

SWINGTRADER ULTRA

SYSTEM-S2/**RT**

(Real-Time)

ADDENDUM GUIDE V1.2

21 MAY 2012



WARNING: ULTRA SYSTEM S2/RT is a powerful real-time enhancement of the S2 EOD (end-of-day) trading strategy. You are *strongly advised* to properly study the ULTRA S2 Operations Guide BEFORE examining this document. Trust us on this one.

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SYSTEMS DISCLAIMER

Although many of our strategies rely heavily on back-testing and probability models please note that past performance is NO GUARANTEE for future returns. No system devised by man can predict the future, let alone the future of the markets. What we have are sets of mathematical trading models that use historical data and varying theories to pinpoint places in time when the STATISTICAL LIKELYHOOD of success is the greatest. In the midst of your signal or trade, you can have geo-political events, wars, planes going into skyscrapers, natural disasters and even nuclear accidents that tip everything upside down. This is always a risk factor you need to factor in on any trade no matter how confident you are in a signal. This is accomplished by proper position sizing and risk management up-front. Successful traders prevail OVER TIME by making successive small bets using multiple diversified systems devised with favourable odds and positive expectancy over long periods (good gain/loss ratios) using sound position sizing and money management. To this end, for trading purposes ensure no more than 2-5% of your capital is exposed to risk of full-loss on any one trade/investment.

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WARNING: ULTRA SYSTEM S2/RT is a powerful real-time enhancement of the S2 EOD (end-of-day) trading strategy. You are *strongly advised* to properly study the old ULTRA S2 Operations Guide BEFORE examining this document.

IMPORTANT NOTICE

ULTRA SYSTEM-S2 is in BETA, meaning it is being tested on live trades with live customers in “out-of-sample” data. As with SYSTEM-S1 BETA performed in early 2011, this process may result in changes to the strategy or techniques mentioned in this guide as part of the improvement process implied by the BETA program. Delivery of S2 for free as part of S1 is temporary. We may elect to charge a separate subscription for S2 at a later stage after BETA testing. S2 is only available to paying S1 customers.

Introduction

SwingTrader ULTRA System-S2/RT ("S2 REAL-TIME") is a powerful improvement on the S2 end-of-day system ("S2 EOD"). It deploys real-time intraday profit-target strikes for:

1. The first long profit target (SELL 1 contract or 20% of positions)
2. The short profit target
3. A new, 2nd CLASS-B short profit target (BUY 2 contracts or cover 40% of positions)

S2/RT returns slightly less than S2 EOD since March 2009 but has the following advantages:

1. Higher gain/loss ratios on all trades
2. Smoother equity curve (less volatility in equity)
3. Better win rates on the Class-B shorts due to introduction of 2nd profit target
4. Ease of trade automation for traders
5. Closer performance between ULTRA robot equity curve and that of clients



The 2nd and 3rd profit targets for the long trades, as well as all new long and short trade initiations remains identical to the S2 EOD strategy. These trades are all made "end-of-day" with the decision to transact depending on the closing state of the candle for the day.

Easier Trade Automation, closer equity curve matching

This is probably the most important improvement for clients. It allows the trader to pre-program profit target objectives into the trading platform for automatic execution on the strike. It alleviates the hassle of waiting until the end of the trading day (late at night) to decide on your trade action and also eliminates the risk of slippage of EOD trading.

This is how most clients treated profit targets on ULTRA S1 and S2 EOD anyway. The problem is the profit targets for S2 were based on optimal performance for end-of-day action, whilst traders were taking intraday profit actions. This still led to good performance but not OPTIMAL performance.

After we had figured out how to implement intraday real-time profit target strikes in the ULTRA robots programming language, we were able to re-bench the trading strategy for optimal real-time profit target thresholds. Optimal real-time profit targets are indeed different to those for end of day. In fact we found using real-time profit targets, allowed us to STRETCH profit targets considerably. This is because the length of a daily candle is always bigger than its body. Essentially an EOD system will be making decisions on the body of the candle whilst the real-time system is making decisions on the highs and lows of the candle.

The comparison of S2 EOD and the new S2/RT profit targets are shown below:

ULTRA S2 PROFIT TARGETS	S2 EOD	S2/RT
Long Trades 1st target	0.84%	2.30%
Class-A short 1st target	2.80%	3.10%
Class-B short 1st target	1.04%	1.04%
Class-B short 2nd target	N/A	2.20%

For example, the S2 EOD system used a 0.84% end-of-day gain as 1st profit target for the long trades. But S2 RT uses a whopping 2.3% intraday gain for the same target! As you can see, a trader that is automatically programming in real-time exits into his trading platform is going to achieve better performance than that trader programming in EOD targets.

