

## Certifying a Real-Time Track Record Without Real-Time Risk

As our regular readers are no-doubt aware, we have long been concerned with the issue of simulated-versus-actual trading results. A trading system that makes a bundle in hindsight analysis may well be a loser in real-time trading. The developer who optimizes to the hilt can easily manipulate a system to appear profitable, but in doing so, he produces a system for which future results are unpredictable at best.

We have often recommended our own Trading System Performance Evaluator™ and Trader's Money Manager™ programs as tools for certifying the results of an untried trading system. TSPE and TMM give you a good idea of the capital required to trade a system and the expected return on investment. Through Monte Carlo simulations, they synthesize simulated results by degrading optimized profits and losses to compensate for parameter control. In doing so, these programs can help both the developer and the consumer/trader evaluate any single-market trading system under consideration.

Experience has taught us that the real-time results of a system may also require a Monte Carlo examination before the results can be certified. We have recently learned of a service for investors and software developers that takes you more than half way to a goal by both tracking and certifying the results of your trading system in real time. This opportunity, introduced below, plus a confirming simulation against the real-time results may remove 95% of the doubt one might expect for most investment applications.

Innovative system developers who are short on capital but long on market insight can now obtain a certified real-time track record to prove their talents without investing a cent in the markets. A new type of pseudo-brokerage service provides

audited trading results for paper trades made without investment capital. AUDITRACK, which considers itself to be a synthesizing brokerage firm, will track trading recommendations in real time with audited records that report results in exactly the same way a full service brokerage firm handles real trades.

AUDITRACK is staffed by professional brokers who take orders by phone or fax just as any broker would. They follow up with confirming phone calls and hardcopy reports of fills and executions. They monitor the market liquidity and report accurate would-be fills based on order size and then-current market volume and open interest. For complete authenticity, AUDITRACK supplies a realistic fill price, which is adjusted for market slippage at the time of the order. The reported commission per trade is controlled by the customer, so that it reflects the real-world charges associated with individual brokerage firms.

The big difference between AUDITRACK and, say, Merrill Lynch, is the absence of risk. The fills are comparable to a real trading account, but the possible erosion in capital is not there. An account can be of any size, and trades can be executed in any quantity. The customer pays a fee of from \$1.00 to about \$2.00 per trade per contract, depending upon the size of the account, which can vary from a couple of thousand to more than a million dollars. The service is well worth the cost because it allows the analyst to learn to adjust to unforeseen market conditions, and to do so without risk.

AUDITRACK's value to the user is the real-time treatment received. There is little difference between the record shown on an AUDITRACK brokerage statement and the result found on any other "real" brokerage

*(continued on Page 5)*

