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The Relativity Trading System

I'd like to thank you for your interest in the Relativity Trading System. After reviewing the following article, I am sure you will agree that we have created something unique.

Let me start out by introducing myself. My name is Dean Hoffman. I have been in the commodity business for over 23 years, the last 17 of which I have spent researching and developing specialized commodity trading systems.

In 2001, I created a financial software company dedicated to commercial trading systems. One of those systems has done so well that the Futures Truth Company, an independent trading systems evaluator, has decorated us with their prestigious Top Ten Trading Systems of All Time award—not once, but twice.

My experience ranges from running my own futures brokerage firm at the Chicago Mercantile Exchange to my current position as a licensed Commodity Trading Adviser. I am the founder and owner of two successful trading companies, DH Trading Systems and Hoffman Asset Management. Using my proprietary trading systems, I trade around 15 million dollars in the futures markets daily.

It is from these many years of experience that I have refined the ideas that I am about to share with you.

Trading System Basics

In this section, we are going to explore some of the fundamentals of commodity trading. Experienced traders may want to skip ahead to the section on Relativity.

Trends

The first basic concept that needs to be understood is trends. Trends are the basis of all trading profits. Prices must "trend" higher from where a trader bought, or they must "trend" lower from where he sold to make a profit. Some may argue that they are "counter-trend" traders, but even these need a trend in price (no matter how short term) to make a profit.

When you think about it, trends can be seen everywhere. Temperatures gradually trend from warm to cold as winter approaches. The demand for gasoline gradually trends higher during the summer driving months. Ground moisture trends from moist to dry when a drought approaches, and interest rates trend from high to low or low to high over time, and so on.

All these events, whether seemingly natural or unnatural, can create sustained price trends in the futures market, and it is from these trends that we can try to profit. Systems like these are often referred to as "trend following systems." Calling them "trend following systems" is correct because these systems cannot and do not try to predict trends. Instead, they jump on board with the trends once they have begun, and there are many empirical studies that prove that commodity markets tend to trend well.

The real difference among traders is how they determine the beginning and end of a trend. A trader may define the starting point of a trend as something as basic as a slight change in the direction of a moving average. As an example, some traders might use a rising moving average of prices as a signal that the market is ready to go even higher. Counter-trend traders, on the other hand, might use this same indicator as a symbol that the market is overbought and getting ready to head lower. Both are potentially correct depending on their exits. The real question is how we can quantify these trading approaches and code them into profitable trading systems.

Position Sizing and Money Management

Along with entry and exit methods, a trader must also have an excellent position sizing and money management plan. Even if his entry and exit points are 90% accurate, if a trader risks it all on every trade, at some point the odds are substantially in favor of him losing all his money. By the same token, a system that is only accurate 10% of the time but has proper money management could do well.

The bottom line is that traders need to know precisely how much of their account to put at risk in any given trade. It is also necessary to know how many positions to buy or sell whenever there is a signal. An expert system should provide traders with all this information.

Definition of a System

A system can be defined as a combination of entry and exit techniques with a proper money management plan. Some people are content to trade one system while others may combine many different systems.

Trading Psychology

The final piece of the puzzle is proper trading psychology. It does not matter how brilliant a trader's systems are, if he is unable to take the heat during the inevitable drawdown periods, he will fail. By the same token, if he gets too ecstatic during winning periods, he will also tend to fail.

The key is emotional consistency and the ability to stick to a system through thick and thin. A trader must have complete confidence in his approach. This is where extensive (and proper) testing can help. Testing can help to build up solid proof that what a trader is doing works over the long run.

Summary

In summary, traders need to have an edge. This edge should consist of:

1. Proven entry and exit techniques
2. A proven position sizing and money management plan
3. Proper trading psychology

Keep in mind that, although it would be easy to expand each one of these three points into a whole book of its own, my purpose here is simply to give traders a high-level overview.

The Relativity Trading System

Now that we have laid the basic groundwork, let's get into the specifics of the Relativity Trading System.

