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04

April 2011

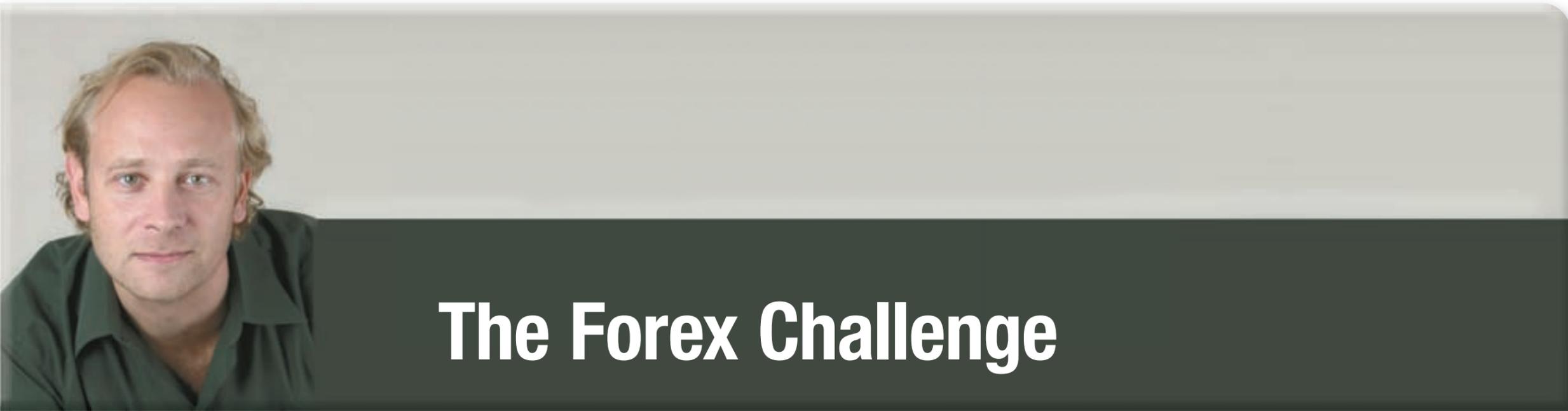
FOREX
SPECIAL

Welcome to the World of Forex Trading

We Show You How the FX Market Works and What Opportunities It Offers



- >>> **Who with Whom?**
How to Use Correlations in the Forex Market
- >>> **Getting an Edge in the FX Market**
Learn How to Trade with Precision
- >>> **How Fast Is Your Money?**
A Scalping Strategy for the EUR/USD
- >>> **A Declaration of Independence**
Your Own Rules for Successful FX Trading



The Forex Challenge

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Have you also already heard of the Foreign Exchange Market (Forex)? A place where it is said you can easily earn a fortune? Whether you are a beginner, a professional, untalented or gifted, anyone can advance to a new trading dimension and in a short time and rise to ranks of the millionaires...

Well, it is not quite as easy as that. Forex is basically a zero-sum game. That is, if you win, somebody has to lose or the other way around in order for the market to be balanced. So now, let us shift down a gear and plant ourselves firmly on the ground of reality. It is of course possible to achieve success in trading Forex however, it is actually anything but easy. It is very much a challenge. The good news is that there is something you can do about it: In order to support you on your way to becoming a successful Forex trader, we have released this special edition of TRADERS' to supply you with the necessary tools to make your journey as smooth as possible.

With growing interest in Forex, the entire financial sector of Forex brokers has changed. Meanwhile, there are a host

of brokers focusing exclusively on trading in the inter-bank market and customers are benefiting notably from excellent treatment. Competition is tough and every broker is trying to offer the best service. That is leading to extremely low fees, great trading platforms, first class service, unbelievable leverage opportunities and more.

But here too, there is a certain amount of danger. Especially for inexperienced traders who often do not know how to handle the tools they are provided. Compare that to a beginning driver climbing into a Ferrari. Of course he knows how to work the clutch and the gas pedal and to turn the steering wheel. Nevertheless, there is the danger that he will end up off the road one he encounters his first high-speed curve.

It is the same with Forex. It may appear that you are dealing with a get rich quick scheme. In truth you are involved with one of trading's top disciplines. Only those who know what they are doing and have a certain amount of knowledge and

experience will survive the market and have a chance to profit consistently.

For this reason it is extremely important, especially for beginners, to look at the risks as well as the opportunities this market offers. A leverage factor of 200 which is available practically only in this market, is effective when profiting, but even more dramatic when losing. Therefore, heed the risks when trading! Always remember that in order for somebody to win, somebody else has to lose. In the long run you and only you determine on which side you will end up. Enjoy reading and learning.

Good Trading

Lothar Albert

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m e d i a GmbH

TRADERS' media GmbH is a financial markets publisher specialising in education and continuing education in the field of trading and securities markets. TRADERS' media was founded in April 2004. It publishes the trading magazine TRADERS' in the German (print), English (digital), Dutch (digital), and Arabic (digital) languages every month. TRADERS' magazine was founded in 2001 by market mavericks Lothar Albert and Allison Ellis. Lothar Albert is CEO of TRADERS' media GmbH and chief editor of TRADERS' magazine. Further TRADERS' editions will follow focusing on Asia (Singapore), India and Russia and coming soon in the very near future, an edition for Latin America in Spanish. For four years in a row, 2004-2007, TRADERS' has been awarded the title of World's Best Magazine for Traders by Trade2Win, an international community of traders.

TRADERS' is different and unique because we do not give any advice or recommendations on what to trade. This makes our content very different from any other market magazines. We are not interested in giving people certain buy and sell recommendations, but rather in teaching the basics of trading from the state of the beginning to the professional level.

Our magazine has established itself as a source for information and communication for elite traders in Germany, Europe and around the world. Current information about technical, mathematical and psychological aspects of the markets is discussed in professional articles and interviews. Each issue contains articles about trading strategies (for basic, intermediate, and advanced traders), risk management, technology for traders, business issues for traders, book and website reviews, and much more!

Still today, the trader-elite are interested in professional and current trading knowledge and experience. For dedicated traders, there is no need for buy and sell recommendations. Trading pros make their decisions with self-confidence and are self-contained. These people know that trading can be profitable in bull and bear markets. The question is: what are the markets and tools that lead to success? TRADERS' magazine addresses this question every month in several languages.



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E-mail	info@traders-mag.com
Publisher	Lothar Albert
Subscription Service	www.traders-mag.com; www.tradersonline-mag.com abo@traders-mag.com Tel: +49 (0) 931 45226-15
Address of Editorial and Advertising Department	Barbarastrasse 31, 97074 Wuerzburg
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ISSN	1612-9415
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We Show You How the FX Market Works and What Opportunities it Offers

Welcome to the World of Forex Trading

Our currency system is still feeling the effects of the financial crisis: inflation, Quantitative Easing, nationalisation of banks and enterprises and so on. That is why many experts are demanding reform of the regulations governing credit and money, for example, some are advocating a return to the gold standard. Despite these difficulties, the currency markets offer great opportunities for both traders and investors. While 15 years ago that market was restricted to big businesses, hedge funds and institutional investors, it has for some years also been accessible to retail traders. The following article presents a detailed introduction to the Forex markets while explaining what Forex is, how the markets work, and what opportunities are available.

What Is Forex?

Forex (foreign exchange) is the inter-bank market for international foreign-exchange trading. Although the currency trade has existed in the financial world for more than half a century, it has only been in the last few years that the little guy has been given a chance to participate in this market – thanks in no small part to the opportunities offered by the Internet and ever-developing computer technologies.

The Forex market actually originated in the 1970s in the transition from a fixed to a floating currency system. Since

the foreign-exchange trade is an Over the Counter (OTC) market, currencies are not traded via a central market place but outside officially-recognised stock exchanges and directly between market participants themselves. This means that it is not subject to any government oversight and hence is unregulated. But in the absence of a central clearing house, trade is comparatively opaque. As a rule, transactions are only known to the two parties concerned.

A currency pair consists of two components: The first currency is the base currency whose

value is always one. The second currency is the target currency. If, for example, EUR appears first, then the second digit means how much the subsequently named currency is worth in euros. So

EUR/USD means how many dollars you get for



Daire Ferguson

AVA FX

one euro and how many dollars you have to pay for one euro.

The exchange rate between two currencies is determined by market conditions, i.e. the ratio of supply to demand. 'Bid' is the price at which you can sell, and 'ask' is the price at which you can buy. Most of the time, there is a difference between these two figures (spread) expressed by the unit "pip", which is the fourth digit after the comma. Currencies are goods just like pork bellies or gold. Due to the ever-changing conditions of a country's economy (labour productivity, inflation etc), the purchasing power of a currency vis-à-vis other currencies is subject to strong fluctuations. The exchange rate between two currencies is therefore not fixed, but constantly

and currently determined on the Forex market.

Ultimately, Forex trading means buying one currency and simultaneously selling another currency on the currency markets with a view to posting a profit from positions held of different currencies. Placing an order could not be more simple, and the procedure is practically identical to that used in other markets.

Most transactions (about 85 per cent or even more) take place in the major currencies, i.e. the USD, EUR, JPY, GBP, CHF, CAD, and AUD.

24-Hour Trading

Unlike other money markets, the currency market is open 24 hours a day, five days a week. Every day FX trading commences in Sydney, then moves to Tokyo before continuing on to Frankfurt and London and finally closing in New York. This way, every trader can trade currencies in every time zone, no matter whether it is day or night.

However, outside European and American trading zones liquidity decreases considerably with trade concentrating between 8 am and 6 pm Central European Time (CET). Following any news,

Forex traders never need to wait for the market to open. This means that overnight risk and unexpected price gaps are nearly non-existent (excepting at weekends). Besides, stop-loss orders may be executed at any time, and this kind of flexibility is not found in any other market.

Enormous Liquidity

Forex is the largest and most liquid market in the world with sufficient money always being available as a result of 24-hour trading. According to the most recent figures, the average daily volume amounts to four trillion dollars, causing the currency market to exceed the volumes of all other financial markets. This leads to narrow spreads causing slippage costs to decrease and both buy and sell orders to be executed faster. According to Mr Joerg Ernst, head of FXdirekt bank, high liquidity and numerous market participants guarantee fair price formation at any time.

The bulk of the volume (90 to 95 per cent) is provided by the world's largest commercial banks, whether attributable to proprietary trading or trading done in clients' interest. But major

advances in computer technology and new software developments have opened the market to small investors. An increasing number of brokers and banks grant retail investors access to the Forex market via the Internet. This is how David Jones, Chief Market Strategist at IG Group, sums it up: "This means that the most important players are the big banks, businesses, hedge funds, institutional investors, central banks and nowadays also retail investors."

Low Costs and High Leverage

Since the FX market is an inter-bank market and therefore does not entail any additional commissions for services provided by a stock market, trading there is considerably less



Roger Rutherford

CME Group

expensive. For example, Forex traders usually only need pay the spread and a low transaction fee. The narrower the spread, the better for the trader. And since the currency market is highly liquid, prospects for narrow

spreads are, as a rule pretty good. The spread is an important criterion in choosing a broker. It is absolutely necessary for you to make sure that the spread is always guaranteed, for example when economic data are being published!

Beyond that, margins are very low in currency trading. Depending on the size of the order, they sometimes only amount to one per cent or even less. This means that brokers offer their clients high leverage, enabling even traders with little capital to make big profits – albeit high losses, too.

Further Benefits

Aside from the benefits of liquidity, 24-hour trading, and low costs, the Forex trade is also fascinating because of its high-trending markets. Unlike the futures and stock markets which frequently feature spikes and gaps, trends in the Forex market usually run very evenly and smooth. In fact, currency markets are considered to be the best trend markets that exist. Some currency pairs are constantly in a trend while others predominantly run in sideways phases. Since both positive and negative predictions can easily be reflected in long or short positions in the FX market, the direction of the trend is particularly relevant to traders.

This leads us to yet another benefit of currency trading: “You can go both long and short”, explains Daire Ferguson, Head of Trading at AVA FX. “What is special about Forex trading is that traders buy one currency (for example, euros) and at the same time sell the other one (for example, dollars).” This makes it possible for them to profit either from a firmer Euro and/or a weaker USD. Again, this shows the many opportunities provided by currency trading – as opposed to the stock market.

Beyond that, the Forex market is far less volatile than other markets so that traders carry lower risk. On just one day, stocks may move by 20 per cent, in extreme cases even by 50 per cent. By contrast, the maximum daily fluctuation rate of currency prices is between one and two per cent. Moreover, the FX trade is suitable for portfolio diversification since currency markets, as a rule, move independently of stock markets.

Cross rates are another opportunity provided by FX trading. A cross rate is defined as the rate of a currency which is the result of the rates of other currencies. Cross rates normally are determined for currency pairs in which neither component is

the US dollar. For example you can calculate the cross rate EUR/CHF by the majors EUR/USD and CHF/USD (Figure 1). Another example: you may profit from a devaluation of the British pound vis-à-vis the Japanese yen even if the pound is quoted unchanged vis-à-vis the Euro or dollar. This will offer traders numerous different combinations.

“The key question is: Will the key interest rates be raised or cut?”

Trading Channels

Basically, there are two different trading channels for currencies: trade via the stock exchange or the direct inter-bank business. On stock exchanges it is possible to trade currency futures that are very similar to futures contracts for commodities or indices. In fact, though, they are standardised futures whose conditions such as expiry date or contract size are set by the stock exchanges. By contrast, the so-called forwards that are traded in the inter-bank market, i.e. outside officially-recognised stock exchanges, can be more individualised (Figure 2).

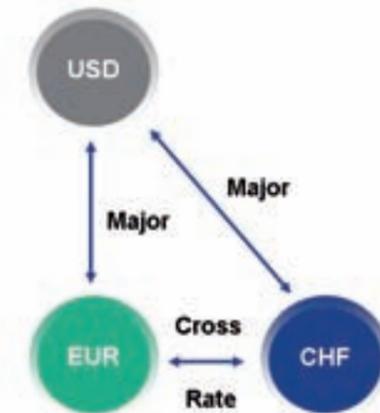
Although there is the occasional offer of currency futures, currencies are predominantly traded in the inter-bank market – either directly between the banks or indirectly by retail investors via brokers. After all, the crucial advantage of inter-bank trading over a stock exchange such as, the CME is that traders are considerably more flexible and can determine their position sizes themselves while with futures they need to trade a complete MiniFX or a regular contract, as is required by the stock exchange.

“By the same token, stock exchange trading is safer and more transparent,” argues Mr Roger Rutherford, CME Group’s managing director of FX products. “The growth of CME Group’s futures and options products, as well as the recent BIS (Bank for International Settlements) survey results, illustrates the need for counterparty risk mitigation and the central counterparty clearing model that exchange trading offers.”

Factors of Influence

The value of one currency relative to another depends on many different factors. “The most

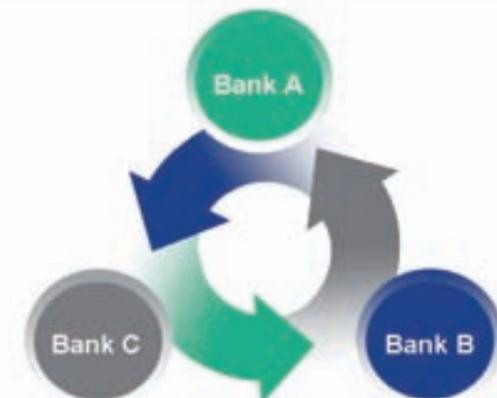
F1) Cross Rates



Here is an example for a cross rate. The EUR/USD and the CHF/USD are major currencies. Their rates result in the cross rate EUR/CHF.

Source: TRADERS' Graphic

F2) Inter-bank Market



Currencies are predominantly traded on the inter-bank market between the banks or by retail investors via brokers. It is not a physical exchange and thus is not regulated.

Source: TRADERS' Graphic

important of these is the strength of the domestic economy and the monetary policy of the central banks", says Steven Quirk, Senior Vice President at Trader Group TD Ameritrade. For example, a weak currency has a positive impact on exports since the prices of products fall and are hence more competitive. Above all, FX traders should watch out for the following data: The results of the meetings of the central banks in the US, Japan, and the EU. The key question here is: Will the key interest rates be raised or cut? This will clearly impact inflation and the value of a currency.

According to David Jones, developments in national economies also play an important role in currency trading. He argues that key factors include gross national product, unemployment, or the consumer-price index since they reflect the state of an economy.

The Right Broker

Brokers act as intermediaries in Forex trading, bringing together buyers and sellers of currencies. Mr Steven Quirk explains a broker's job as follows: "Through our constant and always up-to-date dissemination of information surrounding currency trading in

the form of news, seminars, chats and many other things, we enable especially retail investors to have access to the Forex market." According to all the brokers questioned, a very good round-the-clock service is indispensable.

Differences between the brokers can be found especially with the spreads of ask and bid prices. As mentioned earlier, brokers only make money from the spreads, which is why the spread is an important criterion when choosing your broker. For example, in inter-bank trading EUR/USD spreads of one to two pips are the norm while in retail trading the spread should not be

more than three pips. However, these numbers only apply to a liquid market, i.e. in the case of a major trading currency and during major trading hours. By contrast, the spread may be considerably wider in a volatile market environment and when trading less common currency pairs.

Beyond that, there may also be major differences between individual brokers with regard to corporate policy. So always pay attention to your broker guaranteeing order execution and placing of stops. In addition, you should make sure that they have redundant systems in place to secure their hardware and

software in order for your orders to be definitely executed even in case the server happens to break down during a trade. All the brokers questioned at AVA FX IG Group, and TD Ameritrade offer guaranteed order and stop execution – even in case of a technical failure.

I might add that even in the little-regulated Forex market there are agencies monitoring many brokers: for example, the NFA (National Futures Association) in the US and the FSA (Financial Services Authority) in England whose websites provide investors with extensive information on retail currency trading.

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FX Trading for Retail Traders

Having explained what the Forex market is and how it works, we are now going to show what opportunities it offers retail



traders. Basically, in currency trading

David Jones

IG Index

transactions are only worth while from a size of at least 100,000 Euros. Of course, not every retail trader has such funds at their disposal. The solution to this problem is leverage. According to the principle of margin trading it is not necessary to own the entire amount but it is enough to leave a deposit amounting to only one to ten per cent of the sum of the transaction. For example, in order to make a 100,000 Euro transaction this method only requires a 1,000 Euro deposit. This means that you can operate with large sums in the Forex market despite having limited funds. On the other hand, you can achieve considerable profits by using leverage if the currency price develops in the direction anticipated. By the same token, though, that leverage obviously

can also cause you to sustain enormous losses should the price develop in the wrong direction.

According to Daire Ferguson, fast and robust online trading platforms also offering equally reliable trading tools are the FX trading basis for retail investors.

“Of special importance here is trading straight from the chart, as are alarm systems, indicators, setting trailing stops etc.”

Beyond that, stock exchanges, too, are continually offering new and attractive products. For example, in recent years the CME has launched the so-called Forex E-Micros. “Active individual traders looking to participate in the global FX market, or small businesses seeking a cost-effective hedging tool for their FX risk, can choose Forex E-micro futures as a versatile and accessible new resource to manage their exposure,” explains Mr Rutherford.

The Right Strategy

As in all other markets, there are two fundamental trading approaches in the currency

market: technical analysis and fundamental analysis. While the former systematically deals with charts, mathematics, resistance etc, the latter is based on political and economic information. Every trader should always choose the strategy they feel most comfortable with. Should you decide to opt for fundamental analysis, you should respond quickly to news and information and develop a deep understanding of the markets and the way they operate. If you choose technical analysis, you need to consider ahead of time which approach fits your own trading style: ordinary charts, mathematical formulae, or quantitative methods.

Since the Forex market is a distinct trend market, the majority of FX traders use technical analysis. Especially for the neophyte, this



Steven Quirk

TD Ameritrade

technique is easier to objectify. That way they can quite simply do their currency trading using all the techniques they have

F3) Trading Example



The EUR/USD quotes at 1.4000. A Trader expects a rising EUR and thus buys €100,000 and sells \$140,000 simultaneously. He closes his position at 1.4050 EUR/USD. Now he sells €100,000 and buys \$140,500. His profit is \$500 (140,500-140,000).

Source: TRADERS' Graphic

already learned in other markets. Another advantage of technical analysis is that it can above all be used in Intraday trading, whereas fundamental analysis is more geared to the medium or long-term time frame. Beyond that, technical analysis is based on clear-cut, systematic rules which make it possible for strategies to easily be tested and compared to one another.

However, in order to enjoy sustained success using this technical approach, traders need to be able to document both the current and the historical performance of a strategy. Only in this way can they optimise

the criteria of the system and maximise their profit.

There are innumerable variations within both technical and fundamental analysis from which to choose. Many successful traders even combine these two approaches with one another. This means that currency trading is possible both for the shorter and the longer timeframe and is suitable for any type of trader. In any case, there is a vast variety of successful strategies out there to ensure successful Forex trading, as can be seen in our different strategy articles contained in this issue.

Conclusion

Despite financial crises and problems with monetary policy, the Forex market offers even retail investors sufficient opportunities to participate in profiting from exchange-rate fluctuations.

No matter whether we are talking of the short-timeframe orientated trader or the medium to long-term investor – today, currencies are more in demand than ever, be it in classical day trading or as an addition to an existing portfolio, as a hedge against price volatility, or to optimise financing through low-interest currencies. Quite clearly, the benefits seen in the efficiency

of the market, based, among other things, on high liquidity and flexibility, 24-hour trading, low costs and easily identifiable formations.

Beyond that, margin trading is extremely attractive especially for traders with less capital.

In addition, investors have the opportunity to choose between the more flexible inter-bank market on the one hand and the relatively safer stock exchange on the other hand. In doing so, they can choose from among the numerous trading instruments and strategies and, if needed, combine these with one another. In case you opt for the inter-bank

trade, you should by all means pay special attention to the choice of your broker.

Currency trading is highly suitable especially for the technically orientated trader since chart patterns can often be recognised easily and strategies can be tested without expending too much effort. Finally, I should mention that by now new innovations in trading platforms, software etc allow professional trading even outside the trading rooms of international banks.



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LSE Launches Derivative Platform to Challenge Deutsche Boerse

Xavier Rolet, the chief executive of the London Stock Exchange (LSE), has unveiled plans to launch a derivatives platform in a bid to challenge the dominance of Deutsche Boerse. Mr Rolet said the LSE, which will start by offering a market in pan-European index futures and options, would "turn the sector on its head".

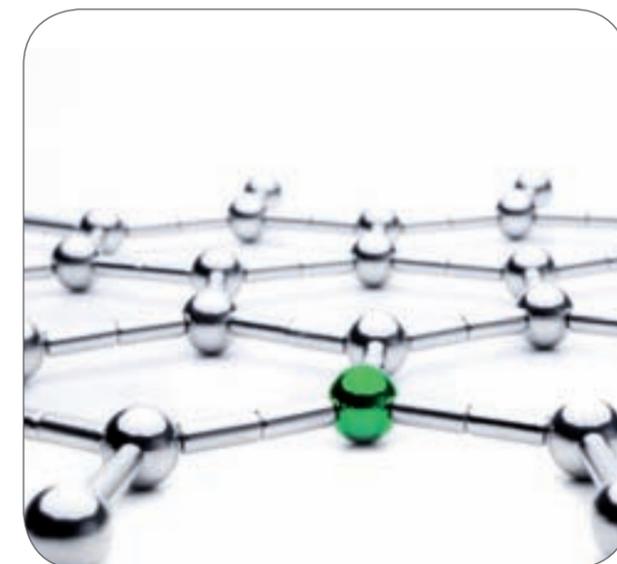
The LSE's Turquoise platform will host the new futures trading service. The platform will be formed through the acquisition by Turquoise of a 19.9 per cent stake in EDX, the derivatives business held by Canada's TMX Group. The LSE and TMX are merging. David Lester, the chief executive of Turquoise, said: "The European derivatives market is currently characterised by high execution costs and a lack of choice."

However, commentators argued that the move has come too late given the dramatic consolidation plans among global stock exchanges. A few weeks ago NYSE Euronext and Deutsche Boerse announced a \$24bn (£14.9bn) tie-up, which, through Eurex and Liffe, would hand them control of over 90 per cent of derivatives trading. Mr Rolet spoke out against the deal claiming it was anti-competitive. He told Reuters: "It cannot be said this is going to be anything but a monopoly, because it will be."

Source: www.telegraph.co.uk, by Louise Armitstead

Exchanges Complete Trading Link Study

Four ASEAN Exchanges, namely Bursa Malaysia (BM), the Philippine Stock Exchange, Inc. (PSE), Singapore Exchange (SGX) and the Stock Exchange of Thailand (SET) working together with NYSE Technologies, announced that the design study of the technology framework for the ASEAN Trading Link has been completed. Shortlisted vendors who are able to provide the infrastructure have been invited to tender. The ASEAN Trading Link aims to electronically interconnect the participating markets and facilitate cross border order trading seamlessly. Depending on the selected vendor, it is expected that the link will go live toward the end of 2011.



Source: www.asiaetrading.com

The Rise of Managed Futures

Managed futures, among the most complex and least understood of all hedge fund strategies, have grown 600 per cent since 2000, according to BarclayHedge. That is roughly 50 per cent more than the growth enjoyed by the overall global hedge fund industry. Often known as "black box" funds because they are computer-driven, managed futures try to predict trends in commodities, currencies, bonds and equities. Once largely shunned by investors, who equated black box with black magic, they now have a largely institutional following. Minds were changed by 2008: when the average hedge fund fell 20 per cent, with managed futures the only strategy in positive territory.

It is a distinctly British success story. The funds are now the largest European strategy by assets under management, with the lion's share of the market based in the UK and concentrated in a few hands.

Source: www.efinancialnews.com, by Harriet Agnew (www.dowjones.com)

Hank Pruden Honoured with Lifetime Achievement Award

A recognised global expert in the field of technical analysis, Hank Pruden, professor of business administration at the Ageno School of Business at Golden Gate University, was honoured with the Michael Epstein lifetime achievement award from the Market Technicians Association Foundation. The award is presented to practitioners who have demonstrated a long-term commitment to technical analysis in academia and in practice.

