

## **The message that follows was previously posted on 11 Nov '98.**

*Here is the PRISM Method developed by Roy Merwin with a detailed quantitative analysis and evaluation by Sidney Kaiser. Note in particular that Sidney's assessment is, "I feel the best use of this system/technique is as an early warning for a possible trade."*

*I trust this will yield heaps of money for all.*

*Best Regards, Ken Read*

Roy Merwin posted, in real time, accurate calls for the stock market corrections of Oct '97 and July '98. Moreover, Richard Wells back tested the Merwin parameters and found that they were nearly 100% accurate going back as far as 1990. According to Richard, the Merwin parameters predicted market declines as small as 1.5%.

There have been just a few detailed questions regarding Roy's postings about Exiting the Market, and these questions were quickly answered. Nevertheless, a number of postings such as the posting earlier today by Harry Larson indicate that there are apparently quite a few people on this ListServ who did not fully understand Roy's work. I confess that I was among those who did not appreciate the significance of his work until after I lost a lot of money. Now that I have done my homework, I believe I understand just what Roy's contribution is and I trust his method will be just as successful in the future.

By piecing together a number of Roy's comments and running my own tests using Fast Track I have been converted into a Believer of the Merwin Exiting Method. Let me forewarn the reader that this message may become lengthy, and it will be necessary to actually look at some Fast Track plots to fully grasp the significance of Roy's work. If this message is unduly long and not needed by many of the readers, I apologize. I hope it will be useful to many of you - it certainly helped clarify my own understanding of Roy's work.

All of the quotes that follow are attributed to Roy. The quotes are not in sequential order and they come from quite a few different postings. I trust I am not using them out of context. In the interest of brevity, I have not cited the specific references.

The basic premise of the Roy Merwin Method for Exiting the Market is, "You do not need 3rd party software to get adequate warning of a sell. All you need is Fasttrack". "...let Fasttrack (FT) show you the indicators when the broad market is leading to an unfavorable correction (10-12 to 10-24-97). Then you look at individual funds for your decisions". "I think you should exit the market when you see these unfavorable indicators in FT".

Roy is emphatic about what indicators are essential! "In real estate it is location, location, location. In mutual funds it is rank, rank, rank and then relative strength (RS), RS, RS and then momentum." "You should then look at Rel Str. compared with VFINX/RUT-I, and MACD and Stochastics". "When you put this all together with the PRISM screen data...", he contends we have enough data to exit the market. An essential point of Roy's Method is that you do not rely on a single chart. On the contrary, "You need to look at the pattern of the 5 charts".

Roy's parameters for Moving Average Convergence/Divergence, Stochastics Chart, the Welles Wilder RSI, and the Days Between Points are the same as the Daytona Parameters (FT Monitor - summer '95) and the Donoghue Parameters (FT 6398.cmt of 11/1/95), viz.

MACD Long Average 26  
MACD Short Average 12  
MACD Trigger 9

RSI 14  
Stochastic Range 14  
Stochastic Smoothing 4  
Days Between Points 1

Roy contends that "...relative strength is a main consideration". Roy's parameters for Relative Strength are distinctly different from values I have seen elsewhere. Noting that the Relative Strength parameters are three times the AccuTrack parameters, enter AccuTrack Smoothing 17 AccuTrack Average 17

This input yields Relative Strength values of 51 and 51. Apparently Roy is telling us that the Long Avg is not important, and we can keep it from distracting us by superimposing it on the Short Avg.

Roy's input parameters for the Price Chart moving averages are also distinctly short, viz.  
Price Long Average 15  
Price Short Average 5

At times he also used values of 10, 5 and even 15, 15. This fine tuning is not essential for an understanding and utilization of the Roy Merwin Method. Roy kept experimenting with the values, while soliciting our input and comments. The few individuals who responded to Roy's requests for input were Richard Wells and Dean Bailey. Dean also used values of 15, 5.

While the input will not show up on the essential 5 PRISM charts, it may be convenient to enter Roy's values for the V Chart, viz.