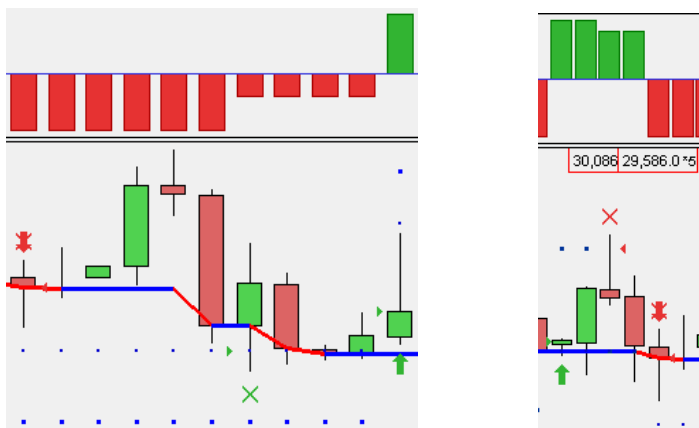
Real-time chart signals on ULTRA LIVE!

The new signals with RT we will be broadcasting are shown below. Note how the trade position markers (little sideways pointing triangles) are positioned at the profit target levels and not end-of-day levels anymore.

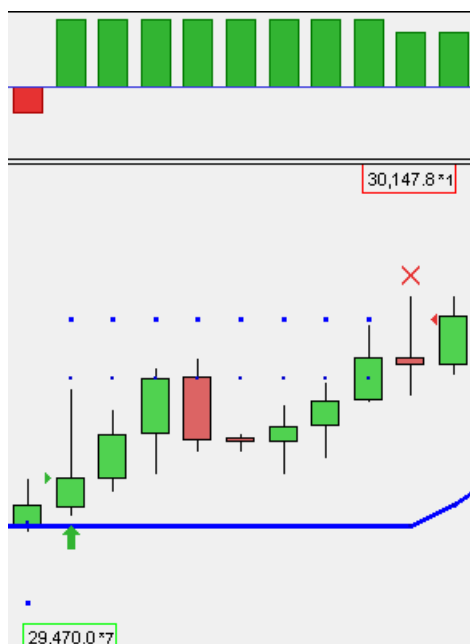


Note how in the instance of the above examples, end-of-day decisions would have yielded higher profits than the strikes but remember some of the strike points are *stretched* with S2/RT. We have concluded that over the long run an end-of day strategy using RT profit targets does not work as well as is implied by the above chart. It is best to execute the new profit targets in real-time rather than end-of-day.

There are of course occasions where end-of-day fails to meet the target but a strike did. On the right is a classic case of S2 opening a long trade which eventually rolls over into a small loss on the EOD strategy but the RT strategy managed to strike the profit target intraday and offload 1 contract meaning that the trade turned into a small profit. On the left we have a similar situation with a short trade.



Long Trade real-time profit objective markers



The chart on the left shows typical long trade profit markers. You will note there are TWO profit markers.

The first, with a smaller dot are to be used by BEGINNERS. These are set at 1.45%, a level where a strike has occurred more than 85% of the time in the past. Using this leads to reduced performance but higher win rates.

The 2nd, with thicker dots is the one used by the S2 robot. These are set at 2.3% and have been struck 74% of the time in the past. You will only see red crosses denoting trade actions on these markers.

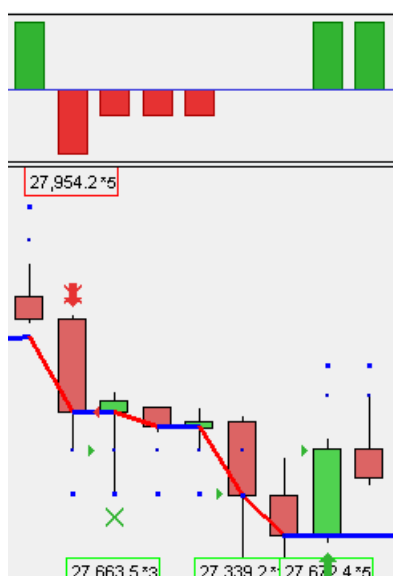


VERY IMPORTANT : YOU CAN USE EITHER/BOTH THESE TARGETS PROVIDED YOUR COMBINED OFFLOADING OF CONTRACTS TO REALISE THESE PROFITS DON'T EXCEED 1 CONTRACT IN 5 OR 20% OF YOUR POSITIONS.

