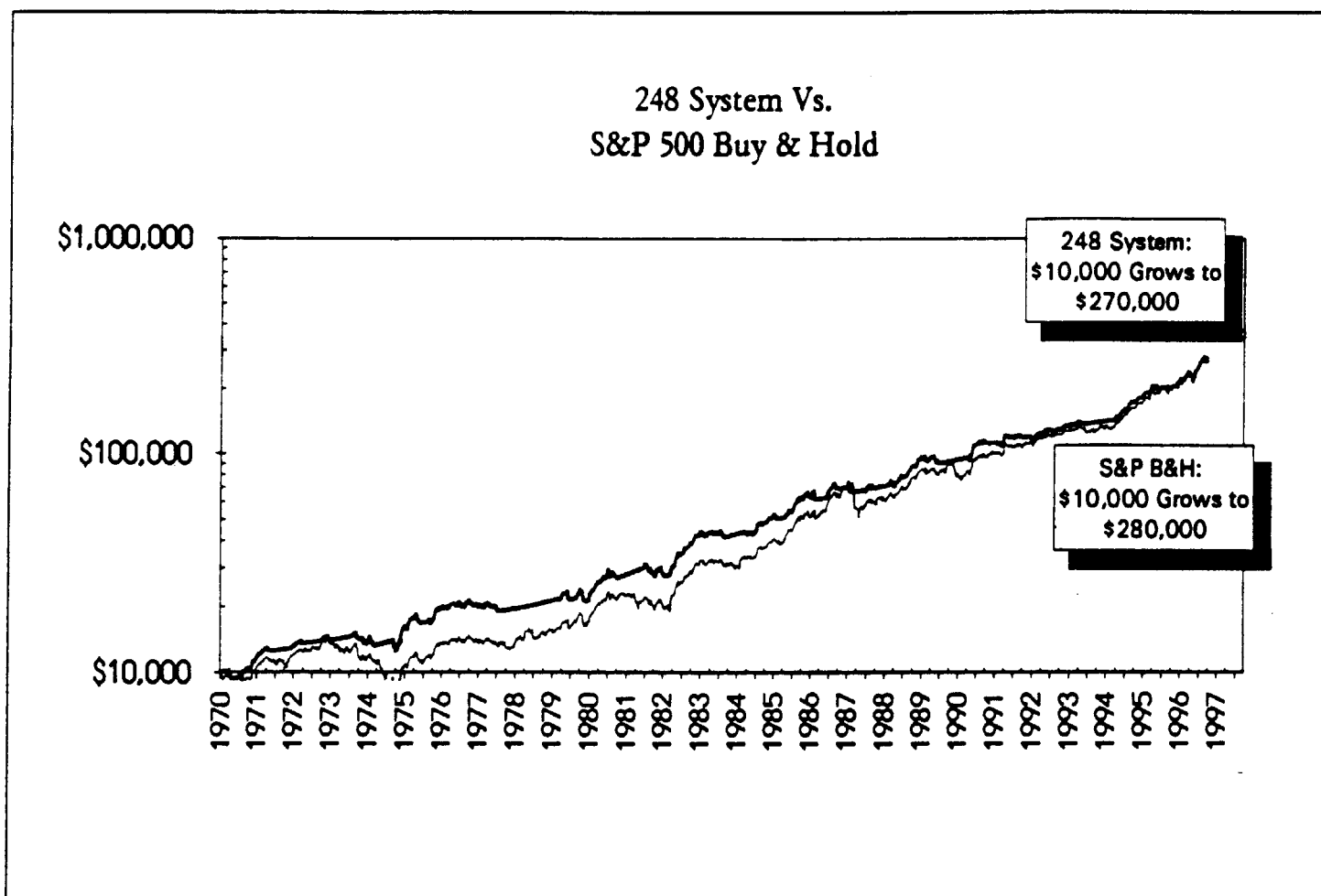


Figure 21

| 248 System vs. S&P 500, 1970-1997 | | | | | | |
|-----------------------------------|-------|----------------------|--------|---------------|----------------|--------------------|
| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
| 248 | 12.7% | \$270,000 | 18.6% | 17 | 24 | 70% |
| S&P 500 | 12.8% | \$280,000 | 44.7% | n.m. | n.m. | n.m. |

Figure 22

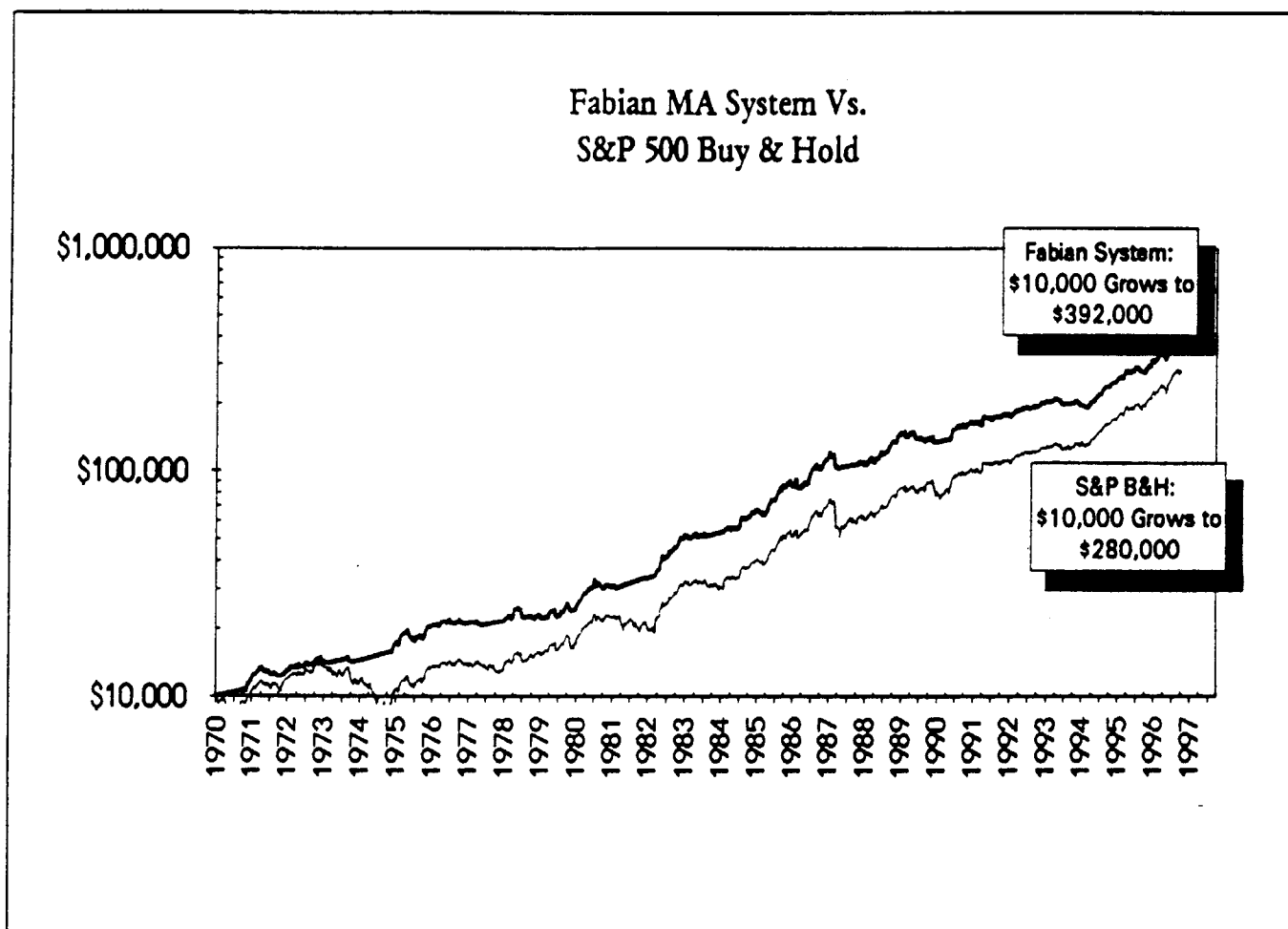


Figure 23

| Fabian System vs. S&P 500, 1970-1997 | | | | | | |
|--------------------------------------|-------|----------------------|--------|---------------|----------------|--------------------|
| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
| Fabian | 14.2% | \$392,000 | 15.5% | 21 | 37 | 56% |
| S&P 500 | 12.8% | \$280,000 | 44.7% | n.m. | n.m. | n.m. |

