

02/15/2010 FastBreak - Year 2009 Review

Before reviewing FastBreak trading system performance for this past year we want to take care of housekeeping issues. Manuals for all our software can found on our website www.edge-ware.com **Ordering information and prices appear at the end of this commentary.**

Compatibility with Windows® 7

FastBreak is compatible with Windows® 7. It has been successfully installed on both the 32 and 64 bit versions of the operating system. During installation if you receive the error “Unable to register Mfc40.dll” click the “Ignore” option and the installation will continue to completion.

Upgrades to Version 6 FastBreak Pro

Early in 2009 we released Version 6 (V6.2) of Standard FastBreak and FastBreak Pro. These new versions contain the automated Trendline Stop Loss and Buy Filter that continue to prove useful. During 2009 we released two free upgrades for users of Version 6 of FastBreak Pro. Version 6 users can download these free upgrades from our website, www.edge-ware.com Here is a brief description of the latest upgrade:

Combine/Complementary Systems V6.4 Beta

FastBreak Pro V6.4 Beta adds the capability to optimize a new trading system in conjunction with one or two existing trading systems. The intent of this capability is to build complementary systems that may reduce the maximum draw down (MDD) or volatility of an entire portfolio trading multiple systems. We added this feature after our experience with ETF trading systems during the past year. See the ETF section later in this commentary.

As an example, perhaps the investor has developed a system that trades ETFs. The annual return of this system may be excellent but has significant drawdowns on a regular basis. This is often the case with a system that trades based on very long term trends without the benefit of tight stops. FastBreak Pro now allows you to import the equity curve (FNU file) from this existing system and the optimizer will attempt to build a complementary system that reduces the overall MDD when the two systems are traded together. Perhaps the optimizer finds a new trading system that makes short term trades or finds alternative funds that don't have a high correlation with the equity curve of the original system. A second possible use for an investor who has a trading system unrelated to FastBreak and then uses this new feature in FastBreak Pro to build a complementary system that may improve overall portfolio performance.

FastBreak Version 5 users

Beta Versions for Version 5 users

Read this section carefully as it may be confusing.

As a service to Version 5 users we placed new beta versions of FastBreak Pro and Standard FastBreak on our website (www.edge-ware.com) in early 2009. There is no cost to download and try these beta versions, but they will only work for users who have Version 5. Users of earlier versions of FastBreak will not be able to run the betas. Users who have Standard V5 will be able to run the Standard V6.1 beta. Users who have Pro V5 will be able to run the Pro V6.1 beta.

We are calling these versions Beta V6.1 and they have EXACTLY the same functionality as the initial Version 6 release.

These beta versions will not be upgraded or maintained. As we upgrade the official release version with future changes (V6.3, V6.4 etc.) we will not be updating the betas and only those who purchase V6 will be eligible for the updates.

Standard FastBreak Demo Available

The Standard FastBreak 30 day demo on our website is based on V6.2 of Standard FastBreak. This will allow potential users to try the Trendline option in a manual mode. There isn't a demo for FastBreak Pro.

Contact and other information

Our contact email address is [email2ew \(put @ here\) edge-ware.com](mailto:email2ew@edge-ware.com) for all inquiries and tech support. Email spam continues to be an increasing problem and we recommend you put the word "FastBreak" in the title of your emails so our spam blockers don't block your message.

FastTrack hasn't been maintaining the Commentaries, but you may be able to find information about our products in the old commentary sections: 8160, 8161, 8162, 8163, 8164, 8165, 8166, 8167, 8168 and visit www.edge-ware.com

2009 Year in Review

This commentary will review several different types of trading systems.