Again we want to stress that for best returns performance, offload 20% of positions when the thicker dots are struck intraday. Beginners can use the thinner dots as “training wheels”. It is important not to consume all your contracts in offloading profits on these targets since the bulk of S2’s long-trade profits are derived from the MOMENTUM and OBOS EOD profit-taking signals.

Short trade real-time profit objective markers

Below is an example of the two shorting profit objectives on a Class-B short. On striking the 1st profit objective, 3 of the 5 contracts or 60% of positions are covered (bought back) on Class-B shorts. Note that for Class-A shorts (coming from highly overbought conditions) we cover ALL positions when the 1st profit target is met. Three days later the 2nd objective is struck and the remaining positions covered to close the short completely. A day later we enter a long trade.



Your choice of how many contracts to cover on striking the 1st short profit objective is up to you. For best total returns do not take 1st profit target – only take 2nd profit target - but understand that there will be more losses. For best win rate, close 4 or more contracts in 5 – and accept lower total returns.

CONTRACTS	RETURN	GAIN/LOSS	%WIN
0	R113k	3.58	72.50%
1	R110k	3.86	77.50%
2	R107k	4.2	77.50%
3	R105k	4.6	80%
4	R102k	4.74	85%
5	R100k	4.67	85%

Here is a table that describes performance of various options. Covering 3 in 5 contracts (60% of positions) led to all short trades returning R105, 000 with a 4.6 to 1 gain/loss ratio and an 80% trade win rate. We think this is the best overall mix and is used by the ULTRA RT Robot. Your choice depends on your risk appetite.

Timing of RT actions

The trade actions for RT occur at the strike points (dotted profit targets) and are marked as such in the live signal charts we broadcast on the internet. However, the action signals (crosses and sideways triangles) will only display on the chart THE DAY AFTER THE CANDLE HAS CLOSED.

You will know immediately from the chart that an action has been triggered. The minute any part of a daily candle touches any RT profit target you know the robot has made a trade and this will be reflected on the following days' candle. It is therefore important to realise that the trade action signals will not appear immediately on the chart, BUT THE NEXT DAY.

Notification of actions

We will no longer be providing SMS alerts for RT profit target strikes. This is because you know what the profit targets are upfront and should be pre-programming your trades. You should not need to rely on SMS'es to action your trades.

We will continue to alert you to the following EOD actions.

1. Opening of new long trades
2. Opening of new short trades
3. Momentum profit targets
4. OBOS long-trade profit targets



Comparison of S2/EOD and S2/RT

The performance of S2/EOD and S2/RT are shown below from 4 March 2009 to 18 May 2012