Source: www.ggu.edu



US Panel Seeks Checks on Runaway Algorithmic Trade

U.S. traders, clearing firms and exchanges could reduce the risk of a runaway computer program roiling markets by using controls, such as kill buttons, an advisory panel to the U.S. futures regulator said. After the May 6 2010 "flash crash," where a large trade executed by an algorithm contributed to a sudden 700-point plunge in the Dow Jones Industrial Average, regulators, including the U.S. Commodity Futures Trading Commission, have been under pressure to step up oversight of the trades.

Five members of the CFTC's technology committee, representing exchanges, brokerage firms and academia, proposed a framework of multiple, redundant checks to offer "robust protection" to markets – information the CFTC will

consider as it crafts regulation for testing and supervising algorithmic trading.

"By raising the standards and establishing best practices, we can ensure that all participants are treated equally and ensure that the markets are protected from untested algorithms that could undermine well functioning markets," said Scott O'Malia, the CFTC commissioner who leads the agency's technology advisory committee.

The subcommittee did not address penalties or what could be done by regulators if an entity fails to comply. Instead, the panel proposed trading firms show an exchange they have implemented a series of steps before being approved to

trade, including the ability to catch orders where the quantity exceeds a specified limit before it is sent to the exchange, and the use of an "execution throttle" that would disable an algorithm if it receives too many fills over a certain period of time. As a failsafe, each firm would need to be able to simultaneously cancel or "kill" all existing orders and prevent the entire firm from placing new orders, if necessary.

The cheapest and most effective pre-trade risk protections could come from the exchanges, according to the report. Pre-trade quantity limits, intra-day position limits, and an order cancellation policy would be among the measures required by exchanges, which would bear the brunt of the new costs. Exchanges told the CFTC they already have many of these measures in place.

Source: www.reuters.com, by Christopher Doering



SGX Partners with NASDAQ OMX to Expand Tools



Singapore Exchange (SGX) in partnership with the NASDAQ OMX Group, Inc. (NASDAQ: NDAQ) will be offering a comprehensive suite of tools and solutions designed to enhance corporate activities for listed companies in Asia starting with Southeast Asia and India. The SGX-NASDAQ OMX suite of tailored tools and solutions provides companies with market intelligence, communications tools and governance solutions. The suite includes access to impactful Investor Relations websites built to improve shareholder communication, as well as the GlobeNewswire press release distribution network designed to effectively disseminate corporate announcements, and advertising opportunities through the NASDAQ OMX MarketSite in New York.

SGX will also offer competitive market intelligence to assist companies in monitoring

their stock performance, peers' performance and industry developments by using powerful analytic tools and solutions. Listed companies can also use a secure portal to better manage board information and documents.

Source: www.sgx.com

New Surveillance Will Cost Euro Brokers \$206M: Study

With the financial services industry is being overhauled under Dodd-Frank and MiFID II, new research from TABB Group estimates that sweeping regulatory changes will lead brokers across the US and Europe to spend \$206 million in 2011 on new market surveillance programs. With hundreds of laws yet to be written and rules to be implemented, spending will grow by 14 per cent annually to \$268 million in 2013.

To comply, spending on external solutions is expected to grow from 28 per cent in 2011 to 35 per cent of total expenditure in 2013 as brokers leverage vendors' products to fit tight budgets and meet short timelines. According to Miranda Mizen, a TABB principal and author of the new research report, "Dynamic Surveillance: Detection, Prevention and Deterrence," changes to market structure and new regulations mean conventional techniques need to be thrown out in favor of surveillance programs that match the markets' dynamism. "It falls on the brokers as the primary intermediary between investors and exchanges to assist regulators in making sure that market surveillance catches up to the real-time dynamics of the market."

Today's surveillance programs are like a patchwork quilt, she says. "Some programs monitor comprehensively in real time, others look backward, but recent market abuse scandals and the May 6th 2010 flash crash have revealed there is a great divide between the way markets operate and the way they are actually being surveilled." To meet the onslaught of new requirements and regulations, TABB says brokers are faced now with three gargantuan challenges: collecting, collating, analysing, storing and retrieving data; ensuring practices and procedures prove their processes are robust and defensible; and expanding the list of details they need to watch for.

Source: www.tabbgroup.com



The Future of System Development – Part 1

Additional Data – Better Performance

As computers are becoming faster and faster almost by the day and the amount of data they can handle increases almost at an exponential rate every few years, the type of research a technical trader in general and a systems developer in particular can perform also becomes more sophisticated and computationally intense. A few developers of TA software are picking up on this, offering their customers new and improved ways of developing strategies. In this article I will explore how to handle parallel multiple data streams, such as other similar markets, indexes and interest rates. The programming code is available at the end of this article.

Up until recently the only way to test a system was to apply it to one market at the time, and in so doing, in a bar-by-bar fashion on the historical data. Money management possibilities have been rudimentary to say the least, as has portfolio operations, such as ranking and filtering. These days, though, more and more TA programs offer these features and more, even at a relatively low cost.

The easiest and most intuitive way for the user to handle multiple data streams would be to simultaneously have access to the price data for all markets in a portfolio, no matter which market currently happens to be the active one in the TA software. For this to be possible the testing procedure needs to follow a completely different path. Instead of the order logic being a repetition of

the loop: one system applied to one market bar-by-bar, the loop needs to be: one system applied bar-by-bar on the whole portfolio of markets. That is, instead of applying a system to all bars of market 1, then repeat with market 2, and so on, a better way to do it would be to: apply systems 1 to n to markets 1 to n on bar 1, then repeat on bar 2, and so on.

In the old way of doing things all system-market combos act in isolation from one another and none of them have any clue what the others are up to in regards to indicator values, imminent trades, current open positions, etc. With the newer approach all system-market combos are updated bar-by-bar on everything that goes on within all the other combos, with each combo having access not only to the price data of the other markets, but also current



Thomas Stridsman

Mr Thomas Stridsman is a partner of Alfakraft Fonder, where he manages two funds (Alfa Commodity and Alfa Energy). He has been developing strategies for model-based investing since the early 1990s. Prior to joining Alfakraft Fonder, Mr Stridsman managed client money in the FX markets. He also is a freelance analyst and author of the two books *Trading Systems That Work* (2000) and *Trading Systems and Money Management* (2003).

and historical indicator values, open and closed positions within all systems, other mutually shared data streams, etc.

One TA program that does all this really well at a reasonable price is TradingBlox, although other, even cheaper programs, such as TradersStudio, also continuously improve and add to the list of these more advanced features.

Add Dividend Income

One basic example of an added data stream, shared across all markets and systems within a larger strategy, would be the addition of a short-term interest rate income stream added to the account equity. Another basic example would be an index applied to a portfolio of markets, in combination with a trading rule that could state, "Trade only those markets that fluctuate the most relative to the index, re-evaluate daily (weekly/monthly) which markets should belong to this sub-group". From a strategy-testing perspective both these data streams should be viewed as added more to the strategy itself rather than to any individual market or system.

Tables 1 and 2, and Figures 1 and 2 illustrate the difference in performance between a system that will not consider dividend income, vs. one that will. In this case the difference is close to

three percentage points annually, which, over a 20-year period would have doubled the account equity, everything else between the two tests held constant.

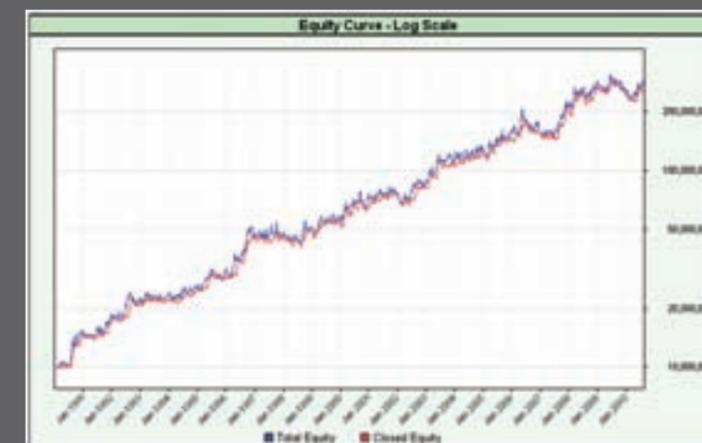
The system is a basic volatility-breakout system, applied to 49 futures markets, an average of 0.2 per cent of total equity risked per trade, approximately \$50 deducted per contract traded for slippage and commission. You will find some sample code for TradingBlox on how to do this on our website.

In the above example, the dividend rate data stream is not applied to any individual system-market combination, but rather to the strategy itself and the cumulative equity stream generated by all markets. With the possibility to add this extra layer of instructions to the strategy itself, you also could apply some general constants and parameters. Table 3 shows the results from the same system, this time net of a 1 per cent management fee and 20 per cent performance fee, deducted monthly and quarterly from the cumulative total equity.

Trade against an Index

A second example of a shared data stream could be the addition of an un-traded market index against which all other markets compare and trade. In this case the short-term momentum of all

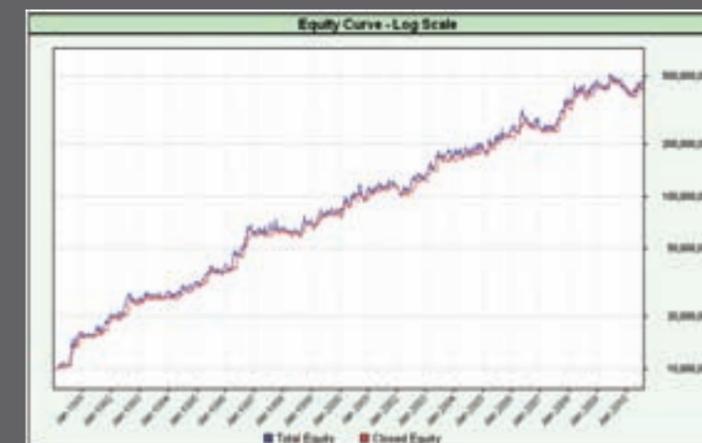
F1) Trading without an Interest



The equity growth in this chart does not include any accrued dividend rates, which makes the final net profit considerably lower than that in Figure 2.

Source: TradingBlox

F2) Trading with an Interest



Adding the possibility of earning dividend income on your account equity will not only increase your return, it also will lower your drawdowns and decrease time in drawdown.

Source: TradingBlox

individual markets is compared to the longer-term momentum of the GSCI index. The trading rule for the long trades (reverse the logic for the short trades) is to go long when the short-term momentum for the traded market is below the long-term momentum of the index, on the assumption that the general trend is with the index and the traded market therefore will reverse itself. A trailing stop

of two average true ranges is also applied.

Figure 3 shows a so-called surface chart of the Sharpe ratio for several parameter combinations. The red-coloured area, which represents a Sharpe ratio above 1, indicates the most profitable parameter combinations. It reveals that a 100-day look-back period (the vertical axis) for the index

momentum should work well with any look-back period between five and 20 days for the traded markets.

In this case we made no deductions for commission, slippage and fees.

Figure 4 and Table 4 show the equity curve and performance summary for a version of the system with a 15-day look-back period for each traded market and a 100-day look-back period for the GSCI index, applied to a portfolio of 49 markets over the last plus ten years. In this case the result is net of a \$5 commission and \$35 slippage per contract traded. Again, you will find some sample code for how to do this as well in the TradingBlox software on our website.

T1) Trading without Dividend Income (see Figure 1)

Test	Ending Balance	CAGR%	MAR	Modified Sharpe	Annual Sharpe	Max Total Equity DD	Longest Drawdown	# Trades
1	276,430,515.91	17.48%	0.63	0.95	1.10	27.9%	21.7%	8,691

T2) Trading with Dividend Income (see Figure 2)

Test	Ending Balance	CAGR%	MAR	Modified Sharpe	Annual Sharpe	Max Total Equity DD	Longest Drawdown	# Trades
1	458,081,676.64	20.39%	0.78	1.09	1.18	26.1%	17.2	8,691

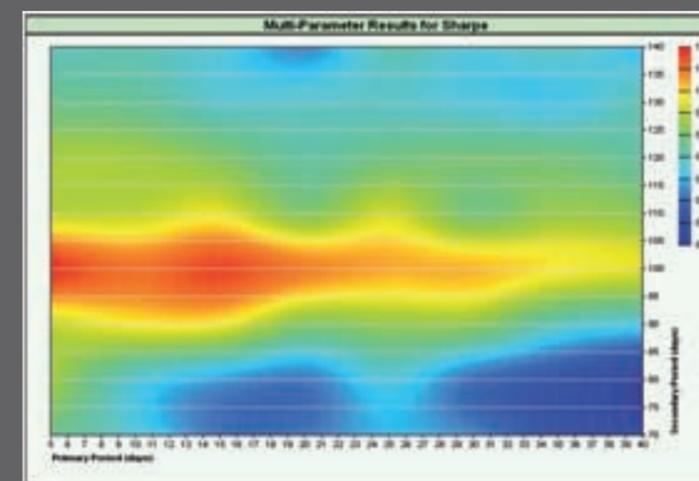
T3) Results Net of Management and Performance Fees

Test	Ending Balance	CAGR%	MAR	Modified Sharpe	Annual Sharpe	Max Total Equity DD	Longest Drawdown	# Trades
1	233,418,369.85	16.52%	0.61	0.92	1.15	27.1%	21.1%	8,691

T4) Testing a Look-back Combo of 15 and 100 Periods (see Figure 4)

Test	Ending Balance	CAGR%	MAR	Modified Sharpe	Annual Sharpe	Max Total Equity DD	Longest Drawdown	# Trades
1	49,428,388.39	16.24%	0.61	0.88	0.80	26.5%	20.5%	5,935

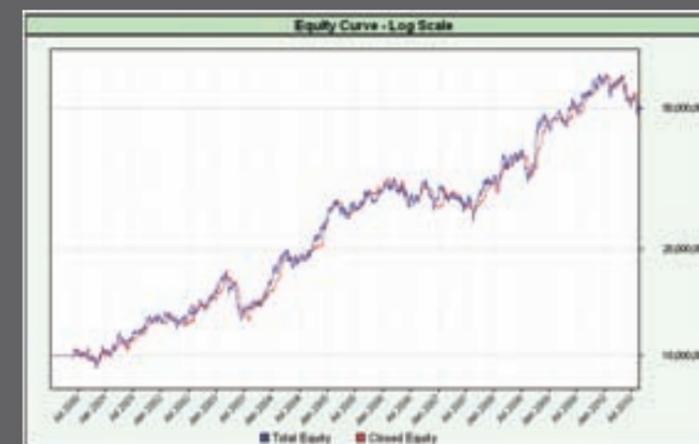
F3) Surface Chart of the Sharpe Ratio



The Sharpe ratio as a function of the look-back periods for two indicators. The value of the Sharpe ratio is given by the colours in the chart. Red is high, blue is low.

Source: TradingBlox

F4) Using an Index for the Entry and Exit Rules



Using a 15-day look-back period for the primary period together with a 100-day look-back period for the secondary period produces a reasonable steady equity growth. The look-back periods are derived from the surface chart in Figure 3.

Source: TradingBlox

Position Sizing

We can modify the above system a bit by using the relationship between the traded market and the index as a position-sizing mechanism instead of an absolute trading rule. The original trading rule will be substituted with a dual-moving average crossover system with the two moving averages applied only to the traded markets.

First, let us decide on the look-back periods for the moving averages. Figure 5, which is a 3D version of a surface chart, indicates that

a short look-back period of around 45 days combined with a long look-back period of three times the length should be a profitable and robust enough solution. Figure 6 and Table 5 show the cumulative equity curve and performance summary net of slippage and commission for this system version when tested on the 49-market portfolio.

The initial amount to be risked per trade was set to 0.35 per cent of total account equity for all trades on all markets. Now, let us add a money management component to this system. Money management will be based on the previous relative-momentum system. It will strive to put on larger positions for those markets that are currently lagging behind the broader index, while limiting the positions for those markets running better than the index. The reasoning behind this logic is that we believe that markets that have been lagging the index will move stronger in the immediate future and therefore warrants a larger risk than the original 0.35 per cent of equity. Markets that are already strong, on the other hand, we believe will move more slowly than the index in the near future, and therefore should not be traded as aggressively.

For long positions the risk per trade will be calculated as:

$RPT = BR * IM / MM$, where:
 RPT = Risk per Trade, in percentage terms of current account equity
 BR = Base Risk (= the original 0.35 per cent constantly risked per trade)
 MM = Market Momentum
 IM = Index Momentum

Both momentum series will be calculated as $Close(t) / Close(t-n)$, where (t) denotes today's close and (t-n) the close n days ago. A totally flat market will have a momentum of 1.0, while a market in an uptrend will have a momentum greater than 1.0. The above formula indicates that if MM is greater than IM, RPT will become smaller than BR. For a market in a downtrend it follows the momentum will be less than 1.0 but greater than zero. Therefore the formula for how much to risk in a short position will be:

$$RPT = BR * MM / IM$$

Comparing Figures 6 and 7, and Tables 5 and 6 we can see that this crude position-sizing mechanism managed to increase the annual return with approximately 1.5 percentage points per year (from 14.9 to 16.4), which in turn resulted in an additional \$8 million in final equity. The Sharpe ratio also increased a bit. On the negative

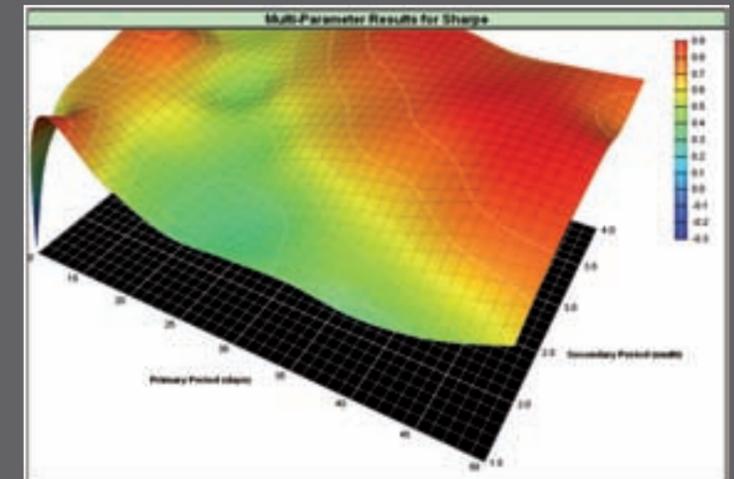
side we have a slightly larger maximum drawdown of 48 per cent. Again, some sample TradingBlox code for how to alter the trade size by varying the risk per trade can be found on our website.

Naturally, a drawdown of 48 per cent, as in this last example, is too much for most of us to handle, so this particular system and money management idea still needs some more research. But the task at hand here was not to develop a turn-key trading strategy, but rather to illustrate how new research techniques, literally impossible to implement just a few years ago, now have become accessible to most traders at quite modest costs, thanks to faster computers and better software.

Conclusion

The possibility of adding additional data streams to the strategy itself – rather than to individual markets or systems – makes your testing results more lifelike and directly comparable to those that you would have obtained had you invested with a professional manager. This is especially true when it comes to issues such as adding income via dividend rates, which also help you limit your drawdowns and shorten your flat periods. The possibility to deduct various management fees also comes

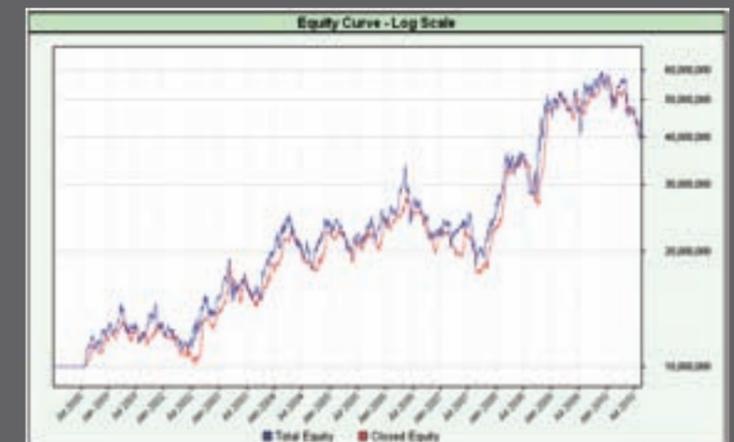
F5) 3D Version of a Surface Chart



In this case the secondary period is calculated as a multiple of the primary period. Setting the look-back periods to 45 and 135 (= 3 x 45) days respectively seems to work the best.

Source: TradingBlox

F6) System with a Basic Position-sizing Algorithm



The equity growth of an ordinary dual moving average cross over system with a basic position-sizing algorithm. The look-back periods for the moving averages are derived with the help of the surface chart in Figure 5.

Source: TradingBlox

Info 1: Script Type: Before Test

Variables: ErrorCount, FileLoaded_OKType: Integer

Variables: sSymbol, sErrorMkts Type: String

ErrorCount = 0

sErrorMkts = „“

sSymbol = „F:MMO“

\\ Find the symbol MMO, which holds the time series for the short-term interest rate, in annual percentage form on the computer used for this article. For this article we use the 90-day American T-bill. You might have to change the symbol name to combine with your data. \\

FileLoaded_OK = InterestRate.LoadSymbol(sSymbol)

\\ Load the located symbol and assign it the variable name InterestRate. \\

If FileLoaded_OK < 1 Then

 ErrorCount = ErrorCount + 1

 sErrorMkts = sSymbol

 Print sSymbol + „ - Failed to Load.“

EndIf

If ErrorCount > 0 Then

 Test.AbortSimulation(„File Loading Found: „ _

 + AsString(ErrorCount, 0) _

 + „ Errors“ + Chr(10) _

 + „ Create Indices Was Not Successful“ + Chr(10) _

 + „ These Symbols Failed: „ + sErrorMkts + Chr(10) _

 + „ - Simulation will terminate!“)

EndIf

Info 2: Script Type: After Trading Day

Variables: EarnedInterest Type: Money

\\ Declares the variable EarnedInterest to be stored within the software, expressed in currency units (i.e. Dollars, Euros, etc.) \\

If IncludeInterestRate = Yes Then

EarnedInterest = (InterestRate.Close * 0.01)^(1/250) * (Test.TotalEquity[1] * 0.9)

\\ Calculate the daily earned interest as a function of the interest rate expressed in annual percentage and the total equity generated so far by the strategy. In this test we assume 90% of the total equity can be placed in T-bills at all times. \\

Test.UpdateOtherExpenses(-EarnedInterest)

\\ Update the internal variable UpdateOtherExpenses, built into the software, to keep track of this income stream for further analysis.

\\

EndIf

Info 3: Script Type: Before Test

GSCI_Index.LoadSymbol(„F:GI“)

\\ Find the symbol GI, which holds the time series for the GSCI index on the computer used for this article, and assign it the variable name GSCI_Index. You might have to change the symbol name to combine with your data. \\

Info 4: Script Type: Update Indicators

If Min(Instrument.Bar, GSCI_Index.Bar) > RequiredLookBack Then

 PrimaryMom = PrimaryMom[1]

 SecondaryMom = SecondaryMom[1]

 If Instrument.close[PrimaryPeriod] > 0 Then

PrimaryMom = Instrument.close / Instrument.close[PrimaryPeriod]

\\ Calculate the momentum for the market (PrimaryMom) by dividing the close of the market today (Instrument.close) by the close of the market n-days ago. The look-back period for the momentum calculation is denoted by the variable PrimaryPeriod. \\

 EndIf

 If GSCI_Index.close[SecondaryPeriod] > 0 Then

SecondaryMom = GSCI_Index.close / GSCI_Index.close[SecondaryPeriod]

\\ Calculate the momentum for the GSCI index (SecondaryMom) by dividing the close of the GSCI index today (GSCI_Index.close) by the close of the GSCI index n-days ago. The look-back period for the momentum calculation is denoted by the variable SecondaryPeriod. \\

 EndIf

LongStopLine = Instrument.close - 2*AverageTrueRange

\\ Calculate where to place a stop loss in case of a long trade and place that value in the variable LongStopLine. \\

ShortStopLine = Instrument.close + 2*AverageTrueRange

\\ Calculate where to place a stop loss in case of a short trade and place that value in the variable ShortStopLine. \\

EndIf

Info 5: Entry Orders

```

If Min(Instrument.Bar, GSCI_Index.Bar) > RequiredLookBack Then
If Instrument.Position <> Long and PrimaryMom < SecondaryMom
Then
\\ Check whether it is possible to go long. The market should not
be long already and the momentum of the market needs to be less
than the momentum of the GSCI index. \\
    Broker.EnterLongOnOpen(LongStopLine)
\\ Instruct the software to initiate a long position and pass on the
price for where to take a loss. \\
    EndIf
If Instrument.Position <> Short and PrimaryMom >
SecondaryMom Then
\\ Check whether it is possible to go short. The market should not
be short already and the momentum of the market needs to be
greater than the momentum of the GSCI index. \\
    Broker.EnterShortOnOpen(ShortStopLine)
\\ Instruct the software to initiate a short position and pass on the
price for where to take a loss. \\
    EndIf
EndIf

```

Info 6: Script Type: Before Instrument Day

```

If Min(Instrument.Bar, GSCI_Index.Bar) > RequiredLookBack Then
AdjustLongRisk = 1
AdjustShortRisk = 1
If UseRelativeMomentum = Yes Then
    MarketMom = MarketMom[1]
    IndexMom = IndexMom[1]
    If Instrument.close[MarketLookback] > 0 Then
        MarketMom = Instrument.close / Instrument.
close[MarketLookback]
\\ Calculate the momentum for the market (MarketMom) by
dividing the close of the market today (Instrument.close) by
the close of the market n-days ago. The look-back period
for the momentum calculation is denoted by the variable
MarketLookback. \\
        EndIf
        If GSCI_Index.close[IndexLookback] > 0 Then
            IndexMom = GSCI_Index.Close / GSCI_Index.
Close[IndexLookback]
\\ Calculate the momentum for the GSCI index (IndexMom) by
dividing the close of the GSCI index today (GSCI_Index.close)
by the close of the GSCI index n-days ago. The look-back
period for the momentum calculation is denoted by the variable
IndexLookback. \\
            EndIf
            AdjustLongRisk = Min(Max(IndexMom / MarketMom, 0), 2)
\\ Calculate, in percentage terms, the risk-adjustment factor
for the next long trade. \\
            AdjustShortRisk = Min(Max(MarketMom / IndexMom,
0), 2)
\\ Calculate, in percentage terms, the risk-adjustment factor
for the short long trade. \\
            EndIf

```

Info 7: Script Type: Unit Size

```

Variables: EquityAmount, ContractAmount Type: Money
Variables: TradeSize Type: Integer
If Order.Position = Long Then
    AdjustedRiskPercent = RiskPercent * AdjustLongRisk
\\ Calculate how much to risk, in percentage terms, for the next
long trade, as a function of the original risk (=0.35%, as stated in
the article) times the adjustment factor for the next long trade.\\
Else
If Order.Position = Short Then
    AdjustedRiskPercent = RiskPercent * AdjustShortRisk
\\ Calculate how much to risk, in percentage terms, for the next
short trade, as a function of the original risk (=0.35%, as stated in
the article) times the adjustment factor for the next short trade. \\
EndIf
EndIf
ContractAmount = Order.EntryRisk * Instrument.
BigPointValue
\\ Calculate how much one contract will risk in the next trade,
given the distance to the trade's stop loss and the big-point value
of the contract (as specified by the exchange). \\
EquityAmount = System.TradingEquity * AdjustedRiskPercent
\\ Calculate how much to risk in currency terms (Dollars, Euros,
etc.) in the next trade as a function of the current available equity
and the adjusted risk per trade. \\
If ContractAmount = 0 Then
    Order.SetQuantity(0)
Else
    Order.SetQuantity(EquityAmount / ContractAmount)
\\ Set the number of contract to buy or sell, as a function of how
much to risk of the equity and how much to risk per contract. \\
EndIf

```

in handy for those desiring to market their management skills to the public.

