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Dave Mabe's Blog

Create Your Own Trading Strategy with Backtesting

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Create Your Own Trading Strategy with Backtesting

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Dave Mabe

- Systematic trading for 20 years
- Created and trade 25+ trading strategies
- Quantitative Trading Coach (waitlist currently)
- Host of the **Line Your Own Pockets** podcast
<https://lineyourownpockets.com>
- Former CTO of Trade-Ideas

Backtesting is a Trading Superpower

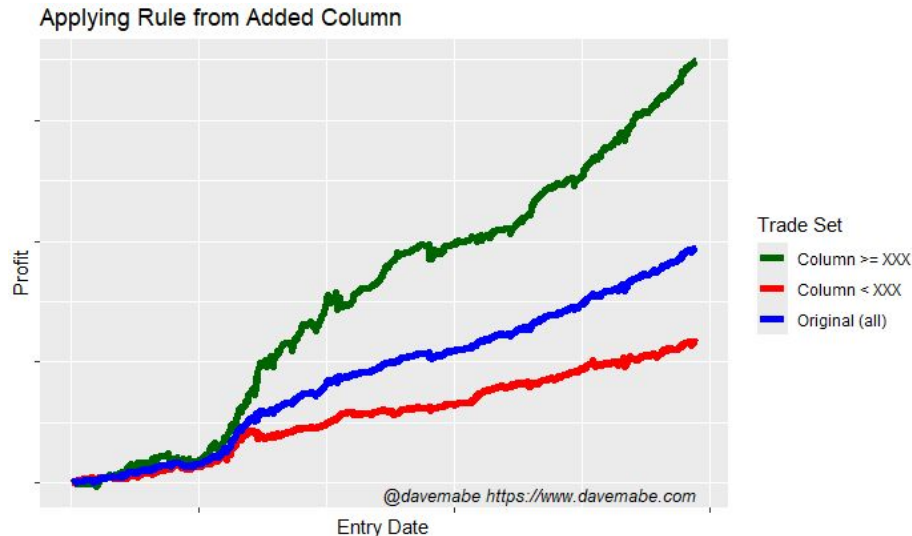
- #1 Trading question I get:
“How do I stop letting my emotions get in the way of my trading?”
- Backtesting is a proven path to confidence

Most Traders Who Backtest Do It Wrong

- “Guess and check” approach
- Shooting in the dark
- Costly and inefficient
- There is a much better way
- This workflow is 20X faster to create a strategy

Feedback from Trader

“This past weekend I was able to take one system from idea to backtesting to preparing it for live trading in one day, that's not something I would've been able to do without this workflow.” - Finith J.



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Start with No Filtering - Include All Trades

- Include all trades at first
- You won't end up trading all of them
- Much easier to start with a large backtest and filter down to your “tradeable set”

Backtesting The Right Way To Get Quick Answers

- Instead of “guess and check”, add **columns** to your backtest
- This is **key**
- Add data points that you believe **might** be predictive
- For example, Relative Volume in a Opening Range Breakout strategy

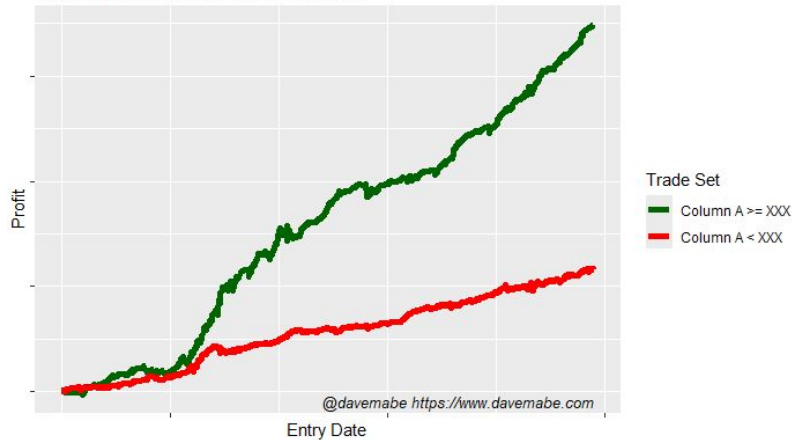
Normalized Columns Are Better

- Make sure the data points in your columns are “normalized”
- Relative Volume is better than Volume Today
- ATR (Average True Range) is better than Percent Range
- More recent, the better

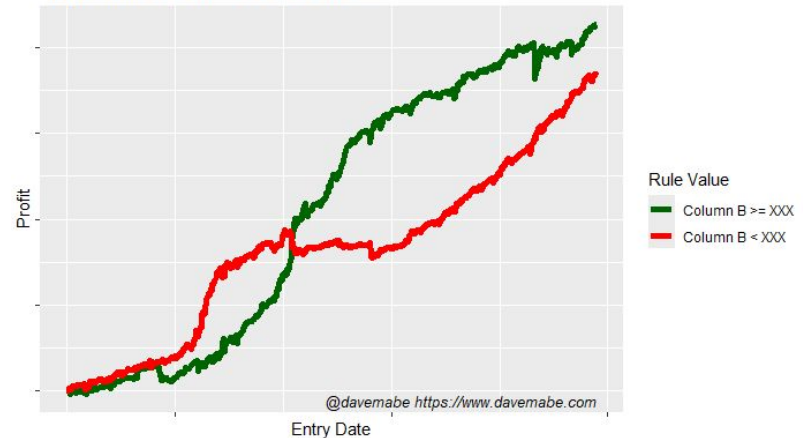
Analyze Your Columns

- The data in these columns will tell you what the optimal rules are
- No more guess and check

Applying Rule from Added Column A



Applying Rule from Added Column B



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Tools for Analyzing Columns in Your Backtest

- Microsoft Excel
- Python
- R
- Others

Backtesting Tools that Support This Workflow

- Amibroker
- RealTest
- Trade-Ideas
- Python

All of these tools work well with Interactive Brokers

Questions?

Free 6 day email course on backtesting:

<https://www.davemabe.com/ib/>

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