Better System Trader

Optimization Checklist

Tips to creating robust trading strategies from veteran trader Robert Pardo of Pardo Capital

Optimization mistakes can kill trading strategy performance, here are some tips from Bob Pardo on robust optimization.

1: Analysis of the optimization space

- ☐ Majority of optimization runs should be profitable
- ☐ Optimization results should be evenly distributed
- ☐ Optimization results are relatively interchangeable – would you be comfortable with the least profitable as well as the most profitable?
- ☐ Prefer a small range of profits rather than large variations
- ☐ Lower profitability runs are at the outskirts of the optimization space

2: Targeted optimization

- ☐ Not optimizing to reduce a specific losing period
- ☐ Not relying on one extremely profitable period

"You're much better off with a robust system with a large drawdown than a system with a small drawdown that is not going to perform at all."

3: Step size and parameters

- ☐ Small step sizes can lead to curve-fitting
- ☐ Want stable optimization results for all steps - not peaks in results
- ☐ Some parameters may not be suitable for optimization at all
- ☐ Optimizing stop loss and target size can lead to cherry-picking
- ☐ Does the optimization impact a small or large number of trades?

"If your optimizations are really only knocking out one or two big losers, or picking one or two really big winners... that's very, very dangerous."

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Creating trading strategies that perform well in real-time trading can be challenging, but it is possible, and we're always looking for ways to help.

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My biggest question on creating strategies is...