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# NEOWIRE

Cutting Edge Stock Market Analysis

**JUNE 2022**

Volume 08

# Founder's Message

**To the Neo Trader Family,**

Hi there!

The cliché oft quoted in the market is 'sell in May and go away' may well have worked as the month saw the index hit down sharply to test the lows created back in March. But those lows managed to hold and now market seems to be attempting to rally. The quantum of rally so far has been quite limited mainly owing to somewhat negative news flow from overseas markets.

The question that gets raised is whether the fall in the first quarter of the year has seen off the bearish grip on the markets? The answer to that doesn't seem to be too appetizing. As of now, there is yet insufficient evidence that the correction may be complete. It is my view that we may spend a good part of the balance part of this year being in a corrective mode.

Now that may sound a bit alarming but it is not necessarily so. What it might lead to is reduced opportunity rather than reduced returns. Let me explain what I mean by that.

When a market is trending upward, the number of opportunities is plentiful as we witnessed in the periods of later part of 2020 through till last quarter of 2021. When it does not trend or gets into a correction, the number of stocks that get into good uptrend often reduce and even those where some positive news flows or events occur, have limited upsides. So, the victim seems to be reduced returns. But that is not necessarily true either. Stocks perform well even during corrective trends and if there are some sector-based tailwinds, they tend to perform rather well. Hence stock selection becomes one of the key factors in creating returns during difficult times.

Portfolios advised and guided by us have seen limited downsides in the recent correction and many of them are still manag-



ing to hold up rather nicely, validating the fact that stock picks have been pretty decent. We expect the portfolios to kick back as soon as the market finds its feet.

In the meanwhile, this reaction phase gives us more time to work on the NeoTrader software features and we have just introduced a slew of them. I am greatly excited by the new features and I am sure you will be too, when you see them. If you have not yet taken a look at NeoTrader yet, then I urge you to do so- you will be impressed by the capabilities that it can give you as a trader. There is simply quite nothing like it out there. Take my word for it.



At our office, we have been rebuilding the team and now are at a good complement of about 15 new staff members- all eager beavers, suited up to serve you all better! It would be a pleasure to see any of you at the office so don't hesitate to make an appointment. We can just sit, sip a cup of tea and banter away on just about anything, including the market! We have now set up a separate Client Support team and they will be glad to help you out with anything. Oh, one more thing. If you get a call from one of them, it is probably something useful they have for you; so don't forget to take their call or phone them back!

I have mentioned my new website (<https://cknarayan.com>) I don't know if you got a chance to check it out. I have now started posting regularly in it – sometimes several times a day even! If you haven't given it a dekko yet, maybe this is the time to do it. Do send me a comment on how you find it- always happy to hear from our customers and associates.



“

**As ever, there is lots more info in this month's newsletter. Make sure you read it through to the end. Until we touch base again, stay safe and be profitable.**

”

**Dr. C.K.Narayan**

Co-Founder NeoTrader

# Strategy Spotlight



## This thing about Back testing

Whenever we demo our software Neo Trader, there are a barrage of questions asking us about the back test. We are happy to provide the numbers and have, in fact, created a facility on the software itself where the user can directly check the numbers on the trading methods.

When one is confident of the product, there is no issue about making numbers available on-call, verily.

But most people who ask for these numbers just want to look at the hit rate. So, if the hit rate is say 65%, then

they feel comforted. Some want as much as 80-90% to draw comfort. Our hit rates are in these regions (for day trades and multi-day trades) too but I want to highlight a problem. A hit rate percentage of 65% may be comfort-inducing but it has to be noted that this also states that 35% of the time the signals can go wrong! Now, who thinks about that seriously? Everyone feels that they can get by so long as there is a high hit rate. But that is only partially correct. The fact is, you can succeed with any kind of positive hit rate, provided you take all the signals! This is the **ONLY** way that the hit rate can work its numbers for you.

But there is no way of knowing how the hit rate is going to kick in. Will it give you winners first and losers later or will that be inverted with losers first and winners later? Or, will they all be mixed up in some totally random fashion that you have no idea which next trade is going to succeed or fail?

In all likelihood, the randomness is what you shall see. Of course, there will be runs- a slew of wins or a slew of losses. This is another aspect that one has to see when looking at back tests. One has to be prepared for a run because a run of losses can be debilitating to the account as well as to the psyche. One has to be aware of the draw downs caused by the system so that one is aware of the kind of capital that is needed to stick with the system.

Eventually, with a good system, there is a high chance of winning. But for that to happen, we need to be able to stick out through the bad times.

