

02/10/2012 FastBreak - Year 2011 Review

Before reviewing FastBreak trading system performance for this past year we want to take care of housekeeping issues, including information on significant free version upgrades to both Standard and FastBreak Pro. **Ordering information and prices appear at the end of this commentary.**

Free Version 6.5 Upgrades (for Version 6 users) of both FastBreak Pro and Standard FastBreak

We have posted V6.5 for both FastBreak Pro and Standard FastBreak on our website, www.edge-ware.com, as a free upgrades for Version 6 users. Version 6.5 has a number of changes but there are two significant new features. We will only give very brief explanations in this commentary. There is much more detail in the release notes for V6.5 on the Upgrade page of www.edge-ware.com

It has been our intent the last few years to build complementary trading systems that, when traded together, will produce a smoother equity curve for an investor's entire portfolio. To that end, we have desired a methodology that will buy into weakness and sell into strength. This is a change for the typical FastBreak momentum system that always buys into strength and sells into weakness.

A new feature (Return Advance to Trend or RAT for short) attempts to measure overbought and oversold conditions for stocks and funds. If a stock/fund is overbought, it is penalized in the momentum calculation. If oversold, then the momentum calculation receives a bonus in the momentum calculation.

A second new option (Breakout Above Trend or BAT for short) tries to identify if a stock/fund that is in an uptrend has established a new, more powerful trend. If that new trend is identified then the ranking period adjusts to take advantage of the new trend.

Both of these new features (RAT and BAT) can work together. In testing, we have found that RAT and BAT is more effective for individual stocks as opposed to funds and ETFs. This is reasonable considering that individual stocks are more susceptible to short term pricing inefficiencies.

Again, read the release notes posted on the upgrade page of your website to get the details.

FastBreak Version 5 users

Beta Versions for Version 5 users

Read this section carefully as it may be confusing.

As a service to Version 5 users we placed beta versions of FastBreak Pro and Standard FastBreak on our website (www.edge-ware.com) in early 2009 that contained new features we added in the initial release of V6. There is no cost to download and try these beta versions, but they will only work for users who have Version 5. Users of earlier versions of FastBreak will not be able to run the betas. Users who have Standard V5 will be able to run the Standard V6.1 beta. Users who have Pro V5 will be able to run the Pro V6.1 beta.

We are calling these versions Beta V6.1 and they have EXACTLY the same functionality as the initial Version 6 release.

These beta versions will not be upgraded or maintained. As we upgrade the official release version with future changes (V6.3, V6.4 etc.) we will not be updating the betas and only those who purchase V6 will be eligible for the updates.

Standard FastBreak Demo Available

The Standard FastBreak 30 day demo on our website is based on V6.2 of Standard FastBreak. This will allow potential users to try the Trendline option in a manual mode. There isn't a demo for FastBreak Pro.

Contact and other information

Our contact email address is [email2ew \(put @ here\) edge-ware.com](mailto:email2ew@edge-ware.com) for all inquiries and tech support. Email spam continues to be an increasing problem and we recommend you put the word "FastBreak" in the title of your emails so our spam blockers don't block your message.

FastTrack has stopped maintaining their Commentaries, but you may be able to find information about our products in the old commentary sections: 8160, 8161, 8162, 8163, 8164, 8165, 8166, 8167, 8168 and visit www.edge-ware.com

Compatibility with Windows® 7

We get inquires asking if FastBreak is compatible with Windows® 7. It has been successfully installed on both the 32 and 64 bit versions of the operating system. During installation if you receive the error "Unable to register Mfc40.dll" click the "Ignore" option and the installation will continue to completion.

2011 Year in Review

This commentary will review several different types of trading systems.

The first version of FastBreak was released in early 1996. Potential users of any investment software product should always ask the question "What is actual performance?" Soon after the initial release we developed example trading systems that could be monitored for "real time" performance. We don't modify trading system parameters during the performance reporting period and report on the systems on a yearly basis. If you would like to review all reports since 1997 visit our web site www.edge-ware.com and go to the Strategies page.

