

FastBreak - Year 2012 Review

As we enter our 18th year since the initial release on FastBreak back in 1996, we want to thank all our loyal customers. Before reviewing FastBreak trading system performance for this past year we want to take care of housekeeping issues, including information on free version upgrades to both Standard and FastBreak Pro. **Ordering information and prices appear at the end of this commentary.**

Free Version 6.6 Upgrades (for Version 6 users) of both FastBreak Pro and Standard FastBreak

We have posted V6.6 for both FastBreak Pro and Standard FastBreak on our website, www.edge-ware.com, as a free upgrades for Version 6 users. Version 6.6 fixes a small bug if you use a Dynamic Stop calculation period that is less than your momentum ranking period. There is more detail in the release notes for V6.6 on the Upgrade page of www.edge-ware.com

Standard FastBreak Demo Available

The Standard FastBreak 30 day demo on our website is based on V6.2 of Standard FastBreak that contains most of the functionality of the latest release. 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.

Visit www.edge-ware.com for more information.

Compatibility with Windows[®]

We get inquires asking if FastBreak is compatible with the latest release of Windows[®]. FastBreak has been successfully installed on both the 32 and 64 bit versions of the Windows[®] 7 operating system. We have not received any reports one way or the other regarding Windows[®] 8. During installation if you receive the error "Unable to register Mfc40.dll" click the "Ignore" option and the installation will continue to completion.

2012 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

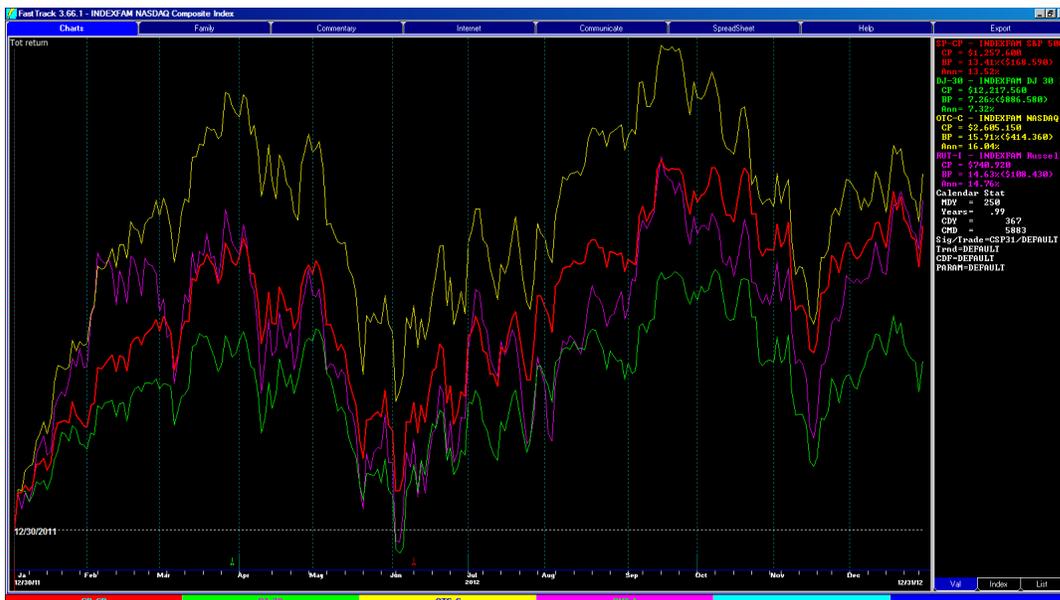
a yearly basis. If you would like to review all reports since 1997 visit our web site www.edge-ware.com and go to the Strategies page.

The example FastBreak trading systems on the Strategy page of our web site may provide users and potential users a starting point on the 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. It was a good year for all the major stock market indexes; however, many professional investors struggled – as measured by hedge fund and managed futures performance. In many ways it was a repeat of 2011 with short term moves largely driven by news out of Europe and US government dysfunction.



The **Bond and US Dollar markets.** Many bond indexes had a great year yet again, with high yield as the standout class. Action by the FED contributed to keeping rates low and investors reaching for yield. After being the best bond class in 2011, Treasuries generally had a bad year as investors rotated to equities and other types of bonds that had higher yields. Treasuries were quite volatile with risk on and risk off – mostly due to European problems. Muni bonds had a very good year as fear about municipal and state default declined. The US dollar (DXY-Z) was very volatile due to the ever changing problems with the Euro.



Here is a summary of common benchmark performance in 2012:

	Return %	MDD	UPI
S&P 500 (SP-CP)	13.4	-9.9	3.1
DJ-30 (DJ-30)	7.3	-8.9	1.5
OTC (OTC-C)	15.9	-12	2.7
Treas. Bonds (VUSX)	3.5	-8.6	0.3
DJ Bond Index (DJ-B2)	10.8	-1.9	15.1
High Yield (MLHY-)	15.6	-2.6	22.6
Muni Bonds (MUB)	5.2	-5.4	1.4
Dollar Index (DXY-Z)	-0.5	-6.1	-0.9

We include two measures of investment returns for professional managers:

	Return%
Managed Futures Funds	Approximately: negative 3 to negative 7%
Hedge funds	Approximately: positive 5-7 % Short-biased funds: negative 14%

The above values are approximate because of the difficulty obtaining reliable information on these programs, but clearly performance was not good compared to benchmarks. Managed futures had another very bad year and hedge funds underperformed popular equity indexes by a factor of 2 to 3.

