

Cheung Teaching His Winning Ways

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Rickey Cheung has built some of the most successful trading systems that are in great demand by hedge funds and institutions, but his first love is trading; he views himself more as a trader than a system developer.

“I am a trader. The reason I develop systems is to prove or verify that my trading has a definitive edge. Through developing many systems, I became a better trader. [With] each new system I develop, I have new [ideas] about how to trade better,” Cheung says. “Developing a system can bring discipline and confidence to a trader. This learning skill cannot [be obtained in any other way] besides developing your own system.”

Cheung grew up in Hong Kong and went to the University of Houston to study biochemistry. There a professor introduced him to futures trading and he was hooked. “He taught me how to trade soybeans and it got me excited, but I had no money to trade,” Cheung says.

He went on to earn an MBA from Houston before moving back home to Hong Kong in the early 1980s. There he immediately began trading, mainly in the foreign exchange market.

“I could work my full-time job in Hong Kong while it is the night time in USA, and after I finished work I could trade the U.S. market,” he says.



PHOTO BY GARRY STUDIO

Utilizing all of the standard indicators in his early trading, he was not successful. "Each futures market has its own characteristics, so using popular indicators like MACD, RSI , etc., to trade all the markets will end up with a mediocre result."

And he needed to keep his day job because he was not making money trading. The onset of electronic markets was a huge boon for Cheung. "I used common indicators and lost almost every year until I discovered that the Nasdaq 100 moved faster than the S&P and started doing a lot of research and testing on it."

That discovery allowed him to post his first positive trading year in 2000 and led to the creation of his first system, RC Success, which uses the Nasdaq 100 to forecast entries in the E-mini S&P. The program was rated the number one S&P program by *Futures Truth* for several years.

"When building a system, I start with an observation, then test it and find out the reason or logic behind it. I observed NQ [moves] faster than ES, so I tested it and it worked," he says.

Cheung then created RC Beginner in 2008 (currently the number one rated S&P program by *Futures Truth* with an average annual return of 147.1% since launch), a simplified version of RC Success to teach to his students.

"Most of them did not know what ES was all about, so I simplified my system. After I simplified it, it became even better," Cheung says. "In trading, at the beginning, many people go through the same stage, using more and more sophisticated indicators thinking that is the way to go, but that is not the way to go. Nowadays, I make it very simple and trade one or two times a day."

He became registered as a commodity trading advisor in 2004 after developing his first system and remains so. However, he chose to sell his systems to hedge funds and teach his methodology while trading and developing systems for himself instead of managing money.

Cheung has created more than 100 systems, many of which he has sold, but he is currently trading off of a proprietary indicator he created that measures overbought and oversold conditions. Not only does Cheung reject standard indicators, but he doesn't even look at charts. All his trades utilize intermarket analysis and are based on numbers.

He trades the ES, euro, Heng Seng Index and crude oil. "Mostly it is a trend following system, but my edge is finding overbought and oversold conditions," Cheung says.

He is teaching students how to trade with the overbought/oversold indicator, which he applies to the ES and euro but will not reveal its mechanics.

"My course usually just runs for two hours, but the backtest exercise will take them many days to do and redo. I provide them with data and model answers to practice; after backtest, they become skillful and have confidence. Then they will do forward testing, before they do real trades," he says.

Cheung says his overbought/oversold indicator correctly predicts market moves 80% of the time as opposed to the RSI, which he says is only 35% accurate. "I did a lot of research on it. Trend following many people can do, but when does the trend stop? When it goes to overbought and oversold; this is my edge."

Cheung says his current methodology is more successful than the RC Beginner system, which he has published for all to see. Why? "I do not need this system any more," Cheung says. "Using NQ to trade ES is what I did from 2000 until now, and it's for beginners. I have a more unique indicator that can win consistently, so it's good to share [with] others, and to show traders another way of trading futures, no charting required."