VERACITY 1000

An algorithmic equity portfolio trading system

Veracity 1000 is a statistical-edge algorithmic trading system for 1,000 of the largest U.S. stocks based on market capitalization. The system produces both long and short trading signals for individual large cap stocks based on quantitative and statistical methods originally developed for the military and aerospace industries. Veracity 1000 utilizes proprietary digital signal processing (DSP) techniques to locate short-term high probability trades by isolating highly correlated events from noisy market data. Veracity 1000 typically trades 3 to 12 times per month with holding times of less than 3 weeks.

Veracity
TRADING SYSTEMS

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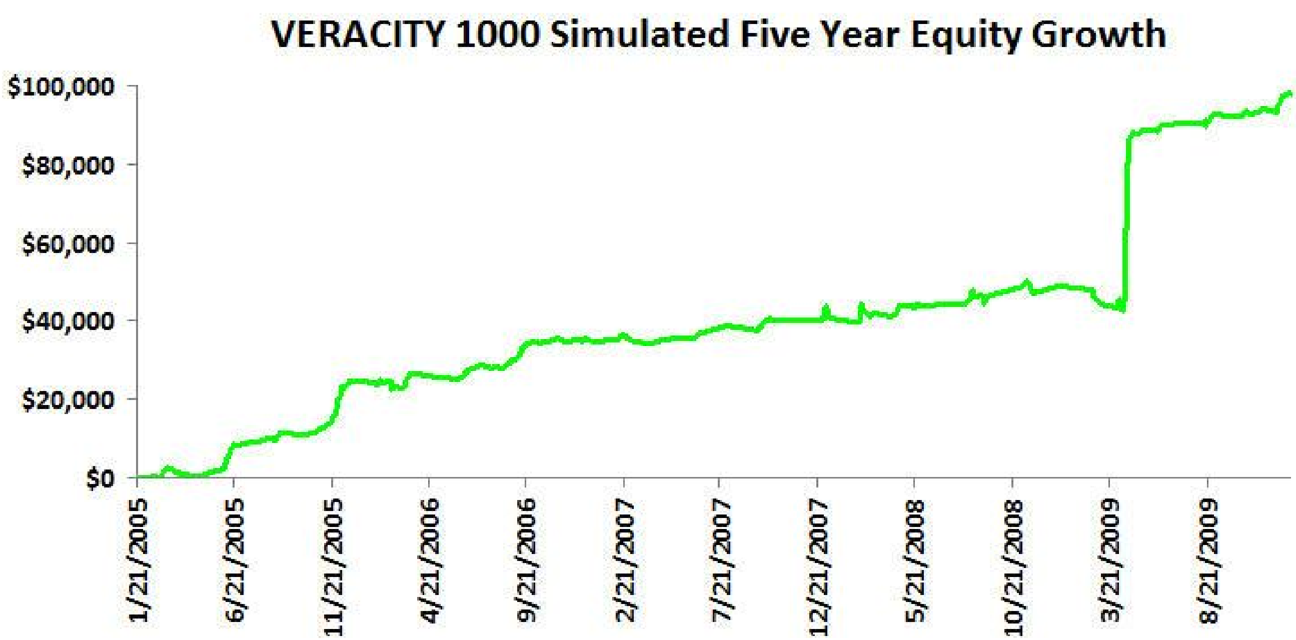
Description

Veracity 1000 analyzes 1000 stocks daily to locate only the highest probability trading candidates. The system typically selects from 3 to 12 trades per month. Veracity 1000 is 100% mechanical and takes all positions at the next market open without using limit orders. The system can be autotraded.

The simulated equity curve resulting from Veracity 1000 trading signals is shown below. This hypothetical result assumes an investment of $10,000 per trade. The unique characteristic of this chart is that it represents historical results obtained out-of-sample, without the benefit of hindsight or performance tuning.

The large equity step in the curve results from an unusual number of trades during the bullish run in the spring of 2009. This extraordinary event is not included in our averages.

Veracity 1000 and the Veracity platform were developed by noted trading system authority John F. Ehlers and trading software developer Ric Way. Ehlers and Way have a combined 40+ years experience in trading and trading systems development.



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Performance

Out-of-sample simulated trade performance yielded 61.5 percent winning trades and a Profit Factor (the ratio of gross winnings to gross losses) in excess of 3. Percent winners and Profit Factor are the two most important metrics in consistent trading system performance.

From January 2005 to December 2008 in the simulated trading, Veracity 1000 produced a profit of $48,730 on 262 trades, where $10,000 per trade was invested.

Therefore, the annualized profit was $12,182, trading about 5.4 times per month based on a position size of $10,000 per trade.

Veracity 1000 is a statistical-edge algorithmic portfolio trading system for 1,000 of the largest U.S. stocks based on market capitalization. The quantitative and statistical methods were originally developed for the military and aerospace industries with effectiveness proven in the Futures markets. This technology is now available to equities traders.

Veracity 1000 utilizes proprietary digital signal processing (DSP) techniques to locate high probability trades by isolating positive correlation occurrences from noisy market data. Only the very highest probability events are selected in the generation of the trading signals.

The system produces both long and short trading signals at the close of each market day for exercise on the next market day, so trading is simple to implement. The trading signals include risk-limiting stops.

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Limitations

Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance trading results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results