The example FastBreak trading systems on the Strategy page of our web site may provide users and potential users a starting point on the many different types of trading systems that can be built with FastBreak. It also allows us to provide an honest benchmark for real time performance. Users of both Standard and Pro versions can download these systems. The Standard FastBreak 30 day demo (Note: The current demo is based on Version 6.2) that can be downloaded from the web site can also run these strategies but will not display the last 60 market days of trades. Many of these systems are several years

old. We can now build better trading systems, but we keep these systems on our web site to show that many trading systems are effective for long periods of time.

The example strategies should not be considered investment advice. We don't often post or change the example strategies on our web site because we believe investors' needs are very unique and users of our software should feel confident developing their own trading systems. Edge Ware, Inc assumes no responsibility for anyone trading these strategies. In addition, these systems are not rigorously maintained and with the demise of funds or symbol changes the systems may be affected. For example, several of the bond systems used the Shearson Treasuries Bond Index (STBI-) as part of the strategy. This index symbol became inactive in 2009 requiring strategy modification.

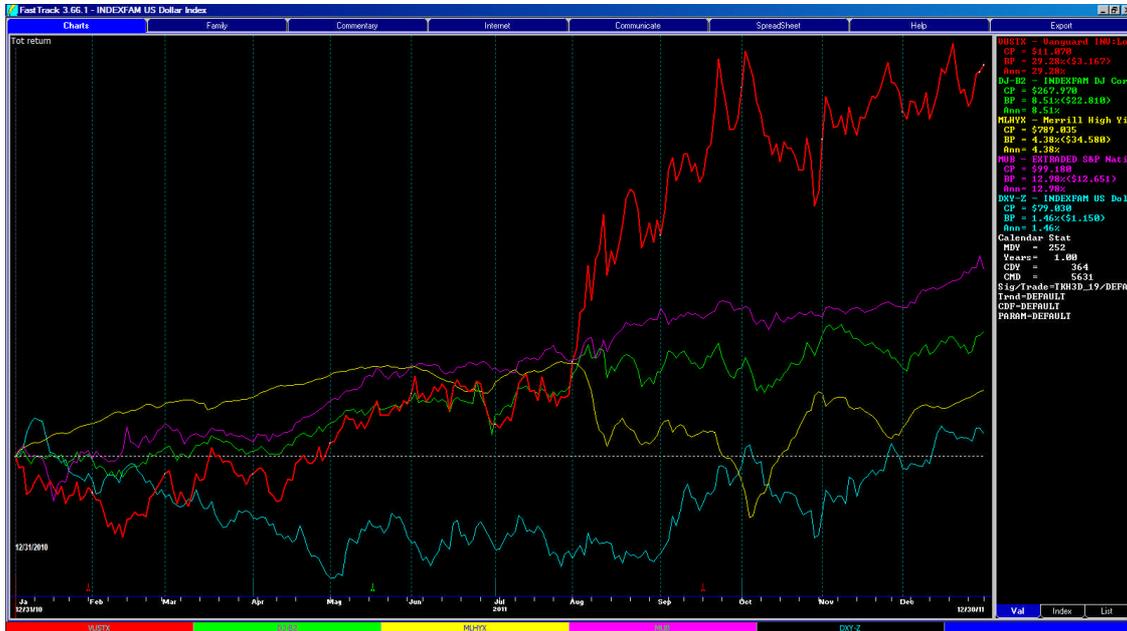
Note: All maximum drawdown (MDD) values reported below are daily values. In the investment industry you will see reported MDD values that are monthly values. Monthly values are very often substantially less than daily values.