Detailed report: SYSTEM-S2/EOD END -OF-DAY					Detailed report: SYSTEM-S2/RT REAL-TIME				
Statistics	Orders list	Trades list			Statistics	Orders list	Trades list		
	All trades	Long trades	Short trades			All trades	Long trades	Short trades	
Profit & Loss (net total)	305,114.03	179,945.03	125,169.00		Profit & Loss (net total)	285,288.81	179,919.50	105,369.25	
Total profit	417,532.41	247,130.41	170,402.00		Total profit	386,077.31	251,446.09	134,631.17	
Total loss	-112,418.38	-67,185.38	-45,233.00		Total loss	-100,788.52	-71,526.59	-29,261.92	
Total profit / Total loss	3.71	3.68	3.77		Total profit / Total loss	3.83	3.52	4.60	
Number of trades	80	40	40		Number of trades	80	40	40	
Percentage of winning trades	72.50%	67.50%	77.50%		Percentage of winning trades	72.50%	65.00%	80.00%	
Winning trades	58	27	31		Winning trades	58	26	32	
Losing trades	22	13	9		Losing trades	22	14	8	
Even trades	0	0	0		Even trades	0	0	0	
Trade expectancy (Total P&L / Nbr tr...)	3,813.93	4,498.63	3,129.23		Trade expectancy (Total P&L / Nbr tr...)	3,586.11	4,497.99	2,634.23	
Average profit on winning trades	7,198.83	9,152.98	5,496.84		Average profit on winning trades	6,656.51	9,671.00	4,207.22	
Average loss on losing trades	-5,109.93	-5,168.11	-5,025.89		Average loss on losing trades	-4,581.30	-5,109.04	-3,657.74	
Standard deviation on profit and loss	6,766.99	8,090.53	5,018.98		Standard deviation on profit and loss	6,524.49	8,318.21	3,769.42	
Highest profit	19,510.00	19,510.00	9,883.00		Highest profit	20,234.62	20,234.62	8,839.00	
Highest loss	-11,558.00	-11,558.00	-7,552.00		Highest loss	-11,227.67	-11,227.67	-6,430.72	
Avg time in the market (nbr of bars)	10.19	16.40	3.97		Avg time in the market (nbr of bars)	10.35	16.40	4.30	
Avg time between trades (nbr of ba...)	1.59	3.23	3.23		Avg time between trades (nbr of ba...)	1.43	2.90	2.90	
Avg time on winning trades (nbr of b...)	12.09	21.26	4.10		Avg time on winning trades (nbr of b...)	12.21	21.65	4.53	
Avg time on losing trades (nbr of bars)	5.18	6.31	3.56		Avg time on losing trades (nbr of bars)	5.45	6.64	3.38	
Avg time on even trades (nbr of bars)	n/a	n/a	n/a		Avg time on even trades (nbr of bars)	n/a	n/a	n/a	
Percent of time in the market	86.62%	86.62%	86.62%		Percent of time in the market	88.00%	88.00%	88.00%	
Total brokerage fee	9,540.00	4,320.00	5,220.00		Total brokerage fee	9,576.00	4,020.00	5,556.00	
Highest nbr of consecutive winning t...	10	6	10		Highest nbr of consecutive winning t...	6	6	6	
Highest nbr of consecutive losing tra...	3	2	3		Highest nbr of consecutive losing tra...	3	3	3	
Drawdown (highest loss of the equit...)	26,690.16	25,090.98	26,421.39		Drawdown (highest loss of the equit...)	21,135.36	23,831.44	36,102.02	
Highest gain of the equity curve	317,649.00	167,429.02	51,504.19		Highest gain of the equity curve	293,134.47	167,281.62	30,517.69	
Return on initial capital (Profit&Loss/...	610.23%	359.89%	250.34%		Return on initial capital (Profit&Loss/...	570.58%	359.84%	210.74%	

The only reason the EOD strategy has a higher total return than the RT strategy is that quite often a candle closes quite far above a EOD long profit target or quite far below a EOD short profit target and therefore S2/EOD realizes more gains than an RT strategy that is taking profit straight-away. The RT strategy is however easier to execute as we do not have to wait at night to execute trades and can automate the trades.

Automatic trade execution with stops & limits

The main benefit with S2/RT is that real-time intraday profit targets are made available for you to act upon. This means you can pre-program a profit taking action the minute after you have placed your trade to mimic the action of the ULTRA S2 robot.

This has the added benefit that you do not have to be present when the trade needs to take place, as the trading platform will execute it for you “on the strike” of the profit target.



If you want to dispose fractions of single contracts in profit taking actions then you will have to execute the trades manually yourself. This is due to a limitation on the IG platform which can only automate disposal of whole contracts. For this reason it is best to split your trades into at least TWO portions, one which will be disposed of in the automatic profit taking action and the balance on the close of the trade.

S2 LONG 2.5%	Conservative	Optimistic
R 25 000	0.3	0.6
R 50 000	0.5	1.2
R 75 000	0.8	1.8
R 100 000	1.1	2.5
R 125 000	1.4	3.1
R 150 000	1.6	3.7
R 175 000	1.9	4.3
R 200 000	2.2	4.9
R 225 000	2.4	5.5
R 250 000	2.7	6.2

Assume we have at least a R100K trading account which means we can trade a maximum of 2 to 2.5 micro-contracts on the “optimistic” trading level from the S2 EOD guide shown on the left.

Assuming we want automatic profit-taking we are forced to split the trade into two 50% portions, 1 contract each.

You can see from the table that if you want to mimic the optimal profit taking strategy you need at least a R200K account to allow you to trade in blocks of 5 micro-contracts at the “optimistic” level.

If your account is less than R100K you can still follow the RT strategy, but it means you will need to manually execute the trades yourself to dispose of fractions of whole contracts.



