

Glossary

Before starting, here are some definitions of terms as they are used in this book

Drawdown – the largest decline in equity below the previous high Generally expressed in percent but can also be measured in absolute amounts.

Equity - the amount of money we have available for the next trade.

Expectancy – the statistically expected profit for a single trade.

Probability – the statistical odds of the next trade being profitable. For the marble game it is the number of white marbles divided by the total number of marbles. For a historic list of trades it is the number of profitable trades divided by the total number of trades. Break-even trades are not included in the total number of trades.

Return – the profit or loss amount for a trade. For the marble game the losses are always the amount risked and the win return is the Win/Loss ratio times the risked amount.

Risk – the amount of equity at risk in each trade. It may be a percent of total equity, it may be a fixed amount or it may be some arbitrary function of the equity.

Trade – a draw of a marble from the bag in the marble game or, for TradeSim, the random selection of a return from a list of historic returns.

Trades – the number of marble draws or random selections during a game or trial.

Trial or Game – a series of trades or draws that make a complete game.

Trials – the number of times a trial is repeated in order to get statistical results

Run– A complete simulation for one fixed set of program inputs consisting of many trials.

W/L Ratio – the ratio of Winning amount / Losing amount in the marble game. As the marble game is described in the next chapter, W/L Ratio is 1.0, but we are free to adopt any rules we like.