The US Stock Market. Many professional investors consider 2011 one of the most challenging years in their career. It was one of the most volatile market years in history with massive short term moves, largely driven by news out of Europe. After all the volatility, most indexes ended the year basically unchanged, with small caps, as measured by the Russell 2000, performing the worst losing over 5%



The Bond and US Dollar markets. Due to the demise of the Shearson Treasuries Bond Index (STBI-), we now use VUSTX as a proxy for US Treasuries. Bond generally outperformed stock equities – again. Treasuries were the clear asset category winner by nearly every measure due to a variety of reasons, including flight to safety because of continuing Euro currency issues, and fear of a slowing economy driving down interest rates. Action by the FED also contributed to low longer term rates which were reflected in higher bond prices. Muni bonds had a very good year as fear about municipal and state

default declined. The US dollar (DXY-Z) was very volatile due to the ever changing problems with the Euro.



Here is a summary of common benchmark performance in 2010:

	Return %	MDD	UPI
S&P 500	0.0	-19.7	-0.2
DJ-30	5.5	-16.8	0.5
OTC	-1.8	-18.7	-0.5
Treas. Bonds (VUSX)	29.3	-9.7	9.7
DJ-B2 (DJ Bond Index)	8.5	-3.5	5.7
High Yield (Merrill Lynch Index)	4.4	-9.7	0.9
Muni Bonds (MUB)	13.0	-3.6	15.4
DXY-Z (Dollar Index)	1.5	-10.0	0.0

We include two measures of investment returns for professional managers:

	Return%
Managed Futures Funds	Approximately: -4 %
Hedge funds	Approximately: -6 %

The above values are approximate because of the difficulty obtaining reliable information on these programs.

How did the FastBreak strategies posted on our web site perform? **Note: the date in the table below indicates when the system was posted on our web site. In many cases the system was trading real time well before posting.**

	System Return%	MDD	UPI
Bond system (3/2001)	7.6	-15.2	1.0
International funds (2/2002)	-3.3	-8.7	-0.9
Bonds LT Gov and HY (12/2002)	10.1	-7.9	2.6
Bonds Conservative zero coupon (12/2002)	11.7	-7.3	3.5
Bonds Aggressive zero coupon (12/2002)	17.8	-9.6	6.2
Short bond (Rydex) (12/2002)	-0.7	-6.8	-0.4
Short NDX-X (Rydex) (12/2002)	-11.0	-17.2	-1.6
Short S&P 500 (Rydex) (2/2002)	-11.5	-21.2	-1.4
Income Strategy (1/2009)	3.8	-12.4	0.4
Long/Short Gov Bonds and US\$ (7/2007)	16.8	-18.8	-2.2
Muni Bond (2/2010)	8.0	-1.5	12.1

Bond systems were generally very good to excellent. In 2010 we introduced a muni bond strategy. It should be noted that a large portion of the gains from the muni bond system are federal tax free so depending on your federal tax bracket the comparable taxable return could be as much as 10%. We especially like the MDD and UPI of the muni system.

ETF Muni bond system Last year we reported that we had built an ETF muni system to avoid the minimum holding period problem. Last year it was too early to report on this system because it hadn't been real time for a full year. In 2011 this trading system returned over 12% with less than a 3% MDD and a UPI of 9. The following chart compares the equity curves for the muni bond system posted on

our website (Mun23), the ETF muni system (MET11) and the S&P 500. The chart begins on the date Mun23 started trading real time. (The ETF system hasn't been real time as long). The muni system is even more interesting when it is considered that approximately half the gains are Federal tax exempt.



The only bond system that didn't do so well is the strategy that uses a Rydex fund to short the bond market. The Rydex long and short bond funds are very volatile and subject to whipsaws.

The International system has been around since 2002 and continues to have amazing performance. Although it was down 3% most foreign stock markets were down double digits with many markets down more than 20%. Read previous yearly reports for background on this system. We have maintained reporting on this strategy to demonstrate long term strategy performance.