Figure 24

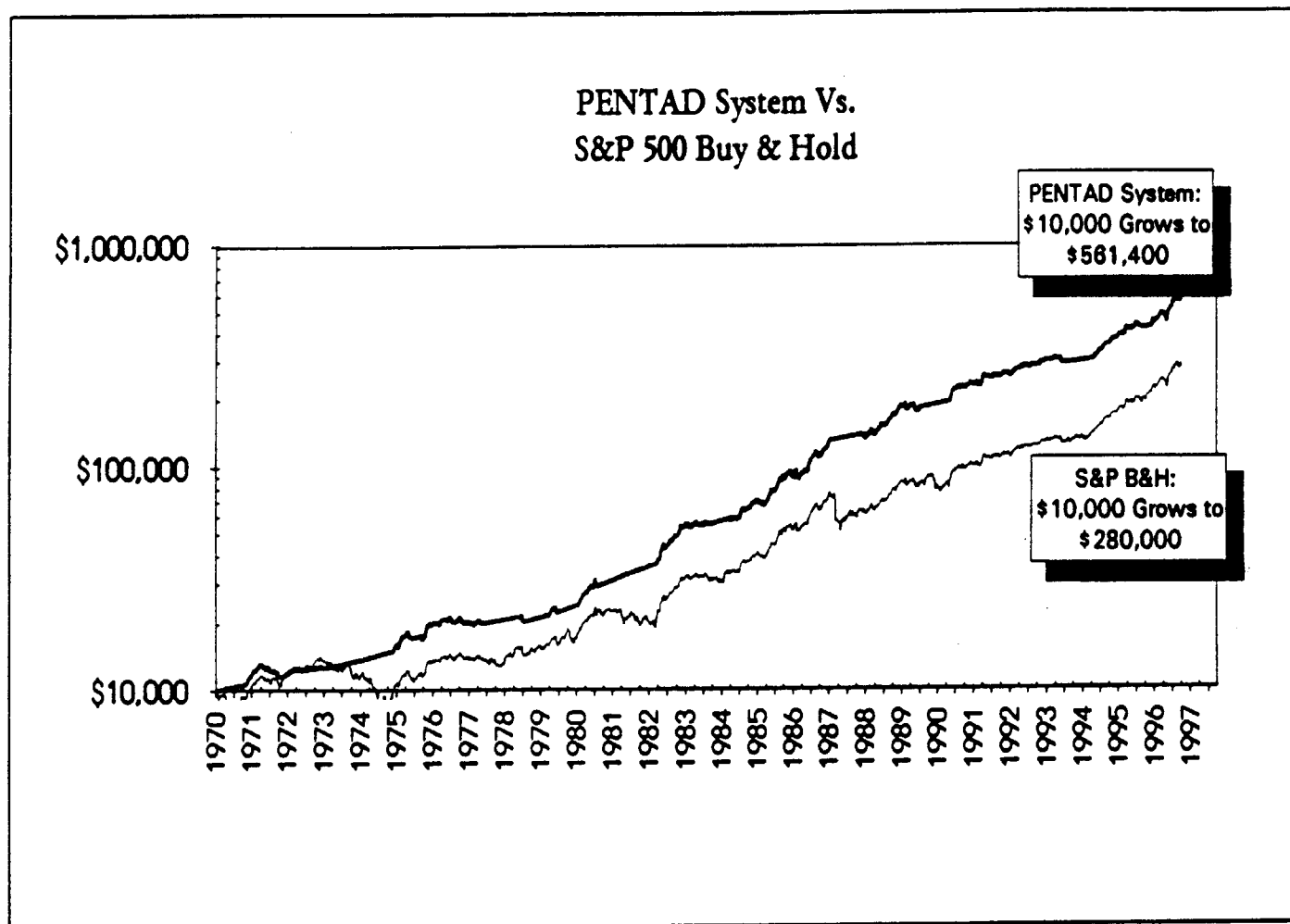


Figure 25

| PENTAD System vs. S&P 500, 1970-1997 | | | | | | |
|--------------------------------------|-------|----------------------|--------|---------------|----------------|--------------------|
| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
| PENTAD | 15.6% | \$561,400 | 12.3% | 12 | 16 | 75% |
| S&P 500 | 12.8% | \$280,000 | 44.7% | n.m. | n.m. | n.m. |

Figure 26

SVI Timing Model Vs. S&P 500 Buy & Hold

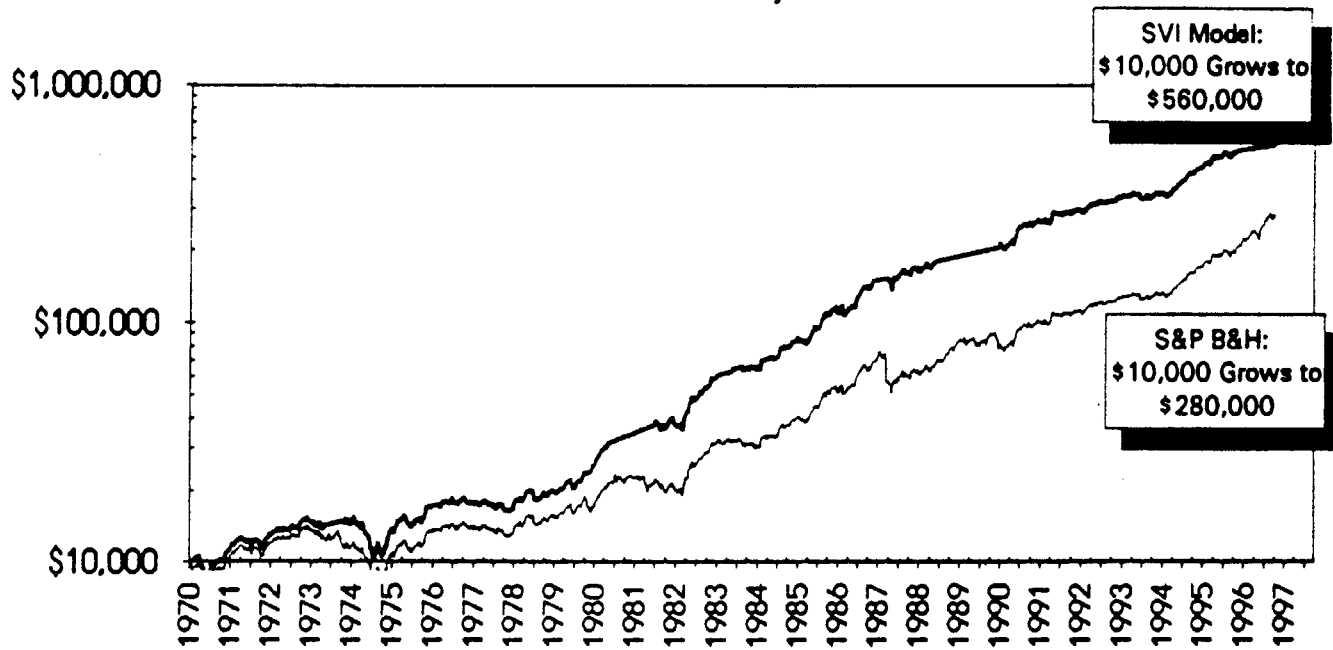


Figure 27

SVI Timing Model vs. S&P 500, 1970-1997

| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
|---------|-------|----------------------|--------|---------------|----------------|--------------------|
| SVI | 15.6% | \$560,000 | 35.7% | 12 | 13 | 92% |
| S&P 500 | 12.8% | \$280,000 | 44.7% | n.m. | n.m. | n.m. |

