

WWW TRADING SYSTEM eZine

Issue - 3

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1. FOREX: Types of Currency Exchange Rates.

Definition.

Currency exchange rate – is the price of one monetary unit expressed in the monetary units of another country.

Spot rate.

Currency price of one country expressed in the monetary units of another country on the moment of striking a certain bargain, under the condition of exchanging currencies by counterpart banks on the second working day since the day of striking the bargain. Spot rate reflects how much one national currency is rated on the moment of striking a bargain outside this country.

Cross rate.

Correlation between two currencies calculated on the basis of another (third one) currency. Made on the basis of USD are often used in world market transactions. This happens due to the fact that USD is not only a basic reserve currency but also a basic currency in most of the currency transactions.

Currency quotations.

Indirect quotations

In most of the countries exchange rates of foreign currencies are expressed in the national monetary units. This is called

indirect quotations system. For example, in Japan one USD will be equal to a certain sum in Japanese yens, whereas in New York one Japanese yen will be equal to a certain sum in USD. Indirect quotation shows how many monetary units of one national currency are equal to one monetary unit of the reserve currency (usually it is USD). The following quotation: USD/JPY - 120.56 means that one USD is equal to 120.56 Japanese yens.

Direct quotations

Great Britain is one of that few countries using *direct quotations* system. *Direct quotation* shows how many monetary units of the reserve currency (usually it is USD) are equal to one national monetary unit. The quotation: GBP/USD - 1.5855 means that one British pound is equal to 1.5855 USD.

Usually the currency quotation looks the following way:

$$\text{USD/CHF} = 1.3450/1.3460$$

This means that traders can buy US dollars for Swiss francs at the rate of 1.3460 and sell US dollars for Swiss francs at the rate of 1.3450.

BID - is the price, given by the purchaser (the price at which traders can sell).

ASK – is the price, given by the seller (the price at which traders can buy).

In the example provided above **BID = 1.3450, ASK = 1.3460**

Pip is the minimum price change, which is possible. For instance, the price change from 1.3450 to 1.3455 is a “5 pips” change.

Spread is the difference between buying and selling prices: $1.3460 - 1.3450 = 10$ (pips). The usual bank spread is from 3 to 10 pips.

2. WWW TRADING SYSTEM COMMENTS:

Time to Close the Position.

“Close the position in case:

- a) the closing price showed crossing or equality of EMA5 and EMA13;**
- b) the prices reached the level of your stop order.”**

“Place your stop-orders at 50 pip level from EMA13, binding this level to EMA13 movements; of course, if the market trend goes as it was expected. This tactics will give you the possibility to avoid non-predictable market movements.”

(WWW TRADING SYSTEM)

I would like to remind that I advise to open the position when EMA5 and EMA13 cross. The same logics can used for closing the position: the mentioned indicators also have to cross, but in an inverse order. All you do is following the market; this is when EMA5 and EMA13 will help you.

More of a problem is protect oneself unsuspected market movements. Sometimes a trader can define the direction of market movement, open the position, place stop-loss orders – everything is done perfectly. And then an outburst of one’s emotions or interests turned into complete change of currency trend. I used to place stop losses on 30 pips from EMA13 (30 pips is average deviation from EMA13). But the results were not satisfactory: unexpected trend changes resulted in negative balances. Lucky I was to use demo accounts at that time.

Now I place stop losses on 50 pips from EMA13; no monthly negative balances at all! By the way, the number 50 is not a simple guess. The formula was $50 = 30 \times 1.6$ (here we meet again the Fibonacci sequence rule and the golden section rule).

Only when I was sure about the system, I started trading on real accounts.

Please note that you should update your stop losses every hour (I am working with one hour charts) in accordance with market movements. Never place stop-loss orders if the market makes unexpected movements.

3. March 2003 Trading Results of WWW TRADING SYSTEM.

Trade period: March 2003.

Contract size (lot): \$100,000.

Initial balance: \$18,603.8.

Final balance: \$40,031.62.

Profit: \$21,427.82 (115.18%).

Average profit for 1 lot: 109.4 pips.

Average loss for 1 lot: 26.71 pips.

Profitable trades: 10 (41.67%).

Unprofitable trades: 14 (58.33%).

Trade Table

Open	Price	Date	Close	Price	Date	Commentaries	Lots	Balance
Buy	1.357	03.03.03	Sell	1.3531	03.03.03		3	17,741.61
Sell	1.3532	03.03.03	Buy	1.3395	03.04.03		3	20,809.92
Buy	1.3405	03.04.03	Sell	1.3336	03.04.03	stop order	3	19,265.72
Buy	1.3319	03.06.03	Sell	1.3326	03.07.03		3	19,423.39
Sell	1.3327	03.07.03	Buy	1.3346	03.07.03	stop order	3	18,996.29
Buy	1.3335	03.07.03	Sell	1.333	03.10.03		3	18,883.81
Sell	1.3327	03.10.03	Buy	1.3292	03.11.03		3	19,673.76
Buy	1.3291	03.11.03	Sell	1.3259	03.11.03		3	18,951.46
Sell	1.326	03.11.03	Buy	1.331	03.11.03		3	17,824.49
Buy	1.3312	03.11.03	Sell	1.3297	03.12.03		3	17,486.45
Buy	1.3314	03.12.03	Sell	1.3594	03.17.03	stop order	3	23,795.6
Sell	1.3565	03.17.03	Buy	1.3594	03.17.03		4	22,942.28
Buy	1.3611	03.17.03	Sell	1.3832	03.18.03		4	29,437.03
Sell	1.3832	03.18.03	Buy	1.3847	03.19.03		5	28,895.39
Buy	1.3847	03.19.03	Sell	1.3824	03.19.03		5	28,064.89
Buy	1.3853	03.19.03	Sell	1.3861	03.20.03		5	28,353.63
Sell	1.3859	03.20.03	Buy	1.389	03.20.03		5	27,237.72
Buy	1.3889	03.20.03	Sell	1.3929	03.21.03	Gap took place. The position had to be closed at the price worth than one, indicated in stop order.	5	28,677.71
Sell	1.3944	03.24.03	Buy	1.3805	03.25.03		5	33,712.12
Buy	1.3805	03.25.03	Sell	1.3792	03.26.03	stop order	6	33,147.11
Sell	1.3796	03.26.03	Buy	1.3807	03.27.03		6	32,669.09
Buy	1.3808	03.27.03	Sell	1.3785	03.27.03		6	31,669.67
Buy	1.3807	03.27.03	Sell	1.3823	03.28.03		5	32,249.08
Sell	1.3767	03.28.03	Buy	1.3556	04.01.03		5	40,031.62

NB: The prices of opening and closing the positions provided in this report may slightly differ from the prices you have in your charts. This difference is explained by the fact that during real trades it not always possible to get the rate, coinciding with the price of closing or opening the successive hour. The rates can also differ, depending upon the market maker, which provides you with its services.

The conditions set up by a brokerage firm can also result in different way of profit/loss calculation.

This notwithstanding the difference should not be more than 1-2%.

COMING NEXT WEEK!

In the next issue of WWW TRADING SYSTEM eZine you will find information about:

- 1. Forex Sectors.**
- 2. WWW TRADING SYSTEM COMMENTS:
Big Market Movements.**
- 3. April 2003 Trading Results of WWW
TRADING SYSTEM.**

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