The same can be said for adding the possibility to base your entries and exits, as well as money management, on each market's performance relative to an index or any other benchmark. For example, due to trading costs, the more money you have under management, the more your trading might become an issue of relative rebalancing between the markets rather than a matter of finding good entry and exit signals. Adding a system based on performance relative a benchmark can help you achieve this while limiting the costs for slippage and commission.

In short, working with third data streams is not only invaluable for those private traders and researchers that are looking to compare themselves

with the established pros. The pros, too, can use techniques like this to both add new unique systems to their portfolio of existing ones, and to limit their trading costs through clever money management and position sizing.

Scripting Section

For all scripts

The most important lines are marked in bold text and further explained with everything inside `\\ ... \\` on the line immediately following. Be sure to delete the explanation lines if you intend to copy the code. Note that TradingBlox works with several types of scripts which you combine to create a complete strategy. Therefore, the header line, in bold text, of each script is not a part of the code, but indicates which type of script the code should go into.

Scripts for adding an dividend (interest) rate income stream to your system results

The dividend (interest) rate is loaded into memory from a Before Test script then the daily earned interest is calculated and added to the equity within an After Trading Day script. Have a look at Infobox 1 to see the Script type Before Test. Infobox 2 shows the Script type After Trading Day.

Scripts for trading against an index

The GSCI index is loaded into memory from a Before Test script, then two momentum values are calculated within an Update Indicators script, finally the orders are created within an Entry Orders script.

Scripts for using the momentum of an index for position sizing

The momentum of the market and the index is calculated within a Before Instrument script, which also is used to calculate how much to alter the original per cent risked per trade. A Unit Size script then calculates the final risk for the trade and uses that value to set the number of contracts to buy or sell.

T5) System with a Basic Position-sizing Algorithm (see Figure 6)

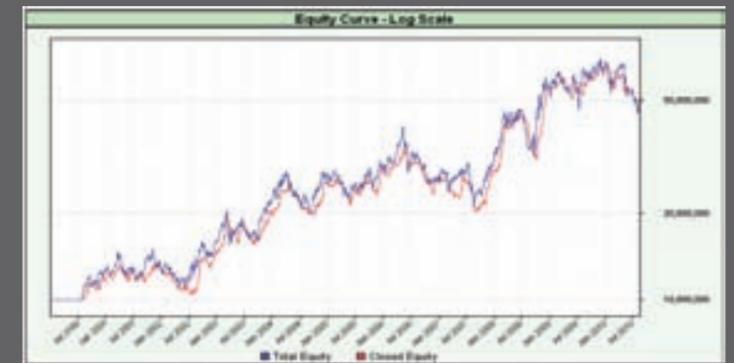
Test	Ending Balance	CAGR%	MAR	Modified Sharpe	Annual Sharpe	Max Total Equity DD	Longest Drawdown	# Trades
1	43,837,755.36	14.93%	0.33	0.65	0.52	43.3%	21.6%	2,437

T6) Using an Index for Position Sizing (see Figure 7)

Test	Ending Balance	CAGR%	MAR	Modified Sharpe	Annual Sharpe	Max Total Equity DD	Longest Drawdown	# Trades
1	50,369,710.38	16.44%	0.34	0.67	0.64	48.2%	21.5%	2,437



F7) Using an Index for Position Sizing



Adjusting the position size for a traded market based on its strength relative to an index can increase system performance. In this case with approximately 1.5 percentage points per year.

Source: TradingBlox



Trading Efficiently as a Business

Embrace Efficiency

Have you ever seriously thought about why you trade, or want to trade? In my experience of teaching a number of different groups of clients, the common answer is money. Yet when we discuss the actual process they are using or the lifestyle they are seeking, some distinct contradictions appear. If you are trading purely for the profit, then surely it makes sense to trade efficiently just like any successful business, yet very few people consider this. I was taught in my early days of business to remember that 'turnover is vanity, profit is sanity and cash is king' and there would seem to be absolutely no difference in trading. The number of trades taken is no measure of success, there is no championship, no trophy, or peer recognition for taking a thousand trades a week. Come to that, would you get a trophy or any recognition for keeping sane and making profits? If you were to really get down to the nuts and bolts of why trade, it will ultimately, once the smoke clears, be for lifestyle. You never have to commute, answer to an employer, gain authorisation to holiday, fit your life in around a job etc, etc. So the logic follows that to maximise the rewards of trading you need to make your money work efficiently, manage your money effectively and not become engrossed in the action but focused on the results. Using Forex as the location for trading let us consider a few areas for embracing efficiency.



Steve Beaumont

Mr Steve Beaumont was trained by Online Trading Academy beginning in September 2006. He has studied Stocks, Forex and Futures and utilised many of the Academy's extensive support programs. He opened his first trading account in March 2007 and produced astonishing results. Since March 2008 he has lived off of his trading and joined Online Trading Academy as an instructor.

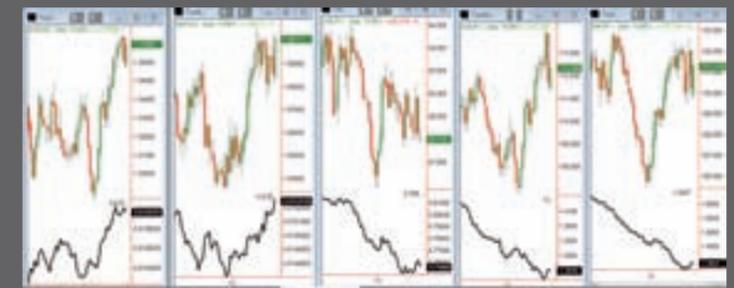
Which Currency Pair?

Whenever a trade is taken to buy or sell at market the spread must be considered. This is the difference between the price paid by the buyers and the sellers. The price a buyer will happily pay and the price the seller will happily accept. Just like on Ebay, the buyer wants to achieve the lowest price at purchase and the seller wants to achieve the highest price, and through the process of an auction the most acceptable compromise is achieved; though whether both parties in the transaction are happy with the compromise is another topic entirely! Remember when trading, at the time of execution there are two participants, and only one of them is right. As a zero sum game, trading is about as pure as boxing, and with two participants for there to be a winner there must be a loser. For you to make \$1000 someone somewhere lost \$1000, so for me the job of trading is to make someone poorer. Fortunately there are always going to be participants

with money who are prepared due to a lack of skill, knowledge, or discipline to part with that money.

When trading currencies, varied spreads depend upon the currencies involved, and this spread represents a cost to the business as it must be paid for at either entry or exit. The price quoted is the bid (buyers best offer) but when you buy at market you are paying the ask (sellers best accepted) and when you sell at market you are paid the bid price. There is not much you can do to change this, though remember that during high volatility the spread will widen and this cost will increase. What you can do is consider the spread versus the Average Daily Range, or think of it as how far can it go per pip of cost? Try comparing a currency that moves on average everyday around 70 pips per pip of entry cost versus one that moves 35 pips per pip of entry cost, which would you choose? You can make some comparisons by simply putting an Average

F1) Daily Charts



Charts with 100 period ATR to identify Range per Entry Pip.

Source: www.tradestation.com

T1) Range per Pip Entry Cost

Currency	Spread	ATR	Range per Pip of Spread
EUR/USD	1.5	160	107
GBP/USD	2.5	153	61
USD/JPY	1.5	76	51
EUR/JPY	3	129	43
GBP/JPY	5	139	28

Comparisons of Range per Pip Entry Cost for five popular Forex spreads

True Range (ATR) onto a daily chart, with the settings changed to 100 periods. Changing the settings to this will smooth out some of the volatility variations caused by market disruption, holidays and the like, giving a more consistent average. Looking at the Charts in Figure 1 – Daily Charts, and the comparisons of

the currency pairs in Table 1 – Range per Pip Entry Cost, you can see that the EUR/USD makes the most sense in Range per Pip (RpP) of spread terms. With each Pip of spread having an average

range of 107 Pips, and when compared to GBP/JPY with only 28 Pips of range it is, for all intents and purposes, four times more efficient. Interestingly if you carried out the same exercise in the first quarter of 2009 you would find that at their peaks EUR/USD RpP was 107 and GBP/JPY was 101, making the differential too small to consider. Adapting to the market is certainly a way that you can maintain your efficiency.

Efficient Entries and Exits

If you took the scenario of taking ten trades a week for forty weeks of the year this would be 400 trades per year. Now if you were to trade a single lot of say EUR/

USD then each pip would be worth \$10. If you made your entry just one pip more accurately this would equate to generating \$4000 more profit per annum, given that the stop was set in the same place. Take that same trade scenario and exit with one more pip of profit and you would now be \$8000 more profitable.

“Do you think that to make more money you need to trade more?”

Hopefully you are keeping statistics of your trades, and within those statistics you can often find 20 per cent of your losing trades could have been filtered out. By filtering I mean that a rule could be devised which would have prevented those trades being taken without impacting on whether the profitable trades would have been taken. If you had a stop loss of ten pips and could filter out one trade in ten that hit the stop, in the scenario of 40 weeks of trading, you save ten pips per week or a further \$4000. How much time would you spend refining your trading to improve your profitability by \$12,000 per lot per annum?

Do you review your trading? Considering the previously mentioned topics, it is a worthwhile activity. Driving your strategy, rules and methods towards efficient effective trading will ultimately reduce the overall number of trades and increase profitability. If you reduce the number of trades, it follows that

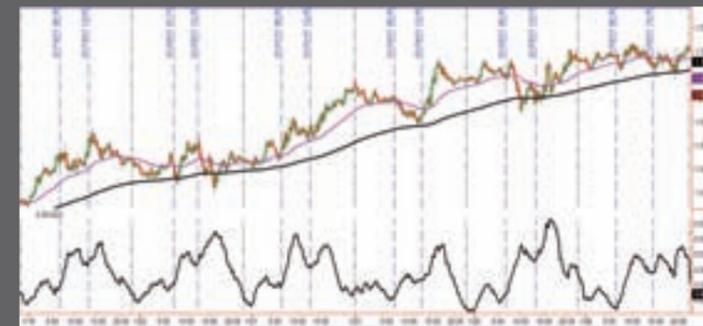
you are reducing risk. You can get knocked down crossing a road, therefore the fewer times you cross the road the less risk there is of being knocked down! Do you think that to make more money you

need to trade more? In fact once an effective strategy is developed, you do not trade more, you trade with a larger position. If you could find one high probability 30 pip move per week and do this every week, then to make more money, trade two, four, or even ten lots or more to produce the income you require. This brings you back to lifestyle, less time at the screen, more time on analysis of performance and more time to enjoy the freedom that trading can and does deliver.

When to Trade

Other factors worthy of consideration are time of day and the day of the week. If we focus on EUR/USD as an example, it

F2) EUR/USD Volatility Cycles in EUR/USD



This EUR/USD 15 minute Volatility Cycles chart shows a 10 period ATR. The dashed vertical blue lines highlight the dips in the ATR and the vertical black lines the London open to New York lunchtime.

Source: www.tradestation.com

is best traded from the London open through to lunchtime in New York. This is when it is most active, the moves are stronger and if you can find trades near the session open you will be trading from low volatility into rising volatility. This means entries in the lower volatility, reducing risk, and rising volatility for quicker gains. Figure 2 – Volatility cycles in EUR/USD 15 minute chart shows a ten period Average True Range ATR on a 15 minute timeframe. The dashed vertical blue lines are used to highlight the dips in the ATR, with the vertical black lines marking the day's close to open at 10pm London, 5pm New York. The ATR shows the cyclical nature of volatility and highlights the suggestion that trading should ideally be considered from London open to New York lunch (5.30pm London).

How can this help? Simply put, do you want easier low risk entries or harder high risk difficult entries? When is the easiest time to catch a bus? When it is stationary at the bus stop! You can try to catch it as the bus goes by on the street, but the risk of injury is somewhat higher and the probability of success somewhat lower! When is the easiest time to catch a trade? When the price is moving slowly and can easily change direction,

and for a price to turn it must first stop. It is this stopping point that you should strive for as your entry. Considering the cyclical volatility can help identify the best time to take a trade. Are you struggling with this as a concept? Look again at Figure 2 Volatility cycles in EUR/USD, take note that the cyclical low is very often followed by a strong directional move in price as the ATR increases. So you can find a slower moving price for entry which results in a fast moving price for faster profitability, and if that speed reduces your time in the market it therefore is reducing your exposure to the risk of an event that may cause you a loss.

Using Figure 3 EUR/USD trades from low volatility at London open, which at the time of writing is the latest data available for the EUR/USD, we can see this analysis and the potential trades. The ATR is set at ten periods on a 15 minute chart, and you should be able to see that just as the ATR starts to rise a strong move develops. This move is typically between 7am and 8am London. All of these moves started from a recent Resistance or Support line and if you measure the range of the move you will get the following results:

Trade (T) 1 = 67 pips, T2 = 98 pips, T3 = 44 pips, T4 = 39 pips

All of which have a 30 pip achievable target within them.

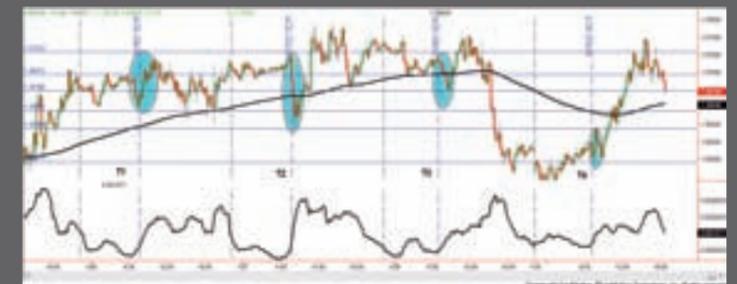
Taking Table 1 in the example above, and using a 5 minute chart you can see how the trade can set up; see Figure 4 EUR/USD analysis of identified London open trade. The previous support area was at 1.3662 and entry here with a ten pip stop would have worked as the price ultimately dropped to 1.3655. With a 1:3 risk to reward ratio we would be seeking at least 30 pips of reward. Above the entry the next resistance area is at 1.3697 giving a clear run to a 30 pip target. Ultimately the price did move even higher, however, the target of 30 pips was achieved in 40 minutes and the rest of the day is yours. This trade met the criteria of trading from low volatility into rising volatility, achieved its target and excessive risk was not required. Perhaps now you need to work on an entry signal to maximise entry efficiency and reduce the risk?

Conclusion

In summary, take trading seriously, keeping results logged for future reflection and you will be able to identify your next step to trading effectively and efficiently.



F3) EUR/USD Trades



This chart shows potential EUR/USD trades from low volatility at the London open.

Source: www.tradestation.com

F4) EUR/USD Trade Analysis



EUR/USD analysis of an identified London open trade. Entry at previous support of 1.3662 with a ten pip stop and at least 30 pips of reward to the next resistance area of 1.3697.

Source: www.tradestation.com



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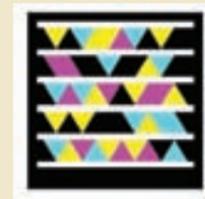
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Who with Whom?

How to Use Correlations in the Forex Market

In my last Forex article (TRADERS' 02/2011), I made the argument that there are many similarities between the equities and Forex markets in an attempt to dispel the idea that the Forex markets are 'mysterious.' We are essentially seeking to accomplish the same things in the Forex markets as in the equities markets – many times we are just using different terminology. We identify demand and supply zones in both markets using many of the same indicators, and we adhere to the same money management principles.

04/2011 www.tradersonline-mag.com

The Premise: Different Markets Appear to be 'Connected'

One of the things about the equities markets which we can do to help put the odds in our favour is to look at the correlation between various indices, sectors and stocks. For example, if you are trading stocks, perhaps you will look to see that the S&P, DJIA and NASDAQ are all 'doing the same thing' (i.e. bouncing out of a demand zone, entering into a supply area, in an uptrend or downtrend, etc...) and then look to see that the stock you are about to trade is reflecting the movement of the overall indices. The logic for this being that if the stock is moving with the overall market, you are swimming with the current as opposed to against it – thus increasing your probability of success.

In the Forex market, the same correlation issue exists. For example, many times, different currency pairs will move in conjunction with each other. Many times, you will notice that the major currency

pairs will react to movements in U.S. stock markets. You may see the S&P Futures breaking through resistance and then that becomes the catalyst to cause the major currency pairs (i.e. EUR/USD, GBP/USD) to move up sharply as well.

So, the question of course is, "Why should I care," or "How can I use this information to my advantage?" Consider the correlation between currency pairs to each other and, depending on when you are trading Forex, the correlation between the U.S. stock market and the currency pairs as another odds enhancer. The argument can be made that prior to entering a trade in Forex, as an additional piece of the puzzle, look to see if the currency pair you are considering is acting in a correlating fashion.

The Flash Crash: Prices Dropped to 'Random' Levels? I Think Not

What really is quite fascinating is how so many markets are in



Eric Waddell

Mr Eric Waddell has been trading for over ten years and teaches with Online Trading Academy. He has developed various strategies in the equities and Forex markets, which he has shared with students in various parts of the world. Eric truly considers it an honor to instruct with Online Trading Academy and encourages his students to stay in touch with him.

essence one gigantic flowchart. Remember what happened on May 6, 2010? That was the day we experienced what became known as the “flash crash.” What exactly transpired? Well, the markets – equities, Forex, futures, etc dropped suddenly and quite dramatically in an unprecedented manner for a while – only to recover most of those losses later in the day. Now, some will contend that the markets bottomed at completely random levels. However, taking the time to conduct a bit of research reveals something rather interesting. Remember, this downward move was sudden and dramatic, but yet the levels where various markets bottomed appeared to be at significant price points – actually, levels which had acted historically as major support and resistance levels. Let us look at some examples (Figure 1).

The average opened at 10,862 and then plummeted to 9869. Now, on the surface, this would appear to be a completely random price level where the DJIA bottomed. However, upon closer inspection, it actually bottomed and bounced off of a historically important level.

What does this have to do with the Forex market? Well, it is all about correlation.

Take a look at Figure 2, the chart of the EUR/JPY. Did it (along with many other currency

pairs) move as well when the ‘flash crash’ took place? Yes, it did. Notice how the EUR/JPY dropped to historically important levels before rebounding. Do you see a pattern? The markets appear to be connected.

All right, so we have established that markets have a tendency to move with each other at times. Additionally, some currency pairs have a tendency to move with each other much of the time (i.e. EUR/USD, GBP/USD). As evidence of that, the next time you pull up charts on various currency pairs, notice how the overall trend of many of them is clearly in the same direction much of the time. It would also make sense that if the two aforementioned currency pairs (EUR/USD and GBP/USD) are moving up, then the USD/CAD, for example, must be moving in an overall opposite manner during the same period of time, simply because the U.S. Dollar is on the ‘opposite’ side.

How to Potentially Use Correlation to Your Advantage

So, one thing you may consider is waiting for currency pairs which normally correlate to move in the same direction prior to placing a trade. What if you notice that the EUR/USD is moving down while the GBP/USD was clearly moving up? If

F1) Monthly Chart of Dow Jones Industrials



The blue line represents the low the Dow Jones Industrials hit on the day of the ‘flash crash’. Notice how it corresponds to historically significant price levels dating back years prior on this monthly chart.

Source: www.tradestation.com

F2) Monthly Chart of the EUR/JPY



The blue line shows the low of the EUR/JPY on the day of the ‘flash crash’ – looking back over ten years prior that same general area represented a historically important price level.

Source: www.tradestation.com

you were considering entering a trade short on the EUR/USD, you might want to wait until you have correlation between the GBP/USD and the EUR/USD prior to pulling the trigger. There is a possibility that the GBP/USD will, in effect, pull the EUR/USD up with it – so waiting for correlation between the two would be the prudent decision. We all know that 'patience is a virtue' and in trading it definitely can pay off for us.

Does this work every time? Of course not – there are always exceptions. Could you see the GBP/USD and EUR/USD moving in the opposite direction – yet still make a profit on your trade? Yes, but it is all about odds. Personally, I take things a little further. My favourite time to trade Forex is between 6:00 pm – Midnight Eastern Time. What I like to do – and you may feel compelled to try this as well – is examine four currency pairs in particular: EUR/JPY, GBP/JPY, EUR/USD and GBP/USD. I want to ensure that all four are doing the same thing prior to placing a trade. In other words, I want all four of them to have cleared resistance or support and have the same overall trend, for example (Figure 3 and Figure 4).

If you are trading Forex during the regular U.S. stock market hours, I would also recommend identifying how the major stock

market indices or the S&P Futures are trading in relation to support and resistance and what their overall trend is to see if there is correlation with the major currency pairs. You do not have to look at every single currency pair which exists – simply examining the four I have mentioned should suffice. What you are doing is again – putting the odds in your favour and as we know, trading is all about probabilities.

If you are considering entering a trade long on the EUR/JPY because it has broken through resistance and you notice that the GBP/JPY and EUR/USD are both through resistance as well but the GBP/USD is having some challenges breaking through its resistance and is coming down from it – then you may consider executing some patience and not entering the trade until the GBP/USD has retraced to the resistance and finally broken through. Now, that would obviously be the more conservative move, but could you conclude that since three of the 'big four' as I call them are through resistance, that the one last straggler will break through eventually as well? Of course, you could wait for the confirmation – which would be the GBP/USD breaking through – or you could anticipate what would occur based on the probability that

if three of the four are through then the last will follow. What I always do prior to a trade is look to see that all four of those are in agreement and if not, which one is the straggler that is holding things up. Sometimes, by virtue of just one of the 'big four' not being through resistance or support as the other three have done can cause your trade in one of the other three pairs to stall. Keep in mind that regardless of the timing of your entry – whether you are waiting for final confirmation – or just playing the odds that all four will eventually be in agreement – a stop must be used to mitigate your downside. Always be cognisant of your position size and focus on how much you can potentially lose on a trade instead of simply focusing on the profit.

Conclusion

Markets are connected – check it out for yourself. Watch how various markets and various currency pairs – which on a cursory glance might not appear to be related – in fact, often move in the same direction and can provide that one last bit of confirmation prior to pulling the trigger on your trade.



F3) GBP/USD 60 Minute Chart



Notice the times that this spread pauses and reverses.

Source: www.tradestation.com

F4) EUR/JPY 60 Minute Chart



Notice how the EUR/JPY pauses and reverses at about the same times as GBP/USD in Figure 3.

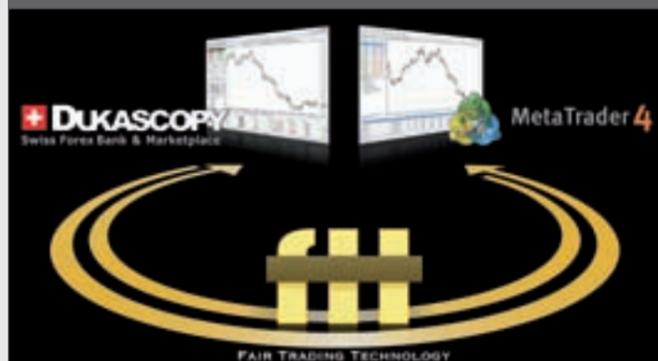
Source: www.tradestation.com

With the launch of their T3 Execution Bridge last October, **Fair Trading Technology (FTT)** felt like they were really bringing something unprecedented to the FX marketplace: true transparency. It sounds obvious, but prior to last year, technology to allow forex traders to verifiably see that their orders are making it to the open marketplace in a timely fashion really had not been widely available. This issue is one that was not lost on Fair Trading Technology CEO Tim Håman when he first began working with the FX industry back in 2008. Mr. Håman says he quickly realised that while the industry standard tool for forex trading, MetaTrader 4 (MT4), was a good, useful platform, it also presented some real issues for traders. "There was no transparency and traders were unable to tell whether their orders were reaching the market, which was adding to the risk involved," said Mr. Håman. "It was clear that what was really lacking in the market was a bridge between MT4 and the ECNs."

FTT's solution was to build the T3 Execution Bridge, the first technology to offer a fully transparent MT4 to ECN solution, partnered with the world's largest ECN, Switzerland's Dukascopy

Bank. The bridge offers straight-through processing of trades and a transparent order reporting

Fair Trading Technology (FTT)



system. The technology was designed by traders, for traders looking for transparency, ECN liquidity and fast execution while using their preferred platform. More recently, FTT has upgraded the T3 Bridge to be fully bi-directional so orders can be executed from either MT4 or Dukascopy's Jforex client software. "This makes it easy to utilise the best features of either of the trading platforms and ensures honesty," said Mr. Håman.