Figure 28

KST Timing Model Vs. S&P 500 Buy & Hold

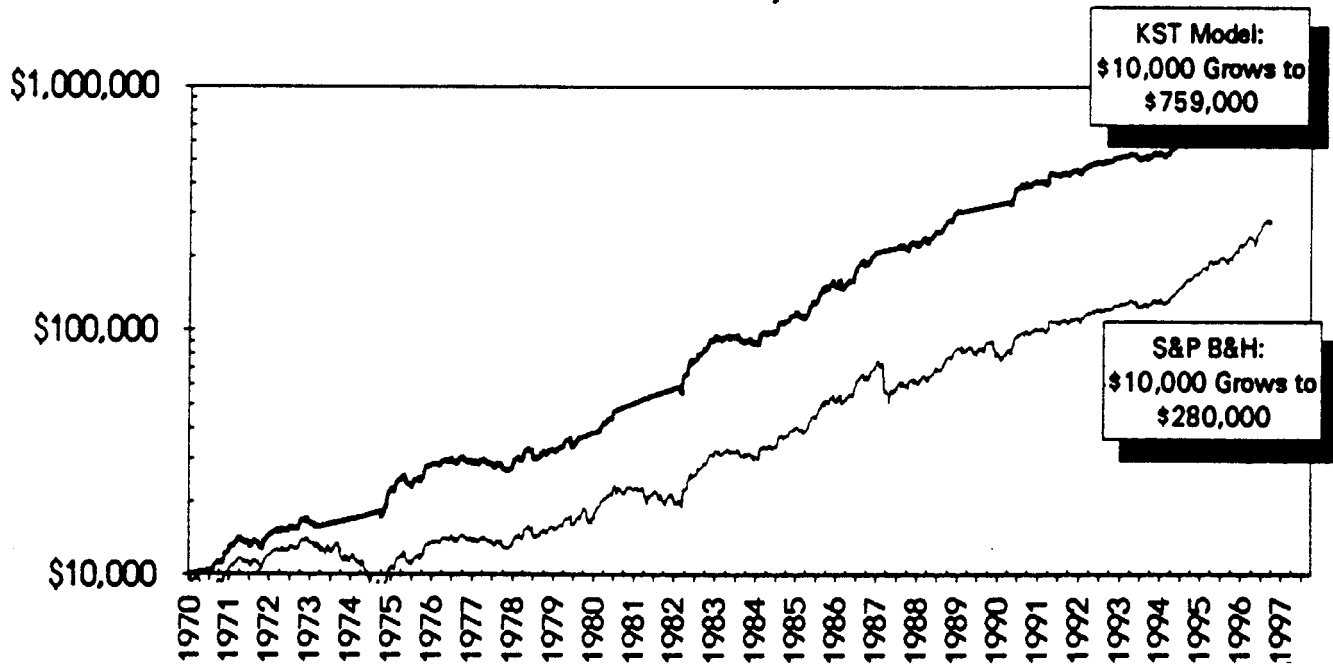


Figure 29

KST Timing Model vs. S&P 500, 1970-1997

| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
|---------|-------|----------------------|--------|---------------|----------------|--------------------|
| KST | 16.9% | \$759,000 | 14.1% | 6 | 6 | 100% |
| S&P 500 | 12.8% | \$280,000 | 44.7% | n.m. | n.m. | n.m. |

Figure 30

VEGA System Vs. S&P 500 Buy & Hold

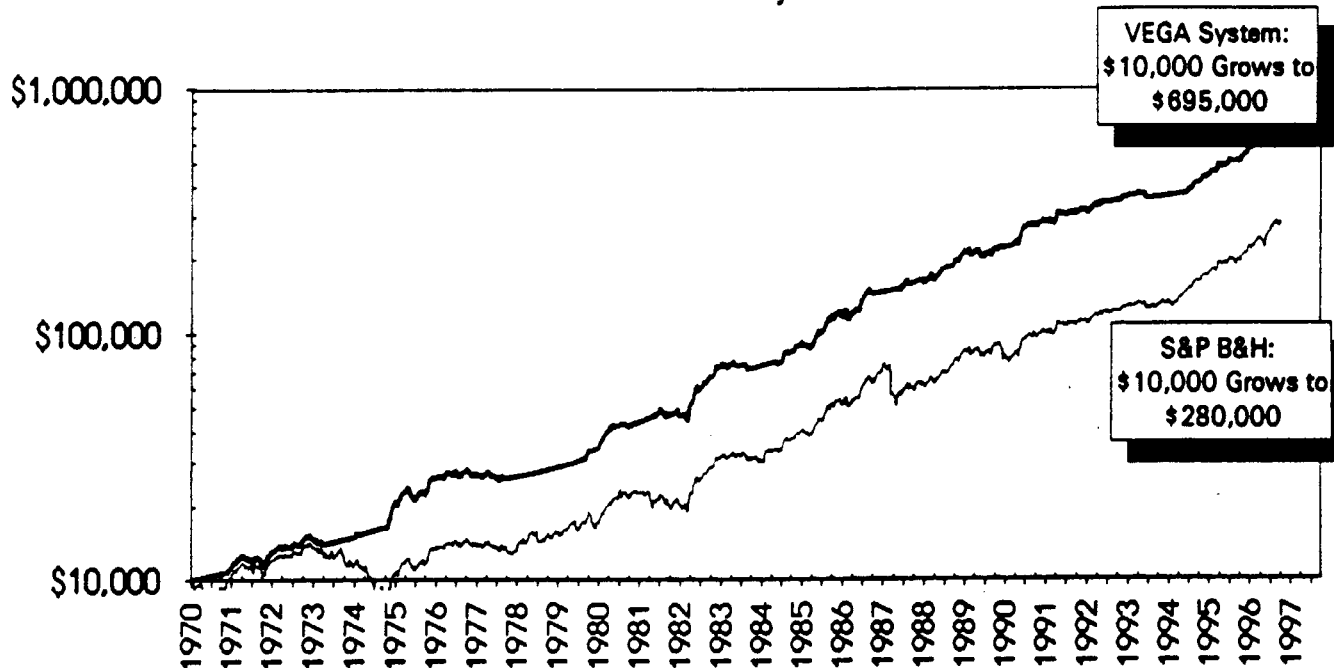


Figure 31

VEGA System vs. S&P 500, 1970-1997

| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
|---------|------------|------------------------------|---------------|-----------------------|------------------------|----------------------------|
| VEGA | 16.5% | \$695,000 | 11.5% | 21 | 24 | 87% |
| S&P 500 | 12.8% | \$280,000 | 44.7% | n.m. | n.m. | n.m. |

