SPX Ratio Spread Back Testing Results – Part 2

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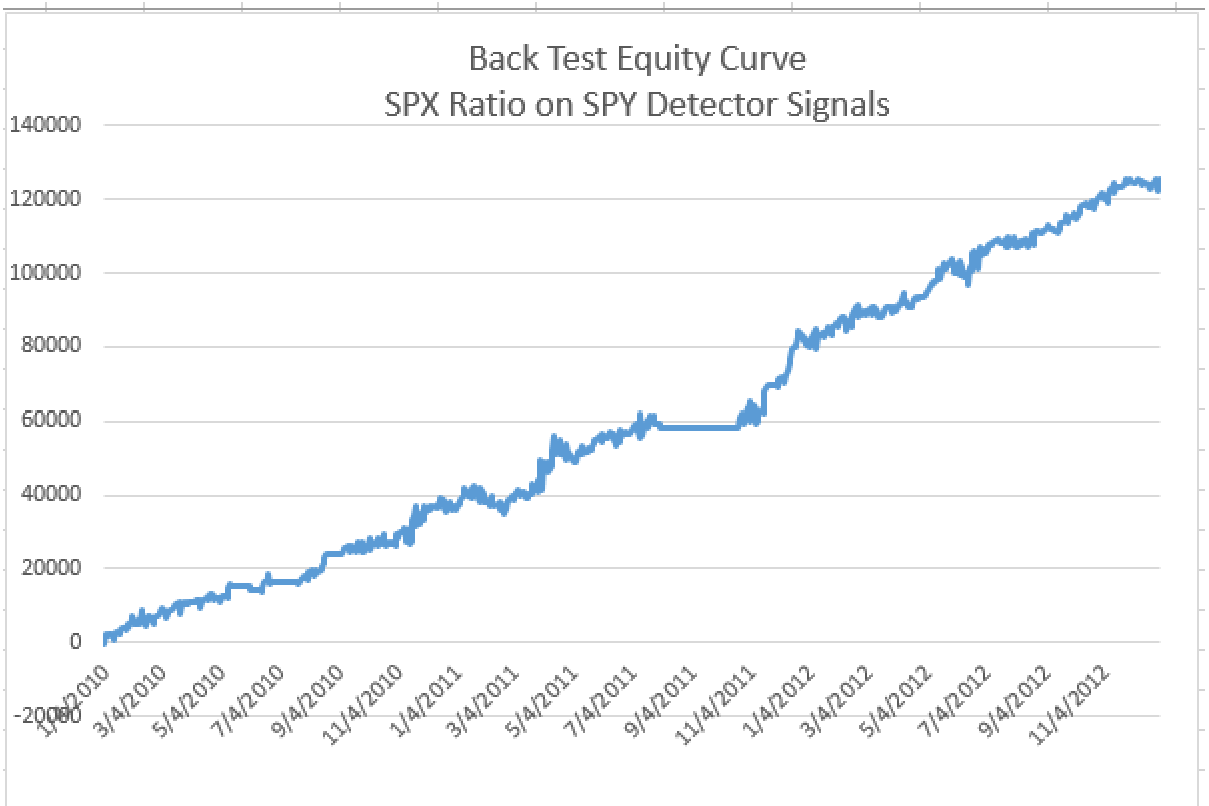
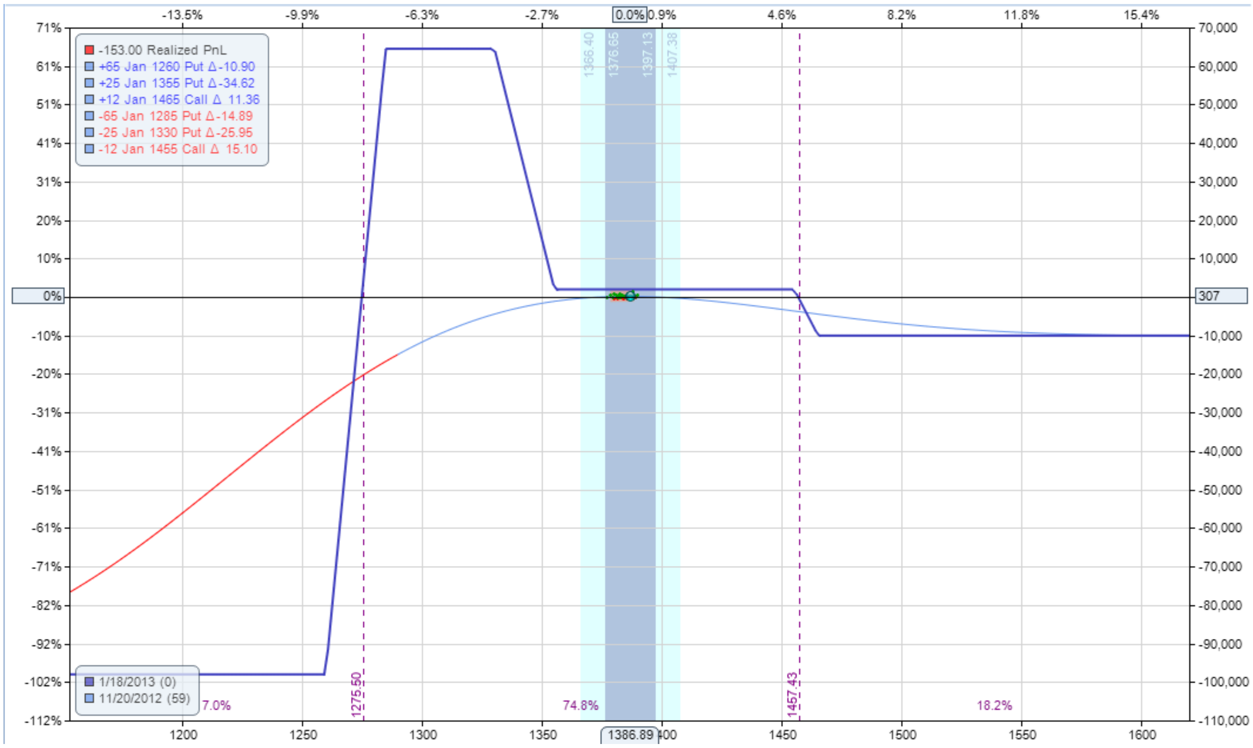
I added another year to the back testing which now includes 2010, 2011, and 2012. The first two years are notoriously difficult for market neutral options strategies. By adding 2012 we can see how the performance remains good through many different market conditions.

