

WWW TRADING SYSTEM eZine

Issue - 5

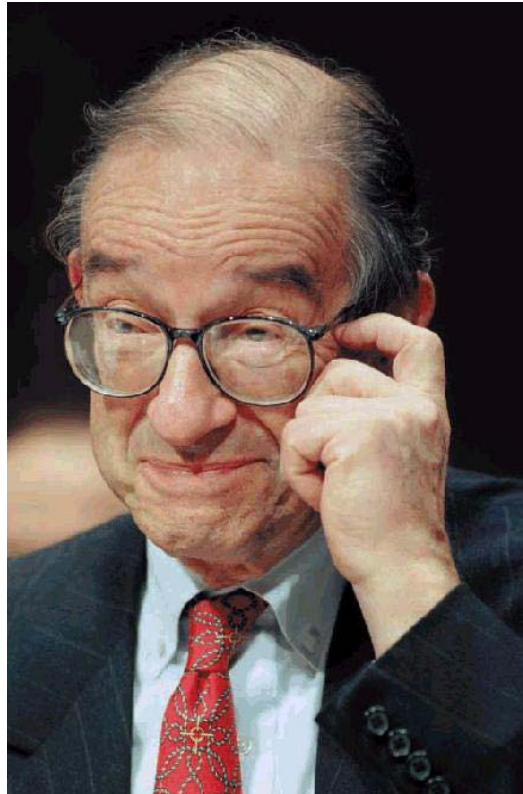
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1. Personality: Alan Greenspan.



Alan Greenspan has been at the helm of Federal Reserve System of the USA for more than 10 years. Many people consider him to be the most powerful person in the world. Some even say that more powerful than the President of the USA. He hardly says more than two or three phrases for TV cameras, but the whole listens to these phrases very attentively. Alan knows perfectly well that the most important virtue for any head of central bank is not to disturb the market and its participants who are eager to interpret and misinterpret any words. That is why Mr. Greenspan is a rare guest for any news programs. He comes to them in two cases: the crisis is taking place, or US dollar rate is swiftly changing. The less people hear about Alan

Greenspan, the better for the market. An old saying “No news, good news” can be applied in this situation.

Alan Greenspan has never held press conferences; all his interviews are taken after he is absolutely sure that the dictophones are switched off. Mr. Greenspan on TV usually says just a few vague phrases which are not an easy thing to interpret. In 1995 on the next day after one of his speeches Mr. Greenspan was brought two newspapers. One of them said that Greenspan dropped a hint that Federal Reserve may lower rates of interest. Another newspaper stated that Greenspan doubted any possibility of lowering the interest rates. After that Alan has been finishing his interviews and speeches with one phrase: “If it seems that I have said something clear, then perhaps you have been misinterpreting me”. Even in the Congress (a legislative body which has great impact upon his work and that is why his eloquence in this situation would be understood) Alan is very brief. Once the Member of the Congress asked him a question of 123 pages in shorthand. The answer was not more than 3 pages.

However, Greenspan has stern and inaccessible air on official occasions only. He becomes an absolutely different person when he playing golf or tennis with numerous celebrities (among them media celebrities can be seen very often. He is a welcome guest on high society meetings and soirees, often accompanied by ladies. Alan has always been in good relations with remarkable women of his epoch. He was married to Joan Mitchel. Then for many years Barbara

Walters (famous ABC journalist) has been a very close friend of him. She mentioned once that Alan has never raised his voice in her presence, characterizing him as a very patient person. Prudence, wariness and even restraint in some aspects are very peculiar of this person. After that Greenspan married Andrea Mitchell (NBC correspondent). He made her an official proposal 12 years after he gave her his heart. During the wedding ceremony he was wearing his old blue suit. They live in a cottage village in the suburbs of Washington, where they own a section of the house.

Greenspan regularly visits the tennis-court. But the thing he likes best of all, according to his words, is to look through obscure economic reports.

Greenspan seems to be a perfect person to be the head of the Federal Reserve System. This institution is quite an isolated organization with strict hierarchy within it; not everyone can understand the logics of the measures taken by it. But the results of its activity are evident. One of FRS officers said that this institution could be compared to an orchestra, which is directed by an experienced conductor. This comparison reflects the situation inside FRS vividly.