Figure 32

| Performance of Selected FORMULA RESEARCH Models as Pankin Filters: 1970-96 | | | | | |
|---|------------------------|-----------|--|----------------------------|-----------|
| | One-Week Signal Lag | | | Action on Day of Signal | |
| <i>Model</i> | <i>GPA</i> | <i>DD</i> | | <i>GPA</i> | <i>DD</i> |
| Vega | 24.7 | 35 | | 23.6 | 33 |
| Filtered KST | 23 | 32 | | 23.5 | 32 |
| SVI | 21.8 | 36 | | 21.8 | 36 |
| Pentad | 21.1 | 35 | | 20.5 | 35 |
| Fabian | 16.2 | 44 | | 18.4 | 40 |
| 248 | 14.5 | 35 | | 17.8 | 35 |
| Average | 20.2 | 36 | | 20.9 | 35 |
| Unfiltered Pankin Performance: GPA: 19.4% DD: 44% | | | | | |

Figure 33

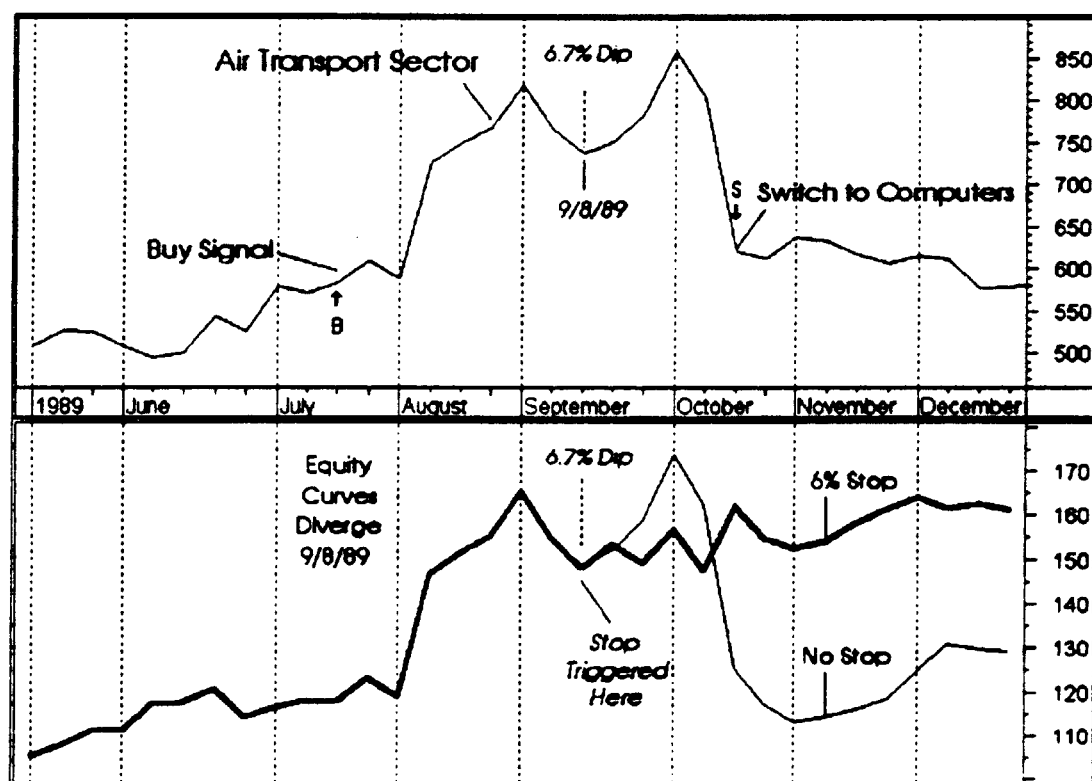


Figure 34