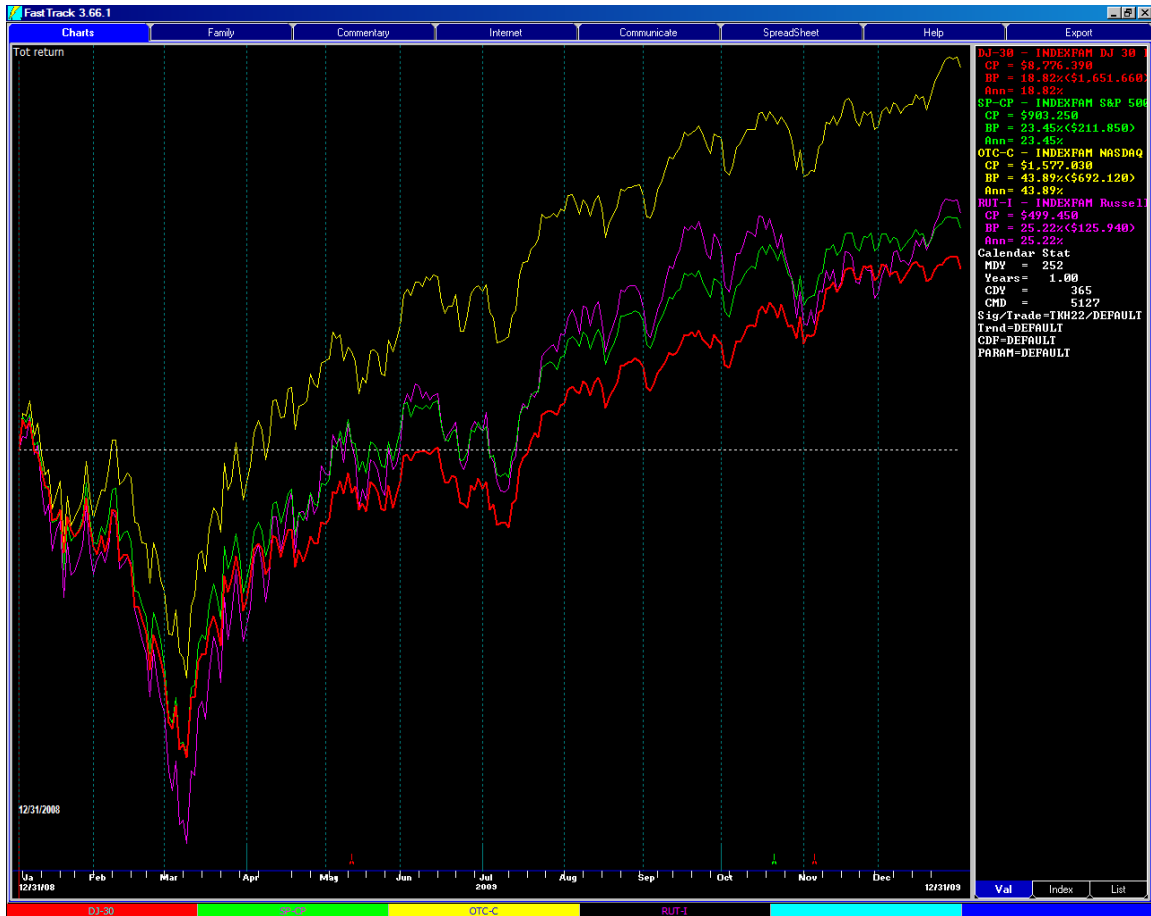
The first version of FastBreak was released in early 1996. Potential users of any investment software product should always ask the question "What is actual performance?" Soon after the initial release we developed example trading systems that could be monitored for "real time" performance. We don't modify trading system parameters during the performance reporting period and report on the systems on a yearly basis. If you would like to review all reports since 1997 visit our web site www.edge-ware.com and go to the Strategies page.

The example FastBreak trading systems on the Strategy page of our web site may provide users and potential users a starting point on the many different types of trading systems that can be built with FastBreak. It also allows us to provide an honest benchmark for real time performance. Users of both Standard and Pro versions can download these systems. The Standard FastBreak 30 day demo (Note: The current demo is based on Version 6.2) that can be downloaded from the web site can also run these strategies but will not display the last 60 market days of trades. Many of these systems are several years old. We can now build better trading systems, but we keep these systems on our web site to show that many trading systems are effective for long periods of time.