Greenspan was born in New York in 1926. Soon his father (an exchange broker) and mother divorced; Alan's mother started growing her son by herself. Maybe she had great educational potential, or Alan was already born with phenomenal capabilities, but at the age of five he was able

make sophisticated mental calculations and showed real talent for music. Up to the age of twenty Alan could not decide whether to choose numbers or music as the object of his total devotion. Sometimes he managed to find compromises. In the mid 40s he graduated from college and music school nearly at the same time. He played saxophone in a jazz band. Many specialists say that he was a very good at doing it. Finally Alan Greenspan the businessman “persuaded” Alan Greenspan the musician: in a year Alan left the jazz band having decided to create his own consulting company.

However, this activity required economic education. Greenspan entered New York University, in 1949 got the master’s degree, and after that started working for doctor’s degree in Columbia University. Though the doctor’s degree itself was given to Alan in 1977 only, his competence in everything related to economy was already beyond any doubt by the middle of 50s. Especially when his consulting company started working on Wall Street.

In ten years Greenspan became a millionaire and seemed to forget about his enthusiasm for jazz. But that was not true. We remained in touch with his former jazz band players. One of them introduced Alan to the leader of the republicans Richard Nixon. Nixon was preparing to the elections and he offered Greenspan (who made a very favorable impression on Nixon) to helm the division of political researches in the

Republican Party. That was the starting point for the political career of Alan Greenspan.

In 1974, when Nixon won the elections, Greenspan led the group of President's economic advisors. He remained at the same post when another republican, Gerald Ford, became the President of the USA. When a democrat Jimmi Carter became the President, Greenspan left the political vanguard of the country, but not for a long time. The year of 1987 was the time when Alan was triumphantly appointed as the head of FRS by Ronald Reigan. George Bush also could not even dream of a better head of the Central bank than Alan Greenspan.

However, after Bush Sr. lost presidential elections in 1992, the republicans' passion for Greenspan has diminished. Now long before the elections on New Your stock exchange happened what was later called the "black Monday".

All the night long from Monday to Tuesday Greenspan was persuading big market makers that FRS has enough cash to withstand the economic "storm". But, to be on the safe side, he also ordered to increase the interest rates. This caused recession and provoked growth of unemployment: which in its own turn resulted in evident displeasure of republican administration and electorate: the people chose the democrat Bill Clinton, not the representative of the Republicans. To tell the truth, the greatest displeasure of the Republicans was caused not by the actions of FRS on "black Monday", but the

fact that Greenspan easily found common grounds with a new President-democrat (who also was playing saxophone). The head of FRS became an often visitor of the Oval Room of the White House; Clinton demonstrated full consent to the actions of FRS. As a result of this cooperation by the time when new elections came this “duet” achieved the greatest economic growth in the USA and stopped the unemployment on the lowest level for the last 20 years.

The last straw for the Republicans was a reception at the White House, when Greenspan was seen to be pleasantly speaking with Hillary Clinton, who is considered by decent republicans to be the real “incarnation” of democratic evil. That was the time when the republicans decided that Greenspan is a man without any principles. But that was related to politics only. In terms of economy Greenspan is the adherent of traditional American (i.e. republican) principles and approaches.

Greenspan was renowned as the best head of FRS in the 20th century. A poll made among thousands of top managers by Fortune magazine in 1996 showed that 96% of its participants wanted this person to continue helming this organization. This success can be explained not only by the economic growth and low level of inflation; a lot was contributed to this success by the policy, principles, and behavior of Greenspan the banker.

This person was never related to corruption, intentional distortion of facts for his own purpose, or to any other “activity”, which is often put into practice by heads of central banks or big market makers.

Alan is very strict not only to himself, but also to the others. He cannot stand when inveterate stockbrokers are trying to show that the welfare of the state is their primal concern. Once Mr. Zuckerman, the owner of US News & World Report, blamed FRS for the increase of interest rates from the pages of his newspaper. However the media tycoon failed to mention to the readers of his newspaper that a very significant part of his own business is based on real estate activity. That is why the decrease of interest rates and the subsequent inflation growth was very profitable for real estate business.