Additionally, the two-way bridge is the world's first where orders can benefit from full market depth over nine liquidity layers and where the partial fill problem is resolved, supporting orders from 1000 to 250,000,000 in currency per order. Pricing for the service

is by volume, the same model used by ECNs. Mr. Håman says that the speed of transactions is not compromised but in fact minimised by FTT's Zurich-based cloud computing which is used as a trade passes from their MT4 server platform to the T3 bridge and through to Dukascopy. Order routing is kept at higher speeds, minimising slippage on the majority of orders. For more information, please visit <http://bit.ly/fd8jiD>

The online broker **Zecco** has introduced Mobile Lite for iPhone. Now users can monitor their Zecco Trading account and the financial markets wherever they are, from their Apple iPhone and iPod Touch. The new Zecco Mobile Lite app features blazing speed and a clean and simple design. With Zecco Mobile Lite you can view your portfolios and watch lists on a single screen, use advanced charts to find new investment opportunities, keep tabs on the day's financial news and market movers, tap into the ZeccoShare community for investment insight, and receive stock alerts via push notifications. For more information, please visit www.zecco.com

Bloomberg Professional service executives announced the launch of a Bloomberg Islamic Finance Platform (ISLM), a comprehensive solution designed to increase transparency, better connect the community and provide analytical tools to maximise investment performance in the rapidly growing market for Shariah-compliant products and services. Bloomberg also announced, in cooperation with the Association of Islamic Banking Institutions Malaysia (AIBIM), the launch of a Malaysian Ringgit (MYR) sukuk index to provide a benchmark for MYR sovereign sukuk investments. The new Bloomberg ISLM platform has extensive resources for investing

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in fixed income, equities and money markets that comply with Shariah including: 1. Sukuk:

News coverage, analytics and search tools of more than 1500 Islamic bond issues globally including fatwa endorsements and structured diagrams of the financial instruments. 2. Equities & Funds – Screening of over 35,000 Shariah-compliant stocks by prominent screening agencies. Database of more than 500 Islamic funds with ability to research and monitor debt, commodities, equities and exchange traded funds (ETFs). 3. Islamic Community Database: Providing full transparency into more than 250 Shariah scholars with details on which sukuk they have rated, boards they represent and their fatwa endorsements. 4. Regional specific content: Carrying the Malaysia International Islamic Financial Centre (MIFC) initiative's content, developed in collaboration with Bank Negara Malaysia and other MIFC community members; providing insights on Shariah, MIFC business opportunities and key developments; and listing the more than 90 community members for business connections.

For additional details, please visit www.bloomberg.com/professional

NEW PRODUCTS

FXDD, an online forex broker, has launched FXDD iTrader and FXDD droidTrader, free mobile foreign exchange trading apps for the iPhone and the Android market. Now, current and new FXDD customers can access their FXDD trading account on the go from virtually anywhere. FXDD iTrader and droidTrader work as mobile companions to the MetaTrader 4 Forex trading platform. Both apps are available in English, Japanese, Chinese and Russian. FXDD iTrader is also available in Arabic and droidTrader is available in Turkish. You can log onto your live and demo accounts and obtain real-time account information, place new orders, close or modify existing positions, and view your account history. You can also display real-time price feeds for currency pairs, and access charting capabilities, calculators and other tools.

FXDD iTrader for the iPhone and iPad is available for free at the Apple App Store (<http://bit.ly/eqDnNX>). droidTrader for the Android market can be downloaded at <http://bit.ly/gXwR80>

FXCM launches the FXCM Forex Execution Center. With numerous

requests for transparency in the forex market, the FXCM Execution Center will be a central hub on the FXCM websites that will provide forex traders with detailed information regarding forex execution



practices. FXCM will continue to update this area over the coming months with insightful information and analysis. For more information, please visit www.fxcm.com

QuantumFX, a next-generation foreign exchange ("Forex", "FX") trading platform which powers the evolution of institutional Forex, has been launched by the Alpari group of companies, a global provider of online trading services. QuantumFX will provide corporations, hedge funds, banks and high

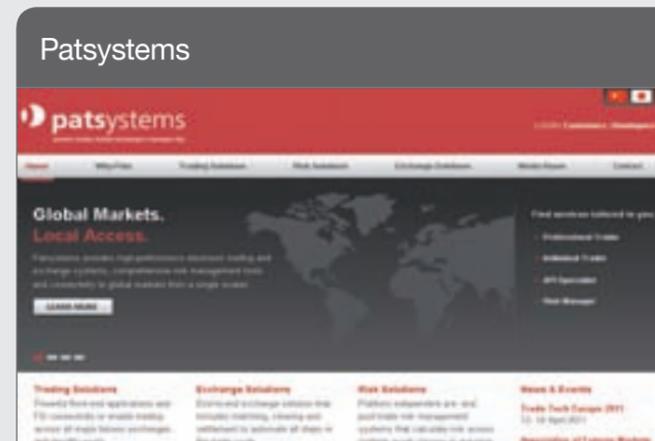
frequency trading institutions with access to a diverse and deep liquidity pool. QuantumFX features anonymous trading via a central clearing counter-party model with multiple execution mechanisms: Executable Streaming Prices (ESP); Request for Quote (RFQ)/Request for Stream (RFS) for spot, forwards and swaps. It also supports multiple order types and execution algorithms that help minimise market impact. QuantumFX leverages the sophisticated infrastructure of Currenex to provide diverse access to high performance trading technology. It comes with integrated third-party access and reporting capabilities.



Additional details can be found at www.alpari-us.com or www.quantumfx.com

Dow Jones Indexes has launched a new country classification system that will apply to all countries covered in its major index families.

Countries included in the indexes will be researched



and assessed according to a predefined framework built around the needs of international portfolio investors in three broad categories: market and regulatory structure, trading environment, and operational efficiency.

Assessments of the countries will be monitored on an ongoing basis. A public announcement of classification changes, if any, will be made in September of each year with a minimum of six month' notice.

More information can be found at www.djindexes.com

Patsystems has been selected as the key technology provider for the newly established Vietnam Commodity Exchange (VNE). VNE will initially trade in steel, rubber, and coffee, and provide an additional financial tool for producers and traders to protect themselves against price fluctuation risks. VNE will utilise Patsystems' complete exchange solution when it launches early in 2012. This will include Patsystems' trade matching engine, clearing and settlement platform, pretrade risk management module, and the front-end execution platform. For additional details, please visit

www.vnx.com.vn

CGQ, Inc., and the JohannesburgStockExchange (JSE) announced that they have made JSE market data available to CQG customers. JSE is the most recent addition to CQG's list of market data sources and the first exchange connection in Africa. Real-time and historical JSE market data is available via CQG's Integrated Client and CQGMobile. CQG's consolidated market datafeed is delivered via Internet, private line, or custom-engineered solutions. More information can be found on www.cqg.com

7 Winning Strategies for Trading Forex

Real and Actionable Techniques for Profiting from the Currency Markets

Grace Cheng

Many traders in the forex markets go around searching for that one perfect trading strategy that works all the time. Frequently, they complain that a strategy does not work, but few actually understand that successful trading requires the application of the right strategy for the right market condition.

Grace Cheng's book '7 Winning Strategies for Trading Forex' is an invaluable book for new and current traders alike. Highlighting seven trading strategies, each of which is to be applied in a unique way and designed for differing market conditions, Cheng shows how traders can use the various market conditions to their advantage by tailoring their strategies to suit each one.

As an experienced, full-time forex trader, Cheng is well-versed in technical, fundamental and

sentimental analysis, which she uses in her trading. This knowledge makes her the ideal guide to the world's most liquid financial market. Her book is split into two parts; the first looks at the basics of forex trading and explains how to spot the structure of the markets, whilst the second goes on to explore the seven trading strategies and demonstrate how and when they should be used.

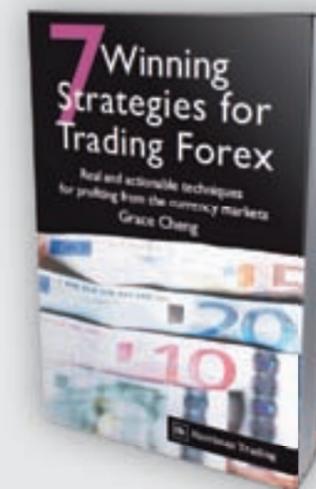
Opening Section

As Cheng explains, the forex markets have the promise of fast action and huge profits, but the risks are also great. 'It is estimated that over 90 per cent of forex traders end up losing their trading capital' Cheng warns, but these losses can be avoided by taking the time to learn how to trade

and by implementing careful money management. The opening sections of the book explain this more clearly, with a detailed analysis of the unique characteristics of the forex markets – for example, its lower costs and unparalleled liquidity. Cheng then goes on to look at opening an account, covering the basics of how to read the markets through to choosing the correct broker. This section will serve as an excellent reference tool for beginner and experienced traders alike.

Before going on to look at the trading strategies in more detail, Cheng gives her top ten rules for trading the forex markets. Many forex traders would do well to remember these rules, axioms that embody wisdom which can often be forgotten when caught up in the momentum of a trade.

BOOKREVIEW



Title: 7 Winning Strategies for Trading Forex

Subtitle: Real and Actionable Techniques for Profiting from the Currency Markets

Author: Grace Cheng

ISBN: 9781905641192

Price: £19.99

Publisher: Harriman House

About the author:

Grace Cheng is an investor and FOREX trader, and is the co-founder and chief editor of DailyMarkets.com – a financial community weblog dedicated to 24/7 breaking news and market opinions from traders, money managers and investors. Inspired by veteran investor Jim Rogers' adventurous spirit of travelling around the world, in 2007 and 2008, she fulfilled her dream of travelling around the globe from the US, South America, Europe to Africa and Asia for a year, without missing a day of work, proving that in this day and age, one can achieve financial independence without being tied to an office chair.

Grace is a contributor to major print, radio and television media including Technical Analysis of Stocks & Commodities, Your Trading Edge and Investopedia. She has also been featured in the media in the US, UK and Asia and quoted on Reuters and Dow Jones. Her popular online PowerFX Course has taught thousands of traders worldwide.

Part 2

The second part of the book is taken up with exploring the seven trading strategies in more detail and examining how and when they should be employed. The first of these chapters looks at market sentiment and focuses on how a trader can better understand the market and use that knowledge as a formidable trading weapon. Cheng explains that the forex market is alive as a kind of social organism, within which a vast number of market participants act out their perceptions and emotions. Knowing what the market thinks and how it thinks is

crucial to your trading success, she explains, as 'ultimately, the trader is dealing with other traders out there and needs to know what they are thinking.' She goes on to explain that what the market is thinking or feeling is the most important factor that drives the currency market and that there are three main types of sentiment:

1. Bullish
2. Bearish
3. Just plain confused

Cheng's main point here is that understanding when and why the market is feeling like this and

exploiting it appropriately can help you maximise your trading profits. She goes on to explore what factors can affect this sentiment and uses an example of the New Zealand dollar and Japanese Yen from 2005 to illustrate the point when the New Zealand dollar rose in value against the Japanese Yen. This was as a result of strong interest among Japanese investors to invest in New Zealand dollar-dominated assets due to rising interest rates there. The graphs clearly show the direct correlation between market sentiment and the way this can affect what the market is doing.

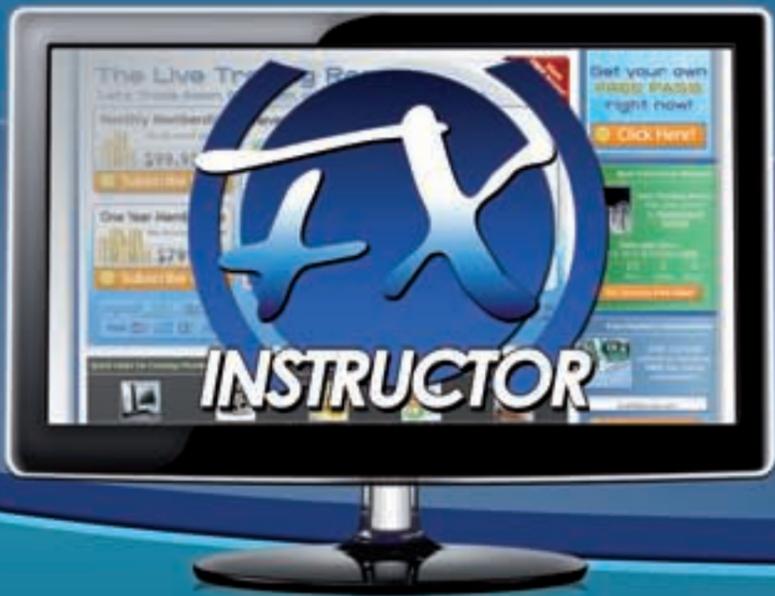
Another of Cheng's seven trading strategies is news straddling. This is particularly profitable if you know when and how to enter (and exit) the market. As she points out, the forex markets are sensitive to the flow of news. Traders should have access to the latest up-to-the-second news so as to facilitate their trading decisions – all of which have to be made at lightning speed. Cheng explains the strategy step-by-step and then goes on to illustrate it with examples of responses from the GBP/USD market, when major news releases have come out. The idea is to not waste time

deciphering whether news is bullish or bearish, but to trade the market quickly without slippage.

Conclusion

The book concludes with a useful forex glossary and a breakdown of the currency codes. Filled with practical advice, '7 Winning Strategies for Trading Forex' is an invaluable book for both new and experienced traders and a must-read for those who want to know how to make money in the forex market.





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Gateway to the Forex dimension

The Forex market is characterised by liquidity and around-the-clock trading. From the Asian to the American session, currencies are traded 24 hours a day, five days a week. The market's intense nature requires every player involved to be on their toes at all times. Time-sensitive information, updated charts, fast-paced tools, experts' live coverage, educational resources and macro economics reporting are just a click away at FXstreet.com.

FXstreet.com was brought to life in January 2000 by its founder, Francesc Riverola, an economist from Barcelona, who molded his original "home business" into a solid international company. Together with his partners, Míriam Pinatell and Sergi Fernández, he has been developing a portal which has grown to become the trusted source of Forex information for millions of users throughout the world. As its distinctive trademark, the website has always honoured its commitment to provide neutral and unbiased information and to enable its users to make better and more confident decisions.

From the FXstreet.com homepage, you can find in one

glance all the information that a trader needs to start his day. Most of the features of this review are available from the homepage, some can be found using the horizontal menu at the top of every the page.

24-hour Forex News

Under the "News" section, traders will find the 24-hour, 5-day a week exclusive service producing more than 80 pieces of news every day and covering, in real-time, the most relevant movements of the most widely-traded pairs, including majors and small dollars. This news service includes a broad look at the most active currency pairs, providing FX traders with updates

or summaries of the markets' latest developments. FXstreet.com also taps experts and banks to present their analysis and forecasts. The newest story of this section is always published on the homepage under Breaking Forex News".

Economic Calendar

Macroeconomic indicators are published every day in the Economic Calendar that is visible from the homepage of the website as well as in the "Fundamental" section, for which an easy to find link is in the horizontal menu at the top of all pages. FXstreet.com covers major events from the US, UK, EU, Germany, Japan,

Switzerland, China Canada, Australia, New Zealand as well as emerging economies (amounting to approximately 100 releases any given week). The Economic Calendar is a real-time, on-screen resource for past, forecast and current data. The Calendar also provides access to historical data and news coverage in addition to expert analysis, forecast and special coverage or webinars about the most important indicators.

Rates and Charts

The most visited section of the website, Rates and Charts, includes more than 1000 exchange rates in real time. That high-frequency updated data

directly comes from big interbank liquidity providers. A wide variety of chart applications by various providers (ProRealTime, Netdania...) is also made available for a vast number of currency pairs featuring over 100 technical indicators.

Currencies at a Glance (CAG)

The CAG is a resource that traders will find on the homepage of the website under the name "Currencies at a Glance" but also inside the "Technical" section. It contains major crosses with one-click links to each pair's highs and lows, support and resistance information as well as current trend and bias.

Traders are provided with detailed technical information for every single one of the 34 major crosses and they can set time frames for these tools. This page allows users to detect confluences between values, technical levels and the indicators themselves.

The Heat Map is a graphical representation of the relative strengths of major currencies, organising the data from 20 currency pairs into colour-coded results producing a clear overview of the whole Forex market.

Research

The massive flow of information is one of FXstreet.com's

trademarks. The Technical, Fundamental and Education sections are continuously supplied with specialised reports from external and in-house providers. The reports range from live market rates and trading strategies under the technical umbrella to in-depth analysis of macroeconomic events and their impact on currencies for fundamental traders or insights for those dipping their feet in the FX market in the education area.

FXstreet.com is in tight collaboration with over 180 providers from virtually every branch of the Forex universe. Visitors are able to research information published by financial institutions like Commerzbank or the Mizuho Corporate Bank amongst others; FX brokers such as ACM and analysts expert views are posted exclusively on this website. There are over 200 new reports uploaded daily, divided by section and easy to find using one of the many search options.

Those reports are divided into different sections navigable from the top menu ("Technical", "Fundamental" or "Education") where they are assigned to several categories which help traders find what they are looking for in terms of analysis and content. Another way of looking for reports is by using the "Search" box from FXstreet.com homepage that

enables the sorting of contents by author, companies, frequency or keyword.

Education and Webinars

Getting started in any activity can be difficult, even more so if it is an internet based one dealing with investments. To this effect, FXstreet.com devotes a whole section to Forex trading Education: the Learning Center (LC). The LC is a four-unit program taking new traders from the basics of designing to the implementation of a trading plan. Each unit features four chapters and a practice function. Those completing the program will learn to deal with technical, fundamental, charts and candlestick analysis, how to develop their own trading system, understanding statistics and manage their money to finally be able to execute their plan. Exclusive to FXstreet.com, the LC is probably the most comprehensive free educational program to be found concerning Forex on the internet. It is available under the "Education" section of the website.

The Forex portal is committed to ongoing training and coaching. The "Webinars" section can be accessed from the horizontal menu of every page of the site and is host to on-the-spot video web seminars (webinars) given by FX experts. There are between four and ten per day, covering every

F1) 24-hour Forex News

Real-time news that offer a broad look at the most active currency pairs, providing FX traders with updates or summaries of the markets' latest developments.

Source: www.fxstreet.com

F2) Economic Calendar

Hundreds of worldwide economic events scheduled and covered 24/5 by an expert team of journalists and economists.

Source: www.fxstreet.com

trading session and broadcasting 24 hours a day. These webinars can deal with how to trade based on special events like Wayne McDonald's Non Farm Payrolls US indicator which can gather up to 700 attendants in its 3-hour session.

Other Webinars have a more technical approach or market commentaries. Some of the most followed guest speakers are Rob Booker or Ed Ponsi. Two webinars are featured every day on the homepage of the website (middle or bottom of the page).

The Webinars section also crosses over with the education section. FXstreet.com has more than 400 recordings in its archives ready to be accessed, enabling them to be watched and reviewed at the users' discretion. They can be found under the section "Webinars" and from there, under "Archives".

Tools

For those already trading in the Forex market, FXstreet.com built the Tools section including several gadgets designed to optimise profit and time as the PIP USD value calculator, the Money Management calculator or the Spread Cost calculator. The "When2Convert" tool is a currency converter that also lets you set up email alerts to warn you when currencies are reaching a target.

MetaTrader

The MetaTrader section offers tips on how to make the most of this famous trading platform as well as reviews about the most interesting technical indicators and expert advisers available out there. The FXstreet.com MetaTrader Team is searching the web to catch the best addons and to solve the FX community's doubts.

Brokers Section

An innovative comparative table offers traders a comprehensive way to choose the best broker for their own trading style and situation. Only regulated brokers appear on FXstreet.com's list which guarantees that the FDM you go with is reliable.

Blogs

Key names in the FX Industry (including Wayne McDonell or James Chen) are blogging on a daily basis about trading ideas, technical analysis, trading psychology or the trader's day-to-day life.

Newsletters

Three daily trading newsletters, one per trading session: Asian, European and American are offered. They present a review of the current FX Market situation covered at FXstreet.com in sections such as CAG, ASI, Technical Analysis, Fundamental

Analysis, Webinars and the most important economic indicators of the day in Europe.

On Friday, the "Forex Informer" newsletter gives an overview of the key events/indicators for the week ahead and presents the editor's news selection. It also covers Forex Industry press releases, new products, services and promotions.

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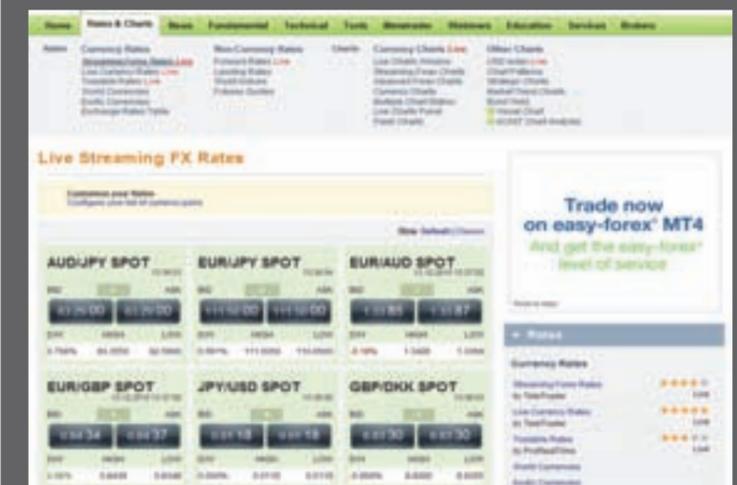
The Forex independent website exists in:

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- Japanese (www.fxstreet.jp)
- Russian (www.fxstreet.net)
- French (www.fxstreet.fr)
- Arabic (www.fxstreet.ae)
- Indonesia (www.fxstreet.web.id)

Updates to be launched in the coming months are a renewed version of the Calendar, an upgraded Currencies at a Glance, more languages such as German and Portuguese as well as a solid Services section that will present a selection of the best trader-oriented services and products available in the Forex Market



F3) Forex Rates and Charts (R&CH)



The Rates & Charts section offers a wide variety of Live Charts and Rates for currencies from big interbank liquidity providers.

Source: www.fxstreet.com

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Mustapha Azeez

Mr Mustapha Azeez is a professional Forex trader, Forex signals strategist, funds manager, researcher and coach. He is a senior analyst at FX Instructor, LLC, and also a content contributor at Fxstreet.com. His numerous articles are posted at Forexpeacearmy.com, Ituglobalforex.com, Trade2win.com, and Elitetrader.com as well. Contact: amustapha@fxinstructor.com or www.fxinstructor.com.

Approaching the Markets with the Strategy

This strategy, which is very suitable for part-time traders, gives you an update on some of the movements on the markets and what you could do about them. The analyses are based on daily charts, looking at the Big Picture. The recommended leverage is a maximum of 1:100 and the recommended position size is 0.01 lots for each \$1000. The maximum drawdown in a week is two per cent (worst case scenario). Primary positions are opened without a predetermined exit target in mind, riding the trend for as long as it continues. It makes sense to enter the market on the day following the generation of a signal. If you are available in person, you may use an instant execution. But if not,

you may use a pending order. If your predetermined entry price is not reached, then the order would not be filled and it would later be cancelled. In my personal trading analyses, the status of a position is either open, closed, pending or cancelled.

This system is effectively using the Simple Moving Average (SMA) to determine the direction of the trend and the RSI (Relative Strength Index) to confirm it by buying at a wholesale price and selling at a retail price – buying rumors and selling confidence. A bearish bias is assumed whenever the RSI is below the level of 50 while the bias turns bullish whenever the RSI moves above the level of 50. In order to allow consistency, the SMA and the RSI have a value of 20 each. The six exotic pairs and crosses

Strategy Snapshot

Strategy name:	Trend Signaler
Suitability:	Good for part-time traders
Strategy type:	Swing cum position trading
Time horizon:	Daily charts
Indicator 1:	Simple Moving Average (SMA)
Indicator 2:	Relative Strength Index (RSI)
Indicators parameters:	SMA 20 period and RSI 20 period
Instruments:	AUD/USD, NZD/USD, EUR/AUD, EUR/CAD, EUR/NZD and AUD/JPY
Buy rule:	Buy when the price closes above the SMA and the RSI is above level 50
Sell rule:	Sell when the price closes below the SMA and the RSI is below level 50.
Orders types:	Pending orders and instant executions
Exit rules:	Exit a long position upon generation of a valid 'sell' signal. Exit a short position upon generation of a valid 'buy' signal. And exit when your initial stop or trailing stop is hit.
Stop loss:	100 pips from the entry price
Trailing stop:	Initial trailing stop of 100 pips (see the section for risk management)
Position sizing:	0.01 lots for each \$1000 available (thus making it 0.1 lots for each \$10,000)
Risk per trade:	1%
Safety rule:	Trading is stopped for the week if drawdown reaches 2% (worst-case scenario).
Average number of signals:	About ten to 35 valid signals per month
Average hit rate:	60% on a long-term basis
Average annual returns:	35% to 70% per annum

we choose are more easily predictable than the major pairs. We do not need to fall in love with any pairs as our aim is to make profits from trading. Just for your information, the movements on EUR/AUD and EUR/CAD in particular are easily predictable with over 70 per cent accuracy.

For instance, from December 2009 to May 2010, the EUR/CAD fell by over 3000 pips. The spread of each exotic pair is higher than the spreads charged on the major pairs, but the use of the exotic crosses makes sense since we are going for hundreds – sometimes thousands of pips – per trade. Another advantage is that we have fewer signals and therefore, pay much less in spreads.

Application of Sound Risk Management

This is my risk management recommendation for this trading strategy, as it is used on AUD/USD, NZD/USD, EUR/AUD, EUR/CAD, EUR/NZD and AUD/JPY: Once you have gained up to 100 pips, you simply move your stop loss to breakeven i.e. to your entry price (thus eliminating the risk on the trade). A stop reaches a breakeven when the entry price equals the stop order level: something that makes you exit with no profit or loss in case of a crazy movement against you.