The example strategies should not be considered investment advice. We don't often post or change the example strategies on our web site because we believe investors' needs are very unique and users of our software should feel confident developing their own trading systems. Edge Ware, Inc assumes no responsibility for anyone trading these strategies. In addition, these systems are not rigorously maintained and with the demise of funds or symbol changes the systems may be affected. For example, several of the bond systems used the Shearson Treasuries Bond Index (STBI-) as part of the strategy. This index symbol became inactive in 2009 requiring strategy modification.

Note: All maximum drawdown (MDD) values reported below are daily values. In the investment industry you will see reported MDD values that are monthly values. Monthly values are very often substantially less than daily values.

The US Stock Market. After a scary start, most stock market indexes had a monster rally with few interruptions. This was a nearly perfect market for FastBreak momentum strategies.



The **Bond and US Dollar markets.** Due to the demise of the Shearson Treasuries Bond Index (STBI-), we will use VUSTX as a proxy for US Treasuries. Treasuries and Commercial bonds (DJ-2B) decoupled as fear left the market beginning in March. Treasuries remained directionless for most of the year, but most other types of bonds (commercial, high yield, municipal etc.) had strong rallies as fear was replaced by optimism. High Yield bonds were especially strong as the fear of default declined. The US dollar (DXY-Z) was generally weak as the flight to safety that was prevalent in 2008 lessened.



Here is a summary of common benchmark performance in 2008:

| | Return % | MDD | UPI |
|-----------------------|----------|-------|------|
| S&P 500 | 23.4 | -27.6 | 1.9 |
| DJ-30 | 18.8 | -27.7 | 1.3 |
| OTC | 43.9 | -22.2 | 6.1 |
| Treas. Bonds (VUSX) | -12.0 | -16.0 | -2.0 |
| DJ-B2 (DJ Bond Index) | 17.4 | -6.3 | 5.3 |
| DXY-Z (Dollar Index) | -4.3 | -16.7 | -1.1 |

We include two measures of investment returns for professional managers:

| | |
|-----------------------|---------------------------|
| | Return% |
| Managed Futures Funds | Approximately: -7 to +2 % |
| Hedge funds | Approximately: 19 % |

The above values are approximate because of the difficulty obtaining reliable information on these programs. Managed futures had a very bad 2009 after a very good 2008 when the commodity market was very strong and ability to sell short was important.

How did the FastBreak strategies posted on our web site perform? **Note: the date in the table below indicates when the system was posted on our web site. In many cases the system was trading real time well before posting.**

