Announcing Pro Tools V2.0 March 28, 2015

A letter from the CEO ..



Greetings OmniVest subscribers! Spring is in the air and it's the perfect time for me to update you on our magnificent OmniVest

Professional Tools and how they are helping other subscribers. We released Version 1 last summer. Since then, we have added more controls to the allocation and test process, which has improved results significantly.

OmniVest Pro Tools is a collection of tools that can improve results through Strategy and Portfolio Switching, based on what we call "Evaluation Functions" applied to the Equity Curves. It's a simple concept, but I can tell you, implementing it to run efficiently on our servers was not!

That job took the skill and talent of my best programmers to pull off, so that hundreds of users can run the selection process in both back test form and ongoing trade selection. It's truly a technical marvel. <u>But</u> of course, what our users care about is the results of using it. And that's what this newsletter will focus on, in addition to approaches that all OmniVest Pro users can take advantage of. *Continued*...



Sample Portfolio Wizard Output. Results can be dramatically improved by switching between Strategies based on their Equity Curve performance. Portfolio Balancer does the same thing with Portfolios, as described on page 4.

March 2015 - 'I've been successfully swing trading for 15 years but I've come to conclude that my results with OmniVest far exceed my own swing trading results. I only trade with Omnivest now - it's that good!' - John Wolfraad, OV Pro Tools Owner

Continued from page 1..

The "A" Team

I have been working with a core group of customers that graciously volunteered to work on the Equity Curve Analyzer process with us last year. It's been a great collaboration; we've met most weeks over the past year to discuss results of experiments and next steps.

Mark Holstius, a retired airline pilot and scientist/entrepreneur Steve Mayo started experimenting with the ECA process early last year. Larry Luck, also a scientist, has been helping with concepts and risk controls. And, LD Newby has brought his expertise as a financial advisor to the table.

These gentlemen have helped guide the experiments and developments on the Pro Tools Release. The new features just released in February are the result of this collaboration.

I have several articles in this newsletter from our team members. Pro Tool users can take a sophisticated approach (as LD Newby describes in his article on Market Modes) or folks can apply the simple applications explained by Steve Mayo and Larry Luck.

The bottom line: The Pro Tools are here and they work. We just improved them with better Allocation Controls and Weekly Switching. Our scientists are dedicated to continuing to improve the tools, and completing the advanced Fund Management dashboard, which is our ultimate goal.

What is Equity Curve Analyzer?

In OmnVest we typically trade with one Portfolio or a collection of them in an account. Equity Curve Analyzer is designed to



Each month (or week – any interval) we can switch into a new Portfolio (or multiple Portfolios) based on a measurement of the likely profitability of each Portfolio in the next increment. The question is, how do we find the best way to predict the performance of a Portfolio in the next time period? To understand that, let's review the ECA algorithm

Basic Equity Curve Analyzer (ECA) Algorithm:

Step 1: Measure the Equity Curves using "Evaluation Functions"

- Return
- Slope (m)
- Beta (of Equity Curve vs. market
- MDD
- Calmar

- Gains
- Losses
- RSI (of Gains vs. Losses)
- EMA (fast vs slow moving average of the Curve)



Indicator: Slope (m)

	i1	i2	i3	i4	i5 /	i6	\i7	i8	i9	i10	
P1	1.2	1.8	2.1	3.0	2.6	1.2	0.2	0.4	0.6	1.1	
P2											
Р3						Г					
P4							Do this	s for ea	ch 🗌		
							Portfo	lio.			
Pn											
				-							

Step 2: Determine Switching Sequence

For each interval (i)... Select Portfolio with the highest value.



Let's explore how the Equity Curve Analyzer helps us select which Portfolio or Strategy to engage in the next time period.

In this example, we are using SLOPE of the Equity Curve as our Evaluation Function. We go by interval (which can be monthly, weekly, or a number of weeks or months) and measure the value of SLOPE in that interval.

The ECA algorithm calculates all **m** values for every interval (i) across our entire date range (can be 14 years) for each Portfolio (P1, P2, P3, .. Pn)

We then select the Portfolio with the Highest Evaluation Function as the one we will use in the next interval. Fairly simple.

Note: In this example we are switching between a single Portfolio to a new one in each interval. The same algorithm works when switching between MULTIPLE Portfolios.



Step 4: Repeat the Process for each Evaluation Function we are testing.

This step is 100% Automatic. The Tool does it.



Step 5: Select the Best Evaluation Function to use for Monthly or Weekly Switching.



Continued...

We then build a new Equity Curve going from interval to interval by "stitching" the curves together.

We measure Return and Draw Down on the new "stitched" or "Dynamic" curve, saving the results.

