




How to Backtest — SM Trade

A 5-minute guide to testing whether a signal setup has actually worked.

What backtesting does (and why it matters)

A backtest replays the dashboard's BUY/SELL signals over **real historical candles** and simulates the trades they would have produced — so you find out the **win rate and expectancy** of a setup *before* risking money. A signal that "looks strong" means nothing until it's measured. The engine uses **no look-ahead**: it only sees data up to each bar, enters on the *next* bar, places an ATR-based stop, and a fixed reward:risk target.

Steps

1. Open the dashboard and **click any asset card** to open its detail view.
2. Pick the **timeframe** you want to test (top buttons: 1m → Daily).
3. Click  **Backtest** (above the chart).
4. Choose your settings:
 - **Signal strength** — minimum |score| to take a trade (≥ 4 = every BUY/SELL; higher = stricter, fewer trades).
 - **Reward : Risk** — target size vs the stop (1:2 means risk 1 to make 2).
 - **History (bars)** — how many past candles to test (more = more reliable).
5. Click **Run backtest** and read the results.

How to read the results

Metric	Meaning	What's healthy
Trades	How many setups occurred	30+ (fewer = unreliable)
Win rate	% of trades that hit target	Depends on R:R — see below
Expectancy (R)	Average profit per trade, in risk units	Above 0 (e.g. +0.1R)
Profit factor	Gross wins ÷ gross losses	1.3 or higher = an edge
Total return (R)	Sum of all results in risk units	Positive and rising
Max drawdown (R)	Worst peak-to-trough losing run	Smaller is better
Equity curve	Running total of R over time	Smooth & upward, not one lucky spike

Win rate vs R:R: at 1:2, you only need to win ~34% to break even; above that you profit. So a "low" 40% win rate can still be very profitable. Always read **win rate together with R:R and expectancy**, never alone.

Quick rule of thumb: Trust a setup only if it has **30+ trades**, **profit factor ≥ 1.3** , **positive expectancy**, and a **steadily rising equity curve**. One or two big winners carrying the whole result = not reliable.

Important caveats (read these)

- **Past \neq future.** A good backtest is necessary, not sufficient. Always **forward-test** on live data before sizing up.
- **Costs aren't fully modelled.** Broker **spread and overnight swap** eat into a thin edge — a profit factor of 1.05 may be negative in reality.
- **± 9 signals are rare.** A perfect score almost never occurs; test $\geq 4-7$ to get a meaningful sample.
- **Optimisation trap.** If you tweak settings until it looks great, you may be curve-fitting. Prefer settings that work across **several assets and timeframes**.

SM Trade is an analysis tool, not financial advice and not an auto-trader. Backtest results are hypothetical and do not guarantee future performance. All trading decisions are your own.