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)	12.5	-3.9	6.0
International funds (2/2002)	5.3	-10.3	0.5
Bonds LT Gov and HY (12/2002)	9.1	-3.9	4.1
Bonds Conservative zero coupon (12/2002)	13.2	-3.3	8.8
Bonds Aggressive zero coupon (12/2002)	2.9	-5.9	0.2
Short bond (Rydex) (12/2002)	-4.2	-5.3	-1.9
Income Strategy (1/2009)	9.3	-7.5	2.7
Long/Short Gov Bonds and US\$ (7/2007)	-3.5	-14.0	-0.8
Muni Bond (2/2010)	11.5	-1.9	22.0

We only have one non-bond strategy (international strategy) posted on the website because **Bond systems** continue to be where FastBreak consistently performs well, and the systems have held up in many cases for over a decade. Another reason we don't post many equity strategies is because most of our favorite strategies use market timing signals that we can't post or maintain on the website. We were slightly disappointed in all but one of the systems that traded long term Treasuries (long and short), but as noted earlier, the risk on/risk off trade in long term government bonds and dollar funds didn't make for reliable trends. As previously mentioned, you will see that some of these systems haven't been updated for a decade. In 2010 we introduced a muni bond strategy. It should be noted that a large portion of the gains from the muni bond system are federal tax free so depending on your federal tax

bracket the comparable taxable return could be several percentage higher than indicated. We especially like the MDD and UPI of the muni system.

ETF Muni bond system In 2010 we reported that we had built an ETF muni system to avoid the minimum holding period problem. We haven't posted this system on the website. In 2011 this trading system returned over 12% with less than a 3% MDD and a UPI of 9. The system returned over 7% in 2012. It was up over 16% at the beginning up December, but was slow to get out when investors in muni ETFs sold in mass to lock in profits and avoid 2013 tax increases. Open end muni funds also sold off but not as much or as quickly as the ETF funds. Also, there is some indication that investors were shorting the ETFs to hedge their other muni positions. The system was just too slow getting out, but still, the muni system is even more interesting when it is considered that most of the gains are Federal tax exempt.

The International system has been around since 2002 with amazing performance. This year it was a little weak, but the long term performance has been outstanding. Read previous yearly reports for background on this system. We have maintained reporting on this strategy to demonstrate long term strategy performance.

The **Income strategy** did well in 2012. An earlier version of this system has been around since 2003 and has been one of our personal favorite trading systems. We reoptimized the system in 2008 (see 2008 commentary) due to a 2008 MDD higher than we liked.

Long/Short - Dollar/ Gov Bond trading system. After a great 2011 the volatility in Treasures and dollar funds hurt the 2012 performance. This system tends to have a negative correlation with the stock market so there may be an opportunity to use the strategy as a hedge against other strategies. Over the past three years this system has a -0.32 correlation with the S&P. When you look at the following chart you can see the negative correlation between the strategy (red), S&P (green) and average of combining the two (yellow)



Here are the results of combining the **Long/Short - Dollar/ Gov Bond and the S&P 500**. You get a return that is about 1% per year less than the S&P, but the MDD is less than half of buy and hold the S&P and the UPI is substantially better. No guarantees that this relationship will hold in the future, but it shows how different strategies can complement each other.

System/Index	Return%	MDD%	UPI
S&P 500 (SP-CP)	8.6	-19.4	0.9
Long/Short Gov Bonds and US\$ (7/2007)	4.0	-20.0	0.13
Combined	7.5	-7.3	1.65

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 trade 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
Rydex no signal	17.8	- 7.3	5.4
Fidelity Select no signal	-3.8	-14.5	-0.7
ProFunds w/signal	26.2	-13.8	-3.5

Rydex, Fidelity, and ProFunds sector system performance was a reversal of last year. Last year the Select system was the best, but this year it didn't perform well. Just the opposite occurred for the ProFunds system. That is a hazard of showing performance on fixed, yearly time periods. If we look at a five year period they all beat the S&P500. Sector trading can be very challenging, but when markets are trending well sector trading can be very profitable.

Jefferson National The last three years we mentioned working with the funds available from Jefferson National, a favorite annuity company of many active investors. We built systems in late May, 2009. These systems now have more than three full years of real time performance, and continue to do well. Here is how these systems performed in 2012

System	Return%	MDD%	UPI
7 day hold bonds	14.8	-5.0	5.6
7 day Equity funds – no signal	28.1	-6.5	9.7

Jefferson National has multiple holding periods on their funds. We like the 7 day hold funds so we build a bond and an equity trading systems. **Note: Jefferson National is constantly changing funds available and holding rules. These systems were built with the funds and rules in place at the time the system was built in 2009; however, we have added and subtracted funds in the family as JN has made changes.** We are very pleased with both systems. The bond system is a steady performer. The Equity system came off a poor 2011 and had a great year. **Note: Do not consider this an endorsement or investment advice. Every investor had different needs.**

ETF Trading Systems

As we have previously noted, 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 only the more common ETFs that have a longer history, and others have used sector funds or indexes that have a long history to develop the system and then substituting the ETFs into the system.

Quite honestly we haven't done any significant new research with ETF systems in a couple of years. This is an area we need to revisit.

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. We haven't done any recent new work with stock funds. We continue to like using FastBreak to trade energy stocks. The energy system we trade returned nearly 21% in 2012.

The small cap value stock systems also continue to perform well; however, these stock systems are VERY aggressive. We have described our general approach to developing such systems in previous

years. The small cap value systems we trade or monitor returned between a minus 9% and a plus 26% in 2012.

Below is an example of how one of the better, but not the best, small cap systems performed over the past three years. As you can see, the volatility was high, but the MDD was a respectable 19%. The system returned over 21%/year compared to 8% for the S&P500. This system has been out of sample since 2006 and during that time it has returned nearly 30%/year compared to a mostly flat S&P. The largest gains were when 2009/10 market recovery when small caps went on a tear, but again, these systems aren't for the faint of heart.



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 FastBraek Pro)

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

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