Moving Average 15  
Moving Average Smoothing .0004

These values are of negligible difference when compared to the FT Manual Tutorial values of 30, .0005. This sixth chart, the V Chart or Moving Average Chart, will be useful in a few instances where the PRISM charts might need a little more confirmation.

If you load all of the above parameters and save them as a Parameter Set you will be able to see the elegant simplicity and accuracy of the Roy Merwin Exiting Method. I gave his Parameter Set the name Merwin, which is how I will refer to it in the following comments.

Set the Fund to VFINX and the Index to RYURX.

Subsequently, it will be of interest to change both the Fund and the Index to see if the results are significantly different.

If you set the chart time span window to a year or more, or perhaps to just three months during a choppy or sideways moving market you will see an overwhelming abundance of Buy and Sell Ticks. I found it useful to look at a window from May '96 up to the present. Such charts simultaneously reveal the power and accuracy of Roy's Method as well as a point of confusion.

Before focusing on the charts, remember that according to Roy "The warning signal to sell in Fasttrack was "loud and clear" provided that you "...look at the pattern of the 5 charts". If you focus unduly on the Price Chart you may very well miss the significance and simplicity of Roy's Method.

Before we focus in on the results of utilizing Roy's Method, let us first use a well known and well respected parameter set - the Daytona Parameters.

Over the same period of a little more than two years we see the Daytona Parameter Set indicates four corrections which are nominally in July '96, April '97, October '97, and July '98. The Daytona Parameter Set requires just a few switches per year. This appears to be quite desirable, until you focus in on the values and realize that the Sell Signals were sometimes uncomfortably late.

Going back to using the Merwin Parameter Set and setting the windows to a three month period centered about the corrections noted in the last paragraph yields the following results.

For July '98 we see a Sell Tick on the Price Chart and the confirmation on the Macd Chart with Stochastics crossing 50 and going down as well as rSI crossing 50 and going down, all at essentially the same day somewhere between 22 and 24 July. The High was on or about 17 July. Similarly, Roy's Method gave "loud and clear" Sell Signals on 17

Oct '97 (the High was 7 Oct), and 5 July '96 (the High was 1 July). The Sell Signal for 14 March '97 was not as clear as one might desire since the Macd came very close but did not quite cross the line. However, if we look at the V Chart we can see that the Moving Average crossover confirmed the Sell Signal.

Whether we use RYURX or VMFXX as the Index makes little difference on the Sell Tick, although in some instances the crossovers are more sharply defined using RYURX as the Index. Using VFINX or RUT-I makes no difference on the date of the Sell Tick. Using OTC-C as the Fund yields a Sell Tick that is late, i.e. 28 July, and the Chart patterns are not as sharply defined as the other Funds. The data seem to indicate that for most practical purposes, Roy is justified in claiming that "It does not matter what M is".

There is little doubt that much of the 3rd party software that complements Fast Track is indeed excellent and there is ample documentation that the Sell Signals given by these products was quite good for the July Sell Signal.

Nevertheless, the data support Roy Merwin's premise that "You do not need 3rd party software to get adequate warning of a sell. All you need is Fasttrack". Roy's Method may require a little more attention in analyzing the data, in order to get those "loud and clear" signals. Recent history fully supports Roy's statement that "You simply have to analyze the rank, rel. strength, and momentum of the fund you own. That will tell you in no uncertain terms when to get out just like it told you when to get in. It is probably a good idea to check with some of the broad market indicators too...". The big question was raised by Roy himself when he pondered "...will this kind of history repeat. Who knows?"

I have a few questions as well:

- A. Herr Professor Merwin, did I misinterpret or misrepresent any of your outstanding lessons? If I did err, don't hesitate to chastise me publicly. I further hope I did not overstep my bounds by answering the question that Harry asked of you.
- B. Did Roy's Method of Exiting the Market work for the specific funds that were held by you Fast Trackers just as well as it appears to work for some Index Funds?
- C. Does any further analysis reveal that fine tuning of Roy's Parameter Set appears to be useful?
- D. Does Roy's Method work just as well for Entering the Market? I am

going to do my homework early this time. If there any surprise, please don't keep them a secret.