Let us look at an example of setting an automatic stop-out as well as an automatic profit-taking action on the trade depicted in the graphic on the left.

For the profit-taking action we want an immediate strike of 29,879 and for the stop-out we want a 0.25% “leeway” which will set the stop at 27,887 less 69 points, or 27,818.

For short trades you know there is only one profit objective for Class-A shorts so there is no need to split the trade up. However there are 2 profit objectives for Class-B shorts. So for the Class-B short we need at least 2 contracts. With 2 contracts you can offload 50% of the trade on the 1st profit objective. This is very close to the 3-out-of-5 (60%) the strategy calls for to achieve optimum risk-adjusted results.

For long trades there are up to 4 profit targets with only the first being real-time so we can get away with splitting the trade into two portions. However the 1st RT profit target *must not exceed 20% of the trade* so you can buy 1 contract for the RT profit objective and 4 for the balance of the trade.

We now need to select the set of contracts we want to generate an auto-profit-take *limit order* for. You do this by clicking on the name of the contracts you want to make settings for, just to the right of the green circle as shown on the 2 micro-contracts we purchased for a hypothetical trade below:

Open Positions									
Market			Period	Opening	Position	Stop	Type	Limit	
South Africa 40 (ZAR2 Micro Contract)			-	28808.0	+1	-	-	-	
South Africa 40 (ZAR2 Micro Contract)			-	28586.0	+1	-	-	-	

Ticket

South Africa 40 (ZAR2 Micro Contract)

Current Level 28694
Opening Level 28586
Size 1 contracts
Currency ZAR
Ref KGQU8NAV

Stops and Limits

Stop Level 27818 < 28676
Limit Level 29879 > 28694
☐ Guaranteed Stop

Requirements

Margin Required ZAR 600.00

Cancel Submit

This should open the TICKET for the trade as shown on the left.

You then need to select EDIT (encircled in red) and then:

1. Configure the STOP LEVEL (against the blue line in the SwingTrader ULTRA signal chart.) Don't forget to include your "leeway" for intraday volatility.
2. Configure the LIMIT LEVEL (dotted blue points depicting profit objective on signal chart.)

When you are done, just click SUBMIT to activate the automatic stop and profit-taking actions. You should see a confirmation dialogue box.

Repeat the above action to set the STOP level for the remainder of the trade (the other contract in this example.) We now have 2 contracts on the long, with 1 set to take automatic profit at 29,879 and both set for an automatic stop-out on 27,818 as shown below:

Open Positions

Market	Period	Opening	Position	Stop	Type	Limit
South Africa 40 (ZAR2 Micro Contract)	-	28808.0	+1	27818	N	-
South Africa 40 (ZAR2 Micro Contract)	-	28586.0	+1	27818	N	29879

Manual profit taking actions

If your account is not big enough (less than R100K) to allow for the purchase of multiple whole contracts without exposing you to more risk than advised in the table on the previous page, then this means you are going to have to execute the profit taking actions manually.

Ticket

South Africa 40 (ZAR2 Micro Contract)

Size 0.2 (Max: 1 Contracts)
Currency ZAR
Running P/L SR 45.60
Opening Ref NQ54N9AU

Sell 29256 Buy 29275

Edit Close Position

When it is time to trade, click on the contract you want to take profit from to reveal the ticket as shown on the left.

Enter the fraction to be disposed of. In the example shown by the red arrow we are offloading 0.2 of the contract or 20% as would be typical of 1st profit on a long trade.

Then click on SELL or BUY depending on what profit you are taking (long or short).



You are not advised to dispose of more than 20% of your holdings on the 1st long profit target as this will impair returns considerably. S2 makes all her long profits from the 2nd and 3rd EOD profit targets. The 1st profit target is a psychological aid and raises win rates (lowers losses) for long trades that roll-over due to market weakness. It is an "insurance policy" more than a profit making action.

Tactics with “small” trading accounts

We are cognisant of the fact that many clients have “small trading accounts” whereby the risk management and position sizing rules limit you to less than 1 micro-contract on a trade. There are a few techniques for dealing with sub-1 fractional micro contracts as described below.