The **Short Market systems** had a poor 2011 with the choppy market. We will admit that we haven't really concentrated on short selling (it is very hard to do well!) and this is probably just a poor system that we are going to stop reporting on. These systems do very well in really bad markets, but they are too inconsistent for our taste. There are much easier ways to make money in a down market than outright shorting stock indexes, e.g., bonds, currencies, etc.

The **Income strategy** did well in 2011. An earlier version of this system has been around since 2003 and has been one of our personal favorite trading systems. We reoptimized the system in 2008 (see 2008 commentary) due to a 2008 MDD higher than we liked. The system continues to be whipsawed in the real estate fund. Prior to 2007 the Fidelity Real Estate fund had an equity curve that had volatility similar to the other funds used in this trading system; however, in recent years that hasn't been the case. This system was originally built to have a much lower volatility than a stock equity trading system. We decided to abandon the real estate fund and add other bond funds to the trading family. It is very likely that the old strategy would benefit as the real estate market improves, however, this system was built to provide consistent returns. The system was rebuilt in early 2011 so it hasn't had quite a full year of real time performance. In 2011 the rebuilt system returned 9.9%, with an MDD of less than 4%. We really like

the new strategy and will replace the old Income strategy on our website with this revised strategy. As an aside, we have realized in the past year that the Sharpe Ratio ranking method appears to be very effective for bond trading systems.

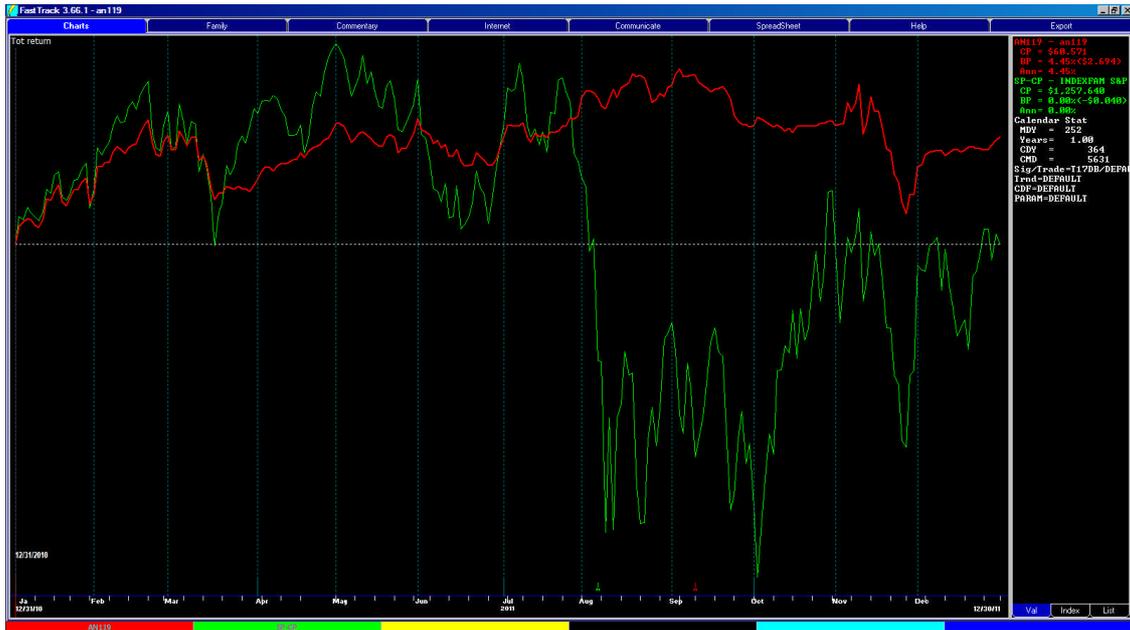
The **Long/Short - Dollar/ Gov Bond** trading system. This system did very well in 2011 even with all the volatility in the dollar index.

Other Mutual Fund Systems of Interest

Potential FastBreak users often ask about other systems such as Rydex and Fidelity Sectors. Here are some other systems we traded or monitored during the full year to provide additional information. The trading files for these systems are not posted on our web site.

