

VantagePoint 7.0

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Product: Trend forecasting software for futures, forex, ETFs, and equities markets using intermarket analysis and neural network technology

Requirements: Windows XP/2000, 512M+ RAM, 400M+ hard-drive disk space, Internet access (end-of-day data downloads), subscription to data provider (Commodity Research Bureau or Commodity Systems, Inc.)

Price: \$3,900 for initial category (additional categories extra)

by Phil Crosby, CFA

Market Technologies' flagship product, VantagePoint Intermarket Analysis Software, has been reviewed a number of times, but version 7.0 has so many new features it deserves a review of its own. Enhancements from version 6.0 include the addition of long-term forecasts, the major technical indicators, and many leading stocks from the Standard & Poor's 500 as well as a new look built around portfolios that give the user easier access to charts and more flexibility in working with them.

One thing that has not changed is VantagePoint's foundation: Intermarket analysis using neural network technology to analyze multiple related markets to look for patterns that hint at where a target market is headed. That's the same concept that company founder and trading technology pioneer Louis Mendelsohn has used since he released the first version of VantagePoint in 1991.

PRODUCT OVERVIEW

VantagePoint 7.0 forecasts the outlook for more than 200 markets across 19 categories, including most major commodity and financial futures, forex pairs, exchange-traded funds (ETFs), and equities within nine stock sectors. Within the commodity futures arena, VantagePoint provides forecasts for energies, grains, meats, metals, and softs. In financials, forecasts are provided for currency futures, ETFs, forex pairs, indexes, and interest rates. In stocks, forecasts are provided for individual equities within the basic materials, conglomerates, consumer goods, financials, health care, industrial goods, services, technology, and utilities areas.

These forecasts are provided for each of these markets:

- **Neural index:** The predicted index is 1 if the three-day moving average of price in two days is forecast to be greater than the current three-day moving average (and reverse for zero).
- **Predicted strength:** Indicates how much the future three-day price average used in the neural index will be greater than or less than the current average.
- **Predicted short-term trend:** Two-day average of prices forecast one day ahead.
- **Predicted medium-term trend:** Four-day average of prices forecast two days ahead.
- **Predicted long-term trend:** Eight-day average of prices four days ahead.
- **Predicted high:** Next day's high.
- **Predicted low:** Next day's low.
- **Predicted indicators:** Forecasts for triple exponential moving average (EMA) crossovers (4-9-18 days), moving average convergence/divergence (MACD), stochastics, and relative strength index (RSI).

Market Technologies claims 80% accuracy across markets over time in determining near-term market trends. This claim got my attention so I put VantagePoint to the test, using the category that forecasts trends across 13 ETFs that I trade frequently. The neural index is the basis of these claims so I tested the index accuracy from November 2005 through November 2006 for all 13 ETF markets and found the index to be accurate anywhere from 77% to 84% of the time — right in line with Market Technologies' claim.

Following the ETF test, I continued to test the accuracy of the neural index across other randomly selected VantagePoint market forecasts. The neural index for natural gas futures was 79% accurate, the euro/US dollar forex pair was 82% accurate, the 10-year Treasury forecast was 78% accurate, the Dow Chemical stock was 78% accurate, and the Apple Computer stock was 82% accurate. I didn't check the accuracy for all 200 markets, but given the results from this sample, I am inclined to give the benefit of the doubt to VantagePoint's accuracy claim for the rest.

In addition to testing the accuracy of the neural index, I also tested the predicted high and low for the next day, as well as the predicted short-, medium-, and long-term trend data for the ETFs in VantagePoint's database. Although the accuracy of these predictions varied on any given day, these variances tended to cancel each other out over a year of predictions so the average amount that the predictions varied from actual values was close to zero.

However, one point must be emphasized: Just being able to predict a near-term trend with some accuracy does not guarantee instant profits. VantagePoint still requires the trader to work to develop profitable trading strategies. It is not a trading system, but the data it generates gives a trader some strategy development ammunition. VantagePoint data can also be easily imported into Excel worksheets for further analysis and incorporated into external trading models, something I have found useful.