Greenspan was exasperated by it: Zuckerman for his own profit threatened Alan’s main principle – to prevent inflation at all costs. It is a common knowledge that Greenspan is ready to exercise a very severe economic policy to prevent inflation, even if it affects the general economic growth. Some people prick up their ears at hearing such things. Others are afraid of such principles. There are even those who do not hide their discontent of these policies. But Greenspan has got used to criticism. When the head of FRS learns that something uncomplimentary was written about it, he does not read the article at all. At the same time he shows real interest for everything which is written by Ayn Rand, who is one of

his remarkable acquaintances. As Adam Smith and Chernishevskiy she popularizes the ideas of reasonable egoism. Rand is sure that the economy works better when all the citizens of the state are pursuing their own ends. All conversations about altruistic serving to any interests are qualified by her as total nonsense. Serving and doing something should be done for certain selfish purposes.

It seems that Greenspan is a bit of a follower of this theory. The thing is that the head of FRS is obliged to publish the report on his investment portfolio every year; this is done to prevent public from thinking that government officers of such level use inside information for their own purposes.

So, by the end of 1997 Greenspan sold all his shares and bought US short-term exchequer bonds. When it became known to public, many people did the same, which aggravated the stock market slump. The stock price decreased and the bond rates increased; Greenspan even gained from it. In these circumstances Ayn Rand's theory worked well. At least in everything relating to personal welfare.

Alan Greenspan was born on 03/06/1926.

1948 - Bachelor's degree in economy.

1950 - Master's degree in economy.

1954-1974 and 1977-1987 — The head of directors' board and the president of consulting company "Townsend-Greenspan & Co", New York.

1974-1977 — The head of the Council of Economic Advisors for the President of the USA.

1977 — Doctor's degree in economy.

1981-1983 — The head of National Committee on reforming social security system.

August of 1987 — The head of the Board of Governors of the Federal Reserve System, the head of Open Market Committee (the main political body of FRS.

June 2000 — Greenspan's 4th appointment as the head of the Board of Governors of the Federal Reserve System. Alan Greenspan is a person of various talents and interests outside the "office" life. Before starting a career of professional economist, Alan played saxophone in New York orchestra of Henry. In the times of his youth Alan showed great enthusiasm for the ideas of Ayn Rand, a writer and philosopher who was popularizing the conservative theory of "enlightened egoism". Greenspan together with his wife (famous TV journalist) Andrea Mitchell are often guests at numerous concerts and soirees in Washington. They live in a cottage village in the suburbs of Washington, where they own a section of the house.

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2. FOREX Sectors (continuation).

Futures Market.

A specific type of forward outright deals, which gives relatively small trading volumes on Forex, is represented can be found on futures market. This market is characterized by fixed terms of fulfillment and trading volumes.

Unlike forward market, the futures one is a centralized market: all trades are made in special trading floors. Forward outright deal (with the contract term longer compared to the spot market terms) can be made and executed on any day, which is a trading one on their countries. However, a standard fixed volume of currency futures can be negotiated only on the 3rd Wednesday of March, June, September, and December.

But there are some advantages about futures. All participants of the market (even physical persons) can use them. Plus futures trading in the USA is risk proof: the futures are purchased from vendors by the Chicago Mercantile Exchange Clearinghouse. They minimize their risk by requiring from the traders to cover all losses suffered.

Though spot and futures markets are very close and interrelated, they have some sufficient divergences that can be used for arbitrage (i.e. buying and selling currencies on

different markets for getting more income, using the price differences between the markets).

Options Market.

Currency option is a contract between the purchaser and the write. This contract gives a purchaser the right (but not an obligation) to buy a fixed volume of the currency at the price and in the volumes set beforehand. The contract obliges the writer to sell the currency at the price and in the volumes set beforehand if the purchaser wants to buy it.

Currency option is a trading tool which can be used for speculation and hedging. A great number of factors influences the price of the option. Unlike with spot and forward markets both high and low volatility can bring profit with currency options. The traders qualify the options and a cheap and safe currency trading tool, which can guarantee precise and exact fulfillment of stop-loss orders in closing the unprofitable positions.

Currency options become more and more influential on Forex. They have been giving more than 5% of all trading volumes since April 1998. The USA hosts the largest option trading center in the world; Great Britain and Japan follow the USA in this list. The option prices are based on the spot prices, that is why options can be considered as secondary market trading tool.

The options can be traded in cash and in futures. This means that they are traded either over-the-counter as spots or through the centralized futures market. The majority of options (about 81%) are traded over-the-counter.