Then if your profit goes up to 200 pips, you may lock 100 pips

(50 per cent of the profit). If you gain up to 300 pips, you lock 150 pips. If you gain 400 pips, you then lock 200 pips. It is all about locking 50 per cent to 65 per cent of any profits you make, starting from 200+ pips, while giving enough room for the market to run. This locking can be done by applying automatic trailing stops in your system or moving your stop manually. The worst drawdown per trade should not exceed one per cent (we may not even wait till the stop is hit before we exit, perhaps exiting before -100 pips and limiting the risk to less than one per cent), and the predetermined worst-case scenario per week is two per cent drawdown.

Sun Tzu, the ancient Chinese military general, strategist and philosopher who authored the book "The Art of War", once said "He who knows when he can fight and when he cannot, will be victorious." Let us say that upon accumulation of 15 per cent profit, you may stop trading in a week in which your profit drops to 13 per cent. With this safety approach, you avoid further drawdown in a bad week, because there are weeks when both buyers and sellers would be stopped out of the market. A loss of two per cent is enough to warn us to stay away from trading in a particularly bad week. Sometimes the markets can be a wild beast.

That is all that has to be done. There are no special secrets. This is a way of disciplining yourself to follow these simple rules. Trading is like entering a battlefield and preparing for the worst. If you have this mindset, you will not want to risk too much.

Some Former Trades

Let us look at a few recent trades. Please refer to the charts that accompany this article. The red line above (which stays close to the price movement) stands for the SMA and the blue line below stands for the RSI. Please note when the blue line went below the level 50 and when it went above it. The red vertical line on the left shows where a trade was entered and the red vertical line on the right shows where it was exited.

Example 1:

From December 2009 to late June 2010, the Canadian dollar gained remarkable strength against the Euro. The latter was generally weak for several months. When the market is in a strong trending mode with huge euphoria, support and resistance levels would be blown through like a hot knife through warm butter.

Instrument: EUR/CAD

Order: Sell

Entry date: December 7, 2009

Entry price: 1.5699

F1) The EUR/CAD in a Sustained Bearish Mode



The Canadian dollar gained remarkable strength against the Euro. The latter was generally weak for several months. The trade was entered as soon as a valid bearish signal formed, and it was managed according to the predefined rules. The trade was decently profitable.

Source: www.metaquotes.net

F2) The Aussie Rallies against the Greenback



From September to November 2010, the AUD/USD moved up by well over 1000 pips in roughly 45 days. The Aussie eventually came to parity with the Greenback. The advantage of this scenario was taken. It was a clean and successful transaction.

Source: www.metaquotes.net

Initial stop: 1.5799
Trailing stop: 1.3686
Exit date: June 24, 2010
Exit price: 1.2790
Profit/loss: 2959 pips

Example 2:

From September to November 2010, the AUD/USD moved up by well over 1000 pips in roughly 45 days. However, some of the pips were given up on an assumption of a serious but temporary southbound journey by the pair. At the time of preparing this article, the Aussie eventually came to parity with the Greenback. The market has been volatile since then; presenting numerous opportunities for swing traders to make hundreds of pips. The AUD/USD needs consistent movement above the 1.0000 level for the primary bullish trend to remain effective, otherwise a new bearish trend would resume. Note that earlier trades on this pair would have had a measure of success with effective risk management.

Instrument: AUD/USD
Order: Buy
Entry date: September 2, 2010
Entry price: 0.9108
Initial stop: 0.9008
Trailing stop: 0.9643
Exit date: November 15, 2010
Exit price: 0.9869
Profit/loss: 761 pips

Example 3:

Here is an example of how a trade that was initially good could turn against the trader and how it might be controlled. This caused the trade to be exited at breakeven. Good traders should be able to move ahead despite the uncertainties that the financial markets will throw at them. The entry criteria were met and therefore we entered short with a pending order on the following day. The price moved down by over 125 pips (the stop was moved to breakeven when the profit reached 100 pips) before it turned bullish.

Instrument: AUD/JPY
Order: Sell stop
Entry date: November 29, 2010
Entry price: 80.90
Initial stop: 81.90
Trailing stop: 80.90
Exit date: December 1, 2010
Exit price: 80.90
Profit/loss: 0 pips (breakeven)

Example 4:

There is a need to show a place where the strategy failed – causing a loss that was satisfactorily bearable. This example shows a trade that went negative not long after a long order was opened. The risk was adeptly brought under control. Note that the subsequent bearish signal on the cross would have been successful if taken.

Instrument: EUR/AUD
Order: Buy
Entry date: December 23, 2009
Entry price: 1.6283
Initial stop: 1.6183
Trailing stop: N/A
Exit date: December 29, 2009
Exit price: 1.6183
Profit/loss: -100 pips

Conclusion

“The system that performs well tends to have a reliability of around 40 per cent and has average gains that are much larger than the average losses,” writes Dr. Van. K. Tharp. “Yet most people look for systems with a high probability of winning, which is totally different. For example, you can have a method that is right 80 per cent of the time and that still will not make you money. Why? The reason is because the gains are small and the losses are large. A lot of people are attracted to such systems, but they will usually result in financial disaster.” Please do not forget: abort your losers and ride your winners. If you could do this with enduring patience and perseverance, the strategy described here would make you achieve consistent survival on the markets – something you have been dreaming of.



F3) A Trade on the AUD/JPY Broke Even



Here is an example of how a trade that was initially good turned against the trader and how it was controlled. Our entry criteria were met and we therefore entered short with a limit order on the following day. The price moved down by over 125 pips (the stop was moved to breakeven when the profit reached 100 pips) before it turned bullish.

Source: www.metaquotes.net

F4) A False Signal on the EUR/AUD



This example shows a trade that went negative not long after a long order was opened. The risk was adeptly brought under control, causing a loss that was satisfactorily bearable. The subsequent bearish signal on the cross would have been successful if taken.

Source: www.metaquotes.net

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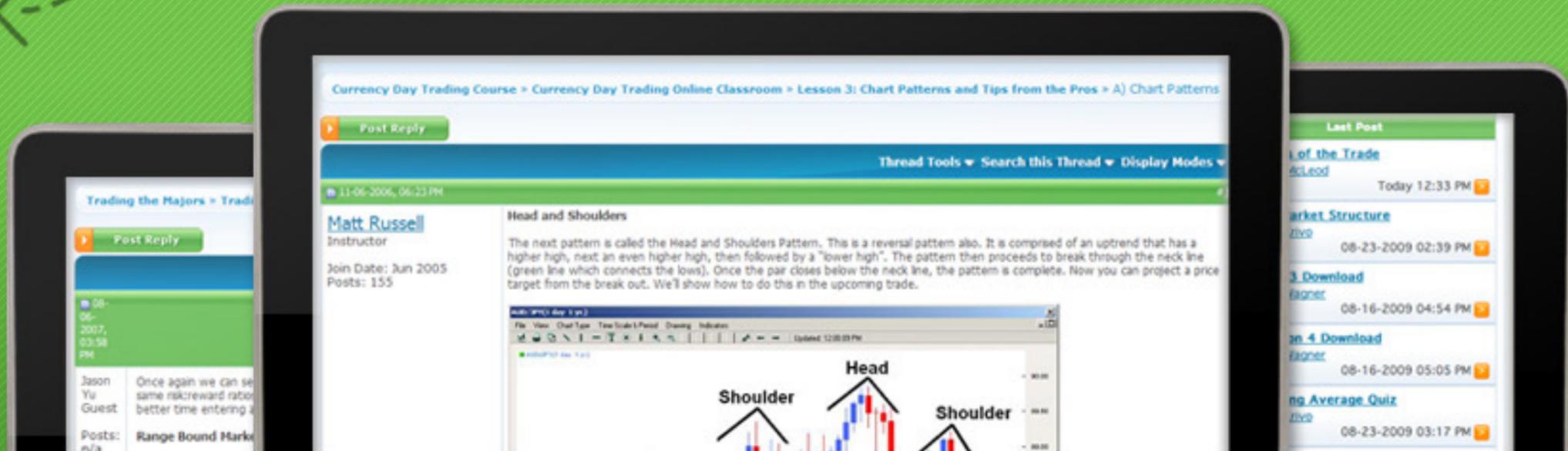
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Learn How to Trade with Precision

Getting an Edge on the FX market

All trends must pull back or retrace at some point before a currency goes on to make higher highs or lower lows. Up to this point, the discussion has focused on trading breakouts in the direction of the trend. This article first introduces advanced trend following techniques such as Directional Indicators and multiple timeframe analysis. The focus then switches to a strategy for entering on the pullbacks within the trend for a very precise and high probability FX trading strategy.



Nick McDonald

Mr Nick McDonald is an independent full-time trader and the founder of Trade With Precision where he mentors clients on his technical trading strategies.

Contact:
www.tradewithprecision.com,
nick@tradewithprecision.com

ADX Indicator for Advanced Trend Analysis

The ADX (also known as Directional Movement) is a trend following or directional indicator. It helps to keep you on the right side of the market and in the strongest trends. In addition to this, the ADX will also show you when the market is ranging and therefore should not be traded. By understanding the ADX, you will know who is currently controlling the market in any timeframe –buyers, sellers or neither.

The mathematics behind the ADX indicator is complicated. Remember, you do not need to know how the parts under the hood of the car work in order to know how to drive the car! The following information will allow you to ‘drive’ the ADX indicator:

- The ADX is derived from a combination of two other indicators named DMI or Directional Movement Indicators.

- The DMI is derived by comparing the range of the current period with the previous periods range. This will result in a positive or negative value:
- The Positive DMI or +DMI indicates that buyers are in control, pushing the market higher. +DMI is usually coloured green.
- The Negative DMI or -DMI indicates that sellers are in control, pushing the market lower. -DMI is usually coloured red.
- In the illustrations, the blue line is the ADX line (see Figure 1).
- The ADX is calculated by combining data from both the +DMI and -DMI and then smoothing the data with a moving average.
- The range of the ADX is between 0 to 100 and the higher it rises, the stronger the trend.
- Important note: The ADX will rise in both an uptrend and a downtrend. A rising ADX shows you that there is a trend, the

F1) ADX – Example



Image A shows a downtrend, confirmed by a rising ADX with the red DMI over the green, indicating that sellers are in control. Image B shows an uptrend, confirmed by a rising ADX with the green DMI over the red, indicating that buyers are in control. Image C is a ranging market that should not be traded. This is confirmed by the ADX reading below 20 and no clearly indicated winner between buyers and sellers.

Source: www.esignal.com

T1) Timeframe

	Precision Chart	Low Timeframe	Mid Timeframe	High Timeframe
Scalping	5	15	30	60
Day Trading	15	60	240	Daily
Swing Trading	60	240	Daily	Weekly

All timeframes are minutes unless otherwise specified. For example, 240 minutes equals four hours.

DMI lines confirm whether that trend is up or down.

ADX Trading Rules

Look for long trades when:

1. The green DMI is above the red DMI (confirming buyers are in control).
2. The ADX is rising and is above 20 (indicating strong uptrend).
3. The price action is trending up (Higher Highs & Higher Lows).

This criteria is illustrated in Figure 1 B.

Look for short trades when:

1. The red DMI is above the green DMI (confirming sellers are in control).
2. The ADX is rising and is above 20 (indicating a strong downtrend).
3. The price action is trending down (Lower Lows and Lower Highs).

This criteria is illustrated in Figure 1 A.

Do not trade when:

1. The ADX is below 20.
2. An ADX reading below 20 indicates that the market is ranging or trendless.
3. There is no price action trend between the highs and lows.

This criteria is illustrated in Figure 1 C.

Confirming with Multiple Timeframes – ADX Plus Convergence & Divergence

Trading with Multiple Timeframes refers to the technique of looking at various charts in different timeframes in order to gain greater knowledge and an understanding of the overall trend and thus the validity of the trade. While a trend may look strong in one timeframe, it may show divergence and weakness in another. The timeframes that traders choose to trade in depend on their personality, trading skill and lifestyle.

For example, 240 minutes equals four hours. The high timeframe should be used to assess major trends, patterns, support and resistance. The mid timeframe is used to confirm the trend that you should be trading with as well as any patterns and support/resistance levels.

The low timeframe provides you with your trade setups and you should then use the Precision chart (aka trigger or entry chart) to time your entry into a trade.

Multiple Timeframe Rules

1. Ensure that all timeframes agree. For example, when all timeframes are trending up it indicates to look for a long entry.
2. Ensure that there is no reason not to enter your trade. For example, you have a strong

down trend on your low and mid timeframes that looks tradeable. However, upon checking your high timeframe you realise that the currency is approaching a major support level and therefore you should not look to trade short until this level has been broken.

3. Look for convergence and/or divergence between price and indicators in your mid and high timeframes to confirm that you are trading with market momentum.

4. Use Mid and High Timeframes to:

- Assess direction of trend and its strength using highs, lows, convergence, divergence and the ADX.
- Check support and resistance levels to ensure that you are aware of all major levels.

5. Once you establish a valid trend direction to trade with, look to your low timeframe and the Precision chart to find a suitable entry strategy.

Locating Clusters

What is a Cluster? The Collins English Dictionary defines a cluster as ‘a number of things occurring close together’. In the case of FX chart clusters, ‘things’ means levels of support and

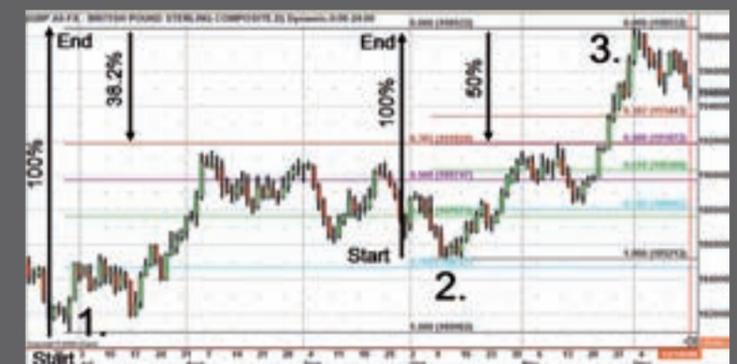
F2) Fibonacci Line in Downtrend



In a downtrend, you should start the Fibonacci line from a high and draw it down to the most recent low as indicated by the start point to the end point illustrated. The move down is 100%. As the price starts to retrace back up, it may find resistance at the Fibonacci retracement levels highlighted.

Source: www.esignal.com

F3) Fibonacci Line in Uptrend



In an uptrend, you draw a Fibonacci retracement line from a low point up to a high point. To locate Fibonacci clusters, you should draw the line from a different start point as indicated at point 1 and 2 and finish at the same end point 3. You then look to see if any of the retracement levels cluster at the same level. In the example above the 38.2% retracement for the larger move up, perfectly clusters with the 50% retracement level for the shorter-term move at 1.9200.

Source: www.esignal.com

resistance which are all occurring on a currency chart very close together. Generally, these multiple support and resistance levels should be occurring within zero to seven pips of each other. The factors that you should consider when looking for clusters in foreign exchange are:

1. Price action support & resistance (S&R)
2. Fibonacci retracement levels
3. Pivot Points – daily, weekly and monthly
4. Big numbers – 00's and 000's

When two or more of these factors cluster within seven pips of each other it builds a very strong level of support or resistance. The more of these factors that cluster at the same level and the closer together they are, the stronger that level is likely to be and the more likely that price will not penetrate if tested.

Fibonacci Retracement Levels

Fibonacci lines should be drawn from a low up to a high in an uptrend, or from a high down to a low in a downtrend. Many people struggle to understand where the lines should start and end, yet the answer is actually very simple. You must be looking at the potential retracement of the current trend.

For example, in a downtrend, the line must start from a high

and be drawn down, to the most recent low (see Figure 2). In an uptrend, the line must start from a low and be drawn up, to the most recent high (see Figure 3). The line can start from any actual high or low on the chart provided it ends at the most recent high or low as described above (starting from different points is how you will find clusters). This ensures that you are looking for a retracement of the current trend.

Most software will have a built in Fibonacci drawing tool. You simply have to draw a line as described above and then it will automatically calculate retracement levels that may support or resist the price if it reaches those levels.

The Fibonacci retracement levels that you should look at are 38.2 per cent, 50 per cent, 61.8 per cent and 78.6 per cent. The price move that you originally drew from a low to a high is 100 per cent of the move. This means that if the price starts to pullback it may find support as it pulls back 38.2 per cent or 50 per cent of the move and so on.

Many view Fibonacci analysis as subjective as there are so many retracement levels to look at. They are correct if they look at these levels in isolation. How could you possibly know the correct retracement level? The answer is that you never do know,

but you can get a good idea by seeing if any other Fibonacci levels or other S&R levels cluster at the same price point.

Fibonacci Clusters

To locate Fibonacci clusters you should always start the line from a different start point and finish at the same endpoint. Once you have done this you can see if any levels cluster at the same place. See Figure 3 for an example of a Fibonacci cluster.

Pivot Points – Daily, Weekly and Monthly

Pivot points are leading indicators as they help you to predict the range plus support and resistance levels for the next trading period. A period in the case of foreign exchange pivots can be a day, week or month. By using the mathematical calculations below, you are able to forecast five separate support and resistance levels that price may react to in the next trading period. The calculations are as follows, however, you will rarely need to calculate these since most modern trading software will have calculations to automatically draw them for you (MP = Mid Pivot, R = Resistance, S = Support):

$$\begin{aligned} \text{MP} &= (\text{High} + \text{Low} + \text{Close}) / 3 \\ \text{R1} &= (\text{Pivot} \times 2) - \text{Low} \\ \text{R2} &= (\text{Pivot} + \text{High}) - \text{Low} \end{aligned}$$

F4) Pivot – Example



15-minute chart (left) shows the daily pivot points on EURUSD. Note that these change each day and the change from one day to the next is visible on this chart.

60-minute chart (middle) plots the weekly pivot points, not all of which are visible due to scaling.

240-minute chart (right) plots the weekly pivot points, not all of which are visible due to scaling.

Cluster – The Mid pivot point plus the 50% retracement on the 60min chart cluster with the S1 pivot and the 38.2% retracement on the 240min chart.

Source: www.esignal.com

S1 = (Pivot x 2) - High
S2 = (Pivot - High) + Low

Unlike Fibonacci retracement levels, pivot points are extremely powerful even on their own and anyone who has not used pivots before will soon be amazed at how often the price interacts with and changes direction at these levels. For this reason, at least one pivot point should be included in every cluster. A cluster of two pivots from different time periods forms a very strong level.

Locating a Cluster

Figure 4 shows how pivot points will look when plotted on your FX chart and provide a good example of a cluster of Pivot points. Both the weekly 'mid pivot' and the monthly 'S1 pivot' are clustering at the same level. In addition to this, by drawing Fibonacci lines on the same charts you can see that the 50 per cent retracement of the short-term move up on the 60-minute chart matches with the 38.2 per cent level on the 240-minute chart.

Combined, we now have a quadruple cluster – two pivots plus two Fibonacci levels all within less than seven pips of each other! This provides a high probability trading opportunity if the price pulls back to the cluster.

Big Numbers

A big number is a level on a Forex chart that either ends in '00' double O's or '000' triple O's. These levels present a psychological barrier for price to penetrate. Many people also place their stop and limit orders at these levels precisely. For example, a trader without very precise entry and exit levels will typically place their order at an obvious level such as 1.3000 or 1.3100. This activity around big numbers increases the probability of price being supported or resisted there. Professional traders are also very aware of the activity around these levels and this increases their significance. See Figure 3 and note that the cluster of Fibonacci levels is also very close to a big number at 1.9200. This provides additional support to the cluster.

Trading Strategy

The Precision FX Strategy goes against traditional breakout trading which tends to use market and stop orders to enter trades. Instead, you should use limit orders to enter on pullbacks, predicting a reversal at the point of the cluster, rather than waiting for it to happen.

Waiting for the price to reverse would mean that you miss valuable pips, your risk to reward will not be as good and overall your entry is not precise. You will also have to spend a lot of time

watching your screen.

The following are the steps to trade a Precision FX entry:

1. Locate a strong trending currency
 - a) Price action must be trending strongly in mid & high timeframe.
 - b) There must be convergence between the price and the indicators.
 - c) The ADX must be rising and above 20 to confirm the trend.
 - d) The DMI lines must confirm that buyers are controlling the market if you are going long, or that sellers are in control if you are going short.
2. Prices have to pull back at some stage. As a pullback of the trend starts to occur, check, as described above, if there is a cluster of support or resistance that it could pullback too. If there is no cluster then there is no trade.
3. The cluster must include three or more support and resistance levels, at least one of these must be a pivot.
4. When the above conditions are met you have a very high probability trade setup, and can place a limit order as described below.
5. Note: Just because there is a cluster does not mean that the

price will pull back to that level. It may keep on going with its original trend without pulling back that far. If so, there is no trade. You must wait patiently for the next opportunity.

Entry, Stop Loss and Profit Targets for Fading Breakouts

Entry

- Enter 2-3 pips above the highest point of the cluster if going long.
- Enter 2-3 pips below the lowest point of the cluster if going short.

Stop Loss

Stop losses should always have some technical protection, no matter how minor. That means you should work back from the cluster to decide on the strongest place for a stop loss. As a minimum, the stop should be placed behind the next Fibonacci retracement level, i.e. if you entered on a 50 per cent pullback the stop should be at least 61.8 per cent or greater.

Target

Ensure that you have at least 1:1 reward to risk on every trade. You should achieve this by trading in only the strongest trends that are likely to continue in that direction. Risk no more than 1 per cent of your trading capital. Always take some profit and bring the stop to breakeven at equal reward to risk.

Some sensible places for further profit targets are:

- The old high or low ('trend' support or resistance)
- Fibonacci extensions
- Big numbers

Conclusion

The most important thing is consistency. You will be on the path to consistent results when you consistently apply the same rules. To gain consistency you must write a set of trading rules and apply them with precision!

Do not deviate from your trading plan unless you have hard evidence to suggest a tweak is required. Hard evidence is at least 10-20 trades of a single strategy. The most important points to remember are:

1. Always trade with the well established market trend.
2. Have more than one reason for every single trade you place.
3. Do not deviate from your rules – execute your trading strategy with precision!

By following these rules, you are giving yourself an 'edge' over many other Foreign Exchange traders.



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A 1-2-3 Trading Strategy for Your Success on the Currency Market

Forex and Market Techniques

In the following a discretionary trading strategy will be presented that is based on the principles of market techniques and can be used successfully in short-term Forex trading. The currencies traded are the base currencies GBP/USD, USD/JPY, EUR/JPY, EUR/USD, and USD/CHF. Active trading hours are from 9am to approximately 12 noon and from 2pm to 5pm. During these hours a high level of liquidity is guaranteed. About 60 minutes each should be allowed for to prepare for the trading day and evaluate it afterwards.



Determining the Trend

The central question in market-technique science is: Where can movement originate? So you should look at the charts to find situations that make movement most likely to occur. To do that, you use the chart with the traded time window (10, 5 or 1-minute chart, for more details see the Money Management paragraph) and analyse it with a view to finding existing trends. In terms of market techniques, a trend is understood to mean a completed 1-2-3 formation. A trend is not considered to be confirmed until its line has moved above or below Point 2, relative to the upward and downward trend respectively. In this case a 1-2-3 long (Figure 1) and a 1-2-3 short formation (Figure 2) respectively will be formed. You follow the same approach to deal with longer time units (60-minute, daily and weekly charts). You then divide the trend into its component parts of movement and correction. The phases between Points 1 and 2 as well as Points 3 and 2 are called movement, whereas the phases between Points 2 and 3 are called correction.

In doing this, it is important not to “dig in” too deep into the chart. The zigzag indicator may be used as a tool here; depending on the time unit, it will be set at a fixed value, preventing too small price changes from being interpreted

as a movement or correction. The only valid prices always are the high or low prices, never opening or closing prices. Also pay attention to the setting of the scaling for the price axis. It should always be about the same in order to develop a better sense of “trendy” markets. An upward trend will be intact as long as new higher lows are formed. A downward trend will be valid as long as lower highs are formed. If you cannot see any trend, the market will be in a sideways situation.

Setup

The strongest movements occur when the price can go from a 1-2-3 formation on the traded chart through a Point 2 or a daily line in the 60-minute chart. The respective highs and lows of a day are referred to as the daily line. So you first determine the direction of the trend in the 60-minute chart, looking specifically for the direction of the movement since that is where the major price developments can be expected. Daily and weekly charts are of a more informal nature, which means that only the highs and lows should be paid attention to as resistance and support lines. Secondly, you determine the trend situation in the trading chart. Now you look for a 1-2-3 in the trading chart in the direction of the trend of the

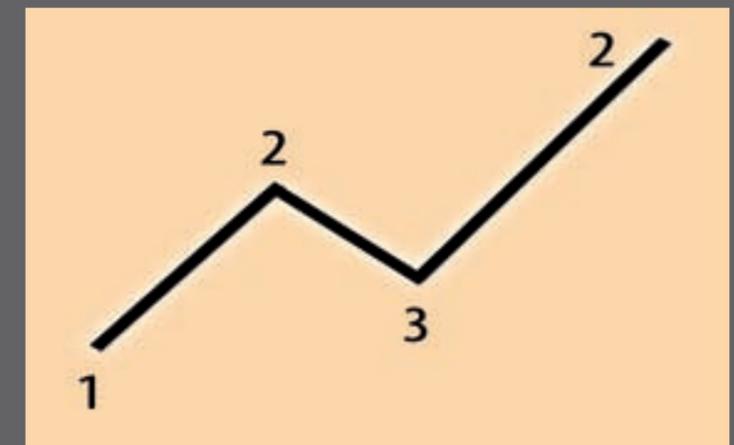


Ralf Kraemer

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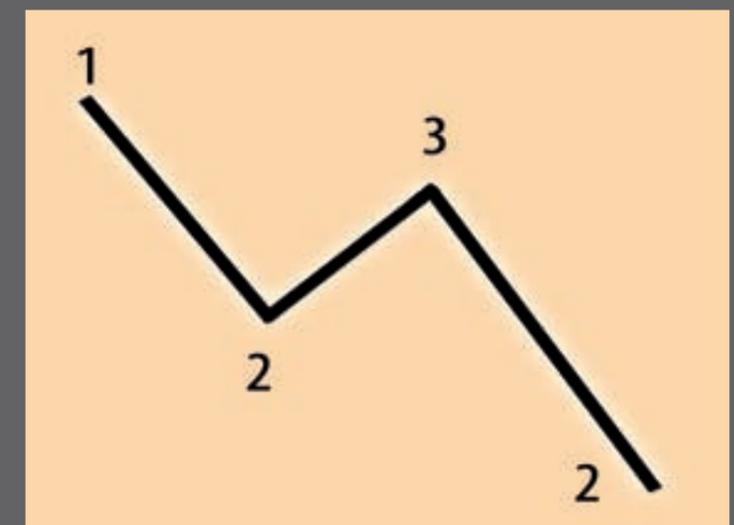
F1) Long 1-2-3 Formation



If prices rise above Point 2, there will be a confirmed upward trend.