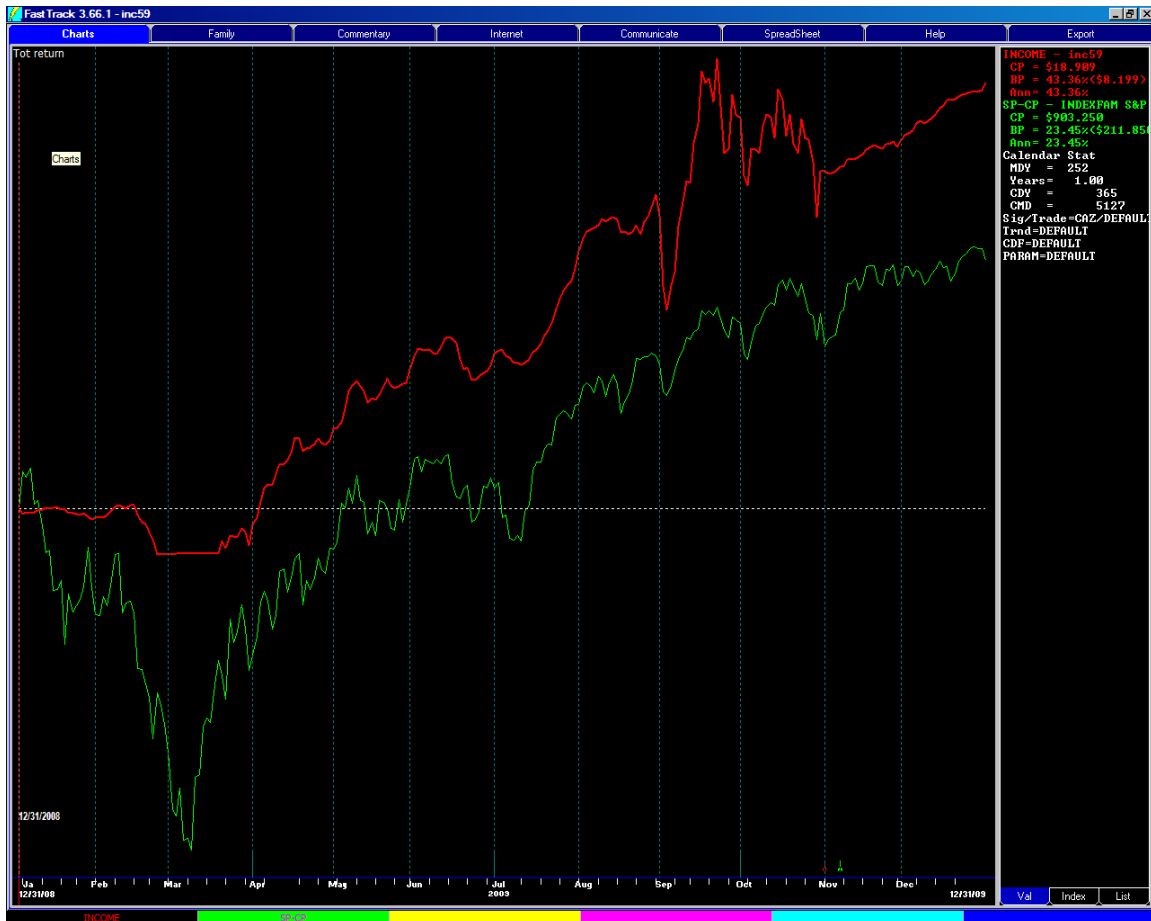
| | System Return% | MDD | UPI |
|--|----------------|-------|------|
| Bond system (3/2001) | 24.9 | -11.0 | 3.5 |
| International funds (2/2002) | 31.0 | -7.0 | 9.7 |
| Bonds LT Gov and HY (12/2002) | 12.7 | -9.6 | 0.9 |
| Bonds Conservative zero coupon (12/2002) | 34.7 | -4.8 | 15.3 |
| Bonds Aggressive zero coupon (12/2002) | 16.8 | -10.9 | 1.5 |
| Short bond (Rydex) (12/2002) | -0.4 | -12.0 | -0.9 |
| Short NDX-X (Rydex) (12/2002) | -8.3 | -13.6 | -1.2 |
| Short S&P 500 (Rydex) (2/2002) | -11.2 | -13.1 | -1.6 |
| Income Strategy (1/2009) | 43.4 | -12.5 | 9.4 |
| Long/Short Gov Bonds and US\$ (7/2007) | 2.3 | -10.7 | -1.1 |

Bond systems were all very good to excellent due to the performance of high yield bond funds. The original bond system from 2002 has had an average annual return of nearly 10% and a total return of 108% during the same time the S&P index had a total return of 1%. **Note: The bond systems that use zero coupon funds needed to be modified slightly.** As noted earlier, STBI- is no longer available as an index for US Treasuries. These strategies used STBI as an index for beta filtering of the zero coupon funds. We have substituted VUSTX for STBI- and reposted the systems on the website.