In summary; thank you, thank you, thank you Roy! I just wish I had taken the time, last fall, to thoroughly assess your contribution. I will try hard to make sure that I do not overlook your next gem.

If this message was much longer than was needed by most of the readers, let me again offer my apology.

**Best regards to all, Ken**

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**From Sidney Kaiser we have the following:**

I promised some further results on Roy's system, Here is an update.

I used Metastock to create and test a simplified version of the system. This includes Stoch 14, RSI 14, 2 MA crossover, and MACD. MS does not handle two security indicators like relative strength very easily so I left that one out.

The test was to evaluate Roy's technique as an exit signal. I threw together an entry scheme to get long and let the exits fall where they may.

**Merwin SIGNAL FORMULAS**

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Enter Long:

Cross(Mov(C, 5, E), Mov(C, 11, E)) AND Stoch(14, 4) > 50 Close Long:

Cross(Mov(C, 13, E), Mov(C, 3, E)) AND (Stoch(14, 4) 50.

Sell on a MA xover and either stoch or RSI < 56 or 44 respectively, AND a standard MACD histogram crossing below zero sometime in the last 5 days.

**Results:** remember we are evaluating only the sells here. Start with \$10k.

Trade	Entry	Close	Profit
Out	9/1/88	11/30/88	123.29
Long	11/30/88	5/9/89	1164.72
Out	5/9/89	5/12/89	4.64
Long	5/12/89	10/13/89	712.81
Out	10/13/89	11/15/89	54.27
Long	11/15/89	1/10/90	239.75
Out	1/10/90	2/7/90	47.18
Long	2/7/90	7/23/90	797.59

Out	7/23/90	10/4/90	131.44
Long	10/4/90	4/25/91	2825.9
Out	4/25/91	5/24/91	63.96
Long	5/24/91	8/19/91	-43.68
Out	8/19/91	8/22/91	6.63
Long	8/22/91	10/3/91	-282.74
Out	10/3/91	10/15/91	26.05
Long	10/15/91	11/15/91	-340.57
Out	11/15/91	12/13/91	59.57
Long	12/13/91	5/15/92	1038.93
Out	5/15/92	9/9/92 2	66.53
Long	9/9/92	9/23/92	43.83
Out	9/23/92	10/19/92	60.33
Long	10/19/92	1/4/93	835.73
Out	1/4/93	4/14/93	244.33
Long	4/14/93	2/4/94	852.32
Out	2/4/94	4/25/94	207.48
Long	4/25/94	6/20/94	117.11
Out	6/20/94	7/14/94	63.31
Long	7/14/94	9/12/94	545.44
Out	9/12/941	0/12/94	81.64
Long	10/12/94	11/4/94	-136.71
Out	11/4/94	12/15/94	111.27
Long	12/15/94	7/5/96	8842.44
Out	7/5/96	8/1/96	06.39
Long	8/1/96	8/29/96	327.78
Out	8/29/96	12/20/96	451.98
Long	12/20/96	1/28/97	639.45
Out	1/28/97	4/18/97	331.95
Long	4/18/97	10/16/97	7547.9
Out	10/16/97	11/5/97	104.57
Long	11/5/97	12/18/97	509.11
Out	12/18/97	1/16/98	154.07
Long	1/16/98	7/23/98	7218.14
Out	7/23/98	8/13/98	132.78

There are the 7/23/98 and 10/16/97 sells Roy spoke of, along with a few others.