If the Evaluation Function is predictive, the new "Dynamic" curve should have better performance than any fixed combination of the given Strategies. Plus, the algorithm should hold up going into the future because it is a Walk-Forward process.

We then repeat the entire process for each Evaluation Function and select the one which produced the best performance.

To the Left is an Output from Portfolio Balancer, the Pro Tool that performs switching between Portfolios.

This particular case yielded a Return to Draw Down ratio of over 7 – something that is pretty much unheard of with regular, nonswitched accounts.

Using Market Mode with the OV Pro Tools

by L.D. Newby

About L.D. Newby:

L.D. is a financial advisor, and has been a very active OmniTrader and OmniVest user for many years. He recently wrote this article explaining how he is using OmniVest, Market Modes and the Pro Tools to gain an advantage in the markets. Thanks, L.D.!

-Ed Downs

In 2014 I had some reasonable success with OmniVest up 22% in my account for the year), but I felt that I wasn't using the platform to its fullest capabilities.

I wanted to create an account that incorporated my observations and experience that I had gained by running OmniVest live over the past year. Some of these lessons learned were:

1. That the trending strategies actually produced the majority of the gains in the account. The big downside of the trending strategies were that

A. They tended to overwhelm the account equity (they stay in trade longer)

B. Seem to increase the susceptibility of the account to draw downs when the market pulls back,

C. Often prevents the shorter term trades from getting taken.

I also observed that **Reversion to Mean** trades seem to be more consistent in their equity curve, but they seem to bunch their results. For example, I would see 8 straight successful trades in a two day period, then I could see 5 or 6 losses bunched together next week that would totally wipe the gains of the prior week.

After testing using OV and OT liberally, I have discovered that Shorter Term Strategies (RTM especially) seem to be very sensitive to the following factors:

1. What the market is doing. In my account, I used the **IWM** (Russel 2000) for the market proxy. However- I could have just as easily used the \$SPX, or any other index.

2. Characteristics of the individual stocks (determined through Dynamic or qualified Static Lists).

3. Whether or not you are trying to trade Long or Short.

Using Market Modes

To Quantify the characteristics of the market, and of the individual stocks, I use Jim Dean's construct called, "Market Modes" (see Market Mode Concept on page 7.)

In Jim's paradigm, there are three trending modes: **Bull**, **Bear**, and **Flat**. There are three volatility modes: **Calm**, **Normal**, and **Wild**. There are 9 specific market modes using combinations. For example: **Bull-Normal**, **Bull-Calm**, **Bull Wild**, **Bear-Calm**, etc...)

The 9 Market Modes



3 Volatility Conditions and 3 Trend Measurements create 9 Market Modes..

My approach uses 6 Portfolios. Portfolio 1-5 are what I call Market Mode Portfolios. Here's how I create them:

1. In the Condition Manager - I created Conditions to identify each of the 9 Market Modes.

2. In the list Manager - I created Dynamic Lists comprised of Liquid Stocks that meet certain market mode criteria.

[Dynamic Lists are one of the OmniVest Pro Tools features and are described in the sidebar on page 9.– Ed]

The Short Term

To create an MM-L-VBX1 Portfolio (note: VBX1 is my favorite RTM System):

- 1. Start Strategy Lab
- 2. Choose the VBX1 System set for Long Only
- 3. Set the Condition to Bull-Normal
- 4. Test the system against all enabled list (including the dynamic lists with market mode stocks, such as Bull-calm stocks, Bull-wild stocks, els200, etc....
- 5. Save/Create the system combinations that look promising based on CAR and MDD.

Then re-run the test using the next market mode. After the test is run 9 times (once for each market mode). Go back and pick the Market Mode Condition and Lists that work well. In some Market Modes you will find that no lists work well at all. In others you will have 2 or 3 list that work well.

Then repeat the process for the Shorts ie.. MM-S-VBX1

In my test, I discovered that two of the lists seem to work well in several market conditions. These lists were ELS200* and NRS*. So, I additionally created Market Mode Portfolios based on these two lists.

I followed the same procedure as above, except the runs are based on selecting a list in Strategy Lab, as opposed to a System.

- 1. Enter Strategy Lab
- 2. Choose the ELS-200* list
- 3. Choose 1 of 9 market mode Conditions.
- 4. Re-Calculate to evaluate all the combinations.

Then - you will get a Market Mode portfolio where the list is the constant. To be clear, <u>this entire process is based on</u> <u>evaluating all 3 components of a Strategy instead of two</u>, i.e., what combination of (a) System, (b) List [Dynamic or Fixed], and (c) Market work well together.