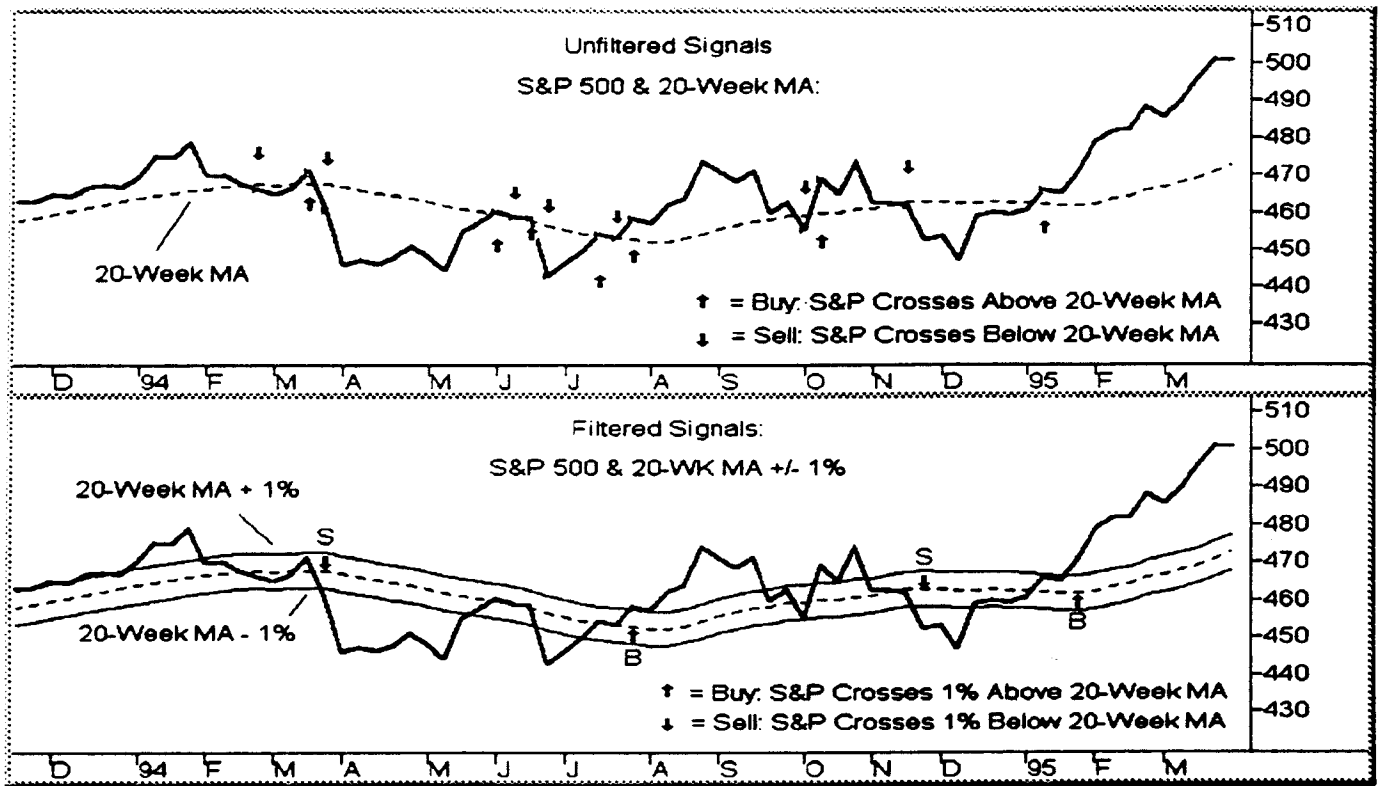


Figure 35

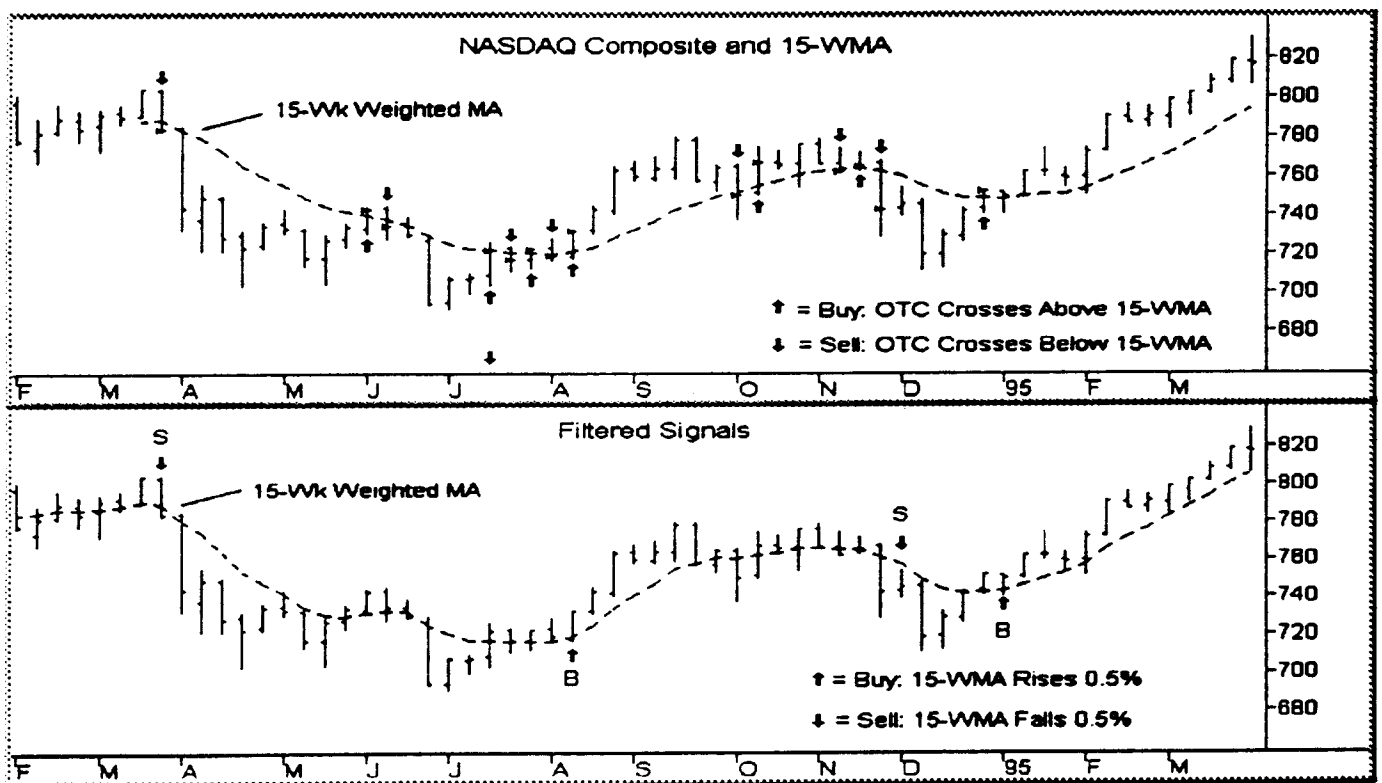


Figure 36

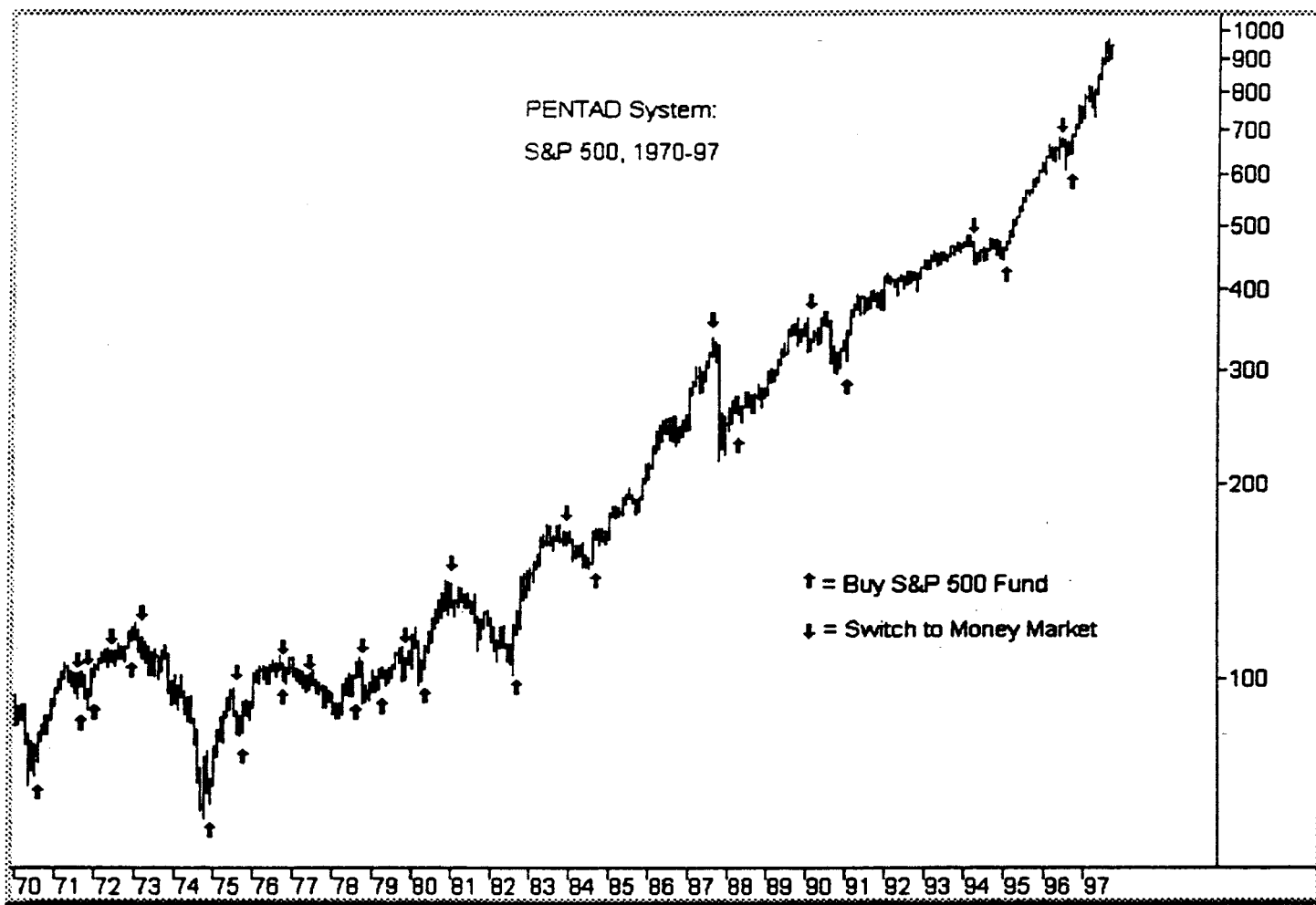


Figure 37

Signal Parameters: PENTAD System

| <i>Stock Index</i> | <i>MA Type</i> | <i>MA Length</i> | <i>Signal Mode</i> | <i>Buy Filter</i> | <i>Sell Filter</i> |
|------------------------|----------------|------------------|--------------------|-------------------|--------------------|
| S&P 500 Cash - | WMA | 65 Wks | CR | 0% | 3% |
| Weekly Adv/Dec Line - | WMA | 14 Wks | CR | .5% | 2% |
| Dow Jones Transports - | SMA | 25 Wks | CR | .5% | 2.5% |
| Dow Jones Utilities - | SMA | 27 Wks | SL | 0% | 3% |
| Dow Jones 20 Bonds - | WMA | 38 Wks | CR | 1% | 2% |

