NAIJAFX

Template: Trading Strategy Evaluation Checklist

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Based on Article: "Common Mistakes in Evaluating Trading Strategies"
Website: https://nairafx.ng

A practical checklist to help traders evaluate their trading strategies effectively and avoid common mistakes.

Checklist Items:

☐ **1. Evaluate Over Sufficient Trades**
Ensure that you have a sample of at least 30 trades, ideally 50 or more, to assess the strategy's performance reliably. This helps to mitigate the influence of luck and provides insight into how the strategy behaves across different market conditions.
Reference Section: A Common Trap: Testing a Strategy on Too Little Data

☐ **2. Check Risk Metrics First**
Before judging the profitability of a strategy, assess key risk metrics such as maximum drawdown and risk-reward ratio. This helps to understand the potential pitfalls and ensures that profits are not misleading.
Reference Section: The Biggest Evaluation Error: Focusing on Profit Before Risk

☐ **3. Avoid Judging by Short-Term Results**
Do not base your evaluation on the last few trades or a short streak of wins. Analyze the performance over a longer timeline to distinguish between noise and skill.
Reference Section: Are We Judging the Strategy or Just the Last Few Trades?

☐ **4. Incorporate Various Market Conditions**
Test your strategy against different market conditions to ensure it is robust and not just effective in a specific scenario. This will help identify weaknesses that may not be apparent in a limited context.
Reference Section: Why Ignoring Market Conditions Breaks Strategy Analysis

☐ **5. Analyze the Equity Curve**
Examine the equity curve for smoothness and stability. A strategy with a consistent drawdown and recovery pattern is more reliable than one that experiences drastic fluctuations.
Reference Section: The Biggest Evaluation Error: Focusing on Profit Before Risk

☐ **6. Assess Market Conditions During Testing**
Ensure that the historical data used for backtesting includes various market phases (bullish, bearish, sideways) to evaluate performance comprehensively.
Reference Section: Why Ignoring Market Conditions Breaks Strategy Analysis

☐ **7. Review Discipline and Risk Rules**
Regularly revisit your discipline and risk management rules to ensure that they are adhered to throughout the trading process. Ignoring these can lead to significant losses.
Reference Section: What Happens When We Ignore Discipline and Risk Rules?

☐ **8. Question the Sample Integrity**
Ask whether the results would still hold if the top three trades were removed. If the performance significantly changes, the sample size may be too small or biased.
Reference Section: A Common Trap: Testing a Strategy on Too Little Data