The 5 Market Mode Portfolios I ended up with, that are running in my account are:

- MM-L-VBX1
- MM-L-ELS200*
- MM-S-ELS200*
- MM-S-NRS*
- MM-S-VBX1

Portfolio Development Process

For Short Term Performance

Short Term Systems	9 MM Conditions applied to IMW	Dynamic Lists
R1 R2 R3 R4 R5 R6 VBX1	Bull-Wild Bull-Normal Bull-Calm Flat-Wild Flat-Normal Flat-Calm Bear-Wild Bear-Normal Bear-Calm	ELS200* NRS* VBX1 (plus lists created with MM conditions)





The Long Term

Now for the last piece of the Puzzle.

The 6th portfolio in the account is a **Dynamic Portfolio** consisting of longer term trades. It picks 2 strategies each month that are based on the Longer Term Systems (like, GUP, PC1, PC2, T1, Tur1), All of the lists I use are custom static lists (K510, Kipp, etc...)

The **Evaluation Function** I applied in Portfolio Wizard is based on the **Linear Regression Slope.**

The Longer term systems seem to be relatively unaffected by the Market Mode testing. ie.. I couldn't improve their performance using market modes to filter them (thus the Dynamic Portfolio).

I believe that this is possibly due to the current configuration of the Market Mode variables in determining the mode (they are currently set for shorter term trades). I need to test using other parameters to determine if a longer term market determination is useful.

Assistance from the OV Pro Tools

The two new OV Pro Tools features that really made this account return possible are:

1. Dynamic Portfolios, created by Portfolio Wizard.

This tool is really effective is choosing the best strategy to run in a given month. <u>Over the past 3 months, it has easily</u> contributed to 70% of the Account gains.

2. **Portfilio Allocation Limits** (a NEW setting in Portfolio Balancer!) Each Market Mode Portfolio is limited to 30% of Account allocation. The Trending strategies are limited to 40% of Account Allocation. Additionally, three of the six portfolios are Short only. On any given week, the account trades are typically based on a very diverse combination of RTM Strategy Signals.

Results so Far

I put this account in production in mid-December just to see how the concepts would work in live trading. The Account is currently up 24% so far. The equity curve has been fairly smooth. The Average % Allocation has only been 118% (this is a non qualified margin account where full allocation would be 200%.)

'The account is up 24% since mid-December'

It essentially takes every trade, since the market mode Strategies do not really trade very much. The account is usually naturally hedged, as there are typically 2 to 3 shorts and 5 or 6 longs in trade at any given time. So - there is room for some improvement in the next revision of the OmniVest Pro tools!

Improving Results

There are some exciting new OmniVest features that I did not use when running these test.

These tests were run before Dynamic Entries and Exits came out of Beta. Dynamic Entries and Exits enable a Strategy to close all Trades if a particular Market Mode has changed from, say, Bull-Normal to Bull-Wild. Future tests will incorporate this feature.

In addition, the most recent Pro Tools release includes the ability Switch on a Weekly basis. Weekly tests need to be run to see if this helps performance. Logically, if switching can happen more frequently, there is a great chance it will!

I am pleased with the results I have seen so far, but believe this is only the beginning of what is possible.

Ľ.D.

The Market Mode Concept by Jim Dean

In his approach, L.D. takes advantage of "Market Modes" – a concept introduced by Jim Dean last year and explained in L.D.'s article.

Jim is an experienced and long-time OmniTrader System developer, and we recommend him for specialty Strategies and other components, or to find out more about Market Modes.

Jim has graciously explained how to implement his Market Mode concepts and formulas on his TradeTight web site, in this Forum Post:

http://tradetight.org/forums/threadview.asp?tid=1062

You'll find Jim's contact info on <u>www.omnitrader.com</u>. We appreciate Jim's many contributions and his contribution to OmniTrader users over the years.

Ed Downs

A Simple 3-Step Process for Great Results!

by Larry Luck

It's easy to let Portfolio Balancer create a great switched Portfolio Result. Here is one example of the 3-Step Process.