¹ SMA = Simple Moving Average. WMA = Weighted Moving Average

² SL = Slope signal. CR = Crossover Signal

Figure 38

**Historical Simulation:
Two Pankin Variants vs. S&P 500, 1970-1996**

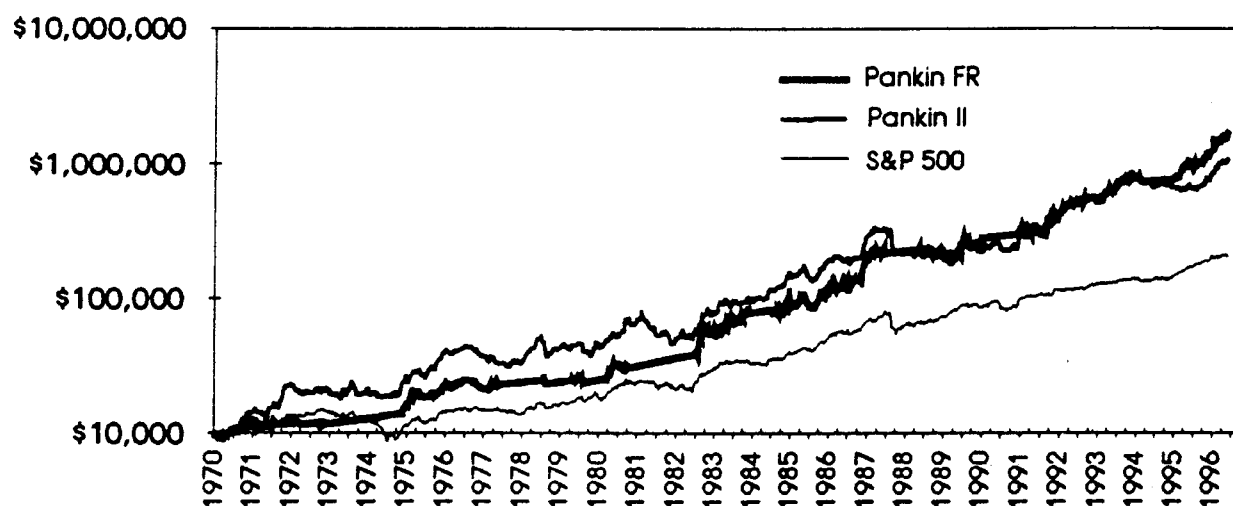


Figure 39

Historical Simulation: Pankin Variants vs. S&P, 1970-1996

| | CAR | \$10,000 Grows to | Max DD | No. Trades | No. Winners | Winning Percent |
|-----------|------------|------------------------------|---------------|-----------------------|------------------------|----------------------------|
| Pankin FR | 21.4% | \$1,674,600 | 21.1% | 110 | 156 | 71% |
| Pankin | 19.4% | \$1,098,100 | 44.0% | 172 | 110 | 63% |
| S&P 500 | 12.1% | \$206,700 | 44.7% | n.m. | n.m. | n.m. |

Figure 40

| Performance with Alternate Stop Values and Timing Filters: Fidelity Selects, 1986-1997. | | | | | |
|---|--------------|-------------|-------------|-------------|-------------|
| Initial Stop | Retrace Stop | Vega GPA | Vega DD | Pentad GPA | Pentad DD |
| 4% | 7% | 27.2 | 11.8 | 30 | 11.8 |
| 4% | 8% | 27.2 | 11.8 | 30 | 11.8 |
| 4% | 9% | 27.2 | 11.8 | 29.1 | 11.8 |
| 5% | 7% | 30 | 14.2 | 30.1 | 13.1 |
| 5% | 8% | 30 | 14.2 | 30.1 | 13.1 |
| 5% | 9% | 30.6 | 15.7 | 27.4 | 15.7 |
| 6% | 7% | 30.5 | 14.2 | 30.2 | 13.4 |
| 6% | 8% | 30.5 | 14.2 | 30.2 | 13.4 |
| 6% | 9% | 28.7 | 15.7 | 27.5 | 15.7 |
| Averages | | 29.1 | 13.7 | 29.4 | 13.3 |
| GPA = Gain per Annum DD = Drawdown | | | | | |