LOOK AND FEEL

Figure 1 shows a typical screen from VantagePoint 7.0. A “markets tree” on the left lists the various markets available for forecast data, while a handy portfolio feature allows the user to group various charts and reports for different markets into separate folders, making retrieval for commonly used groups of data easy.

The right side of Figure 1 shows an example chart for the iShares Russell 2000 ETF (IWM) with the predicted medium-term trend (blue line) moving above and below the actual medium-term trend. What may not be clear is that this predicted trendline was generated in advance of actual data (it is a four-day average predicted two days in advance). The chart shows a history of that predicted trendline as well as the current trade day’s prediction.

Also shown on the bottom of the chart are the neural index (gray line) that moves between 1 and zero as VantagePoint adjusts its three-day moving average prediction each trade day and an oscillator that tracks the difference between the predicted and actual medium-term trend prices. This oscillator and others provided by VantagePoint 7.0 can be quite useful in developing trading strategies.

USING VANTAGEPOINT

Although VantagePoint provides fairly accurate forecasting data, using that data successfully takes work and skill. A basic strategy in VantagePoint is to use the crossovers of the predicted trendlines above and below the actual trendlines to generate trading signals. However, after backtesting this approach for the ETF markets, more sophisticated analysis appears to be required to get the most successful results.

To illustrate how VantagePoint 7.0 can be used in trading, I developed a couple of different strategies that might be successful. Given the amount and quality of the VantagePoint data, I suspect there are other strategies that enterprising traders could develop to suit their own trading style and personality.

Strategy 1 is simple, involving only the neural index and predicted strength



FIGURE 1: VANTAGEPOINT 7.0. Here you see what a typical screen looks like.

indicators to determine whether to be long or short a particular market the next day. If the neural index is 1 at the end of the day and the predicted strength is somewhat greater than zero (showing that the neural index value is significant), the trader would initiate (or continue to have open) a long position at the next open. Conversely, if the neural index is zero and the strength is some-

what less than zero, the trader would initiate (or continue to have open) a short position at the next open.

This simple “always in” strategy does not work for all securities, but I found that it does work fairly effectively for a number of the ETF markets that I tested (see Figure 2 for an example).

Strategy 2 is a slightly more sophisticated strategy that uses the oscillation of

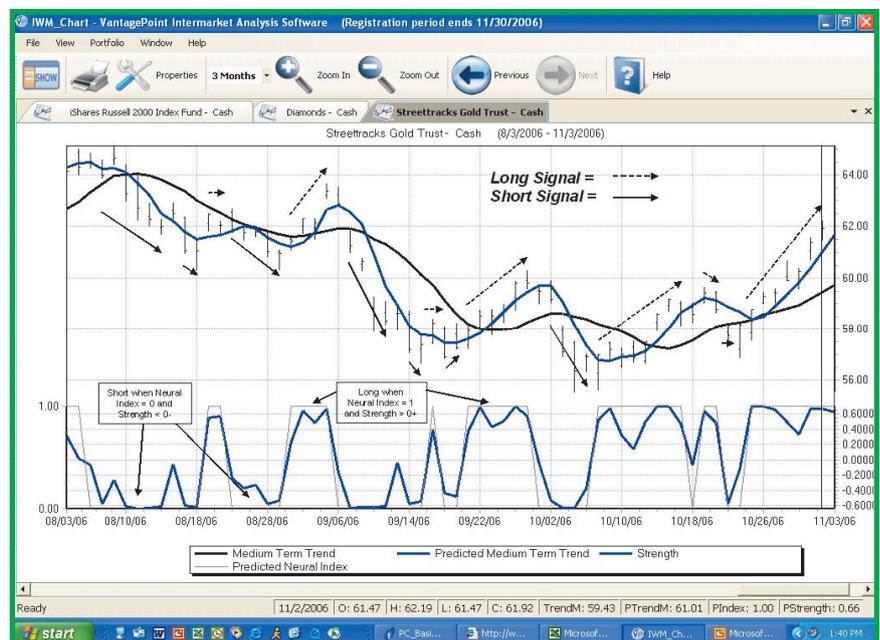


FIGURE 2: “ALWAYS IN” STRATEGY. This strategy was created with the intention of being either long or short the market the following day. This strategy may not work for all securities, however.

the spread between the predicted trend and the actual trend to generate long, short and no-trade signals. Unlike strategy 1, this sends signals to take positions only at selected times. Figure 3 illustrates this strategy using the spread between the predicted medium-term trend and the actual medium-term trend (referred to as “PTMDiff” by VantagePoint) to trade the iShares Russell 2000 ETF (IWM).