The **International system** has been around since 2002 continues to have amazing performance. Read previous yearly reports for background on this system. We have maintained reporting on this strategy to demonstrate long term strategy performance.

The **Short Market systems** had a poor 2009 (after an outstanding 2008) when the market rapidly changed direction in March. We didn't feel too bad after we read that the average short bias hedge fund lost 20% in 2009.

The **Income strategy** had another amazing year due to high yield bonds. An earlier version of this system has been around since 2003. We reoptimized the system last year (see 2008 commentary) due to a 2008 MDD higher than we liked. The original system did even better than the new system, returning over 56% (with less than a 4% MDD) in 2009. This strategy trades Fidelity bond and real estate funds with few trades per year. See comparison of the Income strategy with S&P 500 below.



The **Long/Short - Dollar/ Gov Bond** trading system. After an excellent 2007 and 2008 this system didn't do much in 2009, mainly due to the volatility and sideways movement of Treasuries. It wasn't able to take advantage of the general decline in the dollar because of considerable volatility in the dollar index.

Other Mutual Fund Systems of Interest

Potential FastBreak users often ask about other systems such as Rydex and Fidelity Sectors. Here are some other systems we traded or monitored during the full year to provide additional information. The trading files for these systems are not posted on our web site.

| System | Return% | MDD% | UPI |
|-----------------------------|---------|-------|-----|
| Annuity (4 funds no signal) | 30.8 | -8.4 | 7.7 |
| Rydex w/FastBreak signal | 39.3 | -12.3 | 7.0 |
| Rydex no signal | 11.9 | -15.2 | .5 |
| Select no signal | 29.0 | -11.0 | 5.0 |
| ProFunds w/FastBreak signal | 33.2 | -14.4 | 5.0 |

The **Annuity** system holds four positions in a trading family of approximately 40 funds. The trading family includes a very diverse group of funds including international and bond funds. This strategy is reoptimized nearly every year due to annuity company changing many of their funds. One of the advantages of FastBreak Pro is the ability to quickly rebuild trading systems when there is significant change in investment program such as annuity or retirement programs. System performance was outstanding with a very small MDD.

Rydex, Fidelity, and ProFunds sector system performance was generally excellent with the exception of the non-signal Rydex system which was a little disappointing. The Rydex system with a FastBreak signal holds 3 funds (including the high beta funds) and uses a market timing signal built with FastBreak Pro in 2004. This system had outstanding performance. The ProFunds system was described in the 2007 commentary, but the signal that was used for development has proved to be unsatisfactory the past year so the 2004 FastBreak Pro signal was substituted to provide some idea of performance with the signal providing a buy on April 30th and staying in the market the remainder of the year. The system uses the ProFunds sector and 1x and 2x index funds.

ETF Trading Systems

As we have previously said, ETFs are fantastic investment vehicles; unfortunately, there isn't a lot of historical data for testing and system optimization for the vast majority of ETFs. Some investors have successfully developed systems using other sector funds or indexes that have a long history and then substituting the ETFs into the system. See 2008 commentary for a description of how ETF systems were developed. We didn't do much research on ETF systems in 2009 so we will only report on the system that did the best (98%) in 2008. In 2009 it returned just under 3% for the year. We were disappointed in

this return but there is a simple explanation. Here is what we said in last year's commentary about this ETF system:

You would have started the year generally in commodity related ETFs, and then finished out the year in short commodity and short stock ETFs.

This ETF system follows long term trends so it can be painful when major trends reverse and new trends are still being established. However, the MDD was a respectable 21%. This system has a historical return of approximately 25% since January 2, 2001 so you can see it exceeded even the optimized period – which is not very common and shouldn't be expected to happen again anytime soon! It will be interesting to see how these systems respond as we go into 2009.