**System Report - Merwin INDEXFAMS-SP-CP**

Results Total net profit 6288.94

Open position N/A

Percent gain/l 362.89

Annual percent 36.45

Initial invest 10000.00

Interest earned 2833.68

Current position

Out Date position 7/23/98  
Buy/Hold profit 1606.85  
Days in test 3634  
Buy/Hold pct 316.07  
Annual B/H pct 31.75  
Total closed t???? 21  
Commissions paid 0.00  
Avg profit per trade 1728.04  
Avg Win/Avg Loss 10.03  
Total long trades 21  
Total short trades 0  
Winning long trades 17  
Winning short 0  
Total winning 17  
Total losing trades 4  
Amount of winning trades 4258.95  
Amount of losing trades -803.69  
Average win 2015.23 Average loss -200.92  
Largest win 8842.44  
Largest loss -340.57  
Average length 100.06  
Average length 33.00  
Longest winning trade 393  
Longest losing trade 60  
Most consecutive winners 6  
Most consecutive losers 3  
Total bars out 724  
Average length of trade 32.91  
Longest out period 81  
System close drawdown 0.00  
Profit/Loss in 97.83  
System open drawdown 0.00  
Reward/Risk in 100.00  
Max open trade 1494.03  
Buy/Hold index 14.81

My reading: the system sells too early in many cases, but this is what made the two calls above look so good. This system trades SP-CP with more profit than all but three of the 100 or so indicator based systems I have in MetaStock. It is much less profitable than the signal based systems such as Safe3 available to FT users. I should note that indicator based systems are prone to failure in the future. Signal based systems are very prone to failure in the future. In other words, study it, but don't bet the ranch on any of these systems.

I am sure improvements could probably be made to this system if someone had the time to really dig into it....not me. I feel the best use of this system/technique is as an early warning for a possible trade. There may be some errors here, but the results appear to be plausible.

For all you newbies out there, this kind of analysis is just the starting point for evaluating a trading system.

Good Trading Sid

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Kenneth F. Read Sr."

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PRISM Strategy (B Sterns style) applied to FT4WIN: by - Sid  
These were originally posted on MutualFundVision.com.

P Price

R Relative Strength

I RSI

S Stochastic

M MACD

PRISM

PRISM is both a chart setup and an analysis technique. I'll talk about the setup and make a few comments on analysis. Be aware that here are two flavors of the prism analysis. The second I'll refer to as the Merwin setup.

So far you have been using the T (Total return) chart. PRISM refers to the different formats and indicators applied for this technique.

P price chart with short and long moving averages

R relative strength between the red and green price series

I the RSI indicator

S the Stochastic indicator

M MACD histogram

There are six plotting areas available so we will use 2 wide for the price. Right click on blank chart area to bring up the Appearance menu. Change Chart Select to PPRISM or click on the buttons, redraw chart. Set the period to One year, red fund to FIDSX, green fund to 5%. Now lets set the indicator parameters. Right click on a chart heading like Price or MACD. The parameter dialog box comes up with default parameters. Set up the box with the parameters below. Save as

PRISM\_IT, click done. We can bring up this parameter set later if desired.

The prism setup allows you to compare performance of a fund to an index, another fund, or in this case a 5% MMF and to make judgements about possible buy/sell points.

The chart in FT04

NOTE: There is nothing magical about the numbers used here. This is just an intermediate term chart.

Price with 10 (yellow) and 20 (cyan) day moving averages. Red and green arrows below indicate moving average cross over points. These arrows are also replicated on the RSI chart ....don't ask. A red arrow suggests you buy the red fund. A green arrow suggests you sell the red fund and buy the green fund, 5% in this case. You can see some buy/sell/buy whipsaws there.

Relative strength (yellow line) between the red and green price series. Yellow moving down means red is weaker than green, yellow moving up, red is stronger than green. This is really useful. If the red fund is weaker than 5%, why on earth would you want to buy it? The green fund can be another fund, an index like the SP500 (sp-cp), or perhaps a 30% rate of return. If red is not going up faster than the comparison fund, again, why would you want to buy it?

RSI 14 no B/S arrows but the idea is to buy if RSI crosses from below to above the center line (50) and sell if RSI crossed from above to below 50. Plenty of false crossings there

Stochastic: This is a nonstandard (30,16,9) slow stoch used here as a type of noise filter. Buy crossovers from below the center (50) to above and sell downward crossovers of 50. You can also B/S crossovers of Stoch and its cyan moving average (sometimes ).

