

QLD and QID Trading System

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QLD is a beta two ETF that tracks the NDX and increases in value as the NDX increases. QID is a beta two ETF that reverse tracks the NDX and increases in value as the NDX decreases. In other words, QLD is a long strategy and QID is a short strategy where each approximately doubles the movement of the NDX.

Below are simulated trading results from 7/13/2006, which was when both issues began trading, to 06/30/2012. Trading in a tax sheltered account is assumed and results are not adjusted for taxes. Results are adjusted for trading costs (\$16.00 round trip for each trade). Results also are based on re-investing all profits from previous trades in future trades.

If the initial trading capital is \$10,000, the actual initial trading capital required would be a minimum of \$20,000 since the system often exits one issue and enters the other issue at the close on the same day.

An even larger cushion would be required in periods where trades are closer together than the number of days required to settle transactions. In fact, unless one has ample cash reserves on deposit with the broker it may be necessary to cut back on the amount invested in order to keep the cash reserves adequate to cover trading done while trades are being settled. This latter issue is one I've run into with Fidelity a few times. For example, if you sell 100 shares of X at \$10 per share and immediately buy 100 shares of Y at \$10 a share the proceeds from the sell aren't posted fast enough to be available for the purchase. This can be avoided by a short delay between transactions though it can get critical when trying to execute trades at or near the close.

The bigger problem is when you do the above and then sell Y a day after you bought it and try to buy 100 shares of Z. It seems to take about three days for trades to actually get settled in terms of accounting and transfer of funds between entities and if you do several trades within that time frame and they depend on the proceeds of the sales to cover the costs of the purchases, the broker gets very unhappy and if you do it more than once or twice they'll suspend you. The solution is to have enough cash on deposit to cover all your transactions independent of the settlement. Thus, if one doesn't have a lot of cash reserves, it may become necessary to hold back some profits from reinvestment so as to keep an adequate cash reserve. This of course will reduce the results to some degree depending on how much is held back.

Actual trades will be affected by slippage since it isn't possible to exit and enter trades exactly at the closing price.

Initial Capital:	\$10,000
Final Capital:	\$85,448 (all trades adjusted for trading costs)
Net Gain:	\$75,448
Total Return:	754% (rounded to nearest whole percent)
Average of Annual Returns:	126% (rounded to nearest whole percent)

Winning Trades: 116 of 204
Percent Gains : 57% (rounded to nearest whole percent)
Average Gain per Trade: 3.17%
Max Gain on a Trade: 24.69%

Losing Trades: 88 of 204
Percent Losses: 43% (rounded to nearest whole percent)
Average Loss per Trade: -2.17%
Max Loss on a Trade: -11.21%

Ratio of Gains to Losses: 1.32 to 1

Largest Drawdown: -11.1% (from entry and on a daily close basis)
-19.31% (from entry and on a daily low basis)

Average Days in Trades: 5 (days rounded to next whole number)

Year by Year Results:

2006: -8.03.% (last half of year only)
2007: 13.87%
2008: 34.58%
2009: 106.68%
2010: 41.97%
2011: 127.11%
2012: -9.03% (first half of year only)

Average: 126%