Every stock that we trade can do one of the two things- go up or go down from there. But it is impossible to tell which shall happen first. Hence the best approach is to believe that anything can happen next. If you believe that, then you are ready for action. Ideally, everyone wants the majority of the 65% hit rate to kick in first so that they can

take the losses in their stride. It seldom happens that way

The second problem (and probably a bigger one) is that users of the software or indeed any method, take signals on a random basis. Most of the time, they take signals of stocks that they either like or are on their approved list. Users should realize that once you become random in your selection of stocks from those being recommended for trade, your hit rate will switch to around 50% only! This is a mathematical figure for randomness and it will override the back-tested figures, no matter how attractive they may be.

It is very important to recognize this aspect. Without it, system trading gets doomed. Hence the exhortation of the system developers to trade all the signals as they emerge. You can put the odds on your side only when you trade all the signals. There are more aspects relating to back tests but I will speak about them in future updates. But I have highlighted the two most important elements in this article. Do share your thoughts and experiences on the same in the comments section



# New Upcoming Features!

## ADX Power trend

We know that ADX is very widely used so we have bolstered our page with brand new features one of which is the ADX Power trend.

This new feature will make it easy to find OPTION trades using Neo Trader.

It is just a shortlisting of stocks that are in a trend. These are identified in the DI bullish/bearish columns already. But those include more stocks. Power trend looks for a specific set up involving Adx and DI lines.

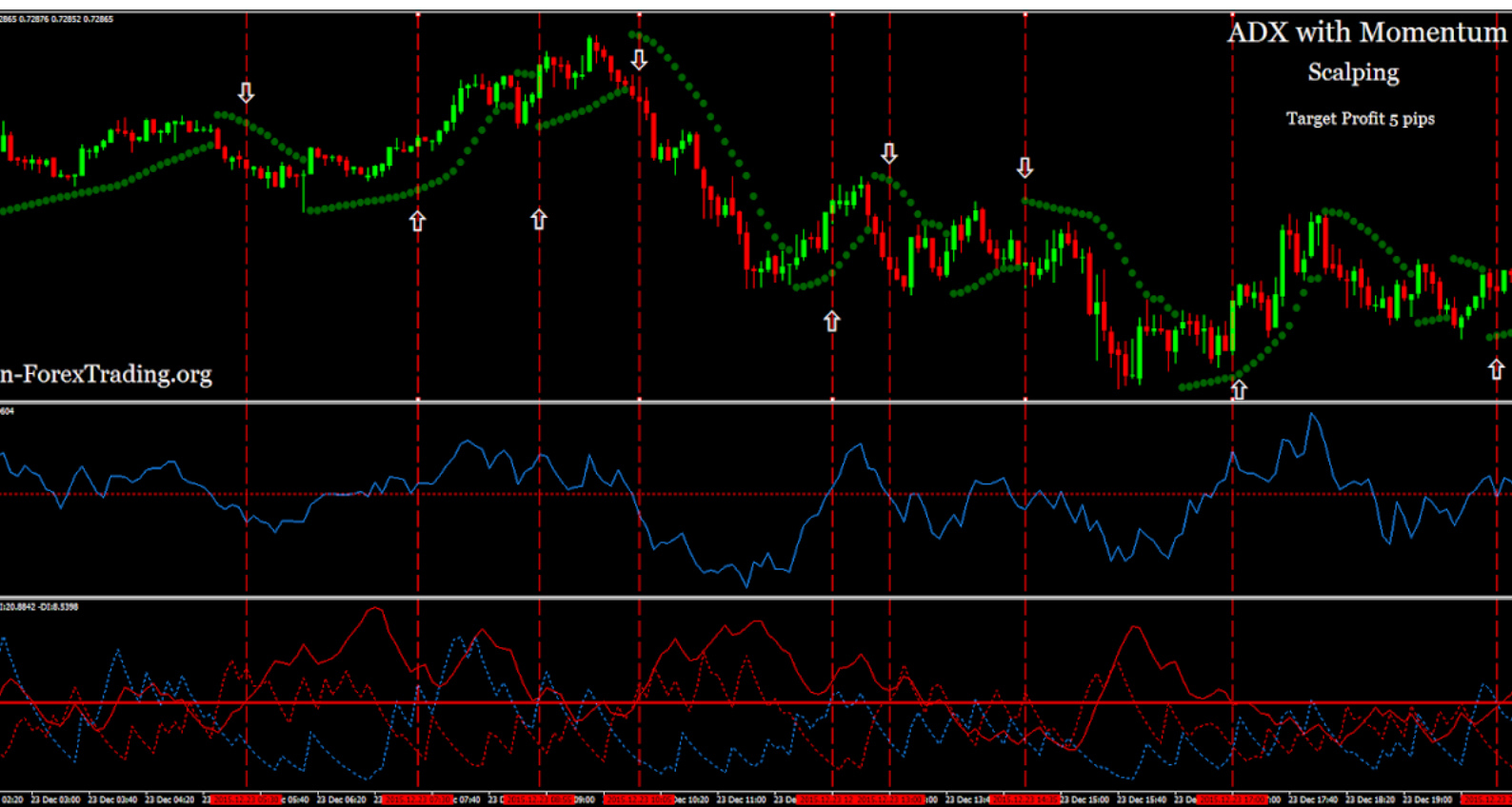
When a trend emerges and takes hold, DI lines diverge. The threshold is taken as  $\pm 2$  so that some trend has set in. But we don't want that the trend may have extended. This is denoted by the ADX line rising but placed between both DI lines. power trend identifies all the stocks where such a combination of

