NeuroShell Trader

The mean-reverting pairs trading system described by Domenico D'Errico can be easily implemented in NeuroShell Trader through use of the Pairs Trading indicators from the Advanced Indicator Set 3 add-on.

To identify which instruments should be traded in a pair, you can use a neural network to select one stock from a group of stocks to predict another. The trick is to limit the neural net to one input and it will find the best pair.

Once the pair is identified the Trading Strategy will determine when the prediction crosses the actual price of the predicted stock to generate trading signals. Simply select 'New Trading Strategy …' from the 'Insert' menu and enter the following in the appropriate locations of the Trading Strategy Wizard:

TRADING RULES

BUY LONG CONDITIONS: [All of which must be true]
   A=B(ProxyEntry(Close,AMERICAN TOWER CORP Close,Verizon Communications Close,AMERICAN TOWER CORP Close,Prediction: 0 bar AMERICAN TOWER CORP Close,4.61),1)

SELL LONG CONDITIONS: [All of which must be true]
   ProxyExit(Close,AMERICAN TOWER CORP Close,Prediction: 0 bar AMERICAN TOWER CORP Close,0.38,12.95)

SELL SHORT CONDITIONS: [All of which must be true]
   A=B(ProxyEntry(Close,AMERICAN TOWER CORP Close,Verizon Communications Close,AMERICAN TOWER CORP Close,Prediction: 0 bar AMERICAN TOWER CORP Close,4.61),-1)

COVER SHORT CONDITIONS: [All of which must be true]
   ProxyExit(Close,AMERICAN TOWER CORP Close,Prediction: 0 bar AMERICAN TOWER CORP Close,0.38,12.95)

POSITION SIZING METHOD:
   Fixed Dollar
      5,000.00 Dollars

If you have the NeuroShell Trader Professional, you can also choose whether or not the parameters should be optimized. After backtesting the trading strategy, use the 'Detailed Analysis …' button to view the backtest and trade by trade statistics for the strategy.

For more detailed information on how to implement the use of proxy pair trading indicators in NeuroShell Trader, refer to the article titled "Neural Network Pair Trading" that appeared in the February 2010 issue of STOCKS & COMMODITIES magazine.

Users of NeuroShell Trader can go to the STOCKS & COMMODITIES section of the NeuroShell Trader free technical support Website to download a copy of any of the traders' tips.

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Figure 1: A NeuroShell Trader chart displays the Pairs Trading System implemented in NeuroShell Trader.