MACD histogram (81,33,33) has its own B/S arrows at the bottom. This is a non standard slow macd used as a trending indicator in this application.. BTW, click on these chart labels to see what parameters are being used.

So we have a set of fairly fast moving averages and a std RSI (an oscillator) that will generate many signals, some of which may be tops and bottoms. We have a slow oscillator (slow stoch) and a trend indicator (slow macd histo) provide some filtering. The idea here is to not depend on any single indicator but to confirm possible B/S with

other indicators that have shorter or longer time periods.

For the whole PRISM strategy there is a short term setup, this intermediate term setup, and a long term setup.

Grab the pole (click and drag) and move it to the 6/22/99 buy arrow. Look at the five plots to see whether a buy here might make sense. MA xover up - ok, RS up? Maybe, RSI > 50 - ok, stoch approx. 50? - no, macd near 0 xover - no. Doesn't look like a buy point because the slower indicators do NOT confirm the short term indicators. Whipsaw avoided.

I would have taken the 5/18 sell, maybe 6/29 buy, 7/26 sell, 10/26 buy, maybe 11/30 sell, and no signal but with the deteriorating indicators I would have bailed out by 12/14 when stoch and macd went to sell conditions. Not a silver bullet by any means, but a rational approach to decision making. Notice that it has not bought this financial sector fund yet maybe next week if financials keep going up.

This is trend following analysis. It will never get you in at the bottom or out at the top. It is always late. If the fund does not trend for at least several weeks you will still get whipsawed, it will just be on a longer time frame. (. Maybe we can demonstrate counter trend trading sometime....it will take some extra work.

FT05

OK You have done the one time hard work of setting up PRISM and your 200 fund personalized family, now the fun can begin.

Load your family you want to evaluate, drag the pole to perhaps one month ago, click the toolbar rank button to rank the funds. Double click the top fund in the list on the right to load it into PRISM red.

Now just eyeball the chart, then click the toolbar down arrow to move down to the next fund. Once you get familiar with the chart appearance you can look at each one for a few seconds to see if it needs further study and move on. You can scan 200 funds in just a few minutes.

Do you want to see how your trading might have done over the last year or so? Remember those b/s arrows below the RSI plot. Well you can edit those. See help. You can delete the trades you would not have taken, keep the ones you took. You can also add other trades.

Fine so what

Well, change the plot from PPRISM to PRISM2, a new plot at the bottom

will show when you were in the fund and when you were in the mmf ( or different fund, a J plot). The statistics on the right area (click VAL) will show the untraded values of Ru and the actively traded value of Ra. See help. You might not see a increase in total return but if your trading scheme is any good you should see that you are out of the market during periods of big drawdowns.

I hope some of the people that want to get started on FT4WEB will find this useful.

Cheers

Sid

San Jose, CA FTUG leader

There are a couple of flavors of using "PRISM". The confusion arises because PRISM is the screen setup used but does not define the interpretation of the screens.

Bob Sterns did a short. medium and long term screening technique many years ago that he called PRISM. This is the one most FTers are familiar with.

Roy Merwin also uses a PRISM screen setup but with different parameters and interpretation, which to avoid confusion, many of us refer to as the Merwin screen. Most of the FTers that do not subscribe to this list server have never heard of this one....

The repost earlier today was not formatted properly and pretty well butchered up the data. I will see if I can find the original post and send it out again.

Joel W., yes the leading 3 is missing. I don't recall the details of the ANN%, but that was not the point of my post. I find the Merwin technique is very well suited to exits, less so, but still usable for entries. I use it every day. The post data was evaluating exits only, with a cobbled together, quick way to get back in so the next exit could be evaluated.

The beauty of Merwin is that it does not need to be re-optimized every couple months like some of the popular trading systems seen on the IMAP board. Some judgement by the user is required which is probably a good thing.

I will dig through my files to see if I still have the original data.

Good Trading

Sid