Source: TRADERS' Graphic

F2) Short 1-2-3 Formation



If prices fall below Point 2, there will be a confirmed downward trend.

Source: TRADERS' Graphic

60-minute chart. So, for example, a 1-2-3 long in the direction of the upward movement in the 60-minute chart. Thirdly, then, there is the evaluation of the risk-reward ratio (RRR). The approximate risk is known to you even before the trade because of the initial stop. Using the tools of technical analysis, you now assess the chances of a possible movement. Is there any resistance on the way to the pips that you need, or any so-called sweet spots? This is what the round prices of the base currency are called, so 1.3500, for example. More often than not, many orders are at these points, and the price moves amid strong fluctuations. For RRR you need at least a value of 1.0, better still 1.5 or more. If you always achieve only the value of 1.0, profits will have to be made from a constantly higher hit rate than 50 per cent.

Entry

Once you have recognised a promising situation, a buy or sell-stop order will be placed with the broker two pips above or below Point 2 that is to be traded. If you cannot find a 1-2-3 in the direction of the trend of the longer time unit, you may also look for a small 1-2-3 which enables a movement through a large 1-2-3 in the same time unit (Figure 3).

Risk Management

a) Right after the execution of the order the initial stop (IS) will be placed in the market. To do that, you need the indicator ATR (Average True Range) in the 14 period setting. It indicates the volatility benchmark and is included in every standard chart program. The IS may be 1.5 ATR plus spread. To cite an example, you enter a short trade in EUR/USD at 1.3580 with the ATR (14) being 0.012 and a two-pip spread (0.002). So you place – as an IS – a buy stop order at 1.3600 in the market:

- 1) $0.012 \times 1.5 + 0.002 = 0.020$
- 2) $1.3580 + 0.020 = 1.3600$

That way you will be protected in case of loss and have at the same time determined the maximum size of your loss in euros via the quantity of Euro units sold (known in Forex as “lot”). The IS is absolutely vital and must not be altered under any circumstances.

b) Now your trade is moving into the profit zone as planned, and the price is hovering around 1.3565. In that case, the next risk management rule which applies is the break-even stop (BES). The rule says: If the price is 1 x ATR plus spread in the profit zone, no losses should be allowed to occur for the initial

position. If, for example, the price in the example above is quoted below 1.3566, the BES will apply. So you trail the IS to 1.3579, hedging the trade with a pip in the profit zone. In doing so, you do not wait for the end of a candle or a bar, but use the current price.

c) Amid some fluctuations the Euro now continues to fall, possibly now through a daily line in the 60-minute chart, once more becoming subject to selling pressure. If the book profit is 1.5 x ATR plus spread, you will have achieved the profit target (PT). Now watch the price development very closely here. If, as described above, the price has previously broken through an important resistance causing more movement, you will recognise this from a fast growing volatility. In that case shift the PT to 2 x ATR plus spread. Even if the current ATR now is perhaps 0.017, always use the original ATR at the time of the order execution (in our case 0.012) for the calculation of the PT. So in our example the PT has been reached at a price of 1.3560. This decision concerning the PT requires some experience that you will actually gain just by sitting in front of your screen. Depending on the trading platform used, various types of order will be

Info

Sweet Spots: Sweet Spots are support or resistance zones at round price levels. As a result of increased order volume, there is more trading activity in these areas. Two examples of Sweet Spots are 116.00 at EUR/YEN, and 1,2800 at EUR/USD.

Zigzag Indicator: The zigzag indicator is a filter that ignores any price changes below a certain percentage. For example, the 5-percent zigzag only marks changes to an underlying or indicator that exceed five per cent, as measured by the difference between the highs and lows. All the smaller price changes are ignored, making the zigzag an excellent indicator to recognise turning points.

F3) Small 1-2-3 in Large 1-2-3



In the 5-minute chart GBP/USD you can see a large short 1-2-3 (pink line) and a small short 1-2-3 (blue line). Also clearly visible: the increasing volatility when breaking through the major point 2 at a price of 1.4910.

Source: www.gftuk.com

offered to you for exiting the trade. You can determine the PT as early as the execution of the order since it is already known via the ATR, or you can exit the trade with a market order (Figure 4).

In Figure 4 you can see a short trade in the 5-minute GBP/USD chart. After a double top shortly after 9 am, the price falls below the resistance at 1.5200 down to the orange line at 1.5179. This is Point 2 in short 1-2-3. The price bounces back up to 1.5215 and then falls below Point 2, where the stop order is executed at 1.5177 (red arrow downwards). At that point in time, the ATR is 0.015, after that the IS is placed in the market at 1.5202. During the next three candles the price hovers around the break-even point and then continues to fall with volatility once more increasing. At a price of 1.5147 the position is closed via market order (red arrow upwards). The profit target was achieved.

d) The fourth way of ending a trade is the time stop (TS). This rule says: Close the position after the seventh candle (relative to the 10-minute chart) if rules A to C have not applied previously. Statistical studies of this strategy have shown that after the seventh candle no more significant profits can be expected. The most

successful trades already move into the profit zone after a short time, and only very few losing positions go on to be major winners. Close this position by market order.

Money Management

Money management can arguably be called the centrepiece of any trading strategy. This is where the size of the individual position is determined and the risk for the entire portfolio is managed. In this strategy a modified fixed-risk system is used.

a) The standard risk for the initial portfolio balance is two per cent. So you are only allowed to risk 200 Euros for a position with a portfolio balance of 10,000 Euros. This means that you adjust the size of the position in such a way that in case of loss the loss will be no more than 200 Euros with the given 20-pip IS from the example above. For this calculation you need a so-called pip calculator which is included in most Forex trading platforms. Using this calculator, you determine the value of a pip relative to the trading quantity of one lot (which equals 100,000 Euros). For our example, this adds up to a value of 7.36 euros a pip. Now since your risk must be 20 pips, you can determine

your position size at 1.36 lots. So you should trade accounts that offer you the opportunity to order mini lots; that way you can set the position size much more precisely (in this case 1.4).

- b) If the initial portfolio balance sustains losses of five per cent, your risk will be lowered to 1.5 per cent. So if the balance of your trading account falls below 9500 Euros, your positions will be reduced, lowering your risk.
- c) In case of an additional loss of five per cent your risk will be lowered to one per cent – relative to the initial portfolio balance of 10,000 Euros, i.e. with a portfolio balance of below 9000 Euros. This risk reduction is also called the anti-Martingale strategy. It helps you to protect your portfolio in case of loss as well as to stay in the market.
- d) Your risk will not be increased until the last stage of loss has been recouped. So if the balance of your portfolio is above 9000 Euros again, you will be trading with a risk of 1.5 per cent. By the same token, if the balance of your portfolio exceeds 9500 Euros, your risk will be two per cent again.
- e) Each new high in the balance of your portfolio will cause your risk thresholds to be revised upwards. So let us say your trading has been successful and the balance of your portfolio amounts to 11,200

F4) Short Trade GBP/USD of 9th January 2009



In Figure 4 a short trade is documented. Even at 1 pm a long 1-2-3 could have been traded. However, the trade was not executed due to the direction of the trend in the 60-minute chart being downwards.

Source: www.gftuk.com

Euros. Accordingly, your 1.5 per cent risk threshold will now be at 10,976 Euros.

- f) In case of a decrease in the balance of your portfolio by 20 per cent, trading will have to be discontinued. In that case the structure of the market has changed so much that it no longer fits your trading strategy.

Reliability

All of your trades should be meaningfully documented. The most important indices of your strategy must be evaluated and constantly monitored.

For two years, this strategy has been tried and tested

successfully in active Forex trading. The hit rate is at about 70 per cent, the profit factor at 1.7, and maximum drawdown at eight per cent. Prior to trading, the strategy had been extensively tried out in backtesting. 1,500 trades dating back to the years 2005 and 2006 were investigated. For the purposes of risk management, work with ATR has turned out to be very flexible in practice. Especially in times of increased volatility as we have witnessed them during the high points of the financial-market crisis, the strategy made successful trading possible. However, at times the trading

chart was switched to the one-minute time frame here. This made it possible for trends to be better recognised, sensible stops to be set, and position sizes to be determined. The relatively large price fluctuations resulting from the news, above all in afternoon trading, are a special characteristic of Forex trading. You should not open any positions shortly before those news bulletins. More often than not, the price moves into the other direction only to again end the setup favoured by you. Also, there is very little volatility in the markets on public holidays, especially in Great Britain and the

US. Again, exercise caution here when opening positions.

The Forex market is an OTC (over the counter) market. There are no uniform rules and there is no supreme regulating authority. This has benefits and drawbacks that every trader should weigh and assess in terms of his own personal circumstances. It is important therefore for you to check your broker and custodian to make sure that they are of high quality.

Conclusion

The above strategy makes it possible for you to engage in successful short-term trading on the currency market. Trading

in longer time windows was not tested and not aimed at in practice either. In order to enhance trend determination, an indicator (for example, a moving average) may continue to be used but it should have no impact on the concrete setup. If in doubt, always choose the underlyings with higher volatility on a daily basis, using the ATR if you wish. Using pivot points in the trading chart has also proven to be useful. They often form resistance or support zones that are taken into account during trading.



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A Scalping Strategy for the EUR/USD

How Fast Is Your Money?

Scalping is often considered to be a strategy for experienced traders, requiring quick decisions and good reflexes. But is it really that difficult? And is it learnable? One thing is certain: Nobody gets to be a good scalper overnight since scalping takes a lot of practice. Traders are required to watch market movements on a chart for many hours. They need to learn to find a maximum number of precise entries with very tight stops, using the laws of probability to their advantage. In the end, it is all about recognising one or several setups and executing a given trade without any time lag, causing it to be carried out nearly automatically.

As is the case with piano playing, certainly not everybody will get to be a virtuoso, but all those who make a serious effort are quite capable of achieving decent results. Besides, scalping can be a lot of fun as well.

Reasons for Scalping

The most important reason why traders decide to use this strategy rather than any other, is their initial perception that it is easier to do your trading with small movements than with large ones. Whether or not this is actually the case may be seen to be different from one trader to another. The fact is that the more experience is gained in scalp trading, the more quite different components of this strategy come to the fore. For example, good scalpers have very high Sharpe ratios (the excess yield of a financial investment as a function of the risk to a benchmark such as the risk-free interest rate). Beyond that, they often only have to put up with small drawdowns. These are quite substantial benefits leading to above-average smooth equity curves and rapid account growth.

The key here is to keep losses as small as possible. This sounds easy but in reality already is a stretch for most traders. Besides, that method operates with low risk-reward ratios that are not necessarily offset by a high hit rate, as is so frequently claimed. Instead, during the trading day the trader “by chance” succeeds in stumbling upon some major movements that he had not

intended. At best, the vast majority of the other trades end as a zero-sum game, which in turn highlights the importance of discipline. The stop must be kept at any price, and it is often better to exit and accept what still is a small loss. While it cannot be denied that many mini gains may add up to a handsome daily profit, the reverse is equally true. This is what you might see at the end of a typical trading day: Profit: 360 pips, loss: 345 pips, result: 15 pips.

This shows that a single moment’s carelessness or psychological weakness on the part of a trader may ruin the work performed during an entire trading day or even a whole week.

The Opportunity Factor

Nevertheless, scalping can be extremely rewarding: Wherever there is a small benefit, it is only logical to take advantage of this benefit as often as possible. And that is the actual strength of this strategy, which may be used both in strong trend markets as well as sideways markets and in sleepy midday markets. Profit expectation (relative size of profits and losses), however, is exceedingly small with Forex trading sometimes only



Peter Devaere

Mr Peter Devaere, who was born in 1964, is a native of Belgium and has been trading stocks, futures, and CFDs intraday for more than eight years. He has specialised in scalping strategies in the Forex market.
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anticipating less than one pip. This is certainly one reason why many consider the strategy to be inferior.

Why should any trader risk a position if he can expect an average profit of less than one pip per trade? No day trader, let alone a swing trader could possibly be bothered with such a trade. However, the scalper knows: All I have to do is to make sufficient (often 100 or even more) trades and exercise discipline in pursuing my strategy – and my profits will add up. That is the reason why good scalpers can achieve higher returns than day traders or swing traders. Profit therefore is a function of profit probability multiplied by opportunity (the number of possible trades I can make on one trading day).

A Sense of the Market

There is no doubt that anybody can get some sense of the market – provided they practise long enough. Scalpers have the major advantage of entering many more trades than classic day traders, which means that their level of experience is higher. There are, after all, patterns that recur time and again, and if a trader recognises these, he can use them to his advantage. For example, what frequently happens to EUR/USD at resistance lines is that seemingly

there is a breakout downward, albeit only of a short duration. Oftentimes this is followed by an extremely strong upward movement. These may be very lucrative prospects if a trader has the courage to take the trade.

Nevertheless, it must be said that every moment in the market is unique and nobody knows what is going to happen in the next second. Nor is that actually necessary. Traders know that they are only administrators of their accounts and that there is a rather random distribution of profit and loss trades. Their task is to exercise strict discipline in order to easily work the balance between the two to their advantage. That is all that is needed.

Chart Settings

The shorter the periodicity (time period) of the chart, the more often there will be trading opportunities. All the chart settings below 30 seconds may be called scalping approaches. This is where the choice of a broker requires care. Not every broker offers 30, 10 or 5-second charts. If need be, a trader can obtain a software program offering these features. Initially, the 30-second setting is the one to recommend to the scalping neophyte. There is plenty of action there already requiring a trader's undivided attention. This

setting offers dozens of intraday trading opportunities as well, which is enough for the beginner. Once more experience has been gained, 10 or 5-second charts can be worked with.

Quite certainly, there are many more trading opportunities here; however, it must be realised that ever smaller time units will cause difficulties (traps, fakes, spikes etc) to increase well-nigh disproportionately. Especially in the Forex market, you are dealing with extremely savvy and experienced traders (and computer programs) that have the most modern tools at their disposal. The chart setting does not always have to be the same. There are slow and fast markets. It goes without saying that the 30-second setting is often sufficient in the case of slower markets. In the case of fast markets (often after 3.30 pm, at the opening of American trading), however, the 10 or even 5-second chart setting is more suitable.

Spreads

The EUR/USD spread may vary tremendously from one broker to another. It stands to reason that brokers offering narrower spreads (one pip or less) are preferred. A lot has already been happening here in the past few years that made scalping in the Forex market accessible to the retail investor for the first time. Still, it

must be said that unfortunately, conditions like in the futures markets do not exist yet in the Forex market. Sometimes the spread is the biggest cost factor in this strategy, which is why it should be given special attention.

The Position Sizes

Those who work with the 30-second chart are well advised to initially use a stop of ten pips with EUR/USD. That may sound more like day trading than scalping, but above all, the stop should be regarded as protection of your capital and not as an integral part of your strategy. A disciplined scalper already exits when sustaining losses of four to five pips. However, the stop is not set at this point because it is too easily executed.

Using the example of a \$50,000 account and a stop at ten pips, a trader initially should not risk more than 100 dollars per trade entered. This represents 0.2 per cent of his total capital. So he trades with 100,000 dollars or a mini lot. That sounds conservative but you have to remember that considering the trading frequency of a scalper, series of losses of five to ten trades can occur now and then. This means that the one percent-loss threshold will be reached relatively soon. When sustaining a day's loss of two per cent I absolutely recommend that a trading break be taken.

Only when your capital is growing (as well as your confidence) should you increase your sizes. In addition, it must not be forgotten that scalpers collect pips less because of the quality of their trades than because of their frequency. If a drawdown occurs, the position size will be strictly reduced until a trader is back to his winning ways.

Setup

Basically, when scalping with very small time units, the same charting rules apply as when doing other trading. So as a matter of principle, all the setups can be used that occur in classic

day trading. In trend markets trend-confirming formations like flags, ascending or descending triangles, or breakouts from consolidation zones work equally in the seconds chart as in the hourly chart. To some extent, it is amazing how charting is sometimes adhered to scrupulously. The old adages "As above, so below" or "In a microcosm as in the macrocosm" are confirmed here most fittingly. One thing must be remembered though: In a microcosm a trader has very little or no time at all to consider whether to enter or exit. He needs to act fast and act appropriately.

One example may suffice to illustrate this: Basically, a potential setup is a classic trend-change strategy. The type of chart we will choose is a Heikin Ashi chart which is a chart and an indicator rolled into one. No further indicators or moving averages will be used. The benefits of this technique are obvious: The uptrends and downtrends are suddenly shown clearly and unequivocally. Beyond that, you can easily recognise the strength of the trend, consolidation phases and the indications of changes in the trend. The advantage of the Heikin Ashi chart over the candlestick is the visual

smoothing of the trend phases. These are represented more distinctly, causing trend-reversal formations to become more visible. However, it must be noted that this type of chart does not reflect the exact price, which is why a trader should always keep an eye on the price ticker. His full attention is now given to the EUR/USD price movement in the 30-second chart. He is going to wait until a clear trend is formed.

Short Trade

At the beginning of a rising trend the size of the green bodies is still normal but as the momentum increases they become longer

and hardly reveal any more shadows below (Figure 1). The previous movement should run like a staircase, i.e. upwards as steeply as possible. A trader speculates on the market initiating a countermovement from a certain point. He tries to determine the exact turning point. Towards the end of the trend the bodies become smaller and more and more shadows appear above. This is where a trader may open the order mask for a short trade. Entry is made after the first red body as per market order. Experienced scalpers try to anticipate this entry by entering during the consolidation in order



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to gain a few pips. Obviously, this will also increase the risk of trading a false signal. Exit will be made as soon as the first green candle emerges – again, as per market order. No ifs and buts about it!

This is certainly the more difficult part of this strategy. It is not about riding a trend but going along with part of the countermovement (that nearly always occurs). How many pips there will be in the end is subject to chance. Sometimes there are only one or two pips. But more often than not, there will be more and it may happen now and then that the entire previous movement is reversed. Those are the trades that improve your account.

Long Trade

Traders use the same approach when dealing with a long trade (Figure 2). Here they wait for a clear downward trend to form that also runs as steeply as possible (like a torrent). They are going to wait for the consolidation (small red bodies with long shadows above and below) to occur, and then go long as per market order after the first green body. Exit will be made here at the first red body, also per market order. It should be noted that, as a rule, downward trends occur much faster than upward trends. That is the case in all markets, but especially so in the Forex market.

Scalpers can use this to their advantage. They collect their profits much earlier from a short trade than on a long trade.

The Trend Is Your Friend

Generally speaking, trading in trend markets should only be done in the direction of the prevailing trend, i.e. in long markets only long and vice versa. This is all the more important because scalpers trade in ultra-short time units and can therefore easily be wrong-footed when trading against the trend. In sideways markets trading can be done both long and short, always remembering that every sideways market is liable to come to an end at one point. A brief look at the longer 5 or 15-minute chart is enough to discover this.

This strategy is easy to understand and implement. It simply has to be easy because usually a scalper hardly has any time to think. He has to act as soon as the signal is there. That strategy can equally be used when trading with the 10 and 5-second chart. These often only allow a profit of one or two pips to be achieved, but occasionally a trader may succeed in a right movement of ten to 20 pips without intending to do so. Nevertheless, this ultra-short chart setting requires a trader to be experienced and extremely disciplined. On a given

day, some scalpers execute hundreds of trades here. Some of these traders have very high Sharpe ratios in the statistical evaluations of their trades. In order to move up to this league, a trader really needs to be “hot”. This may work well for a while but even the best of traders occasionally need to come down again a bit and trade with a “leisurely” periodicity.

Conclusion

This setup is only one of many. It goes without saying that the exact entry is part of every good scalper's stock-in-trade. Nevertheless, the significance of the entries within the overall scheme of the strategy should not be overemphasised. When to enter? This question is on the minds of many neophytes. But as they gain more experience, the the question of “How much should I risk?” comes much more to the fore. Basically, a trader trades his account and not the market. Consequently, he should always keep an eye on the volatility of his account. During drawdowns position size must be reduced radically. Only that way can a trader get through bad patches and ensure his long-term survival as a scalper.



F1) Short Trade



Within a falling trend the euro forms a temporary high. The first red candle generated a short signal at 1.4626. The trade was smoothed when the first green candle emerged at 1.4615. Profit amounted to eleven pips.

Source: www.oanda.com

F2) Long Trade



After a sideways movement the euro fell by more than 20 pips in a very few minutes. The long shadows of the bodies at 1.4590 suggested buying interest, but the long signal, the first green candle, did not materialise until a little later at 1.4585. When the first red candle emerged, the trade was closed at 1.4590. Profit amounted to five pips.

Source: www.oanda.com

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Using Daily Data for Triggers and Short-term Data to Manage the Trade

Limit Your Losses and Let Your Profits Run

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You have heard the old saying “limit your losses and let your profits run”. This trading strategy attempts to do exactly that. The strategy seems to do very well in all markets as long as it is a reasonably tradable symbol, Stocks, Futures, or Forex. This strategy attempts to pick tops and bottoms while the market is in or was just in an overbought or oversold condition.



Stan Ehrlich

For 40 years, Mr Stan Ehrlich has been a lecturer, teacher, market letter author, inventor, software developer, broker, brokerage firm president, and fund manager, providing traders information via world-wide television radio and Internet.
www.StanEhrlich.com.

The Setup

In creating the price action setup, you should consider using an oscillator based on daily data. Relative Strength Index (RSI) is an excellent oscillator to use for this purpose. Do not rule out the use of another oscillator like Stochastics or Commodity Channel Index. They also create overbought or oversold conditions using different mathematical calculations. The basic setup is for the market to go into an overbought condition (for sell triggers to develop) or an oversold condition (for buy triggers to develop). If you use the Relative Strength Index, consider using a smaller input number than Wells Wilders original 14 periods of time. Remember we are using daily data for the setup. A smaller input number will make the oscillator more sensitive to price action and it will create more frequent overbought and oversold conditions which will improve the environment for more triggers i.e. trades.

As you can see, the Relative Strength Index at the bottom in Figure 1 is a customised version which shows green bars when the low of the price action is oversold

and red bars when the high of the price action is overbought. Any bar that is above 30 and below 70 is white and therefore hidden on a white background. A significant shortcoming of an oscillator is that in fast trending markets up or down the indicator can and does occasionally maintain an overbought or oversold condition for quite a while. This is not the most common characteristic of markets but it does happen. Practising good money management techniques which are built into this strategy should prevent you from taking large losses. "Limit your losses, and let your profits run".

In the following material you will see examples of buy triggers. The sell triggers are an inversion of the buy triggers.

The Trigger

While the symbol is oversold, or within a few days after being oversold, you want to look for a bullish engulfing candlestick, or vertical bars. I started out 40 years ago using vertical bar charts, so I like them more, but the results are the same whether you use western style vertical bar charts or Japanese candlestick

F1) EUR/USD Daily



Here is an example of an oversold condition and a Bullish engulfing daily price movement using a paint bar which turns the bar green.

Source: www.tradestation.com

charts. There is some discussion as to exactly what the definition of the engulfing candlestick or vertical bar is, so let us clarify that.

Using daily data the high of the day or the high of the wick is higher than the previous day's high, and the low of the wick or vertical bar is lower than the previous day's low, and the closing price is higher (for bullish engulfing) than the previous day's closing price (for buy triggers). If you are using candlesticks, there are circumstances when the body could be red or green and still qualify. Do not let the colour of the body trick you. Traders tend to think that a red

body is always bearish and a green body is always bullish, not true. Again, you should use the price extremes of the day relative to the previous day and not just the distance between the openings and the closings. This definition may vary slightly from what you are used to. You will see green vertical bars (which are "paint bars"), which represent a daily range that qualifies for the combination of the setup i.e. oversold condition and having bullish engulfing price range. So when we have a bullish engulfing candlestick or vertical bar and an oversold condition currently or within the last few days we have the trigger to make a trade.

As you can see in Figure 1, I am showing you an example of a Forex currency pair which is in an oversold condition and has had a bullish engulfing day.

Two Different Entry Trigger Points

There are two different trigger points which create orders for entry purposes. You should be looking to buy long around the middle of the range of the bullish engulfing day during the next few days. In an effort to improve your entry price, once the market touches the middle of the range of the bullish engulfing trigger day you might use a very tight trailing new long buy stop for entry purposes. Sometimes the market price action will drop off significantly below the middle of the range of the trigger day and allow you to get into a new long position that is significantly lower i.e. closer to your protective sell stop, which means if you get stopped out you should have a smaller loss, which involves using a protective stop loss order just below the low of the trigger day. That buy stop is labeled "NLEBS" for "New Long Entry Buy Stop" in Figure 2.

