



## Tuning up the turtle

After two decades, traders are still intrigued by the trend-following strategy followed by the Turtles in the 1980s. This preview of an article in the February 2009 issue of *Active Trader* tests their strategy and suggests how to improve it.

BY ANTHONY GARNER

**D**o markets change? Is it necessary to undertake continued research and development and adapt a trend-following system to maintain its profitability over the years?

To attempt to answer these questions, the following study tracks the strategy of the “Turtles,” a group trained by legendary traders Richard Dennis and Bill Eckhart in the 1980s. The Turtles were used to conduct an experiment about whether it was possible to teach people to become successful traders.

One trading system salesman recently argued that it is “nonsense” and a “specious argument” to suggest trend-following rules must adapt to changing market conditions. Others argue a trend-following system does not simply self-adapt but needs continued monitoring and refining. Some well-known trend-followers have indeed stated they still trade the same system as when they started out 30 or 40 years ago. But what do those managers really mean?

### Testing the Turtle

By back testing the original Turtle strategy, we can ascertain whether this one particular system, which was highly profitable back in the early 1980s, has stood the test of time or needs updating.

At its core, the Turtle strategy is a trend-following system that attempts to capture short- and medium-term trends in a portfolio of futures markets (Table 1).

For example, Turtles bought the market after 20-day highs and sold short after 20-day lows. Figure 1 shows trade examples in cocoa futures (CC), which shows the effect of pyramiding: Units

**TABLE 1 — MARKETS TRADED BY TURTLES**

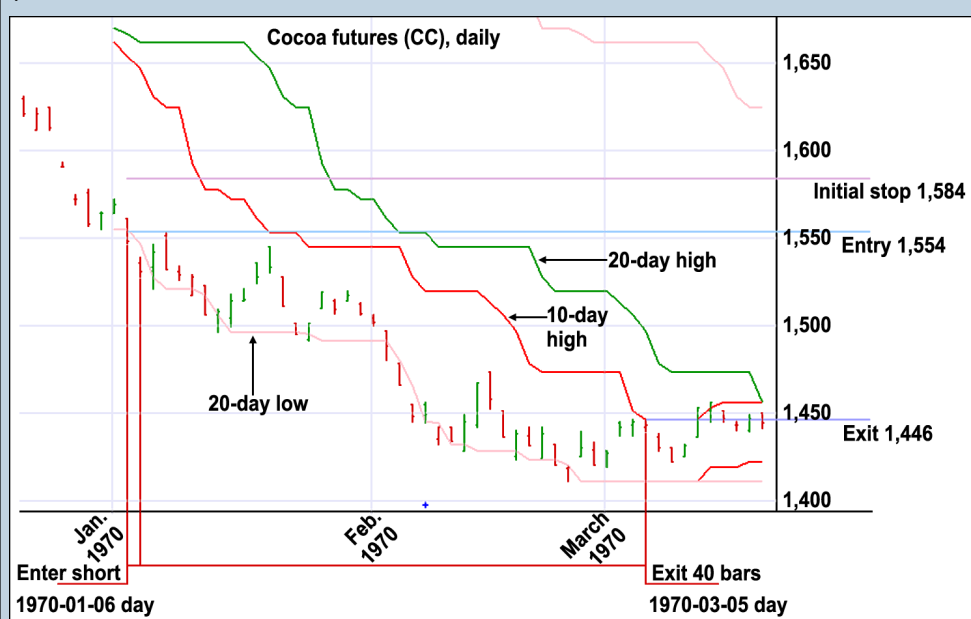
*The original trend-following strategy traded by the Turtles included 21 futures markets. This test replaces the Deutsche mark and French franc with the Euro and excludes the 90-day T-bill contract.*

	Market
<b>Bonds:</b>	30-year T-bonds (US), 10-year T-note (TY), Eurodollar (ED)
<b>Softs:</b>	Coffee (KC), cocoa (CC), sugar #11 (SB), cotton (CT)
<b>Currencies:</b>	Swiss franc (SF), Euro (EC), British pound (BP), Japanese yen (JY), Canadian dollar (CD)
<b>Stock indices:</b>	S&P 500 (SP)
<b>Metals:</b>	Gold (GC), silver (SI), copper (HG)
<b>Energy:</b>	Crude oil (CL), unleaded gas (RB), heating oil (HB)

Source: *Way of the Turtle: The Secret Methods that Turned Ordinary People into Legendary Traders* (McGraw-Hill, 2007).

**FIGURE 1 — TRADE EXAMPLES — TURTLE SYSTEM**

*The original Turtle strategy sold short in cocoa futures in January 1970 and exited at a profit in March.*



Source: Trading Blox

were entered short on Jan. 6 and 7, 1970, and all units were exited at the same time on March 5, 1970 as the market pen-

etrated the 10-day high.

We tested the Turtles' strategy on 21 futures markets from Table 1 from Jan. 1, 1970 to Sept. 23, 2009. These were the markets traded by the original Turtles. Note: French francs and the 90-day U.S. T-Bill were omitted from the original portfolio, and the Euro was substituted for the Deutsche mark.

