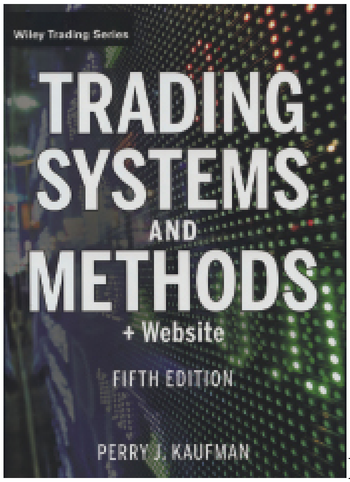
Trading Systems and Methods + Website

By Desmond Macrae | February 1, 2014

Trading Systems and Methods + Website (Fifth Edition)
By Perry J. Kaufman
John Wiley & Sons, Inc.
2013, 1,232 pages
Hardcover $125.00; E-book (Adobe Digital Edition) $84.99



If traders were allowed to have just one book about their craft, Perry Kaufman's *Trading Systems and Methods*would be it. Neither traders nor investors should be without it. This has been the case ever since the first edition in 1978, and is true of this latest edition.

Many readers already may be happy with their trading methods or systems, but comparison yields insight. Even casually looking at the vast amount of information will inspire its readers that, while their methods are profitable, there may be ways to improve or even change them.

In his preface, Kaufman writes that many things have changed since the fourth edition appeared nine years ago in 2005. In this new edition, he devotes significant attention to risk control.

However, be warned. This book is a one-volume encyclopedia of exactly what its title says it is. Like all encyclopedias, some sections are more informative than others.

Kaufman knows his stuff, but one book simply isn't big enough for everything.

For example, in Chapter 4, Kaufman cites Thomas Bulkowski's excellent work on ranking the success of chart patterns, summarizing it less than two pages. They summarize but don't have the room to describe Bulkowski's valuable statistical insights in detail. However, he points us to the correct source.

In short, the value of this book lies in the vast amount of information it presents, and in the way it guides you to find or intuit what it does not have room to present. Kaufman notes at the end of his Preface to the Fifth Edition, the companion website which has TradeStation programs (Version 9) and Excel 2010 spreadsheets, with the hope that MetaStock codes will be added in the future.

There have been several developments in the use of technical tools in the last nine years which Kaufman covers in this fifth edition. He has overlooked one significant development, which is constant range bars noted in the following digression.

First introduced by Danton Long in a February 2003 article, momentum bars (now known as constant range bars) were presented again in “Time is relative with range bars” in the November 2009 issue of *Futures* Magazine. The author writes that they were conceived by a Brazilian trader in 1995; he didn’t make that claim until after the first article about Long and these bars in appeared 10 and half years ago.

Early in 2003, Ensign Software and NeoTicker, followed later by Fibonacci Trader, added them to their charting programs. They are now available on most charting systems except MetaStock.

Think of point-and-figures charts converted to standard bar charts with opens, highs, lows and closes. Users set the range, which is the number of ticks they want in each bar. Thus, each bar has the same height. A new bar appears only when the number of ticks in the range set is exceeded. Gaps are filled by ‘phantom’ bars to give a continuous array of standard-looking bars.

All of the technical non-time related charting tools used with regular bar charts can be used with constant range bar charts. The “new” bars are particularly useful for charting markets that are traded infrequently. In short, they ignore time to create charts that have recognizable patterns.

So far, there has been very little work done on how to use these bars. One hopes that Kaufman and technical analysts whose similar experience will offer explanations the value of constant range bars soon.

Anyone interested in charts that ignore time should read pages 195-222 on point-and-figure charting. This simple exercise reviewing a charting system that most computer-aided traders no longer bother with will stretch their minds a little. This and similar exercises will quickly show why all traders need this book.

Given the continuing uncertainties afflicting the financial world, Chapter 23, “Risk Control,” is a must-read for anyone who trades or invests. Even those who are totally satisfied with their current risk controls method should read it.

As a final, perhaps off-the-wall example, anyone who dismisses using financial astrology out-of-hand should read pages 671-683. This section may not persuade you to use astrology to trade, but it will strectch readers’ minds. Most will reject it, but may persuade readers to explore every new possibility that might modify or improve they current trading system or methods.

The first chapter opens with a quote from Charles Darwin that the species most likely to survive are “…the ones most responsive to change.” Consulting this book will keep it readers with open minds in the correct survival mode.

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