Well, now we know. The system was up nearly 5% in March 2009 while the S&P was down 24% - then the market changed – rapidly selling off commodities and a V shaped recovery in equities. The ETF system sold off sharply, reaching a low in early April, and then used the remainder of the year digging out of the hole and only returning 3% for the full year. Still, over 100% return in the past 2 years isn't too shabby, but the rapid sell off behavior is one reason we were motivated to build in the complementarily optimization option in V6.4 of FastBreak Pro. We hope to build complementary ETF systems to smooth the ride.

Stock Trading Systems

Review the 2005, 2006 and 2007 commentaries that described stock trading systems built using FastBreak Pro. Trading individual stocks can produce spectacular returns or equally impressive failure.

2009 was an outstanding year for most of the stock systems described in earlier years. The stock systems fall into four general categories of systems: Larger cap (S&P 500 + NDX-X stocks) systems with and without a market timing signals, and Small Cap Value (approximately 250 stocks that make up the Morningstar Small Cap Index – see the JKL ETF) all using a market timing signal. In some of the Small Cap systems a beta buy filter was applied to limit the beta of the stocks purchased to a beta of 1.0 These are referred to as the Low Beta systems.

Systems using a market signal used the same signal in all cases. The signal was built in mid 2004 using the signal function in FastBreak Pro. See FastTrack Commentary 8161 for a description of how this signal was built. The signal entered 2009 on a Sell and generated a Buy on April 30th – staying in the market for the remainder of the year. All the systems held six stocks with the following average results:

| | Return% | MDD% |
|--------------------------|-----------|------|
| Large Cap WO/Signal | ~ 45% | ~25% |
| Larger Cap W/Signal | ~55% | ~20% |
| Small Cap Value Low Beta | ~60% | ~25% |
| Small Cap Value | ~127-245% | ~25% |

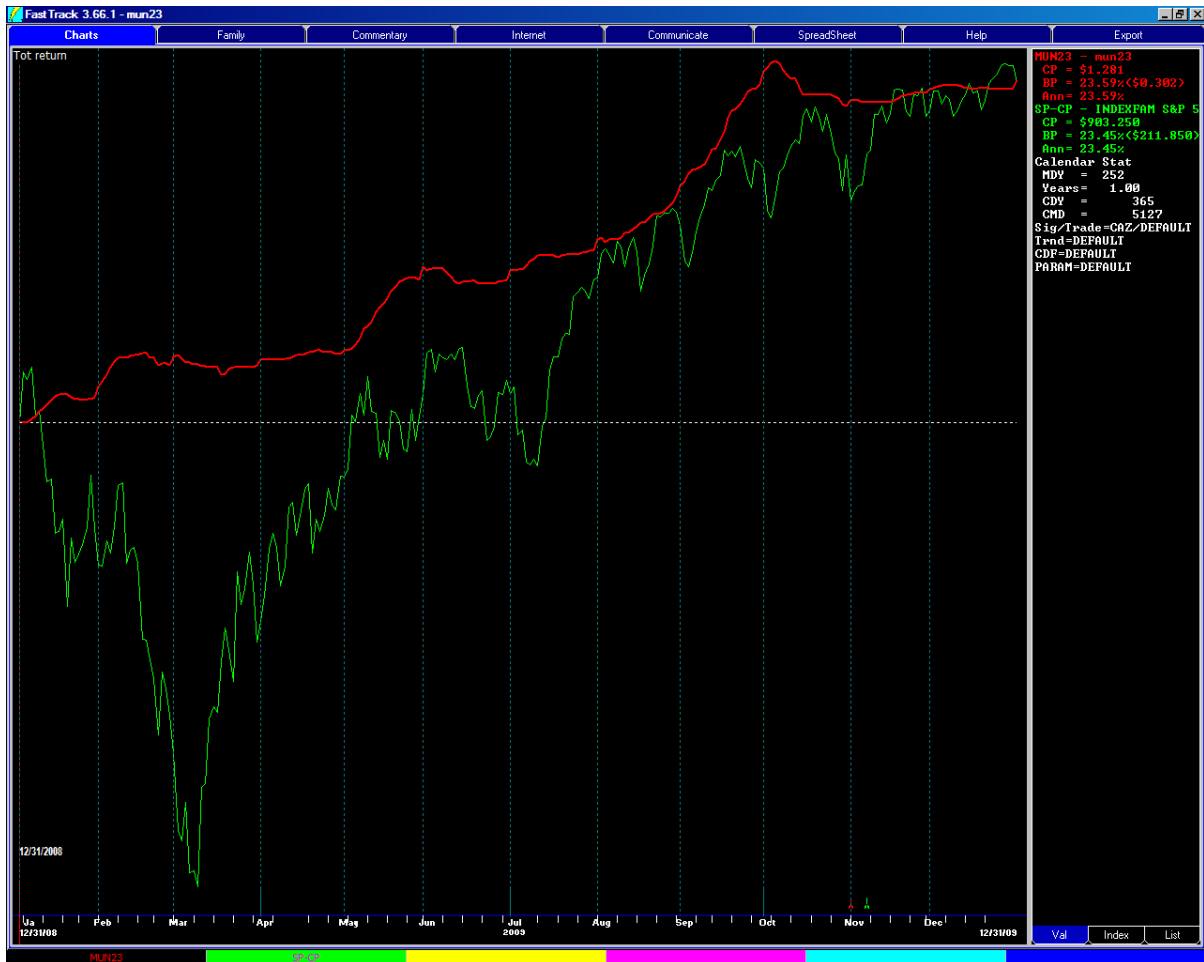
Excellent results in all cases, but as has been stated in previous commentaries, individual stock trading systems are very volatile and not suitable for everyone.

