



TRUESTONE

# PROTOCOL 37

An Automated Algorithmic  
CFD Hedging Model

Over the past 30 months, we have developed Protocol 37, an automated trading strategy of Contracts for Difference (CFD), which allow us to also make profits in declining markets. P37 has been researched academically and back-tested on historical data of 16 years, including an out-of-sample data range of 2 years, and now operating on live client accounts.

P37 runs on every portfolio, every minute of every day, 5 days a week, to perform an array of checks and executions for each trade in every client's portfolio.

By buying one index and selling another in the same market P37 effectively creates a neutral market position, meaning it eventually profits irrespective of market direction.

Our trading results, both historical and current, show that the model creates a significant return with a very marginal risk.



## HISTORICAL RESULTS

Last updated: 12 June 2024

We have back-tested the model on 16 years of historical data at 1-minute intervals. The results reflected are derived from an unchanged aggressive portfolio since 2008, with a maximum of 12 baskets (indices only), a retail leverage of 1:5, and an equity cap of 70%.

### RETURN REPORT

Period	Best	Worst	Average	Median	Last
1 Month	21.87%	-19.19%	9.10%	12.34%	3.11%
3 Months	60.99%	-18.46%	27.36%	28.79%	-2.25%
6 Months	113.94%	-12.72%	54.80%	52.67%	0.06%
1 Year	189.81%	27.23%	109.08%	108.35%	89.11%
2 Years	337.92%	120.38%	220.45%	210.70%	180.18%
3 Years	458.96%	219.89%	332.42%	325.16%	268.09%
5 Years	664.58%	484.47%	563.69%	550.11%	502.35%

### RISK RATIOS

Sharpe Ratio	2.99
Sortino Ratio	7.53
Max Drawdown (Monthly)	-22.07%
Correlation vs S&P 500	-0.11
Standard Deviation Monthly	10.56%
Downside Deviation	3.94%
Beta	-0.23
VaR Historical	-9.98
Average Losing Month	-6.33%

### RETURN STATISTICS

Last Month	32.21%
Year To Date	18.28%
3 Month ROR	14.27%
12 Months ROR	85.96%
36 Month ROR	276.79%
Total Return Cumulative	1770.98%
Total Return Annualized	109.55%
Winning Months (%)	76.80%
Average Winning Month	13.80%

## ACCOUNT OPTIONS

Client retention (minimum high water-mark) varies according to the client's account selection. Truestone will only benefit from performance-based profit share. No asset management or any other fees will be levied.

Select Option	Risk Profile	Minimum Investment	Client Retention	Maximum Drawdown	Profit Share to Client
<input type="checkbox"/>	Low	£40,000	12%	20%	0%
<input type="checkbox"/>	Balanced	£100,000	8%	25%	30%
<input type="checkbox"/>	Aggressive	£100,000	0%	30%	< £3M : 70% > £3M : 80%



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# PROTOCOL

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## An Automated Algorithmic CFD Hedging Model

### FAQs

Contracts for Difference can be complex financial instruments and trading them on IG Markets or any other platform carries inherent risks. Below is a summary of the key FAQs of CFDs:

#### WHAT ARE CFDs?

CFDs are a type of leveraged financial derivative products that allows you to speculate on the price movements of an underlying asset without actually owning the asset itself.

#### WHY USE THIS CFD STRATEGY?

CFDs enable us to apply an algorithmic hedging strategy which can deliver profitable results irrespective of market conditions. The algorithmic software has been researched academically and back-tested on historical data of 16 years, including an out-of-sample data range of 2 years.

#### WHAT IS LEVERAGED TRADING?

Leveraged trading enables one to control a larger position with a smaller initial deposit (margin). This can amplify gains if the market moves in the client's favor, but it can also amplify losses significantly if the market moves against the client.

#### ARE CFDs VOLATILE?

Yes. CFDs markets can experience sudden price swings due to market drift or divergence, making it difficult to predict short-term movements and potentially leading to significant price swings.

#### WHAT DOES DRAWDOWN MEAN?

Drawdown refers to a peak-to-trough decline in the value of an investment or trading account over a specific period. It measures the maximum drop from a previous high point.

#### HOW DO WE COUNTER VOLATILITY?

The software applies various risk-mitigation components which are all in play to counter drift or divergence. This includes a traditional stop-loss for trades breaking through the acceptable price collar. A built-in trade-band limiter will prohibit trades from opening beyond an acceptable grid interval. There is also an equity cap controller to prohibit new trades if drawdown is maximized.

#### WHAT ARE MARGIN CALLS?

When trading leveraged (margin-based) products, if the value of the client's CFD position falls and their account equity falls below a certain maintenance level (margin requirement), IG Markets might issue a margin call. This will require the client to deposit additional funds to maintain their position or face forced closure (stop-out).

#### IS THERE COUNTERPARTY RISK?

In theory, there's a risk that IG Markets, as the CFD provider, might default on its obligations, potentially leading to financial loss for the client. However, this is extremely unlikely as IG is considered low risk, with an overall Trust Score of 99 out of 99. IG is publicly traded, operates a regulated bank, and is authorized worldwide by tier-1 regulators. Client funds can only be withdrawn back into the bank account or credit card from where funds have been deposited.

#### CAN MY ACCOUNT BE WIPED OUT?

No. The software's risk-mitigation components will protect a stipulated portion of the capital relative to the exposure from open trades and potential volatility. Our testing and live account results indicate that at no point has more than 20% of your equity ever been at risk.

#### CAN I WITHDRAW MY FUNDS ANYTIME?

Yes. However, it may take a few months for your funds to be at a net positive level. We recommend that you do not withdraw any funds in the first 6 months. If you do choose to withdraw all your funds prematurely, the closing of your open trades might result in losing a portion of your equity.

#### HOW ARE THE FEES CALCULATED?

No asset management fees will be levied by Truestone. On the low-risk option, the client would retain the initial 12%, whereafter any additional profits would be payable to Truestone. On the balanced option, the 1<sup>st</sup> 8% of growth is retained by client, whereafter a 30% (to client) / 70% split will be initiated. On the aggressive option, there is no initial growth retention to the client. A tiered split would apply based on the amount invested.

## DISCLAIMER & ACCEPTANCE

I hereby acknowledge that by signing this document, I am aware of the risks associated with CFDs as a leveraged product. I accept that any historical back-testing results of this product does not denote similar outcomes in the future. I further agree that I am happy to be considered a high-net-worth client and be subjected to the leverage offered by IG Markets. By selecting one of the three product options, I am in agreement of the charges related to the said option. I agree to assign the following % of my account to the selected product option:

%

Name of Policy Holder

Signature of Policy Holder

Date

Signature of Pension Trustee

