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4 factors to measure the performance of a trading system:

1 - Accuracy

There is no such thing as 90% Accuracy without compromising on other factors (like profit factor, etc)

Fact - A good trading system will have only 35-60% accuracy without compromising other factors.

(1/n)

2 - Profit Factor (PF)

It is similar to risk-reward. It is derived using the below formula:

Profit Factor = Total Profit by winning trades / Total loss by losing trades

Fact - A trading system above 1.2 PF is good if it scores well with other factors.

(2/n)

3 - Maximum Drawdown

The maximum drawdown also plays a vital role psychologically while picking a trading system.

Fact - Maximum Drawdown in any trading system should not exceed 20%. I suggest picking only the techniques which have less than 10% maximum drawdown.

(3/n)

4 - Maximum Consecutive Losers

We all feel bad even if we lose only Rs.1,000 in a trade. Because it is not only about the money, it is emotionally difficult to accept the failure.

Fact - A good trading system will have less than 15 consecutive losing trades.

(4/n)

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(n/n)

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