Energy Stocks

This comes under the category of lessons learned. In a FastTrack commentary in early 2005 we described an energy stock trading system. The system returned 66% for all of 2005 and then proceeded to lose 33% in 2006 with a couple bad whipsaws. We felt the concept was fundamentally sound and reoptimized the FastBreak energy trading signal in late 2006. Since then, in real time, the system gained 13% in 2007, lost 5% in 2008, but gained 51% in 2009 for a total return of 63% while the S&P was losing 21%, and Fidelity Select Energy Service lost 7%.

Municipal Bond Trading (New)

Early in 2009 with the market selling off and the very low yields available in money market funds or similar cash accounts, we took a look at holding municipal (muni) bond funds. We built a trading family made up of three different maturity length Fidelity muni bond funds and two non-Fidelity high yield muni bond funds that are widely available. We used an ultra short muni fund for the money market. We built a trading system in FastBreak Pro that returned approximately 7% since 1990 with less than a 5% MDD (Note: these are optimized results and also note that a large part of this return is federal income tax exempt.) For the full year this system returned 23.6% with less than a 3% MDD and a UPI of 16. Here is how the system compared to the S&P 500.



Obviously, the system had “S&P like” returns with a much smoother ride. It should be noted that this outstanding return was because high yield muni bonds recovered from a severe sell off in 2008 as the fear of default lessened. Municipal and state default fear is beginning to return to the market so it will be interesting to see how this system performs in 2010. **We will post this new trading system on the website.**

Summary and 2010

We were very pleased with the performance of FastBreak in 2009. The year began very badly for the markets, but most FastBreak systems began the year in cash or bond funds and avoided most of the carnage. When the market turned in March, FastBreak systems were able to take advantage of the last 6-8 months of the year and generally provide excellent returns. The one message that we keep emphasizing is that investors should diversify across multiple trading systems and asset classes. No one system is going to trade well in all markets.

In 2010 we hope to build some systems with the new complementary system feature in the latest version of FastBreak Pro.

We don't have a crystal ball for 2010, but we don't expect 2009 like returns. High Yield (HY) corporate and muni bonds were our favorites in 2009. If the economy double dips those will not be good places to invest. We have built systems that go long and short the Rydex/ProFunds high yield bond funds. The systems have performed well, but these flexible trading funds don't match the performance of standard HY bond funds in an up market, and we were very disappointed with the short version of the funds in the HY bond sell off in 2008. As HY was selling off in 2008 the short HY funds have very little upside. But they are a convenient way to trade both sides of the HY market.

