TREND FOLLOWING MANIFESTO

Donchian Trading System

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TREND FOLLOWING

The Donchian 5 & 20 Trading System is an "expert system" which duplicates the rules prescribed by Mr. Donchian. The following "rules" are incorporated in the computerized version of the 5 & 20 Trading System. These rules are as follows:

Definitions:

CBS= Current Basic Signal
TC= Today's Close
5 DMA= 5 Day Moving Average
20 DMA= 20 Day Moving Average

If position is open.

- If TC is in the direction of the CBS ?
  - Yes = No signal.
  - No = Is TC-20 DMA in direction of CBS ?
    - Yes = Is TC-5 DMA in direction of CBS ?
      - Yes = No Signal.
      - No = Go to Rule A.

Is TC on the opposite side of the 20 DMA from the CBS by one full unit or more ?

- Yes = Go to Rule A.
- No = Go to Rule F.

Rule A

Has TC crossed the 20 DMA and penetrated by one full unit or more the maximum of the previous 20 DMA crossing in the same direction no matter how long ago ?

- Yes = Reverse current position or if currently "out" take new position in direction of crossing.
- No = Go to Rule B.

Rule B

Did the first day of the 20 DMA crossing which lead to the CBS occur within the previous (starting with yesterday) twenty trading days ?

- Yes = Did TC exceed by one full unit the previous fifteen closes ?
  - Yes = Reverse currently held position, if "out" take position in direction of crossing.
  - No = Go to Rule F.
- No = Go to Rule C.

Rule C

Did TC exceed by one full unit the previous twenty-five closes ?
- Yes = Reverse the currently held position, if "out" take position in direction of crossing.
- No = Go to Rule F.

Rule F

Has TC crossed the 5 DMA in direction opposite the CBS and exceeded by one full unit any previous penetration of the 5 DMA (in the same direction) within the previous twenty-five trading days (including the twenty-fifth day) ?
- Yes = Have any of the last fifteen closes penetrated the 20 DMA by one full unit more than 20 DMA penetration (in either direction) of the previous sixty days including today ?
  - Yes = Has TC penetrated the 5 DMA by one full unit more than any 5 DMA penetration (in either direction) of the last
    - Yes = Take Rule F "out".
    - No = Rule F exception. No signal.
  - No = Take Rule F "out".
- No = Go to Rule G.

Rule G

Is current position "out" ?
- Yes = Has TC penetrated the 5 DMA in the direction of the CBS (signal A, B, or C) by one full unit more than any penetration in the same direction within the last twenty-five trading days ?
  - Yes = Take position in direction of closing.
  - No = No signal.
- No = No signal.

Signal Timing

1. Signals on the close of the day prior to the last trading day of the week (usually Thursday), are executed on the close of the last trading day of the week (usually Friday), i.e., if Friday is a holiday, then signals on Wednesday's close are executed on Thursday's close.

2. Signals on Friday's close are executed on Monday's opening.

3. For signals occurring on the trading day prior to a holiday (either midweek or long weekend): if a sell signal execute the sell on the opening of the first trading day following the holiday, if a buy signal execute the buy on the opening of the second trading day following the holiday.

4. All other signals are for opening on second trading day following the signal day.

Unit Definition

For Price Range	One Full Unit Equals
0.00 to 2.00	0.002
2.00 to 4.00	0.01
4.00 to 15.00	0.03
15.00 to 40.00	0.05
40.00 to 120.00	0.10
120.00 to 400.00	0.20
400.00 and above	0.002

Penetrations

To count as a point to be exceeded, a previous penetration must be at least three full units for one day, or one full unit for one of a two or more consecutive day crossing.