There should be only one entry around the middle of the bullish engulfing day if the market trades at those levels. And you should be putting a new long buy stop market order just above the high

Strategy Snapshot

Strategy name:	Daily Data for Triggers and Short-term Data to Manage
Strategy type:	Indicator-based, reversal trading
Time horizon:	Daily data for the base signal, any shorter-term time frame to manage the resulting trade
Setup:	An overbought or oversold condition with a bearish engulfing or bullish engulfing day
Entry:	Market order, if the percentage retracement is reached Buy stop, if breakout occurs
Stop loss:	Trailing protective stop loss relatively close to entry price
Take profit:	Not used
Trailing stop:	Based on short-term data
Exit:	Trailing stop
Risk and Money Management:	Trailing stop is a discretionary amount but must be small, and there is a maximum of two entries or less.
Average number of signals:	About six signals per symbol, per year
Average hit rate/profit to loss/return per month:	About 50 per cent

F2) EUR/USD 15 Minute, Trailing Stop Entry



Here is an example of a new long entry using a tight trailing stop in magenta, and an exit using a tight trailing sell stop which is hit as the result of an extreme overbought condition short-term.

Source: www.tradestation.com

F3) EUR/USD 15 Minute, Higher High Entry



Here is an example of a new long entry on a higher high than high of the engulfing trigger day, and the exit using a tight trailing sell stop which is hit on a short-term dip.

Source: www.tradestation.com

of the bullish engulfing trigger day to prevent the market from running away from you (shown in Figure 3).

Sometimes the market will just run straight up and the new long buy stop market will get hit, and the middle of the range of the engulfing day will not be reached. Sometimes the market will retrace back into approximately the middle of the range of the engulfing day and then reverse to breakout bullish. So there is a possibility that you will end up with two positions. This is a way of "trapping" the market so it cannot get away. Continue to

keep in mind what your risks are given each position. If one of the trades, usually the breakout new long buy stop position represents a larger risk than you would like to take do not make the trade. Figure 2 shows a buy around the middle of the range of the previous bullish engulfing trigger day using a tight new long Entry Buy Stop (NLEBS). This Order is hit and immediately we create a relatively tight protective trailing sell stop just under our entry price. The protective sell stop follows the market, never moving down, but during a rally begins to tighten even more as short-term RSI rises.

Protective Stop Techniques

Once you have entered a new long position on either of the entry points, immediately place a protective sell stop loss order just below your entry price as previous mentioned. This protective trailing sell stop technique has room for your personal risk management tolerances, i.e. not to close and not too far away. Because this trading strategy is still in development you should think about tightening your protective stop if the risk factor is too large for your personal tolerances, or not making that trade. Using a trailing stop based on short-term

data has provided very good results. As you have seen so far the entry setup is based on daily data and an overbought or oversold condition. The trigger is based on a bullish or bearish engulfing daily price range. Now the protective stop is going to be based upon much shorter-term data. Depending upon your own personal trading style you may choose to use anything from 1 minute data on upwards for the use of your "trailing" stop calculations. The concept here is to start tightening your protective stop loss order relatively quickly.

Having used this technique for many years the underlying philosophy is to "Limit your losses, while letting your profits run." Some traders may not want to place a profit taking order. Consider moving your protective stop periodically to "lock" in less risk, and/or more profit over more favourable price movement.

Trade Exit Techniques

If the market moves in your favour relatively slowly you will want to move your stop relatively slowly. But if the market rallies very sharply in your favour your short-term oscillator is going to get overbought quickly. Over time you will notice that this very short-term overbought condition frequently leads to a downside bearish correction or at least some sideways price action.

What you may want to do is to tighten your trailing stop as the oscillator gets more and more overbought.

This technique will frequently get you out of your long position very close to short-term rally highs. If you are using extremely short-term data to move your trailing stop your trades will last a very short-term timeframe. If you are using, say, hourly data your trades may last several days.

Conclusions – Putting It All Together

So what you have is a trading strategy which generates a trading trigger based on daily data or even weekly data. But once the position is entered the exit technique is based upon much shorter-term data.

I would like to throw out another concept. Since this setup, trigger, and resulting entry and exit orders, attempt to pick market turning points, and good entries, you might consider trading an option on the underlying symbol instead of the symbol itself. This should provide more bang for your buck.

The automation of this trading strategy and the order placement technique with option trading capabilities is close to reality.



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Increase Your Probability of Making Higher Returns when Trading Forex

Trading GBP/USD Using Parabolic SAR (PSAR)

The “Parabolic SAR (stop & reverse) Indicator”, also referred to as the “PSAR”, is one of the most useful tools a Forex Trader should know but few take the time to understand how to implement it effectively. At some point almost every trader has looked at PSAR and become confused with its application. So it has been brushed aside in that never ending search for the “Traders Grail”: that one indicator that will give you consistently profitable trades. If you have been trading for any length of time you have probably come to realise that the Traders Grail does not exist! If you are new to trading, let me break it to you more directly. Stop looking for something that does not exist and learn to trade using “Decision Support Tools” like the PSAR. PSAR is not the only tool you can use and is arguably not the best. Understand this, in my opinion, there is no best. Finding the right tools, techniques and trading strategies is a very personal task. Just as there is no “one size fits all” pair of shoes, trousers or shirt that is comfortable and fits properly on everyone, there is no single trading tool, technique or strategy that will always work. The best we can do is become “Competent” and “Confident” in the way we trade and let the results speak for themselves.

Why Parabolic SAR?

Why do I like the Parabolic SAR? Because when applied in the manner I will explain, using PSAR can help guide you in implementing good trading discipline by answering most of the questions you have about placing a trade. Questions like:

- Is it time to place a trade?
- Should I go Long or Short?
- What should my Position Size be?
- Where should I place my protective Stop?
- When should I move my protective Stop?
- What is the correct entry price?
- What type of Entry Order should I use?
- When should I take Profit?

By now you might be wondering how PSAR can answer all these questions and not be the elusive Traders Grail you have been looking for. The answer to that question is the realisation that no one indicator or combination of indicators will ever give you 100 per cent accuracy. The best we can anticipate is that by sticking to defined trading rules we will have a better chance at high probability trades. As the “PSAR Trading Strategy” is explained please keep in mind it

is not a standalone system. It will first alert you of a potential trade and suggest ways to monitor and manage the trade once you have decided to enter. If you have other indicators that you have confidence in using, they should not be ignored. But do not clutter the chart with so many indicators that the confusion factor overwhelms what price movement is telling you.

The Trading Time Frame

Although the usual trading time horizon I use is 3 to 5 minutes for intra-day trading, the PSAR Trading Strategy also can be used for short-term swing trades. Remember, once you have decided on the time frame you will use to place and monitor and manage the trade, you should always check one lower time frame for confirmation and one higher time frame for support. So when using the 3 or 5 minute chart to make a trading decision first check the 1 minute chart to make sure price action is already moving in the anticipated direction. This is confirmation. Next check one time frame higher on the 15 minute chart to make sure price action is not in conflict with the anticipated direction. Additionally make sure that the hourly, 4 hour and daily support

and resistance levels will support your decision. Now you are ready to trade!

The Setup

A trade setup first requires a "Parabolic Flip" based on a start/incremental 0.01 and maximum 0.089 PSAR parameters setting. Why these settings work, I do not know nor do I really care. When you find something that works, stay with it. Not to say you stop looking for improvement but you do not want to fall into the trap of becoming a statistical analyst and not a trader. I have been there and done that and believe me it is not the way a trader makes money.

Entry and Stops

A Parabolic Flip occurs when the PSAR indicator that was showing below or above price action flips to above or below price action. This is your alert that a potential trade may become available. Provided you get consensus from the lower and higher time frames as noted above, then:

A. Sell if the period / candle / bar that caused the flip "up" closes below the last lower PSAR. Enter Short using a stop limit order with the last lower PSAR as the stop and between one to two times the spread below the stop as the limit price. Alternatively, you may use a market order to enter but only

initiate when the ticks are rising. You do not want to be chasing the price down.

B. Sell if the period / candle / bar that caused the flip "up" closes above the last lower PSAR. Enter Short using a limit order and determine the limit price by applying your per trade risk tolerance in pips down from the first new upper PSAR.

In either case, when shorting, the initial protective stop will always be the first upper PSAR plus the current spread.

C. Buy if the period / candle / bar that caused the flip "down" closes above the last upper PSAR.

Enter Long using a stop limit order with the last upper PSAR as the stop and between one to two times the spread above the stop as the limit price. Alternatively, you may use a market order to enter but only initiate when the ticks are falling. You do not want to be chasing the price up.

D. Buy if the period / candle / bar that caused the flip "down" closes below the last upper PSAR.

Enter Long using a limit order and determine the limit price by applying your per trade risk tolerance in pips up from the first new lower PSAR. In this case, when going long,



Bert Antonik

Mr Bert Antonik is a retired US Navy Commander and senior instructor for Online Trading Academy who brings over three decades of trading knowledge and experience to his classroom presentations. For more information, go to: <http://www.tradingacademy.com/about-us/instructors/Bert-Antonik.aspx>

F1) GBP/USD



5 minute chart with Parabolic SAR Indicator with details and example of news event impact on price action.

Source: www.tradestation.com

F2) Parabolic SAR Short Trade Analysis



5 minute chart with details explaining stops, entry and targets selection for a short trade.

Source: www.tradestation.com

your initial protective stop will always be the first lower PSAR minus the current spread.

Target

Now that we know how to use the PSAR to determine first the initial protective stop and second the order entry price we can use it to anticipate a target price. (Note that we specifically focused on protecting our accounts first.)

For both the Short and Long trade, first calculate the pip difference of the PSAR at the flip. Then take 80 per cent of this distance and subtract it from the last lower PSAR at the flip in the case of a short trade, or, add it to the last higher PSAR at the flip in the case of a long trade. You may want to take less than 80 per cent of the calculated pip difference, down to about 50 per cent, if you are an impatient trader / scalper as long as the risk-reward ratio is acceptable to you.

Managing the Trade

Next we want to monitor and manage the trade. Move the protective stop to the entry price, plus or minus the spread depending on whether it is a long or short trade, when either there is a period CLOSE at or beyond one half the pip difference used for the target price, or, a new PSAR passes beyond the last PSAR prior to the flip, whichever comes first. Once new PSAR's

pass beyond the last PSAR prior to the flip the new PSAR's are used to continuously adjust the stop and lock in profit!

Emergency Exit Rule! If at any time while in a trade a flip happens, close the position using a Market Order. This usually occurs during news events when you should probably not be trading anyway.

Additional Tips

Here are some additional tips to help keep you in a good trade and prevent you from entering low probability trades because in my opinion, it is better to miss a good trade than to get into a bad one.

You could also use an EMA(13) (Exponential Moving Average) and SMA(21) (Simple Moving Average) to help further confirm that you're trading with the trend. If these MA's (Moving Average) are pointing down and the PSAR is above the price action holding Short is further confirmed. The Long is confirmed when the MA's point up and the PSAR is below the price action.

If pip difference of the PSAR at the flip is less than ten to 15 pips it is probably not going to be a good trade. This usually happens during times when price is consolidating and whip saw movement is most prevalent. MA's, if used, will also be relatively flat.

This strategy can be used trading pairs other than GBP/USD and has good results in all major pairs and cross pairs.

The better time to trade this strategy, although not exclusively, is about one hour before the London session begins to about the close of the US session. Within this wide time span there will generally be one to two hour periods when good flips are more probable.

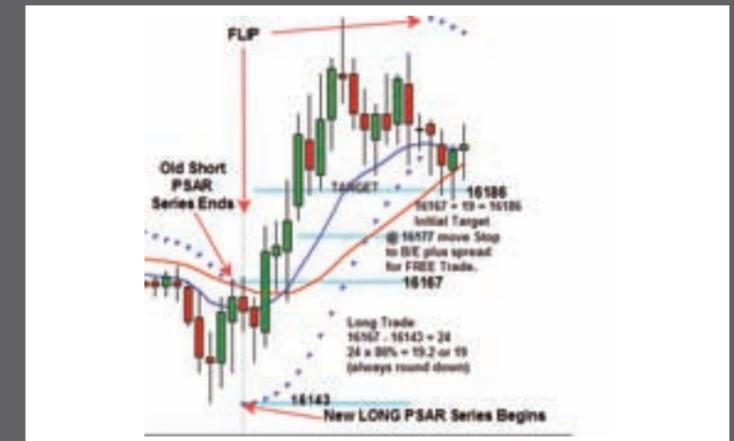
Use alerts whenever possible to tell you when a flip happens and anticipate flips at significant price support and resistance levels. Do not abandon good trading practices in favour of any single indicator trading strategy.

Conclusion

When applied correctly and used in a consistent manner based on objective rules, the PSAR trading strategy can help traders: time the trade, define risk, identify entry levels and prevent excessive draw downs. Using this strategy can help you enter, monitor and manage a trade so that your probability of success is elevated while protecting what you have becomes an ingrained habit. This can then significantly improve the slope of your accounts equity curve!



F3) Parabolic SAR Long Trade Analysis



5 minute chart with details explaining stops, entry and targets selection for a long trade.

Source: www.tradestation.com

Strategy Snapshot

Strategy name:	Trading the PSAR
Time horizon:	Intra-day 3 to 5 minute or short-term swing trades
Strategy type:	Trend following, indicator-based
Setup:	Requires Parabolic flip based on incremental 0.01 and maximum 0.089 PSAR parameters Adjusted for individual risk tolerance
Entry:	Dynamic based on PSAR and profit target
Stop loss:	Ten to 20+ PIPS monitor and manage or fixed target
Take profit:	Monitor & manage, apply automatic beyond target
Trailing stop:	Fixed on stop or discretionary or emergency
Exit:	No more than 2% of account
Risk and money management:	Limited to risk tolerance
Drawdown:	One to two per specified time period per day
Average number of signals:	



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There are many good reasons for being successful on the Forex markets. The ever better, faster and safer Internet has opened up the Forex market to new participants. In addition, the large number of FX online brokers has greatly reduced both the minimum deposits required and the spreads.



Paul Day

Mr Paul Day is executive at MARKET SECURITIES (a Kyte Group Company). Prior to that, he was deputy head of the research department at MIG Investments, a manager at HSBC, and subsequently a proprietary trader in the Strategic Trading Department. Mr Day specialises in technical analysis and is a member of the Society of Technical Analysts.

Wide Range of Information Available

Today, the independent trader has a large arsenal at his disposal to help him make his trading decisions: round-the-clock financial news, trading magazines, independent and institutional research as well as trading portals offering both black-box systems as well as sophisticated technical-analysis programs. However, such a plethora of information may be too much and in turn lead to trading paralysis or overly irrational trading behaviour. For this reason every trader must be in a position to separate the wheat from the chaff and use rules and patterns of behaviour in order to achieve sustained good profits.

In his two successful books “Fooled by Randomness” and “The Black Swan”, Nassim Nicolas Taleb explains how on the one hand, one’s own perception may distort happiness, and that, on the other hand, staunchly held convictions may be fallible. And, he argues, this is not just the case in trading but in every sphere of life.

Only Trust Yourself

Suppose I walk into a casino and while playing roulette, bet 10,000

Euros on No. 17. Number 17 goes on to win and I go home with 360,000 Euros. Obviously that is a fantastic profit but certainly does not yet mean that I am a brilliant player or a professor of game theory, both of whom are capable of giving really good advice.

The latest financial crisis that had a firm grip on Wall Street two years ago is a good example of how far analysts, traders, risk managers, and bankers can be wrong. I thought it was rather funny the way analysts who had failed to anticipate the crisis then defended themselves by claiming that it had been inevitable. And how they tried to calm everybody by assuring them that Messrs Paulson and Bernanke were the men best suited to getting the economy out of its current predicament. As late as the summer of 2007, those two had claimed that the crisis was under control and would not spill over to the rest of the world of finance or other areas.

My basic idea is that as a trader you are constantly bombarded with numerous tips and suggestions based on sterile charts and strategies. I personally

have a natural distrust of analysts and strategy salesmen who invariably only point out the winners. After all, in this game there are not just winners, as many traders have found out at their peril. Although I am not really a cynic by nature, I have grown accustomed to ignoring

“**You will be the one to lose your money, not the analysts.**”

any commentator who claims that the price of whatever product he is involved in would rise. In fact, I will make short shrift of any trader who is bullish on gold and works for www.buygoldwithoutend.uk or of any analyst of www.wemakemoneyifyoubuyshares.com who touts bank stocks as a hot-buy pick. Maybe those people have the right instinct but how do I know whether they are credible?

It is the same story with every analyst: If you follow their recommendations in your trading and get it wrong, you will be the one to lose your money, not the analysts. It is important to listen

to your inner voice and develop structured ideas and trading strategies suitable for the trading frequency intended. What is equally important is a strict risk management.

Neither can I offer you a magic bullet leading you to great wealth. But what I can (and would like

to) do is show you some simple rules that I have developed myself and by means of which I achieve sustainably good results in my trading. These rules may be applied

to the FX markets equally well and are suitable both for novice traders and experienced ones.

Important Basic Rules

1) Risk-reward ratio: Many traders enter positions with a scary risk-reward ratio, causing them to frequently risk more than they can actually win. In fact, many traders trade emotionally without thinking of a stop loss at all. Und that is exactly the beginning of the end.

I can only urge you to use a risk-reward ratio of at least 3:1. So if your profit target for a trade is not at least three times as much away from your entry

point as your stop loss, then leave the trade well alone. Just do not do the trade! If you have a risk-reward ratio of 3:1, then a hit rate of only 2.5 will be enough for long-term retention of your capital. The following is very important: Never move your stop further away from your entry level if the trend is moving against you! The market will not disappear if you get it wrong, but you will!

2) Leverage:

Many online FX platforms offer a leverage of 200:1, which means that you can move 200,000 Euros with a 1,000-Euro account and trade with that amount. Running such a high risk is completely senseless and irrational.

The GBP/JPY currency pair regularly moves between 1.5 and 2 per cent a day. Relative to your capital, a leverage of 200:1 would mean that you would get a margin call even after a movement of half a per cent against you. That is why I recommend a maximum leverage of 20:1.

3) Asset allocation:

Do not put all your eggs in one basket. Identify a percentage of your capital with whose loss you still feel comfortable. I myself would not risk more than five per

cent of my trading capital for any of my trades. Should your trading capital increase, your position size will also change accordingly. However, if your trading capital shrinks, you should also reduce your position size per trade.

The three quantities risk-reward ratio, leverage and asset allocation are the basis that I have chosen for my trading strategy and I am firmly

“Trading currency markets can be exciting and profitable.”

convinced they will help each trade to enjoy long-term success in the markets. Although I always keep a close eye on the long-term overall direction of the market, my trading mechanism is predominantly based on technical analysis. In the following, I will now introduce four important rules to you that may encourage some of you to try out something new.

Rules for Technical Analysis

1) Avoid the formation of lumps:

This item refers both to technical analysis and to position trading.

a) In technical analysis, for example oscillators like stochastic, RSI's, MACD etc,

there is always an initial price derivation. However, one of these should not be used to confirm the other. If such indicators are used for positive or negative divergences (that is the only reason why I use them), always choose only a single oscillator and adhere to it.

b) In a sample trade, let us assume that the yen will fall.

Bet five per cent of your trading capital on JPY short. Do not sell USD/JPY, EUR/JPY, GBP/JPY, AUD/JPY, and NZD/JPY. That would correspond to 25 per cent of your trading capital risked

– apparently the same trade. So your best bet would be to choose one currency pair and stick with it.

2) Extend the depth of your analysis:

If you trade on the basis of technical analysis, you should – besides your chosen time period for your charts – always keep an eye on at least one time frame further above and one time frame further below. If you trade mainly on daily charts, always watch hourly – or 240-minute – as well as weekly charts, too. If you trade on a shorter time frame, say on hourly charts, you should always

keep an eye on 15-minute and daily charts as well in order to see whether these may show a different picture.

3) Increase the extent of your analysis:

The markets are clearly linked to one another. When you trade the GBP/USD currency pair, it is also always important to keep track of the other currency pairs. A sharp upward movement in EUR/USD probably also has a bullish influence on GBP/USD, while when a carry trade is cancelled, the higher-profit currency is negatively influenced and pressure may be brought to bear on the Pound Sterling.

And do not just stop at the currencies. Interest rate spreads, stock markets, individual commodity prices, the CRB and Baltic Freight Index etc influence the performance of the currencies. Beyond that, large movements in other markets are often a sign of shifts in market participants' taste for risk, or of a large margin call which in turn may be a warning sign of potential reversals to occur in the trending markets.

4) Trending markets vs. markets without a trend

a) In trending markets I use short-term (three to five periods) moving averages of previous lows in order to hedge a rally.

In a downward movement, however, I use the previous highs to limit my losses. When the markets show a sustained trend, it is amazing how often this simple strategy profits from a movement.

b) In markets without trends your risk-reward ratio will improve if you enter long positions only near a bottom and short positions only near a high. That sounds as though I want to teach you new tricks, but during consolidations the markets usually look promising at the top and discouraging at the bottom. Your friendly analyst will probably tell you to do the exact opposite of what would be the best trade in terms of your risk. So try to divide a consolidation zone into five horizontal segments while watching out for short-term middle reversals at the extremes, and leave your risk in the central neutral zone.

Conclusion

Trading currency markets can be exciting and profitable. Constant and effective rules and methods may well help you in your life as a trader and in my opinion are the fundamental steps to be taken in becoming a successful trader.



From Intelligence Assessment to Technical Analysis

Spearman Indicator – Part 1

Discovering and effectively following a trend is the paramount concept of market trading. A long and prosperous career as a trader depends on the ability to be on the right side of a trend. However, this is easier said than done; the envelope is pushed further with the continual emergence of hundreds and thousands of indicators born from the need to assess the trend, understand its strength, and successfully time the trades. Trends develop between peaks and valleys for the timeframe chosen by the trader on investor. Oscillators are good tools to indicate points of exhaustion, with a caveat: these indicators may stay at extreme levels while prices can go further up or down. The use of the Spearman Indicator might mitigate some of these risks, while also helping traders stay on the right side of a trend.



Dan Valcu

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Background

The field of statistics offers a great source of information related to data analysis. The core of the Spearman indicator, the subject of this article, has its roots in the beginning of the 20th century. The British psychologist and mathematician Charles E. Spearman (1863-1945) studied theories of intelligence and mental test theory. During his research, he developed a statistical tool to measure the degree of association between two variables (sets of data): the Spearman Rank Correlation Coefficient.

This tool computes the degree of correlation between the ranks of the elements in two data groups of equal size. It may

sound like an indicator only for those who are very analytically focused, but traders at any level can apply it once it is understood within the context of some practical applications.

Spearman's Rank Correlation Coefficient

Example 1 –

Perfect Upward Trend

Let us consider a set of data elements in this sequence $S = \{11, 22, 33, 44, 55, 66, 77, 88, 99, 110\}$. The physical position of each element inside the list becomes the first set of ranks $R1 = \{1, 2, 3, 4, 5, 6, 7, 8, 9, 10\}$. Now, each element is assigned a rank inside the list S : the lowest (11) is ranked as number 1, the next lowest (22) gets a 2, until we

T1) Perfect Upward Trend in DAX

Date	Close	Data original sequence	Sequence of sorted closings	Difference R1-R2	R3 ²
		R1	R2	R3	R4
31.01.2011	7077,48	1	1	0	0
01.02.2011	7184,27	2	3	-1	1
02.02.2011	7183,67	3	2	1	1
03.02.2011	7193,68	4	4	0	0
04.02.2011	7216,21	5	5	0	0
07.02.2011	7283,62	6	6	0	0
08.02.2011	7323,24	7	8	-1	1
09.02.2011	7320,90	8	7	1	1
10.02.2011	7340,28	9	9	0	0
11.02.2011	7371,20	10	10	0	0
					4

DAX had a high positive Spearman rank correlation coefficient (strong uptrend) during 31/1/2011 and 2/11/2011. $\rho = 0,976$

get to the end of the set where the highest (110) is ranked 10. The new list R2 = {1, 2, 3, 4, 5, 6, 7, 8, 9, 10} has ten elements and each one is ranked between 1 and 10 based on its value in S1 data set. We should observe that all elements in S1 are already sorted in ascending order (a perfect uptrend if we approach S1 as a set containing closing prices).

Example 2 – Perfect Downward Trend

Same data elements are used as for Example 1, but this time in the reverse order S = {110, 99, 88, 77, 66, 55, 44, 33, 22, 11}. R1 remains the same because of the physical sequence of the elements R1 = {1, 2, 3, 4, 5, 6, 7, 8, 9, 10}. Following the same ranking procedure as previously explained, the elements in the list S are given the following ranks: R2 = {10, 9, 8, 7, 6, 5, 4, 3, 2, 1}. This could translate as a perfect downtrend during a period of ten bars.

Example 3 – Consolidation Period

Finally, data elements are mixed as S = {55, 99, 33, 11, 88, 44, 110, 88, 22, 66}. R1 stays unchanged R1 = {1, 2, 3, 4, 5, 6, 7, 8, 9, 10} and the rank assignment process leads to R2 = {5, 9, 3, 1, 8, 4, 10, 8, 2, 6}. The analogy we can make here is one

of a consolidation period when prices are confusing.

The next step is to process R1 and R2 for each scenario. We subtract list R2 from R1 with results in R3. Each element in R3 is then raised to the power of 2. The new list is R4. The sum of all elements in R4 is used in the following formula to compute Spearman's rank correlation coefficient ρ (rho):

$$\rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}$$

Where:

n = number of elements in each data set (both groups must have equal sizes)

di = difference between ranks xi - yi of corresponding data elements values Xi and Yi

For our examples, n = 10 and $\sum d_i^2$ is the sum of all elements in R4. A sequence where each element is greater than the previous one shows a strong uptrend with ρ = 1. In a strong descending sequence, with each element less than the previous one, ρ = -1. A confusing sequence has ρ values around zero.

Table 1, Table 2 and Table 3 summarises the process to obtain Spearman's coefficient for each scenario described above: ascending, descending,

and consolidation. Data elements used are DAX index closing prices for certain intervals.

Conclusion

In this first part of the series dedicated to the Spearman indicator, we built the foundation and discussed about the Spearman Rank Correlation Coefficient (ρ). This coefficient, defined by formula, measures the degree of correlation between the ranks of two groups of equal size.

