

7 Ways Your Backtest Lies

and the 60-second check for each. Free checklist from the Backtest Reality Check Kit.

1. It knows the future. `shift(-1)`, centered rolling windows, scaling by the whole-history max, trading at the close you just used for the signal. AI-written code does this silently.
Check: delete every bar after day t and recompute. If the signal on day t changes, the code leaks.

2. You forgot how many things you tried. 1,000 coin-flip strategies on Bitcoin 2018-2026: the best one showed 47.6 % a year and Sharpe 1.09. Zero skill.
Check: count every variant you tried, including discarded ones, and use a deflated Sharpe ratio. Want a probability of 0.95 or more.

3. You never held out unseen data. If every year of history was used while building, you have no test at all.
Check: lock away the last 30 % of history. Look once. Expect decay; keeping half the in-sample Sharpe is good.

4. Costs are fantasy. 200 trades a year at 0.1 % per side is about 40 % of position value in costs a year.
Check: double the costs. If the edge vanishes, it was never there.

5. Too few trades. 12 winners prove nothing.
Check: at least 30 trades, and the profit is not concentrated in 2-3 of them.

6. One lucky regime. Lots of "crypto bots" are just the 2020-2021 bull run.
Check: results by year; remove the best year; walk-forward against buy & hold over the same years.

7. It is a lonely spike. MA 50/200 works, but 45/200 and 55/200 fail? That is noise, not an edge.
Check: nudge every parameter one step. Neighbours should still work.

Want all seven checks automated? The **Backtest Reality Check Kit** runs them in one command on stocks, ETFs, forex and crypto: a Python lab with out-of-sample, walk-forward, deflated Sharpe, bootstrap and a look-ahead detector, 12 skeptic prompts for Claude / ChatGPT, and the guide *How Not to Blow Your Account*.

backtestrealitycheck.com

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