System	Return%	MDD%	UPI
Annuity (4 funds no signal)	4.4	-5.7	1.5
Rydex no signal	-12.6	-30.0	-1.0
Fidelity Select no signal	-0.7	-14.0	-0.3
ProFunds w/signal	-17.0	-40.1	-0.9

The **Annuity** system holds four positions in a trading family of approximately 40 funds. The trading family includes a very diverse group of funds including international and bond funds. It doesn't use any trading signal but relies on rotation into non-stock funds during a down market. In past years this strategy was reoptimized nearly every year due to annuity company changing many of their funds; however, the system wasn't reoptimized in 2011 because after many years of using this very fine annuity company we transferred the annuity account to Jefferson National (more about this later). One of the advantages of FastBreak Pro is the ability to quickly rebuild trading systems when there is significant change in investment program such as annuity or retirement programs. System performance was very good with a very small MDD. Even though this system has better than market like returns, here is how the system equity curve compared to the S&P 500. Obviously this system has a much smoother ride without the benefit of a timing signal.



Rydex, Fidelity, and ProFunds sector system performance was generally good (Fidelity) to poor (Rydex and ProFunds). Because of market volatile there were a lot of whipsaws in sectors. The ProFunds system was described in the 2007 commentary year. The system uses the ProFunds sector and 1x and 2x index funds. The timing signal used for this strategy was whipsawed in August and September. When using 2X funds a whipsaw can be very painful. At midyear this strategy was up over 25%. **Jefferson National** The last two years we mentioned work with the funds available from Jefferson National, a favorite annuity company of many active investors. We built systems in late May, 2009 These system performed very well in 2010, the first full year of real time performance. Here is how these systems performed in 2011.

System	Return%	MDD%	UPI
All 7 and 30 day hold bonds	17.8	-7.6	6.4
7 day hold bonds	15.7	-7.9	5.5
7 day Equity funds – no signal	-11.8	-23.6	-1.3

Jefferson National has multiple holding periods on their funds. We build two different bond systems based on the different holding rules. **Note: Jefferson National is constantly changing funds available and holding rules. These systems were built with the funds and rules in place at the time the system was built in 2009.** We are very pleased with the bond fund results. The Equity system had a poor November in what was an otherwise a good year. We have been so happy with the Jefferson National strategies over the past three years that we decided to use this company for our own annuity investments. **Note: Do not consider this an endorsement or investment advice. Every investor had different needs.**

ETF Trading Systems

As we have previously noted, ETFs are fantastic investment vehicles; unfortunately, there isn't a lot of historical data for testing and system optimization for the vast majority of ETFs. Some investors have successfully developed systems using other sector funds or indexes that have a long history and then substituting the ETFs into the system. We didn't do any significant new research with ETF systems in 2011. Older systems that we monitor in real time on average ended down about 12% for the year. They were comfortably ahead of the S&P heading into October, but when the market reversed strongly to the upside the ETF systems were generally slow to respond and caught in the wrong funds. We have found that the ETF systems we build tend to out perform the market when it is either in a strong uptrend or a strong down trend, and don't do well in choppy markets. We have tried to build systems that trade the entire FastTrack universe (over 1000) of ETFs. We could probably be a lot smarter and thin the trading family, but we have found it easier to make money using other vehicles – for now. As we get more history on ETFs we expect to do better.

Stock Trading Systems

Review the 2005, 2006 and 2007 commentaries that described stock trading systems built using FastBreak Pro. Trading individual stocks can produce spectacular returns or equally impressive failure. We have continued to do a lot of personal system development with stocks, more so than ETFs. We especially like small cap value stocks and energy stocks. We have described our general approach to developing such systems in previous years. The small cap value systems we trade or monitor returned between a minus 15% and a plus 15% with MDDs generally less than 25%. When we look at a simple average of the systems they were about -4% for the year. The energy stock system we have discussed in previous years had a great first half but ended up flat for the year.