These three years are showing annualized returns of 42% with a max trade draw down of 3.3%. Commissions were set at $0.75 per contract (middle of the road between retail and professional). With the low trading frequency, retail accounts at $1.00 per contract would not see much difference in total performance.

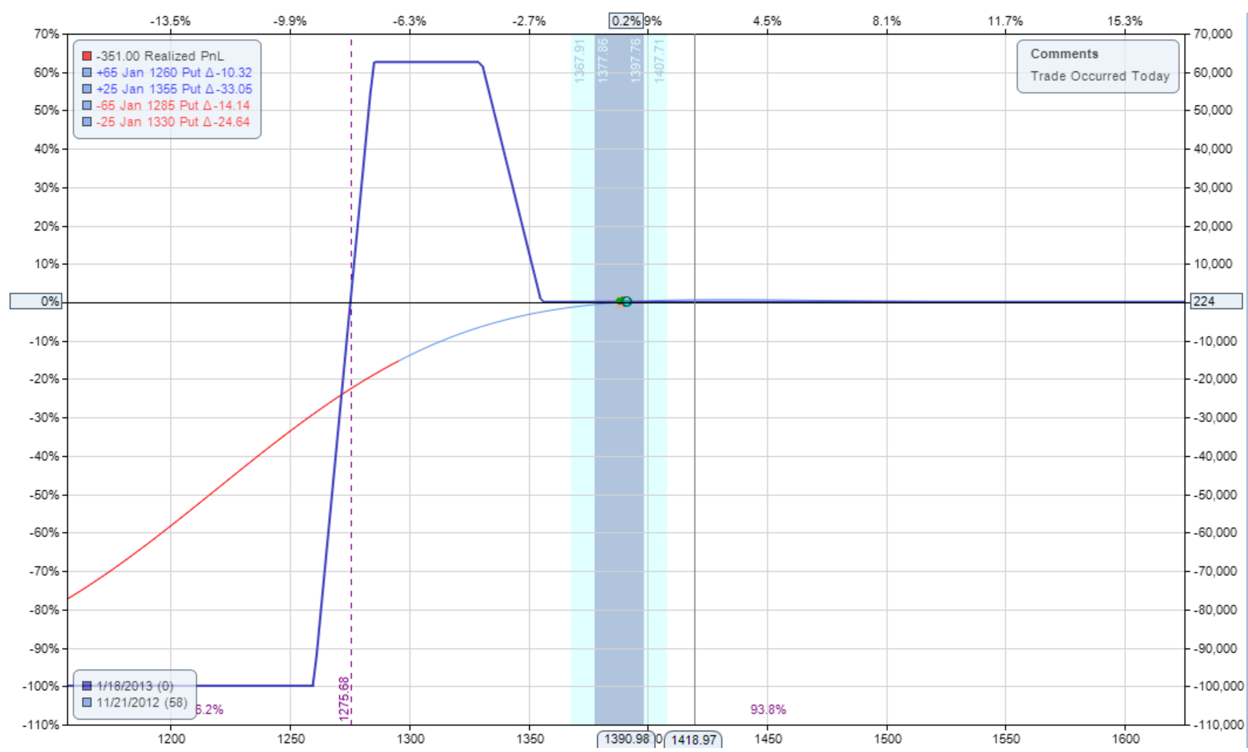
Here's the options back test equity curve using a $100K max risk per trade:



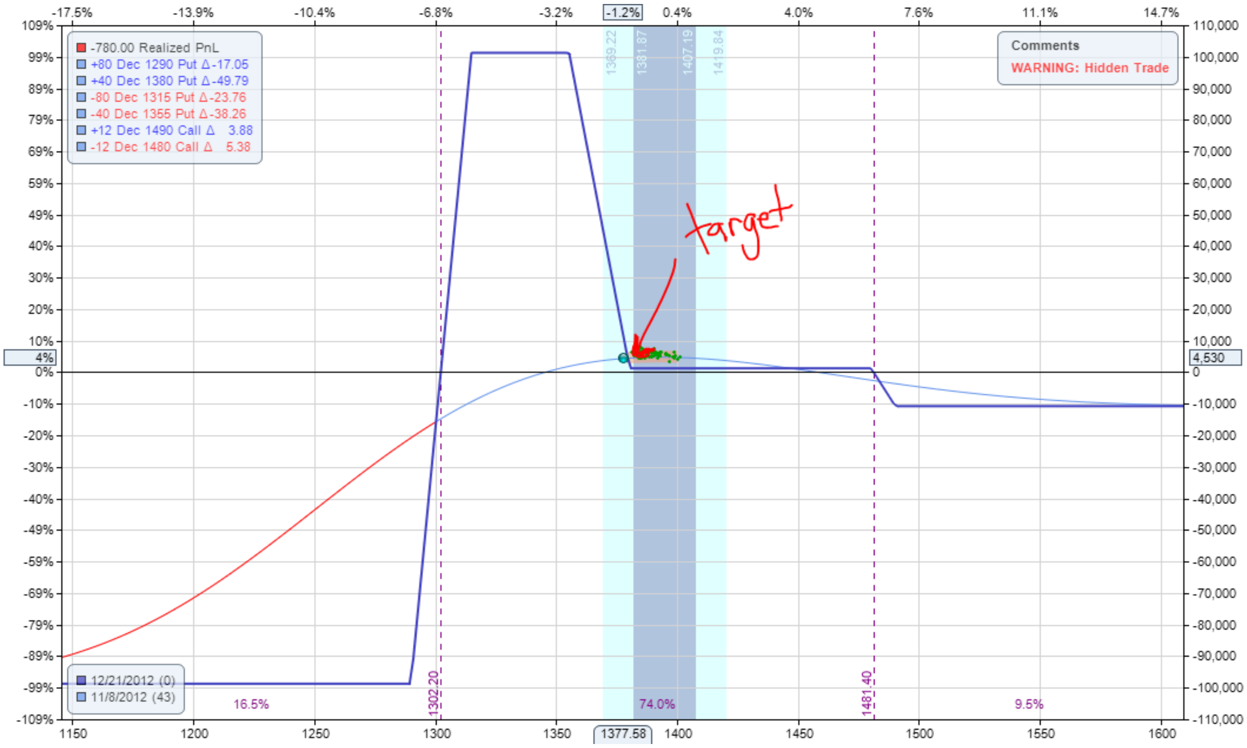
The trade profile looks like this when the SPY Detector signal is 20% to 40% long



If the signal strengthens to 60% or higher, then the short call spreads are removed to create a profile like this:



When the signal is flat, the call side is included again and the ultimate target is the long of the debit spread. At this point in the profile, the risk is too great to the downside and the upside is giving back profit, so the position is closed until the SPY Detector signal shows us the “all clear” again.



[Attachments: 3 Year day-by-day tracking spreadsheet, ONE options back testing export with all trades]