Relativity is a combination of 5 different trading systems. Trading 5 systems simultaneously will give a trader much greater diversification than trading only one. All these systems are essentially trend followers, yet they also incorporate parts that are more inclined toward counter-trend following. Once again, even this helps add to diversification.

These 5 different systems also communicate with one another and trade together as one integrated unit. For example, if one system has already invested heavily in Japanese Yen, the other four systems know not to take any more trades in that market. Doing so would not help to diversify but only raise the risk in the same trading idea.

The Relativity Trading System uses more than just the basics of price direction as its method to generate signals. Relativity starts by using sophisticated pattern recognition techniques that enable it to more accurately identify the best risk-to-reward entry points. It then uses a series of different exits to limit risk and lock in profits. Many customers find this exit methodology pleasing, the reason being that, unlike many other trend following systems, the Relativity Trading System tends not to give much profit back after a large move in its favor.

Dynamic Portfolio

One unique aspect about the Relativity Trading System is its dynamic portfolio logic. Unlike most systems that predefine a smaller portfolio to trade, Relativity trades almost every commodity market, and it does this while still maintaining low minimum account size requirements.

The reason it can do this is that this systems program ranks nearly all the markets into percentiles on a daily basis. It then narrows its list down to only those few markets that have the highest relative trending potential. The net result of this practice is that, while not many markets may be on its radar at any given time, that small list is constantly changing depending on where the best opportunities lie, and the greatest benefit is that traders do not have to worry that the best trends will occur in markets that they do not trade!

Money Management and Position Sizing

The Relativity Trading System also thoroughly handles position sizing and money management. It specifically manages how many contracts to enter when a trader gets a trading signal. This is essential because different futures contracts have different volatilities and trading them all in equal numbers would not be properly diversifying. If a contract, for example, tends to have high-volatility, a trader should trade fewer of those than another whose volatility is lower. The Relativity Trading System uses a trader's account size to determine the proper position size for each trade he makes. Frequently the right position size is simply zero, and there are four reasons for this:

First, if the trade occurs in a market that is not strong enough in rank to be in the dynamic portfolio. Second, if, given the account size, the risk in the trade is just too high. Third, if there is already enough or too much risk held in that given sector. And fourth, if there is already enough or too much risk across all the current positions in the portfolio.

Relativity does not try to risk more than 1.5% of a traders account size in any given trade. It will also not risk more than 5% of his account in any given sector. Let's suppose, for example, that a trader purchases crude oil for his account. If the risk in that trade amounts to 5% or more, Relativity will not take new trades in any markets that are highly correlated such as unleaded gasoline.

Relativity also will not try to risk more than 10% of a trader's entire account at any given time. Meaning, if every trade a trader is in were to hit its stop price simultaneously, the total should represent no more than about 10% of the entire equity of the trader's account. Once the risk level either reaches or goes past this 10% level, Relativity will reject all new trades and return a position size of zero.

(* see risk disclosure on limiting risk)

Summary

In summary, the Relativity Trading System combines all the parts that I believe are essential to a trader becoming successful at trading commodities. Relativity diversifies not only across many specific winning systems but also across nearly every commodity market. This, combined with its conservative position sizing and money management, creates a system that should not only meet but far exceed traders' expectations.

For a detailed historical performance report, please visit our site at: www.RelativityTradingSystem.com

Dean Hoffman
DH Trading Systems

IMPORTANT RISK DISCLOSURES

*Risk percentages cannot be guaranteed, occasional market conditions could cause a traders stop loss orders not to be filled at the specified prices

Futures based investments are often complex and can carry the risk of substantial losses. They are intended for sophisticated investors and are not suitable for everyone. The ability to withstand losses and to adhere to a particular trading program in spite of trading losses are material points which can adversely affect investor returns.

Past performance is not necessarily indicative of future results

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN; IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY

ACCOUNT FOR THE IMPACT OF FINANCIAL RISK OF ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL WHICH CAN ADVERSELY AFFECT TRADING RESULTS.