The new RAT and BAT options in V6.5 seemed to be effective in backtesting; however, the systems we built using these new options are too new to obtain any realistic real time conclusions.

As has been stated in previous commentaries, individual stock trading systems are very volatile and not suitable for everyone.

Summary and development plans for 2011

The one message that we keep emphasizing is that investors should diversify across multiple trading systems and asset classes. No one system is going to trade well in all markets. We will continue to monitor the stock systems that use the new features we added with V6.5 and report next year.

What is FastBreak and Who needs FastBreak

Unlike other trading methods, the FastBreak "mechanical" trading strategies gives specific buy and sell recommendations. Mechanical trading systems leave no room for historic "revision". These types of trading systems may not be for everyone, but we believe they should be considered if you recognize yourself in the following:

- Do you have trouble "pulling the trigger" on trades, e.g., selling your losers, taking profits on your winners, waiting for a bounce to get out of a bad trade ...?
- Do you have a limited amount of time to devote to your investments? If you are a full time investor, or enjoy sitting in front of CNBC and your computer all day, you may be able to do better with other investment methods. However, if you have limited time (or better things to do with your time!) a few minutes an evening is all you need to download your FastTrack data and run your FastBreak strategies.
- We have stopped reporting on some of the older FastBreak systems for a variety of reasons: Many of the mutual funds used in these old trading system families have since been discontinued, the market timing signals (unrelated to FastBreak) used did not stand the test of time, and we can build much more effective strategies with the functionality added to FastBreak in recent years. We felt that those systems don't accurately reflect the performance that FastBreak can produce.

Standard Disclaimer

As the saying goes, "Past performance is not a guarantee of future results."

Ordering information - PLEASE READ CAREFULLY

Standard FastBreak

New user purchase: \$475 (check) \$499 (credit card)

Current user upgrade: \$190 (check) \$199 (credit card) (If you have purchased ANY previous version of Standard FastBreak)

Save up to \$135 on FastGraph (see commentary 8163) when purchased with Standard FastBreak: add \$115 (check) \$125 (credit card)

FastBreak Pro

New user purchase: \$1800 (check) \$1900 (credit card)

Current user upgrade: \$380 (check) \$400 (credit card) (If you have purchased ANY previous version of FastBraek Pro)

Save up to \$135 on FastGraph (see commentary 8163) when purchased with FastBreak Pro: add \$115 (check) \$125 (credit card)

If you have any questions about ordering contact us at [email2ew \(put @ here\) edge-ware.com](mailto:email2ew@edge-ware.com)

When ordering by either phone or check specify:

- 1) New user or Upgrade
- 2) FastTrack account number (not your password)

If you purchase Standard FastBreak and later decide to purchase FastBreak Pro within 60 days, we will credit your full purchase price toward the FastBreak Pro purchase.

At user request, we are going to continue offering discounts for those who make their purchase by check. When payment is made by check we avoid the credit card and 800 order line fees. We pass along those savings to you.

Order using your VISA or MasterCard by calling our toll free order line 800-420-9588. Do not use this number to obtain additional information. This is a commercial order line and the operators are not equipped to answer technical questions.

If ordering by check or money order, send check to:

Edge Ware, Inc
3536 Onyx Circle #4
Beavercreek, Ohio 45431.

All orders receive an installation CD and hardcopy manuals. New users will also receive a 60 minute DVD. The video is to help you get started faster with the basic functionality of FastBreak and FastGraph.

FastBreak **IS NOT** offered with a money back guarantee. If you are not sure FastBreak is for you, we recommend going to our web site (www.edge-ware.com) and download the user manuals and 30 day Standard FastBreak demo program. You can also download the sample trading system from our web site and run them in the demo.

If you have additional questions we can be contacted at [email2ew \(put @ here\) edge-ware.com](mailto:email2ew@edge-ware.com) **DO NOT CALL INVESTORS FASTTRACK for information!!**