Any volumes of currency, any terms of contract fulfillment can be used with options. The amount of the currency traded can be a whole or fractional number. The exchange rate can be calculated in US dollars or other currencies. The contracts can be made for any term (from several hours up to some years), though whole numbers are preferred again (1 week, 1 month, 2 months, etc.).

Currency options do not require purchasing of the margin as futures do. The premium – the price at which the purchaser buys the option from the writer – reflects the risk level of the purchaser.

Such factors as currency price, strike price, currency volatility, term of the contract, difference in rates, type of contract (call or put), model of the option (the American or the European) influence the option price. The currency price is considered to be the most important element in price setting among other factors mentioned above. The price change is the key motive for using options, regulating the price of each option.

3. WWW TRADING SYSTEM COMMENTS: Small Market Movements.

“Do not open the position when there is only 1 pip between EMA5 and EMA13. Wait until the time interval is closed with more sufficient difference between EMA5 and EMA13.”

(WWW TRADING SYSTEM)

The situation when the difference between the moving averages is small can happen on the market very often. Usually it takes place after a big market movement has already finished and the market goes into the correction stage. Another case of small difference between EMA can be met when the market is waiting for some important news.

In both cases most of the traders are waiting until the situation on the market becomes more clear and do not hurry to enter the market.

That is why I suggest opening the positions only when a new significant trend is starting to outline.

4. July 2003 Trading Results of WWW TRADING SYSTEM.

Trade period:	July 2003
Contract size (lot):	\$100,000
Initial balance:	\$159,741
Final balance:	\$186,573
Profit:	\$26,831.3 (16.8%)
Average profit for 1 lot:	78 pips.
Average loss for 1 lot:	29.62 pips.
Profitable trades:	7 (35%).
Unprofitable trades:	13 (75%).

Trade Table

Open	Price	Date	Close	Price	Date	Commentaries	Lots	Balance
Sell	1.3514	07.1.03	Buy	1.3452	07.2.03		29	173,107
Buy	1.3452	07.2.03	Sell	1.3439	07.2.03		31	170,111
Buy	1.3453	07.2.03	Sell	1.3438	07.2.03		31	166,651
Sell	1.3437	07.2.03	Buy	1.3466	07.2.03		30	160,190
Buy	1.3459	07.2.03	Sell	1.3452	07.3.03	stop order	29	158,682
Buy	1.3487	07.4.03	Sell	1.3483	07.4.03		29	157,822
Sell	1.3484	07.4.03	Buy	1.3504	07.6.03		29	153,527
Buy	1.3501	07.6.03	Sell	1.3690	07.8.03		28	192,724
Sell	1.3690	07.8.03	Buy	1.3762	07.8.03		35	174,413
Buy	1.3762	07.8.03	Sell	1.3707	07.8.03		32	161,624
Sell	1.3711	07.8.03	Buy	1.3641	07.10.03	stop order	29	176,506
Sell	1.3611	07.10.03	Buy	1.3624	07.10.03		32	170,170
Buy	1.3634	07.10.03	Sell	1.3732	07.14.03		31	192,453
Sell	1.3725	07.14.03	Buy	1.3748	07.14.03		35	186,597
Buy	1.3750	07.14.03	Sell	1.3719	07.15.03		34	178,932
Sell	1.3721	07.15.03	Buy	1.3775	07.15.03	stop order	32	166,388
Buy	1.3790	07.15.03	Sell	1.3831	07.16.03	stop order	30	175,307
Sell	1.3827	07.16.03	Buy	1.3761	07.17.03	stop order	32	190,655
Sell	1.3720	07.17.03	Buy	1.3700	07.17.03		35	195,764
Buy	1.3708	07.18.03	Sell	1.3673	07.18.03		36	186,573

... to be continued.

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%.

5. Trades and Humor

They say that an average trader can work for about two-three years. Then he has enough money to buy Ferrari and spend the rest of the money on psychoanalyst and antidepressants.

Well, drive your Ferrari and save the rest of the money by reading our next column.

Making money is one of the funniest things in the world.

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COMING NEXT WEEK!

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

- 1. Territory of macro-experiments.**
- 2. Currency trading systems.**
- 3. WWW TRADING SYSTEM COMMENTS: capital management.**
- 4. July 2003 Trading Results.**
- 5. Trades and Humor.**

Sincerely yours,

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