Figure 2 shows its equity curve. The strategy was highly profitable before and during the Turtle experiment, which spanned from 1983 to 1988. Average trade length was relatively short: 43 calendar days for winning trades and 13 days for losing trades.

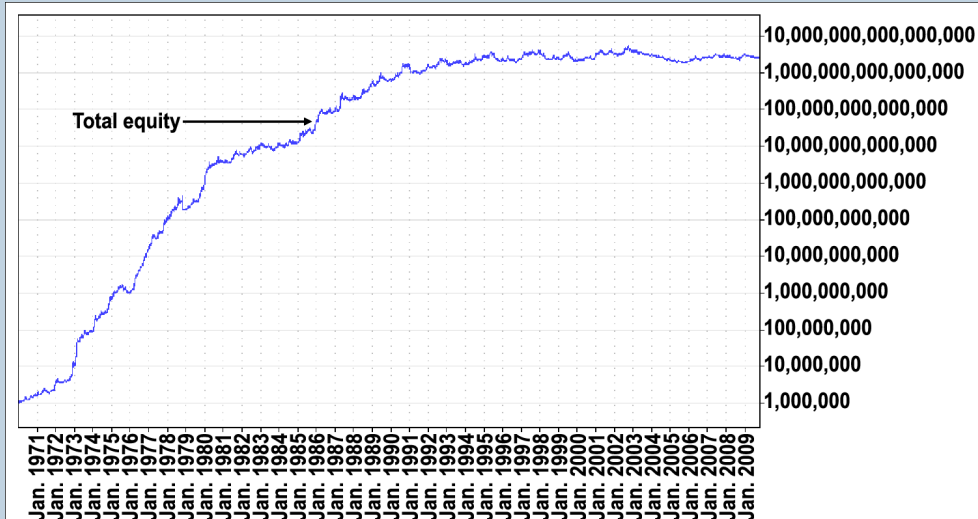
However, since the early 1990s, the system has essentially been unprofitable. Large drawdowns of up to 66 percent would have made this system difficult to trade unless you had exceptionally strong nerves. The original Turtle system needs considerable updating in the light of current market conditions.

### Rethinking the strategy

Let's stick with the basic approach, but wait to buy the market at longer-term highs and sell short at longer-term lows

**FIGURE 2 — EQUITY CURVE**

After impressive growth in the 1980s, the equity curve flattened in the early 1990s, suggesting the system has broken down.

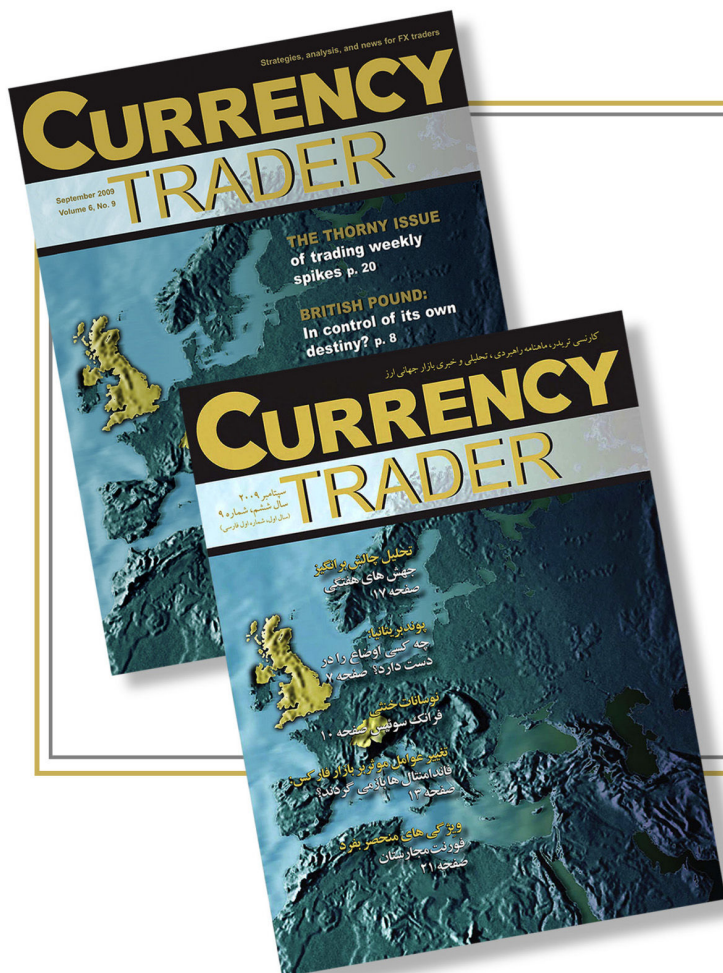


Source: Trading Blox

(instead of 20-day thresholds). Similarly, wait to exit long (short) trades at longer-term lows (highs) instead of just 10-day extremes. These changes produce a longer-term system that is more likely to avoid some of the increased noise in today's markets. ☺

For information on the author see [p. 5](#).

Read the full article in the February 2010 issue of *Active Trader*, on newsstands in January.



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