Figure 41

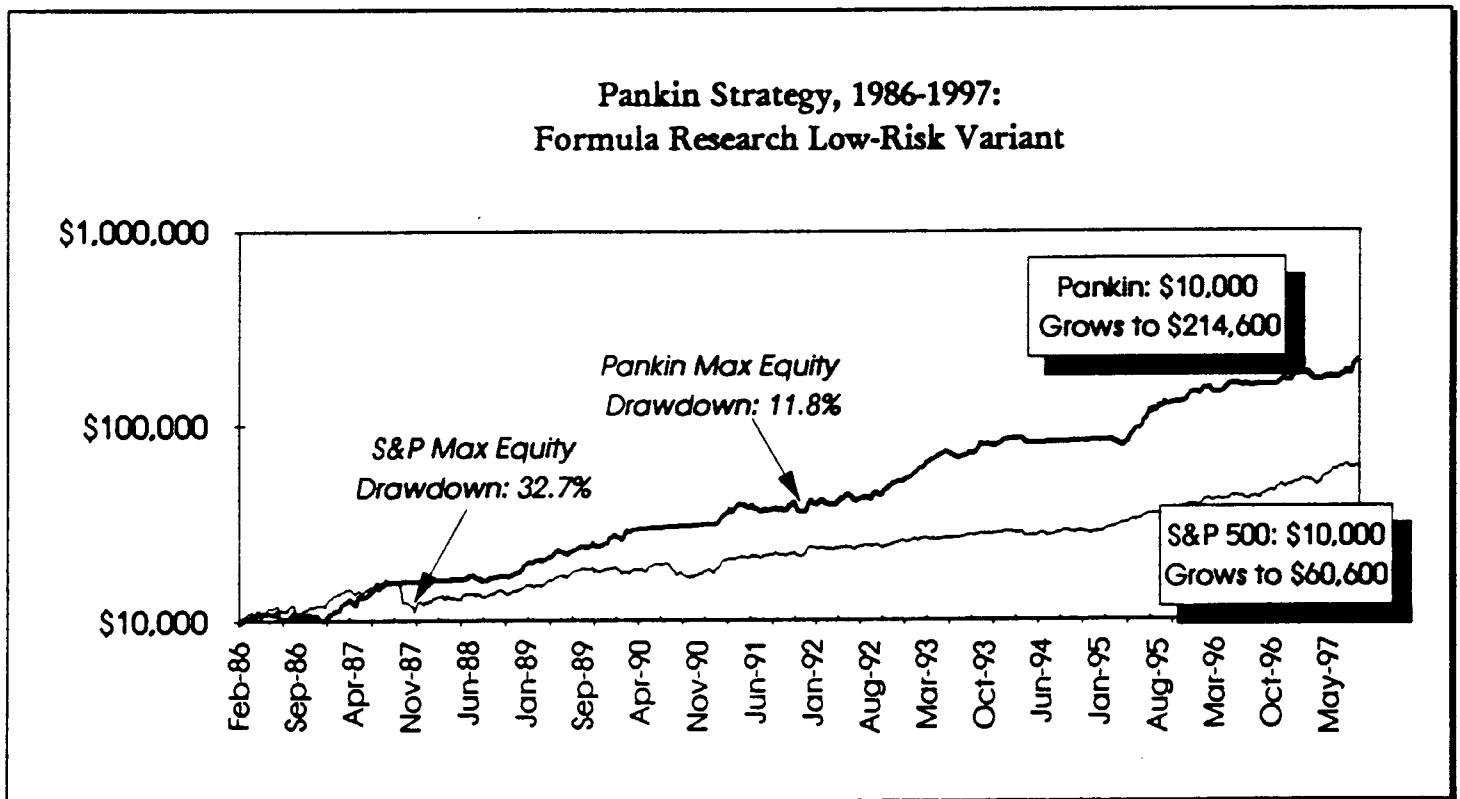
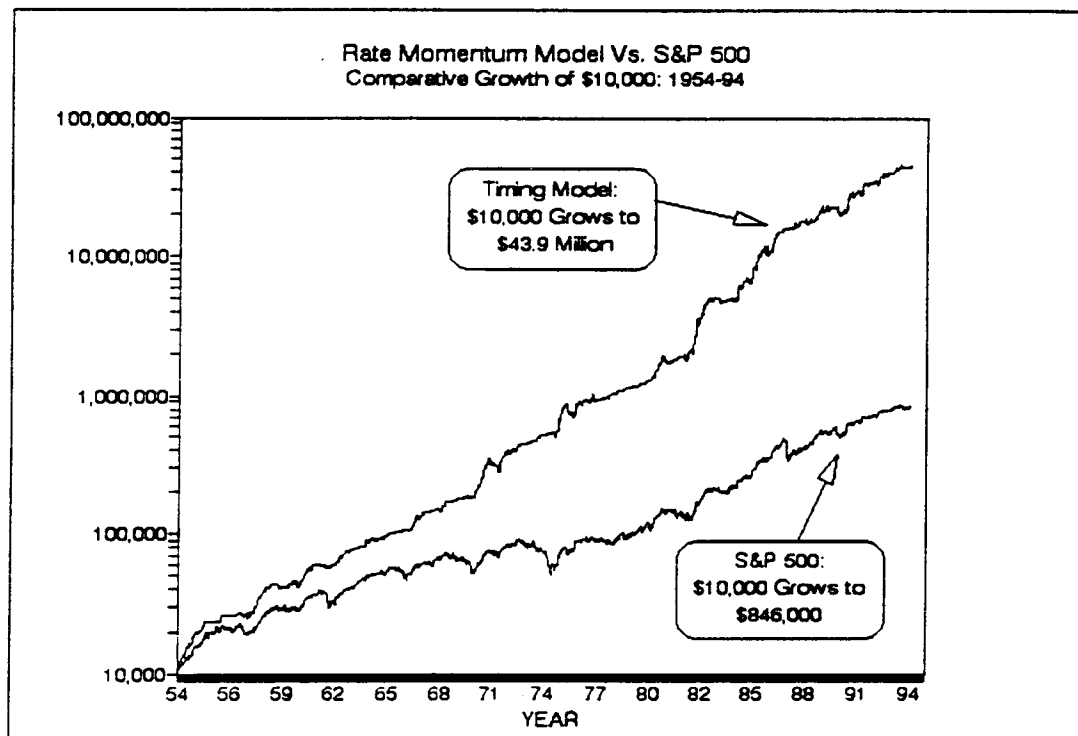


Figure 42

FORMULA RESEARCH IN BRIEF

- ♦ Each month FORMULA RESEARCH brings you a new, high-performance trading system. The focus can range from stocks, to bonds, to commodities--from futures to mutual funds. All timing models are strictly mechanical and fully disclosed.
- ♦ Many investment professionals rely on FORMULA RESEARCH. Some of our better known subscribers include Gerald Appel, John Bollinger, Norman Fosback, Paul Tudor Jones, Larry Williams, and Martin Zweig.
- ♦ FORMULA RESEARCH is priced fairly. For twelve monthly reports you pay just \$195. Each report presents at least one powerful, carefully tested trading system. Back issues are priced at \$25 each for subscribers; \$40 for non-subscribers. The SABRE report costs \$40.
- ♦ Editor Nelson Freeburg is an active trader and investor. He is the author of numerous financial reports and articles. Nelson speaks widely on investment matters, with appearances this year in the United States, Asia, Europe and Russia. Nelson is a frequent guest of John Murphy on CNBC's "Tech Talk". □

*Sample
Charts
From
Past
Reports*



August 1994

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A Word About FORMULA RESEARCH

This unique financial letter has been called one of the best kept secrets on Wall Street. FORMULA RESEARCH offers no financial advice or opinion. Instead, we give you the tools to make your own investment decisions.

Each month we bring you a new, high-performance trading system. The focus? Mutual funds, stocks, bonds, and commodities. Our proprietary methods are fully disclosed. Our buy and sell signals are clear, precise and objective.

A recent report illustrates our distinctive approach. Subscribers learned about a simple stock market switch fund signal that consistently outperformed the S&P 500 since 1929. You can do the calculations in about a minute each week.

Despite its simplicity, this model put you on the right side of the market through most of the past 65 years. During bear markets you would have been largely on the sidelines. During powerful advances, you would have captured most of the gains while deftly avoiding the 1987 Crash and other painful setbacks.

With this model, an initial \$10,000 investment in 1929 would be worth \$15 million today. By contrast, had you simply bought and held the S&P 500, the same \$10,000 would now be worth only \$2.9 million. By carefully timing your entries to coincide with bull markets, you would have your lowered statistical risk by 30% compared to buy-and-hold.

Such innovative findings are typical of our publication. Each month you'll receive a proprietary trading system designed to maximize returns and reduce risk. You'll learn new ways to make money and lower risk while also gaining critical insights into the factors that define and sustain market trends.

Consider joining us. The cost is modest, the rewards substantial.

Thank you for your interest,



Nelson Freeburg, Editor

P.S. Many investment professionals rely on FORMULA RESEARCH--from brokerage firms like First Boston and Goldman Sachs, to futures traders like Paul Tudor Jones and Continental Grain, to market analysts like John Bollinger and Martin Zweig. Why not share in the high-performance strategies these professionals rely on?