When PTMDiff turns up, the model signals that a long position should be taken at the next open. This position is kept until PTMDiff reaches a certain value (indicating a short-term top is near) or turns down. If this certain value of PTMDiff is reached but PTMDiff is still moving up (indicating potentially overbought), the model issues a no-trade signal, meaning that the position should be exited at the next open.

Conversely, when the PTMDiff turns down, the model issues a short position signal to be taken at the next open. This short position is retained until PTMDiff turns up again or until PTMDiff reaches a certain (minimum) value. If this certain value is reached and PTMDiff continues to move down (indicating potentially oversold), the model issues a no-trade signal, indicating that the position should be covered at the next open. The cycle then repeats itself when PTMDiff turns up again.

Note: Each of these strategies needs to be backtested, validated, and optimized for each market of interest. And past results are no guarantee of future success.

INTERMARKET AND NEURAL NET

VantagePoint 7.0 provides accurate short-term forecast data across many markets. Accurate forecasts are difficult to develop, but VantagePoint’s strategy of using intermarket analysis is based on sound logic and seems to work well. VantagePoint does not provide trading signals but provides

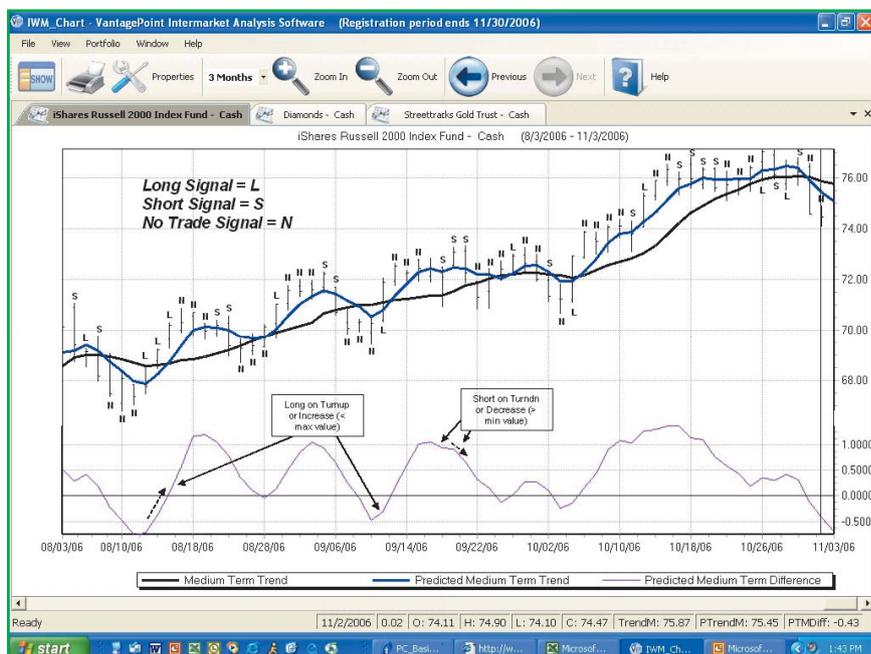


FIGURE 3: PREDICTED VS. ACTUAL TREND. Here you see how the spread between the predicted and actual trend generates trading signals.

data that can be used to develop trading signals. To use the tool, a trader should be proficient in developing trading models using VantagePoint data as an input.

In addition, the fact that VantagePoint forecasts are based on intermarket analysis and neural net technology means that the data generated may be fairly uncorrelated with most indicators currently used by traders. Consequently, it may provide a good mechanism to cross-check or enhance existing trading strategies that are already in use.

At \$3,900 for the core tool and an initial forecast category, VantagePoint 7.0 isn’t inexpensive, but when the predictions are applied properly, a trader should be able to recoup the investment.

Phil Crosby runs a private partnership and uses VantagePoint among his trading tools.

†See *Traders’ Glossary* for definition

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