

**January 19, 2009**

## **Using this Beta Version of Standard FastBreak**

First, this beta version (Version 6.X) will only work with users who have version 5.X of Standard FastBreak. We recommend you read this entire addendum before trying to run the new version.

We highly recommend you keep version 5.X on your computer. You can have multiple versions on your computer, but you will need to practice good housekeeping to keep the versions and files organized. The new version consists only of a single new file, but you need to have installed version 5 on the computer.

Here are the recommended steps:

- Create a new folder on your computer (ftbreak6) for example.
- Unzip the version 6 executable into this new folder. The file name is ftbreak.exe
- Rename the file to ftbreak6.exe to avoid confusion with your version 5 executable.
- Drag a shortcut to this file to your desktop and rename the shortcut to FastBreak V6.1
- Double click on the shortcut to launch the new version

The advantage to putting the new version in its own folder is that strategy files created by Version 6 will not run in Version 5. However, Version 5 strategy (DFT) files will load and run in Version 6

**If you need to reinstall FastBreak you will need to do a complete reinstallation with your original CD and then install the update.**

## **What is new in V6.1?**

*Note: There wasn't a V6.0 of Standard FastBreak.*

### **Trendline Stop and Buy Filters**

Trendlines are one of the oldest and still most useful technical analysis tools. Trendlines can be used to determine when a stock or mutual fund has broken down in an upward move, i.e., used as a sell Stop, or trendlines can be used to determine if a downward move has ended and it is safe to buy, i.e., Buy filter. The vast majority of trendline users use a manual method to draw the trendline on a paper chart or a computer screen. Programming a computer to calculate a trendline that a human brain can draw in a few seconds is a daunting task; however, there is a tendency when manually drawing trendlines to “force” the line to other expectations. A mathematical algorithm is not subject to such expectations, but at the same time cannot “see” other potential complications and complexities.

**NOTE: The algorithm to determine trendlines is very computer time intensive. If you are using a very large trading family you will notice a long delay to evaluate the strategy.**

Although the basic idea of trendlines is rather simple, implementation and especially automated implementation, can be come rather complex. Analysts don't agree on methods to draw trendlines (Note: Analysts don't even agree on how to spell trendline, i.e., "trendline" or "trend line.") For upward trendlines, FastBreak uses a method that draws a trendline between *significant* low price points and at no time is the price of the stock or fund allowed to penetrate the trendline. In the chart below the trendline is drawn between the 1<sup>st</sup> and 2<sup>nd</sup> significant price low points. For the trendline to be valid the equity curve cannot penetrate below the trendline anywhere between those two points.



For downward sloping trendlines two significant high price points are used to draw the trendline.

It has been a standing joke that trendlines are very easy to draw after the fact; however, in real time it can be quite difficult to determine which point to choose on the equity curve to anchor the trendline. For example, using the above chart it may have seemed reasonable to draw the trendline shown below at an earlier decision point. However, it is clear that this trendline would have forced you out of a very profitable upward trend too early. This is to say, that the rules of trendline technical analysis forces a sell when the equity curve violates the trendline until a new trendline can be drawn.



The trendline algorithm in FastBreak makes a determination if the low price point dip (in an upward trend) is significant and should be considered as a trendline anchor point. The exact method used to make this determination is proprietary. It is also quite technical and the vast majority of users would not be interested in a multiple page explanation filled with equations.

Another aspect of trendlines is that they can be drawn for the short term or the long term. This is driven by the degree or significance of the dips that form the low points used to anchor the trendline. See the two examples in the following chart. In one case the trendline is capturing a very long term move, in the other case the trendline is anchored with less significant low points.



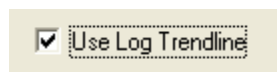
Investment objectives will help define how trendlines are drawn. For example, if a primary objective is to avoid large equity draw-downs then trendlines that capture smaller price moves and avoid significant sell offs will be a reasonable choice. However, it is often the case that to maximize return at the expense of large draw-downs requires trendlines that capture larger price moves and are drawn using more significant price low points. The algorithm used in FastBreak allows either choice to be made.

Finally, trendlines can be drawn using linear price data or using logarithmic price data. There are advantages and disadvantages to both methods. FastBreak will allow either method to be used.

### Using Trendlines in FastBreak

*Note: Adding trendlines to the Stop screens in FastBreak required changing the layout of the screen to fit the additional options onto the page. The new layout should be clear with a little study.*

A new option has been added to the Strategy Tab to force use of a logarithmic trendline.



If the Use Log Trendline option is checked, then logarithmic trendlines will be used for both the Trendline Stop and Trendline Buy Filter.

<input checked="" type="checkbox"/> Trendline	1	30	<input checked="" type="checkbox"/>	31	9999
Size	9			5	

## Trendline Stop

The above boxes have been added to the Stop Tab to activate the trendline Stop. The option is used just like the other Stop options. That is to say, check the box to activate the trendline Stop as either a single period Stop or a two period Stop.

The Size text box is used to control the significance of the price dips used to draw the trendline. If a small value is used then smaller price dips will be considered significant and shorter term trendlines will be drawn. If larger values are used then larger price dips are required before they are determined to be significant enough to anchor the trendline and the trendlines will capture longer term trends.

In the above example a value of 9 is used to control the trendline for the first 30 days. Starting on day 31 a value of 5 is used which will tend to use small price dips, and therefore, shorter trends. Reasonable values are 0 to 10.

If a position is stopped out due to a trendline being violated then a “T” is placed in the WHY column of the output Detail Tab.

<input type="checkbox"/> Trendline Buy Filter	
Size	3

## Trendline Buy Filter

To activate the trendline Buy filter the above option is on the Buy Filter Tab. Activation of this option will prevent purchase of any issue that is trading below its trendline. As with the Trendline Stop, the Size box controls the type of trendline used. Reasonable values to use are 0 to 10.

## Issues to Consider when using the Trendline Options

### Data Required to Determine a Trendline

It can take a considerable amount of historical data to determine the first trendline. This is because it requires two meaningful dips (in the case of an upward trendline) to create the first trendline section. If the stock or fund is in a significant upward movement at the beginning of its historical data, then no trendline can be drawn. Until a trendline can be drawn, FastBreak will assume that the stock or fund is BELOW its trendline. Therefore, this stock or fund can't be purchased if either the trendline Stop or Buy Filter is used by the strategy.

You need to be aware of this issue because you may see situations where a stock or fund is highly ranked and clearly in an uptrend but a strategy will not purchase the equity. **Repeat, until a stock or fund has two meaningful dips in the equity curve a trendline cannot be constructed, and therefore FastBreak will assume the issue is below the trendline and unavailable for purchase.**

### **Summary**

Is the trendline algorithm perfect? The answer is no, there are no perfect technical indicators. Sometimes the algorithm makes an excellent determination, but other times it fails. The question for an investor is does the indicator succeed more often than it fails.