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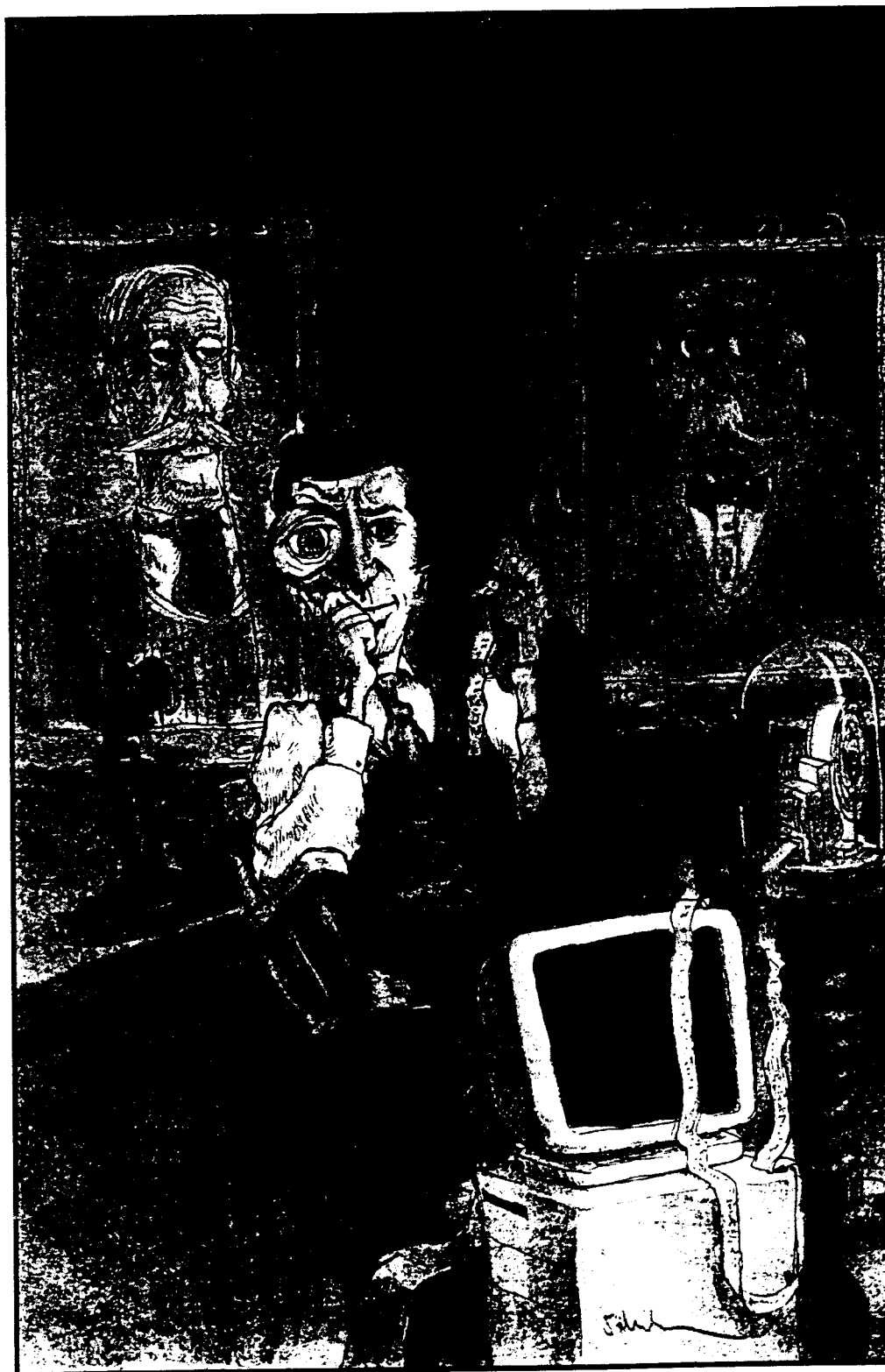
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PRODUCT REVIEW

FORMULA RESEARCH

FORMULA RESEARCH, INC.

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Product: Newsletter that details quantitative approaches to the financial markets.

Price: One-year subscription (12 issues), \$195; six-month trial, \$95. Overseas surcharge, 20%.

by Thom Hartle

As a reader of *STOCKS & COMMODITIES* magazine, you are, by my estimate, a far more serious individual than 95% of the trading population. You are looking to hone your trading and investment skills using whatever methods and resources available. One leading resource for you to peruse is the *FORMULA RESEARCH* newsletter, edited and published by Nelson Freeburg.

Why should I consider Freeburg's work a leading resource? Because I agree with his core philosophy as a viable approach to trading markets. His philosophy is to develop and present trading systems that are documented by rigorous testing via statistical methods. Trading systems that depend on anecdotal evidence or hindsight for feasibility will never appear in Freeburg's work.

Nelson Freeburg's personal history is a rather interesting one. When he was a graduate student in the field of world politics, he worked on developing quantitative models of thermonuclear war. While it may, at first, seem like a big jump from that background to designing a trading system for the Standard & Poor's 500, the mathematical skills necessary to do either successfully do overlap. Consequently, you, as a reader of *FORMULA RESEARCH*, benefit from his insight into important developmental issues such as in-sample, out-of-sample back-testing and parameter optimization, as well as his refinements of other system developers' work.

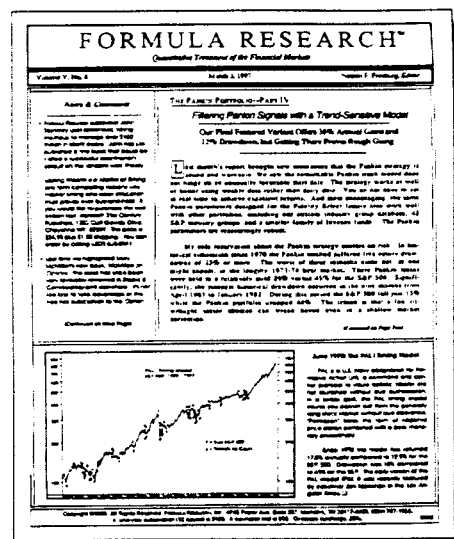
MODELING THE MODEL

A typical issue of *FORMULA RESEARCH* begins with a short commentary giving the reader a historical review of the genesis of this month's system. His ideas are drawn from his own work, as well as that of others. Freeburg always documents his sources, in case you wish to do further research into any of the timing models discussed. Next, trading rules are explained as well as any important background information. Freeburg always writes in a style that makes you feel as though that you're looking over his shoulder, contemplating right along with him as to whether this particular idea really warrants the work.

Of course, Freeburg would never waste your time with pages of discussion without a point to be made. (In fact, the publication schedule is based on the successful conclusion of research and not necessarily a monthly schedule.) With Freeburg's guidance, you just get a better feel for what is transpiring during the distillation of the trading rules from general concept to a definable strategy. And that's the goal: A clearly defined strategy that can then be tested over different market periods.

POTPOURRI

What are typical models that Freeburg details? How about systems for timing sector funds, or stock index futures? Are you interested in trading Treasury bond futures, or maybe gold stocks? Maybe you're a fan of foreign currency futures. Do you follow various sentiment indicators, or do you want to trade based on intermarket relationships such as the Commodity Research Bureau (CRB) index versus the Treasury bond market? Freeburg has looked at strategies for all of these markets and more. He's up to Volume V, Number 8, which indicates the amount of work that Freeburg has published since 1991, the year that *FORMULA RESEARCH* began.



Nelson Freeburg's philosophy is to develop and present trading systems that are documented by rigorous testing via statistical methods.

FINIS

The best traders use a sound methodology. Granted, there are traders who use strictly discretionary approaches using insight refined from years of experience, but if you really want to use technical methods, the approach should be based on a set of rules that has been back-tested. Even though the system may not hold up going forward, if it didn't make money under the scrutiny of a historical review, then how could anyone expect success in the future?

But just taking a system and applying it is certainly a challenge under the pressure created from uncertainty about the future, and therein lies a large part of the value of Freeburg's work. Not only do you receive the set of rules, you also witness the development of the system. Your level of comprehension of the method will be high, which should translate into an easier time of following the rules. In fact, I would recommend that you spend time reviewing the track record with a week-by-week or day-by-day look at the charts. That way, you're sure to fully understand the system's strengths and weaknesses.

What does it all come down to? If you're working on your own or looking for quality work, then *FORMULA RESEARCH* is a great value!

Thom Hartle is the Editor of *STOCKS & COMMODITIES*.

S&C