1. Select all short-term Portfolios in Omni Portfolios

Enabled	Portfolio	# Str	%Wins	TPM	CAR	MDD	Avg MDD	%/Trade	Avg %Inv	Ending Equity	Туре
×	ARM4 Blue Chip Stocks	11	72.0 %	21.4	14.6 %	6.0 %	4.3 %	9,9 %	55.7 %	\$117,959	Shared
×	ARM4 Buy Liquid Stocks	4	65.3 %	56.8	16.3 %	8.4 %	7.3 %	9.7 %	82.5 %	\$120,127	Shared
×	ARM4 Buy the Dips	19	66.6 %	64.3	22.7 %	6.3 %	5.8 %	6.3 %	59.6 %	\$128,066	Shared
8	ARM4 Quick Gains in Biotech	15	76.9 %	19.1	41.5 %	8.6 %	5.6 %	9.9 %	22.1 %	\$152,233	Shared
	ARM4 Trading the Big Movers	3	65.1 %	73.2	18.9 %	23.2 %	15.2 %	9.6 %	105.5 %	\$123,344	Shared
	ARM4 Trading Volatile Stocks	5	68.2 %	33.4	13.2 %	7.4 %	5.8 %	6.0 %	32.5 %	\$116,204	Shared
۲	Blue Chip Stocks	6	71.9 %	19.8	13.6 %	6.3 %	4.3 %	9.8 %	53.2 %	\$116,706	Shared
	Broad Market Bounces	5	66.4 %	446.5	6.2 %	12.6 %	9.2 %	1.2 %	77.1 %	\$107,604	Shared
	Buy Consumer Non-Durables	7	62.3 %	23.0	12.8 %	9.0 %	6.0 %	9.9 %	90.3 %	\$115,664	Shared
ø	Buy Liquid Stocks	2	64.1 %	53.6	15.3 %	10.0 %	7.9 %	9.7 %	78.6 %	\$118,829	Shared
	Industrial Stocks	6	58.5 %	31.5	-4.7 %	18.5 %	13.1 %	9.8 %	126.0 %	\$94,300	Shared
8	Profiting with Exchange Traded Funds	6	67.5 %	37.2	9.8 %	10.5 %	8.6 %	9.8 %	54.2 %	\$111,999	Shared
æ	Recreation and Leisure	7	65.9 %	25.3	15.6 %	8.6 %	5.6 %	8.1 %	52.2 %	\$119,223	Shared
2	Short Selling Stocks and ETF's	9	0.0 %	0.0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	\$100,000	Shared
	Trading Low Priced Stocks	6	65.1 %	36.5	4.7 %	7.0 %	5.5 %	5.0 %	29.4 %	\$105,756	Shared
8	Trading Medical Equipment Stocks	8	72.9 %	30.2	35.1 %	7.1 %	5.0 %	9.8 %	48.8 %	\$143,948	Shared
	Trading Strength and Weakness	11	64.7 %	58.4	13.7 %	20.4 %	13.1 %	9.7 %	90.5 %	\$116,787	Shared Dynamic
	Trading the S&P 100	9	66.9 %	59.0	20.4 %	9.3 %	7.2 %	9.7 %	81.7 %	\$125,218	Shared



3. Select Evaluation Functions & Run Portfolio Balancer

2. Set up the Portfolio Balancer as Shown:

General Settings: Edit Settings: ExplorOP settings from: (none) . Import Simulation Start Date: 1/1/2014 \$100.000.00 Use today's date YTD Prior: Imo 3mo 6mo 1yr 2yr 3yr 4yr Syr Alphabetic m Short Allocation %: ng the Same Symbol: 🗹 % of Aug Daily Volume \$ 500 None · to nearest () S per Share . \$ per Share • ove \$ per Trade • ma Cancel Save

The process of setting up and running the Balancer to achieve a superior result is very easy.

Anyone can do it!

The Result can be immediately saved to an Account and used.

Date	Selected Portfolios	
03/01/2015	ABM4 Blae Chip Stocks ABM4 Buy the Dips ABM4 Quick Gains in Blotech Blae Chip Stocks Trading Medical Equipment Stocks	
02/01/2015	ARM4 Blue Chip Stocks ARM4 Duck Gains in Botech Profilm with Scheinge Traded Funds Recreation and Leisure 1 Trading Medical Equipment Stocks	
01/01/2015	ARM4 Biae Chip Stocks ARM4 Biay the Dips ARM4 Quek Gains in Blotech Biae Chip Stocks Trading Medical Equipment Stocks	
12/01/2014	ARM4 Blue Chip Stocks ARM4 Buy the Dips ARM4 Quick Gains in Biotech Blue Chip Stocks	Portfolio Balancer
a los loca a	Trading Medical Equipment Stocks	output shows the
11/01/2014	ARMM Duar Chip Stocks ARMM Quick Gains in Biotech Blue Chip Stocks Trading Medical Equipment Stocks	switched Portfolio
10/01/2014	ARM4 Blue Chip Stocks ARM4 Quick Gains in Boteich ARM4 Trading Volable Stocks Blue Chip Stocks Profiling with Exchange Traded Funds	over time.
09/01/2014	ARM4 Blue Chip Stocks ARM4 Quck Gams in Biotech Blue Chip Stock Profiling with Exchange Traded Funds Recreation and Lessure	
08/01/2014	ARM4 Blue Chip Stocks ARM4 Duck Gams in Botech ARM4 Tradiny Volate Stocks Blue Chip Stocks Recreation and Letisure	
07/01/2014	ARM4 Quick Gains in Biotech ARM4 Trading Volaile Stocks Blue Chip Stocke Durables Buy Consumer Non-Durables Trading Luw Preed Stocks	
06/01/2014	ARM4 Quick Gains in Biotech ARM4 Trading Volable Stocks Blue Chip Stocke Durables Duy Consumer Nen-Durables Trading the S8P 100	
05/01/2014	ARM4 Quick Gains in Biotech ARM4 Trading Volatile Stocks Blue Chip Stocks Trading Low Priced Stocks Trading Medical Exponnent Stocks	
04/01/2014	ABM4 Quck Gains in Biotech ABM4 Trading Volable Stocks Recreation and Leisure Trading Medical Equipment Stocks Trading the S&P 100	
03/01/2014	ARM4 Quick Gains in Biotech ARM4 Trading Volatile Stocks Recreation and Leisure Trading Low Priced Stocks	