FIRST APPROACH – DYNAMIC STOP MANUAL CALCULATION

This is *first prize*, but *may not yield a solution*. You have to do the calculation to see if you can use it. This approach is discussed at bottom of page 13 “Dynamic Stops [Harder work, but far superior method]”. Essentially you look at the distance between where you want to enter and the S2 blue line (support) to define your “risk” and calculate how many contracts you can trade. Under certain circumstances, even with small accounts, *when the index is close enough to the blue line* the position sizing calculation MAY ALLOW YOU MORE THAN 1 CONTRACT. Under these circumstances the tables may show less than one allowable contract but the calculation shows you 2 sometimes even 3!

SECOND APPROACH - TRADESENSE

This is the consolation prize. For 6 weeks after opening a new account, IG gives you “TradeSense” which is the ability to purchase sub-1 fractional contracts. In this case if the position sizing table on Page 13 tells you that you can only purchase 0.4 contracts, then that is exactly what you do! Just enter “0.4” into the SIZE field of the trading ticket and you are done!

S2 LONG 2.5%	Conservative	Optimistic
R 25 000	0.3	0.6
R 50 000	0.5	1.2
R 75 000	0.8	1.8
R 100 000	1.1	2.5
R 125 000	1.4	3.1
R 150 000	1.6	3.7
R 175 000	1.9	4.3
R 200 000	2.2	4.9
R 225 000	2.4	5.5
R 250 000	2.7	6.2

THIRD APPROACH – GO OPTIMISTIC

This increases your risk, but still to a level that is not deemed “overboard”. It more than doubles your allowable contracts *but this does not double your risk*. Essentially it means using the 2nd column “Optimistic” in the position sizing guideline table. The assumptions made in “Conservative” & “Optimistic” are based on how we calculate how much we can expect to lose if the trade goes sour. In “Conservative” we assume we are going to incur *the worst case historical* loss. This is probably *a bit too overboard*, but that is why it’s called “Conservative”. In “Optimistic” we are being realistic and whilst acknowledging we *could* incur the worst case loss we are betting we are only *likely* to incur the “average” loss.

FOURTH APPROACH – “RATCHET BACK”

In this approach, you buy 1 micro contract. Now you are OVEREXPOSED and need to deal with it. There are 3 ways to deal with it:

ONE: Ditch the remaining contracts immediately. The transaction cost with IG is not onerous and this is a perfectly valid strategy. It costs a bit more, but not as much as the trade going wrong with an oversized position! If your allowance is 0.6 contracts, you buy 1 and immediately afterwards sell 0.4 contracts. You are now “right sized”. It costs about R50 for the “ditching” exercise per micro contract.

TWO: If after buying the single contract you see the trade going your way, let 100 or 200 points accumulate in your favour before “rightsizing”. This more than makes up for your transaction costs. If however the trade is going against you after opening the single contract, *immediately ditch* the extra weight you are carrying.

THREE: Shoot for the *training wheels target*. In this instance you chase the 1st profit target shown by S2/RT, the “training wheels” shown by small dots. You will need to read the S2/RT (Real-time) Addendum Guide to understand what we are talking about here.

When this is hit you offload the extra baggage. We know this target is hit 85% of the time so by chasing this target with the “oversized” portion of your contracts, you are essentially reducing your risk.

The “training wheels” target is *much lower* than the official 1st profit target so it stands to reason that statistically it is MORE LIKELY TO BE STRUCK. After hitting the training wheels target, you are now “right-sized” and let the balance of the trade run to full term on the strategy 1st profit target (the large dots on the S2/RT chart.)



PLEASE DO NOT SIMPLY GO IN WITH 1 CONTRACT if it means double what you are allowed. Time and time again we see losses attributed to over-betting. It is the SINGLE MOST PREVALANT factor in outsized losses. Not only are your losses outsized if the trade goes sour, but the raised risk has raised the stakes considerably and AMPLIFIED your emotional quotient in the trade. When this happens you are FAR MORE LIKELY to sabotage your trade due to greed or fear, especially when markets are volatile.

Trade & Signal Catalogue 04 Mar '09 to 25 Aug '09



Trade & Signal Catalogue 25 Aug '09 to 05 Feb '10



Trade & Signal Catalogue 07 Feb '10 to 25 Jun '10



Trade & Signal Catalogue 25 Jun '10 to 10 Nov '10



Trade & Signal Catalogue 10 Nov '10 to 24 Mar '11



Trade & Signal Catalogue 24 Mar '11 to 11 Aug '11



Trade & Signal Catalogue 11 Aug '11 to 23 Dec '11



Trade & Signal Catalogue 23 Dec '11 to 15 May 2012