A coefficient equal to one describes a very strong positive correlation of ranks (a series of sequentially higher closing prices in the markets). The opposite situation, ρ = -1 is associated with a strong negative correlation of ranks (a series of sequentially lower closing prices). Small positive or negative values above and below zero suggest a lack of correlation between the ranks of the two data sets (a trendless market). The rank correlation coefficient described in this article is used to build a new technical analysis indicator: The Spearman indicator, an oscillator that helps identify tops and bottoms in the markets.

In part 2, we will show how the Spearman indicator is used in practice.



T2) Perfect Downward Trend in DAX

Date	Close	Data original sequence	Sequence of sorted closings	Difference R1-R2	R3 ²
		R1	R2	R3	R4
01.10.2008	5806,33	1	10	-9	81
02.10.2008	5660,63	2	8	-6	36
03.10.2008	5797,03	3	9	-6	36
06.10.2008	5387,01	4	7	-3	9
07.10.2008	5326,63	5	6	-1	1
08.10.2008	5013,62	6	3	3	9
09.10.2008	4887,00	7	2	5	25
10.10.2008	4544,31	8	1	7	49
13.10.2008	5062,45	9	4	5	25
14.10.2008	5199,19	10	5	5	25
					296

DAX had a strong negative Spearman rank correlation coefficient (strong downtrend) during October 2008. ρ = -0,794

T3) Consolidation Period in DAX

Date	Close	Data original sequence	Sequence of sorted closings	Difference R1-R2	R3 ²
		R1	R2	R3	R4
14.11.2008	4710,24	1	10	-9	81
17.11.2008	4557,27	2	5	-3	9
18.11.2008	4579,47	3	8	-5	25
19.11.2008	4354,09	4	3	1	1
20.11.2008	4220,20	5	2	3	9
21.11.2008	4127,41	6	1	5	25
24.11.2008	4554,33	7	4	3	9
25.11.2008	4560,42	8	6	2	4
26.11.2008	4560,50	9	7	2	4
27.11.2008	4665,27	10	9	1	1
					168

DAX was confusing during 14/11/2008 and 27/11/2008. As a result, Spearman rank correlation coefficient was negative although with only a negligible value. ρ = -0,018



Travis McKenzie

Lifestyle Trading

For many years Travis combined trading with his career as a lawyer until he finally tired of the corporate world in 2005. At this time Travis established his previously part time pursuit of trading as his full time endeavour. The difference being, Travis spent as little time trading as a full time trader as he did as a part-timer – he now had free time on his hands to pursue other ventures, namely lifestyle. Travis is a key member of the Trade With Precision trading team and Head of Online Trading, being one of their most highly sought after speakers and trading educators. Experienced in both intra-day and Swing Trading, Travis largely focuses on forex & stock markets where he applies his precision trading methodology daily. Travis runs the Precision Lifestyle Trader course where he teaches a trading strategy for people who want time to do more than stare at a trading screen – be that having a day job, running a business or laying on the beach. He is also a headline speaker for many corporations around the world.

TRADERS': When did you first get in touch with the stock market and trading?

Travis McKenzie: I was about 18 years old and had just started my law degree at university. I was in the library one day and started reading a magazine which listed the richest 500 people in Australia. I was shocked to find that nearly all of them had attained their wealth through either business, property or the stock market and there were no

lawyers on the list who had made their millions solely from practising law. I was always told to study hard, get a good job and you will become wealthy but the evidence in front of me contradicted that. It was that magazine that started my passion for stock markets, property and business.

TRADERS': Do you remember your first trade?

Travis McKenzie: I do not remember my first trade but I

started my trading career by trading Australian stock options. This was pre 2000 so CFDs and Forex were not available to retail traders. Options were the most popular way to trade stocks on margin back then.

TRADERS': What do you think was the most important lesson on the way to becoming a professional?

Travis McKenzie: During my trading career there have been

three very clear 'aha' moments which really changed the way I traded which were instrumental in transforming me into a professional trader.

The first 'aha' moment occurred when I asked myself what was a realistic return I wanted to achieve on my trading account each year. I thought that if I could make anywhere between 50 per cent to 100 per cent per year then I would be extremely happy with those returns especially if I could do that year on year for the rest of my trading career. I then broke that down into bite size chunks and I realised that if I risked only one per cent of my account on any one trade and aimed to make at least one per cent profit per trade (i.e. a reward to risk of at least 1:1 per trade) then I would only need one profitable trade per week in order to make approximately 60 per cent per annum (compounded weekly). This realisation instantly took the pressure off. Instead of trying to day trade and place lots of trades each day I realised that I just needed to become more selective about which trades I took and focus on finding that one or two perfect trades each week.

This then lead me to have my second 'aha' moment which was when I realised that I had been misled by the so called "experts" in the books and

seminars I had been reading and attending into believing that there was only one style and market that I should be trading if I wanted to make consistent profits. Upon realising that I only needed one or two good profitable trades each week this made me question why I was sitting in front of my screens day trading for ten hours a day. At this point I assessed what lifestyle I wanted trading to give me and for how long each day I wanted to trade and at what times. I then let those factors decide for me what markets I should be trading. I stopped day trading and instead started to swing trade stocks off daily charts, swing trade commodities off 60 minute charts and above and day trade and swing trade forex off 15 minute charts and above. This change allowed me to dramatically reduce the number of hours I was spending in front of the screen each day and allowed me to scan across a large number of markets and timeframes in order to find the very best trading opportunities. Quality of the trade, not quantity became my new focus.

The third "aha" moment occurred when I realised that keeping a spreadsheet of my past trades was useless in assisting me to become a better trader. It was cumbersome when trying to review my trades at the end of the week, month or year as it meant

I had to trawl through my charts looking for the exact location where I got into a trade and then I could see the result which always affected how I would now assess the trade during the review. As it was a pain, I usually ended up not doing any sort of meaningful review of my past trades.

Someone then suggested that I take live screenshots of my charts at the exact time I placed an entry order. The two biggest benefits of this was that it meant when I went to review my trades I no longer had to trawl through my charts trying to find the exact location where I got into the trade and it also allowed me to look at exactly the same set up I was looking at when I took the trade. This allowed me during my reviews to see if I flawlessly executed my trade plan regardless of what the trade's outcome was.

One of the keys to improving your trading is that you must flawlessly execute your trading plan. Taking screenshots will allow you to do that. Stop focusing on whether the trade was a winner or loser and focus on flawless execution instead.

TRADERS': Have you ever had exceptionally large losses – or profits – at single trades?

Travis McKenzie: I have never had an exceptionally large loss on any one trade because from my very first trade I have always

F1) AUD/USD 60 Minute – Entry



A near perfect example of how the PLT strategy can get you position at the very start of a new trend with a low risk, high probability entry.

Source: www.tradestation.com

F2) AUD/USD 60 Minute – Exit



This chart shows the benefit of locating trends as they begin and riding them for as long as possible. Half of the position was closed out at a 1:1 reward to risk and the second half's stop was trailed to the high of the new swing highs.

Source: www.tradestation.com

used money management and stop losses. I occasionally may have a stock trade gap over my stop but this is extremely rare because I am very careful not to trade stocks which have a history of gapping and I never hold a position through company announcements.

TRADERS': Please tell us about your views and concepts of technical and/or fundamental analysis.

Travis McKenzie: I would have to say that the biggest difference between my style of trading and the mainstream style is that I do not just focus on one market. Most traders I talk to will say "I am a forex trader" or "I only trade the Russell intra-day". I use to focus purely on one or two markets but as part of one of my "aha" moments, I realised that the best method for me to be able to find my one or two perfect trades each week would be to scan across a large number of markets and timeframes. I only have five set ups that I am looking for, and nearly all of them are applicable to any market and any timeframe. So regardless if I am looking at a forex, commodity or stock chart I will trade them all the same using the same set ups.

As I am scanning so many markets I need to be very strict on the criteria I am applying to my set ups, so I have checklists of all

the factors I am looking for before I will take a set up. I break these factors into essential factors and bonus factors. Unless all the essential factors are met I will not even consider taking the trade. After completing a scan across all the markets I watch I might come up with five set ups that meet all my essential factors. Out of these five I will only want to enter the best one or two set ups. So in order to establish which two are the best I will apply my bonus factors. I have a scoring system where each essential factor is worth one point and each bonus factor is worth 0.25 points. The one or two set ups with the highest scores are the set ups I will enter if they trigger.

People are often amazed when I say that I will scan through approximately 500 stock charts by eye without the use of any automatic scanning tools in less than 20 minutes. But if you are strict on what essential factors must be present before you would even consider entering a set up then this will dramatically decrease your scanning time.

TRADERS': What is your edge in trading?

Travis McKenzie: I am not trying to pick tops or bottoms. 95 per cent of my trades are taken in the direction of the trend, so I am happy to find a trend and take a small chunk out of it. This is why

I focus so much on scanning a large number of markets and timeframes as this gives me the best opportunities to trade those markets that are trending beautifully right now.

In my opinion one of the biggest mistakes traders make is just focusing on one market and continuing to trade that market when its conditions are no longer favourable. Whilst their market of choice is trending they will often see good profits, only to give all those profits and more back when that market enters into a period of consolidation or erratic volatility. The question I always pose to traders in this situation is "why not just focus on markets that are trending right now and ignore the rest? Stack the probabilities in your favour by only trading trending markets".

Whilst that might seem like a small edge, I have found that it is sometimes the most obvious things that traders ignore and that is why they struggle to make consistent profits.

TRADERS': Please could you describe a few of your trading strategies/setups?

Travis McKenzie: Let me introduce you to what I call my Precision Lifestyle Trade (PLT). The set up was specifically designed so it could be traded across any market and any timeframe. It has eight essential

F3) EUR/AUD Weekly – Entry



Weekly chart entries do not occur all that regularly but when they do they are a perfect opportunity for a trader to enter a longer term swing position which could last weeks to months. The perfect set and forget opportunity.

Source: www.tradestation.com

F4) EUR/AUD Weekly – Exit



The trade was broken into two parts with the first half being closed out for a 1:1 reward to risk and the second half's stop was trailed down to the new lower swing high where it was finally stopped out nine weeks after entry.

Source: www.tradestation.com

factors and another twelve bonus factors. I am happy to discuss a few of those factors for you. This strategy can be traded long or short, I will just discuss the set up on the long side. You will notice in the screenshots I have provided that I have cut off the axis so you do not know what timeframe or market I am taking the trade on. I do this on purpose whenever I teach traders this strategy because I am trying to reinforce the point that a chart is a chart and it does not matter what market or what timeframe it is as I will still trade the strategy the same. I have provided the live screenshot I took as I placed my entry orders.

The first essential factor which I apply to all my strategies and which assists in dramatically reducing scanning time is to only trade markets that are currently showing what I term optimal chart structure. What I mean by this is that I want to find a smooth flowing chart that is trending or ideally just starting a trend. I do not want charts that have a history of gapping, erratic price action, long tails on the candles or no trend. Regardless if a chart meets all of my other remaining seven essential factors if optimal chart structure is missing then I move straight onto the next chart.

The second essential factor is that price must be trending on your set up chart and at least the

next higher timeframe. I establish trend by using detailed price action analysis. You do not need fancy indicators to tell you if a chart is trending or not, all you need to know is contained in the price action itself.

The third essential factor is that price must have pulled back to what I refer to as the buy zone. This is based on a combination of price action analysis and moving averages.

The fourth essential factor is that you need a small candle to form in the direction of the trend, i.e. green candle for a long.

In addition to these four factors I have another four essential factors that must be present before I would even consider taking the set up and another twelve bonus factors which will tell me which of those trades that passed the essential factors are the very best trading opportunities.

My entry criteria is very simple. I am looking for the next candle to break the high of the set up candle. I will place a buy stop one tick above the high of the set up candle with my stop one tick below the low of the set up candle. In order to free up my time I am setting my orders up and then walking away from my screen. I never enter this set up on a market order.

I have no hard and fast rules for my profit targets as I typically will

allow the chart I am trading off to indicate to me where sensible profit targets might be. This could mean I scale out half of my position at a reward to risk of 1:1 and then trail my stop below the most recent swing low for the remaining half. Or I might go for a much bigger run on my first half before scaling out. It is important that you let the charts tell you where to put your profit targets and not try to force your opinion or rules upon the market.

As my stops are reasonably tight for this set up, it means the win to loss ratio is reduced. But I find this is more than compensated for by a very high reward to risk ratio. So it is important with a strategy such as this that you let your winners run as far as possible.

TRADERS': Do you also scale into positions?

Travis McKenzie: No, I do not scale into positions.

TRADERS': Please could you briefly outline your risk and money management?

Travis McKenzie: I absolutely will never risk more than one per cent of my trading account (often it is actually much smaller than one per cent) on any one trade and I will never have more than three per cent of my account exposed to one asset class at one time (i.e.

F5) GBP/USD 15 Minute – Entry



Personally, I prefer the PLT strategy on 60 minute charts and above, but this is a classic example how it can still be used to trade the lower timeframes.

Source: www.tradestation.com

F6) GBP/USD 15 Minute – Exit



Once again the key to the strategy is to lock in a breakeven trade by scaling off half at 1:1 and then trailing the second half's stop for as long as possible with the hope of catching a big trend.

Source: www.tradestation.com

no more than three equity trades open or no more than three Forex trades open).

I am a big believer that you must stack your reward to risk in your favour so as a minimum I aim to make at least a reward to risk of 1:1 but typically I aim to make much more than this. If you can do that consistently it will mean that even with a win to loss ratio of only 50 per cent you will still make money over a large sample size of trades.

TRADERS': What kind of orders and stops do you use?

Travis McKenzie: 99.9 per cent of my orders to enter trades are either stop or limit orders. I very rarely use a market order to enter a trade. As I have discussed I have very strict criteria for entering a trade and this allows me to identify trades in advance, put my orders on and then walk away from my screen.

In the past I found that when I was using market orders it was because I had actually missed the ideal time to enter the trade and I was now chasing the price as I was scared of missing out on a trade. If I now identify a trade but it has already past my correct entry level I am more than happy

to let it go because I know there are plenty more great set ups just around the corner.

TRADERS': What is the course of events on one of your typical trading days?

Travis McKenzie: I typically scan

“In my opinion trading psychology is all about your focus.”

the forex and commodity markets about five times a day. I try to evenly space my scans out over the time from when I wake up in the morning until I go to bed at night. Each scan only takes me about 15 to 30 minutes so this is not a huge drain on my time.

When trading stocks I always ensure I am at my screens for the first 15 minutes of the session. The reason being I do not like to place orders outside of market hours just in case the stock I am thinking of trading gaps the next day on open. If you have your orders in the market you may be entered into the trade at a much worse price than you wanted. I am very strict on my money management rules so I have to be 100% sure that I am getting in at the price I want. But once

the markets have opened and I am happy that the stocks I am watching have not gapped I will then put my orders on and walk away and I typically will not look at them again until the next day. The Australian and UK stock markets are my two preferred markets as they fit in well with my lifestyle and when I wish to trade.

My style of trading leaves me with plenty of spare time to spend on my other business interests such as Trade With Precision where I pass on my trading expertise to other traders.

TRADERS': What has been the hardest part in your trading?

Travis McKenzie: It is definitely taking screenshots of every trade I take and then reviewing those screenshots in conjunction with my trading rules at the end of each week. It is the one task that has had the most positive effect on improving my trading but it has also been the thing that has taken the most discipline. The reason being that it is typically the last thing you feel like doing on the weekend or after a hard day but it is so vitally important to any trader's success. I honestly believe that if any trader incorporated this one task into their trading routine they would

see dramatic improvements. It is nearly impossible to improve unless you can test and measure what you have been doing in the past.

TRADERS': Any comment on trading psychology?

Travis McKenzie: In my opinion trading psychology is all about your focus. Traders usually are focusing on the wrong aspects of trading and this is why their psychology is all messed up. For example at the end of each week I do not look at my profit and loss and decide from that whether or not I have had a good trading week. My sole focus is on whether I flawlessly executed my trading plan for that week. Without live screenshots of your trades and strict checklists you are unable to do this and consequently most traders use their profit or loss for the week to guide them on how well they traded that week, which in my opinion is a very bad guide. Focus purely on flawlessly executing your trading plan and most of your psychological issues with trading will disappear.

TRADERS': What do you think are the best ideas for new traders to start with?

Travis McKenzie: It took me many years of losses before I had my three “aha” moments discussed above. Whenever I am working with a new trader I spend a lot of

time with them discussing those three points in detail and making sure they fully comprehend the importance of them. So I would encourage all traders who are not at the level they would like to be with their trading to sit down and spend a good day really thinking about those points. I know I would have shaved many years off my journey to becoming a professional trader if someone had explained those three points to me at the start of my trading career.

TRADERS': How do you enjoy your free time?

Travis McKenzie: I typically will take up to four weeks a year of holidays. When I am on holidays I like to close all of my open positions so I can totally switch off from the markets. My favourite holiday is either spending time in the mountains snowboarding or laying by the beach reading a book.

TRADERS': Will you ever stop trading?

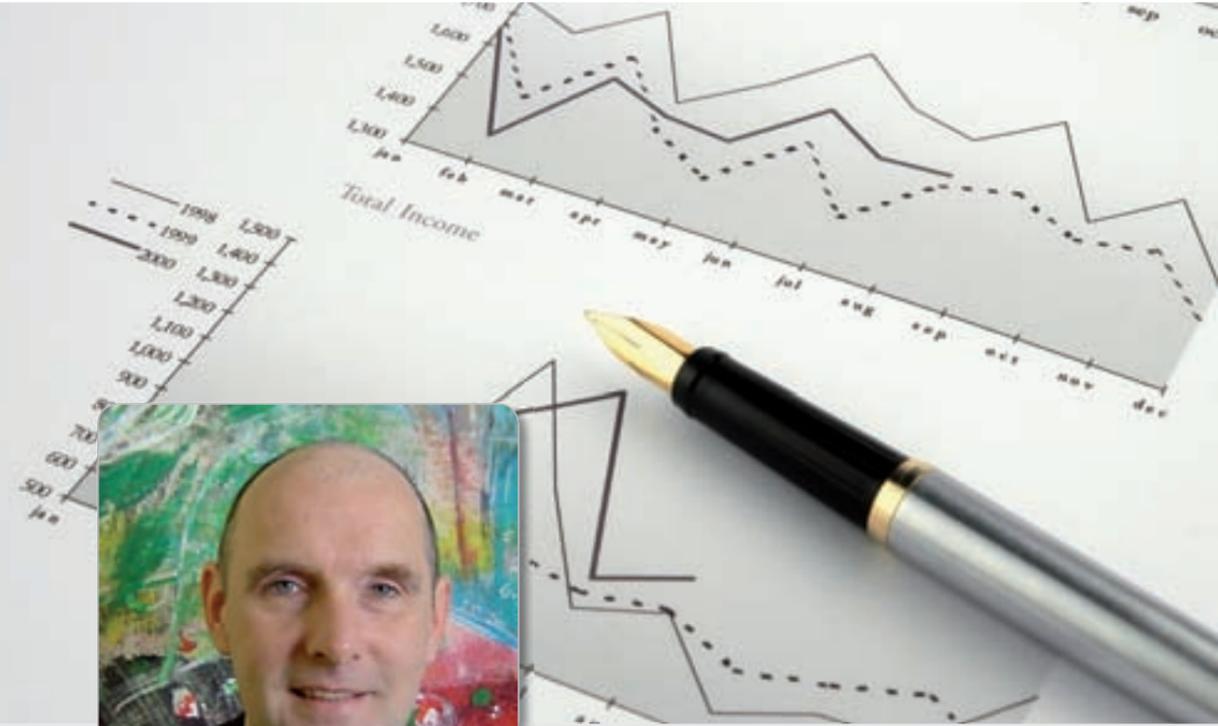
Travis McKenzie: Never. I can see myself being in my 80s and still trading the markets. It has been a lifelong passion for me and I love the challenge it provides me.

This interview was conducted by Marko Graenitz.



SEMINARS

Date	Seminar	Firm	Location	Website
26.03.2011	Stock Market Training	WIN Investing	Heathrow	www.wininvesting.co.uk
26.03.2011	CFD Power Tools with David Land	CMC Markets	Melbourne	www.cmcmarkets.com.au
26.03.2011	Stock Market Seminar	Knowledge To Action Ltd.	London Victoria	www.knowledgetoaction.co.uk
26.03.2011	CFD Trading with an Edge with Ric Spooner	CMC Markets	Brisbane	www.cmcmarkets.com.au
26.03.2011	Trading with a day job – International Coach Travis McKenzie	CMC Markets	Auckland	www.cmcmarkets.co.uk
27.03.2011	Stock Market Training	WIN Investing	Gatwick	www.wininvesting.co.uk
27.03.2011	Stock Market Seminar	Knowledge To Action Ltd.	Surrey Richmond	www.knowledgetoaction.co.uk
29.03.2011	Discover the Secrets to Winning Trades	eSignal	UK	www.esignallearning.com
29.03.2011	Stock Market Training	WIN Investing	Swindon	www.wininvesting.co.uk
29.03.2011	Interactive Workshop – Introduction to spread betting	Finspreads	London	www.finspreads.com
30.03.2011	Discover the Secrets to Winning Trades	eSignal	Australia	www.esignallearning.com
30.03.2011	Stock Market Training	WIN Investing	Bristol	www.wininvesting.co.uk
30.03.2011	Technical Analysis for beginners with Sandy Jadeja	Finspreads	London	www.finsprads.com
31.03.2011	Workshop Day Trading and Swing Trading	Trader Tom	London	www.whichwaytoday.com
31.03.2011	Discover the Secrets to Winning Trades	eSignal	US	www.esignallearning.com
02.04.2011	The Cheshire Seminar	Gann Management Limited	Cheshire	www.gann.co.uk
06.04.2011	Stock Market Training	WIN Investing	Birmingham	www.wininvesting.co.uk
06.04.2011	Learn to trade CFDs and FX with CMC Markets	CMC Markets	Auckland	www.cmcmarkets.co.uk
07.04.2011	Stock Market Training	WIN Investing	Coventry	www.wininvesting.co.uk
09.04.2011	Stock Market Seminar	Knowledge To Action Ltd.	Surrey Hampton Court	www.knowledgetoaction.com
14.04.2011	Stock Market Training	WIN Investing	Peterborough	www.wininvesting.co.uk
16.04.2011	Stock Market Training	WIN Investing	Birmingham	www.wininvesting.co.uk
20.04.2011	Stock Market Training	WIN Investing	Bournemouth	www.wininvesting.co.uk
05.05.2011	WhichWayToday LIVE Trading Workshop	WhichWayToday	London	www.whichwaytoday.com
05.05.2011	Stock Market Training	WIN Investing	Portsmouth	www.wininvesting.co.uk
09.05.2011	Stock Market Training	WIN Investing	Leeds	www.wininvesting.co.uk
10.05.2011	Stock Market Training	WIN Investing	York	www.wininvesting.co.uk



Are You a „Stalker“ too?

Christian Lukas

Mr Christian Lukas holds a Master's degree in Engineering and has been studying the stock market since 1998, specialising in volume-based trading. The centrepiece of volume analysis is the divergence between price flow and volume flow. Consequently, the trading systems he himself developed are based primarily on divergences. Contact: info@volumen-analyse.de

For years, I was one of the stalkers – or more accurately, the trading stalkers. Day after day, hour after hour, I would sit in front of my screen tracking the DAX. Working meant searching, watching, and trading, and there were times when I loved the DAX. Actually, that is what the conventional stalker does, too. He tracks a person, watches her, and sometimes even loves her. The most important characteristic of a stalker is that he tries to force an unwanted communication or closeness on a person. That is exactly what it was like for

me with the DAX, too. I wanted it to talk to me non-stop – to tell me which direction it would go and ideally, to be forced to communicate. Incidentally, 85 per cent of stalkers are men. And are not the vast majority of traders male as well?

Stalking is not yet an officially recognised medical condition, though most stalkers are “a little crazy”. Pathological behavioural patterns suggest that a trader engaged in permanent intraday trading is liable to have mental problems at some point down the road. Thus, sitting around

for hours on end actually is nothing but professional boredom – followed by excessive activity with rocket-like market movements,

during which one is much too slow to react properly. I maintain that market extremes are something that the human mind cannot put up with.

A largely underestimated core problem is trader's ennui. After all, people's gut feeling is that just sitting around while watching is unproductive work. Neither small children nor adults are capable of sitting still for hours on end. Our brain requires constant activity and seeks stimulants. Even in our sleep while muscles are resting, we are dreaming and our brain

consumes as much energy as a muscle. When markets stagnate for days or even weeks, there won't be any stimulus. The need for at least the occasional stimulant is shown by trials during which people were prevented from dreaming permanently. Dreamlessness for a longer period of time generates pathological tendencies during the thought processes of the awake state.

The intensity of the stimulant leads us to trading. There is practically no trader that does not require an extra stimulus. That is the structure of a trader's character, resembling that of a gambler looking for frequent and strong stimuli – more so than the average human being. That is why traders and poker players share so many character traits. And that stimulus can be increased at will through the size of your capital employment. If traders sit at their computers too long without the market moving, they will create their own stimulus. They will enter the market by broadening or relaxing their personal trading rules, which causes them to act outside of their typical risk-reward ratio. You do not have to think long about this kind of trading to understand that this tends to be more on the destructive side and rarely yields positive results over the long run.

Boredom will result in actions that serve to stimulate your mind but not your account.

Those who engage in intraday trading ought to consider whether the next trade will offer a suitable risk-reward ratio or whether they just need a little entertainment for the moment. It is only a small transition from a professional trader to a gambler. Most traders are not even aware of the circumstances surrounding the creeping transition, which means that the issue is one of avoidance. Basically, each trader should find his own personal solution.

My personal solution is that I decided a long time ago not to intensively track any markets intraday for hours. Obviously, that does not mean that intraday trades are taboo. It is enough to concentrate on one to two trades a day. Ideal examples are gap trading or trading at predefined times of day. For example, let us take trading in the DAX future or in the EURO STOXX 50 future. Those who only concentrate on trading between 9 am and 12 noon should find sufficient opportunities to enable them to realise continuous profits from the markets. This involves full concentration for just three trading hours, and you will be much less emotionally drained.



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