Adx and the 2 DI lines is seen. This can be a good shortlist of stocks that can perform ahead.

When a stock is in power trend mode, it has chances to continue further along in that trend. Hence the power trend stocks can be used as a watchlist of stocks that can be traded. In 30 and 60 min we will get intra/overnight trades. In D/W we may get multi day trades.

Here one can use this selection to trade in Options. Depending on the stock (and sector) trend, one can either go long options (if speed can occur) or short options (for slower directional moves). Or one can trade futures.

Another way to use this signal is as a stoploss or exit trade. If a stock was in power trend list and now drops off, then its trendiness is lost and hence it has to be exited. Check the charts for ADX line dropping below the 2 DI lines as a confirmation of the exit signal.



# Performance Report

## June 2022

We are happy to share the performance of our Readymade trades

**Short Trades:** Short refers to selling a security first and buying it back later, with the anticipation that the price will drop and a profit can be made

**Long Trades:** Long refers to buying a security first and selling it later, with the anticipation that the price will increase and a profit can be made

### Multiday

Symbol	Entry	Target	Profits	Alert
BDL	686	831	21%	Long
METROPOLIS	2,161	1,827	15%	Short
GNFC	796	688	14%	Short
LALPATHLAB	2,489	2,161	13%	Short
ASTRAL	1,927	1,681	13%	Short
NAUKRI	4,207	3,688	12%	Short

### Positional

SymbolEntry	Target	Profits	Alert
MINDTREE	3,370	2,667	21% Short
AIAENG	2,062	2,345	14% Long
CROMPTON	354	328	7% Short
MPHASIS	2,691	2,489	8% Short
BSOFT394	364	8%	Short
BAJAJ FINANCE	5,995	5,545	8% Short

# Intraday

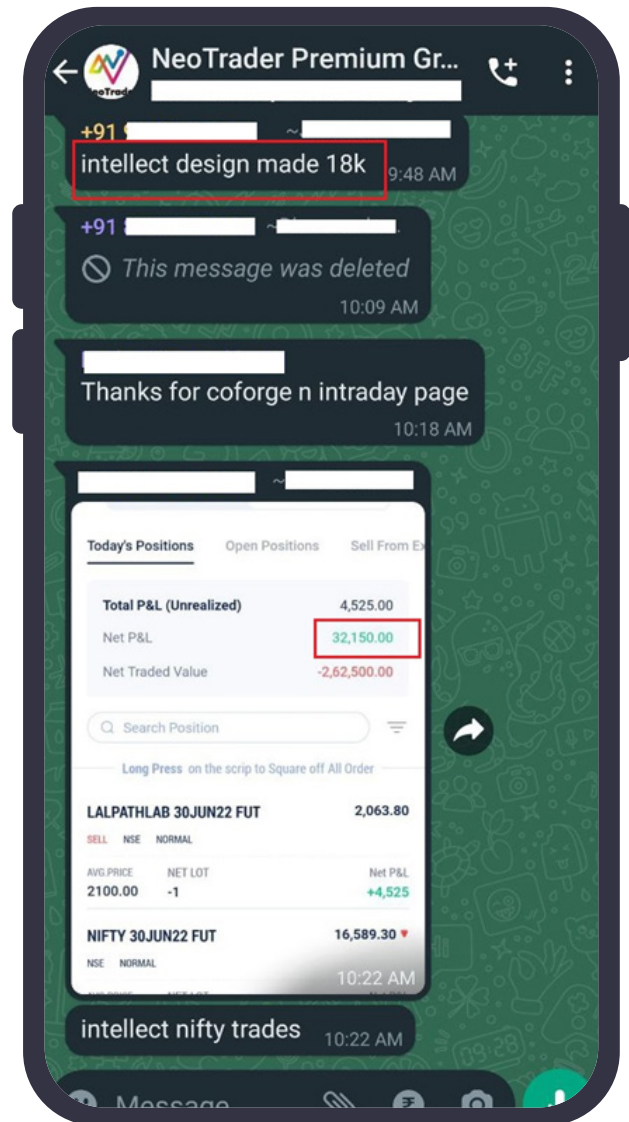
SymbolEntry	Target	Profits	Alert	
TATA MOTORS	404	392	3%	Short
BANDHAN BANK	320	312	2.5%	Short
ASTRAL	1,952	1,901	2.6%	Short
UPL	803	783	2%	Short