We also did some work with the funds available from Jefferson National, a favorite annuity company of many active investors. We didn't build the systems until late May, 2009 so they have less than a full year of real time performance. They have performed very well since, but that isn't surprising given the market performance.

What is FastBreak and Who needs FastBreak

Unlike other trading methods, the FastBreak "mechanical" trading strategies gives specific buy and sell recommendations. Mechanical trading systems leave no room for historic "revision". These types of trading systems may not be for everyone, but we believe they should be considered if you recognize yourself in the following:

- Do you have trouble "pulling the trigger" on trades, e.g., selling your losers, taking profits on your winners, waiting for a bounce to get out of a bad trade ...?
- Do you have a limited amount of time to devote to your investments? If you are a full time investor, or enjoy sitting in front of CNBC and your computer all day, you may be able to do better with other investment methods. However, if you have limited time (or better things to do with your time!) a few minutes an evening is all you need to download your FastTrack data and run your FastBreak strategies.
- We have stopped reporting on some of the older FastBreak systems for a variety of reasons: Many of the mutual funds used in these old trading system families have since been discontinued, the market timing signals (unrelated to FastBreak) used did not stand the test of time, and we can build much more effective strategies with the functionality added to FastBreak in recent years. We felt that those systems don't accurately reflect the performance that FastBreak can produce.

Standard Disclaimer

As the saying goes, "Past performance is not a guarantee of future results."

Ordering information - PLEASE READ CAREFULLY

Standard FastBreak

New user purchase: \$475 (check) \$499 (credit card)

Current user upgrade: \$190 (check) \$199 (credit card) (If you have purchased ANY previous version of Standard FastBreak)

Save up to \$135 on FastGraph (see commentary 8163) when purchased with Standard FastBreak: add \$115 (check) \$125 (credit card)

FastBreak Pro

New user purchase: \$1800 (check) \$1900 (credit card)

Current user upgrade: \$380 (check) \$400 (credit card) (If you have purchased ANY previous version of FastBreak Pro)

Save up to \$135 on FastGraph (see commentary 8163) when purchased with FastBreak Pro: add \$115 (check) \$125 (credit card)

If you have any questions about ordering contact us at [email2ew \(put @ here\)](mailto:email2ew@edge-ware.com)
edge-ware.com

When ordering by either phone or check specify:

- 1) New user or Upgrade
- 2) FastTrack account number (not your password)

If you purchase Standard FastBreak and later decide to purchase FastBreak Pro within 60 days, we will credit your full purchase price toward the FastBreak Pro purchase.

At user request, we are going to continue offering discounts for those who make their purchase by check. When payment is made by check we avoid the credit card and 800 order line fees. We pass along those savings to you.

Order using your VISA or MasterCard by calling our toll free order line 800-420-9588. Do not use this number to obtain additional information. This is a commercial order line and the operators are not equipped to answer technical questions.

If ordering by check or money order, send check to:

Edge Ware, Inc
3536 Onyx Circle #4
Beavercreek, Ohio 45431.

All orders receive an installation CD and hardcopy manuals. New users will also receive a 60 minute DVD. The video is to help you get started faster with the basic functionality of FastBreak and FastGraph.

FastBreak **IS NOT** offered with a money back guarantee. If you are not sure FastBreak is for you, we recommend going to our web site (www.edge-ware.com) and download the user manuals and 30 day Standard FastBreak demo program. You can also download the sample trading system from our web site and run them in the demo.

If you have additional questions we can be contacted at [email2ew \(put @ here\) edge-ware.com](mailto:email2ew@edge-ware.com) **DO NOT CALL INVESTORS FASTTRACK for information!!**