Portfolio Balancer Settings:

Analyzer Settings					
Simulation Date Range: 1/1/2014 - 3/19/2015					
Lookback period:	200				
Timeframe:	Months				
Interval in Months:	1				
Portfolios:	5				
Minimum number of Trades per Month:	1				
Max % Invested:	50				
Portfolio Allocation %:	25				
	Dump ECA Values				

15 Minutes Could Improve Your Results by 130%

by Steve Mayo

When I think about getting amazing results from OmniVest with the least amount of effort, the obvious answer is to use Portfolio Balancer to switch between a Long and Short Portfolio. With literally 15 minutes of effort, you can switch between two uncorrelated portfolios and usually get a significant improvement in performance.

To demonstrate this, I ran one of my Long Only Portfolios with the "Short Selling Stocks and ETFs" portfolio from Omni Portfolios. I used the **BETA Evaluation Function** to pick the Portfolio each month with the highest BETA relative to the S&P 500 index.





Two Portfolios in an account without Portfolio Balancer.

The same two Portfolios that SWITCH using Portfolio Balancer. Ending Equity was doubled.

Running both Portfolios in OmniVest (without Portfolio Balancer switching, I see CAR of 33.7, MDD of 25.3 over 8 years for a CALMAR ratio of 1.3.

That's a 130% Return, just by using Portfolio Balancer... Definitely worth the 15 Minutes!

Letting Portfolio Balancer switch between them using the BETA Evaluation Function results in a CALMAR of 3.0. So that's a 130% return, just by using Portfolio Balancer on the same 2 Portfolios. Definitely worth the 15 minutes!

Dynamic Lists by Ed Downs

An additional enhancement made for Pro Tools v2.0 was user-definable Dynamic Lists. The concept is based on Conditions, which are formulas like C > EMA(55), but rather than applying them to an index symbol as in Strategy Lab, they are applied to identify those Stocks or ETFs where the condition is true each day. There are a number of Dynamic Lists in OmniVest that are open to all members, like ELS200*.

OmniVest Pro users can create Custom Dynamic Lists for use in their Strategies. Many users are taking advantage of this to generate new lists each day that have a specific characteristic. We recently released our Ultimate Swing Trading Package that includes an OmniScan to identify likely Swing candidates.



This chart was identified by an OmniScan on Jan 28 that scanned for stocks that had pulled back - great Swing Candidates. A Dynamic List can be defined in OV Pro that provides a custom list of all such candidates, every day.

Yes, it IS Rocket Science. But we want Better Rockets!



Spreadsheet from Mark's Research showing few draw downs as a result of Strategy Pre-Qualification.

Many of you know Mark Holstius as a result of his research and posts in the OmniVest Forum. Mark has suggested a new way to create Populations of Strategies which promises to yield another quantum leap in performance!

In Portfolio Wizard, the "Population" is the collection of Strategies that are evaluated in the algorithm for potential selection.

What Mark discovered is that often, a Strategy will be selected because it has an unusually good month. But, if you look at the history, other Strategies actually were more consistent and should be more highly ranked.

So, the algorithm improvement he has suggested is to look at consistency of the Strategies and reduce the initial population from (say) 50 to a smaller, more qualified list. Then, the ECA can select the best Strategies from the smaller list.

This page shows some of the advanced spreadsheet he created to prove that this pre-qualification of Strategies will yield even better results than we are seeing now. Thanks, Mark. We expect to have this feature implemented in the Pro Tools by BASH 2015.

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