THE DISTILLED · FREE GUIDE · FOUNDATIONS

How to test a model honestly

A win rate means nothing on its own. Here is the number every result has to beat, and the four traps that make a random entry look like an edge.

For education only. This isn't financial advice, and trading carries a high risk of loss. Charts are real historical data. Numbers describe what price did; none of them is a signal, a promise or a win rate for you.

THE CHANCE LINE

What a coin flip gets you

With a stop 1R away and a target k R away, a market with no edge hits the target about **1 in (1 + k)** times. That's arithmetic, not skill. It is the line every model has to beat.

TARGET	CHANCE HIT RATE	
1R	50.0%	
1.5R	40.0%	
2R	33.3%	the one most people trade
3R	25.0%	
4R	20.0%	

So "40% at 2R" sounds weak and is actually above chance (33.3%). "60% at 1R" sounds great and is only 10 points above chance (50%). Always put the chance line next to the win rate.

Then take costs off

Commission and spread are charged in points, so they cost more R on a tight stop. A model that beats chance by 2 points can still lose money after costs.

Compare against random entries

The fairest test: take random entries with the **same stop size**, same instrument and same time of day, and run them through the same target. If your model doesn't beat that placebo, the rules aren't adding anything.

THE TRAPS

Four ways a test lies

- **Looking ahead.** Using a candle's close before it has closed, or a higher-timeframe level before that candle finished. Always ask: could I have known this at the time?
- **Picking examples afterwards.** Every reversal contains a sweep and a CISD, so every chart you pick later "confirms" the model. Count the failures too.
- **Testing many ideas and keeping the best.** Try 40 filters and one will look good by luck. Split your data: find the rule on the first part, then check it once on the second.
- **Too few trades.** 20 trades tells you almost nothing. Hundreds, across markets and years, start to.

What we found

We have tested dozens of popular rules this way, including some of our own. Most land on their chance line: they describe the chart well but don't predict it. That's why we teach models as a way to **read** price, and never quote a win rate without its chance line.

> **Try it**
>
> Take your last 50 trades. Work out your average target in R and its chance line, then compare your real hit rate with it, after costs.