

- Model Validation - A Critical Component

Below is one of the many model validation techniques we use. The model characteristic of easily closely replicating the original model is a critical component of model validation. Quite simply, we put the burden of proof on the model to validate well after development. Frankly, anyone can derive a neural model that looks good by sheer chance. These models naturally fail to predict during real-time testing. The validation technique below virtually assures the original model's in- and out-of-sample performance was not due to chance alone. This document depicts six (6) additional models we developed using the same 4 non-optimized indicators as the above Nasdaq-100 futures model. To add to our confidence level, we ran Profit only time enough to build 10 to 15 models, examined the results, and continued this process five (5) more times. Below are the best models we derived and are not system models or post-optimized in any way. This "quick stop" process assures the modeled results converge very quickly and is in direct opposition to neural net modelers who build models 24 hours a day in search of one that "looks" good. This is generally a recipe for model failure since the "needle-in-a-haystack" approach is just that – sheer luck with no sound validation. Again, each of the models below was produced using only two (2) months of in- and out-of-sample data. The holdback, true out-of-sample data began April 1, 2001 and exceeds one full year.