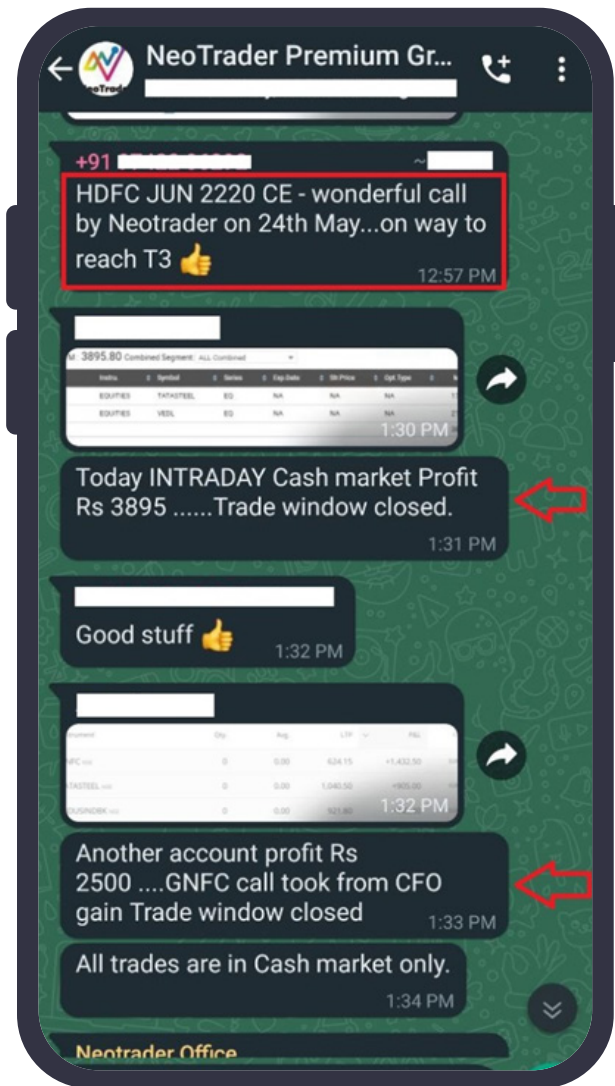
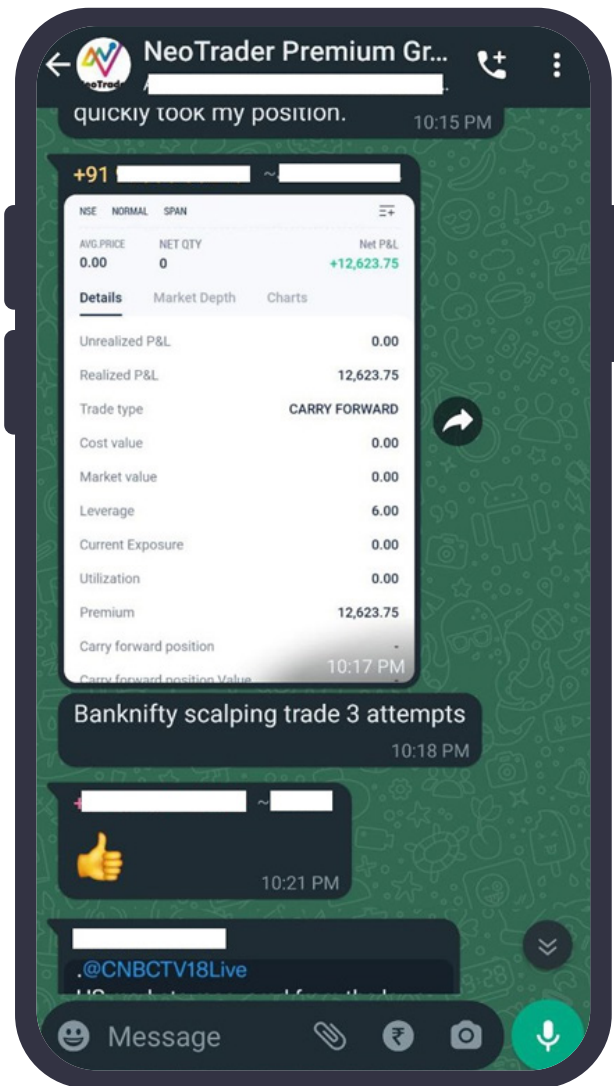
# Our Best Investment Trade

SymbolEntry	Target	Profits	Alert	
AIAENG	2,062	2,345	14%	Long



# Neo Traders Feedback & Reviews







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