WWW TRADING SYSTEM eZine

Issue – 6

www.WebTradingSystem.com

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Contents:

1. The Territory of Macro Experiments.

It has become a tradition that in the modern world economic theories lags behind economic realities. That is why, when the creators of macroeconomic theories find out that their rules do not agree with the real facts, they try to change the reality.

Politics predominates

During the periods of global economic "disasters" investors used to look for shelter in US dollar. The events of September 11th 2001 changed this situation. The terrorist attacks on New York and Washington D.C. affected the traders' faith in nonsusceptibility of USA and the power of dollar. After that sad date any geopolitical tension is affecting this currency.

The last example is the Iraq Situation. The escalation of military preparations in the USA and UK combined with the increasing opposition of Europe resulted in constant lowering of US dollar rates. Many investors have decided to trade euro because of it. However, not only dollar but the whole world economy came into the stage of "economic fever". This can be explained by the set of reasons.

In today's world the political factors predominate over economic. It became evident after the disaster with "Columbia" space shuttle. This tragedy has hardly made any impact upon US stock markets. The shares of 2-3 companies closely related to the space craft building industry lost about 2% during the trading sessions on the other day; nothing more. The situation is quite different with the report of the Secretary of the State Colin Powell in UNSC; even the expectation for it created a real storm on the world markets. On this day Dow Jones on Wall Street grew up 110 pips, when the report was only being brought to the audience. By the end of the report it fell and got out of technically important limits of 8,000 pips; the index ended that trading day in the red sector, having lost 28.11 during the whole session. At the same time the spot price for the troy ounce of gold in New York grew from $382 to $390.

American politicians prefer to make significant statements after the trades on Wall Street are over. The President George Bush Jr. once made a speech on the stock exchange during the trades; he was standing against a background of trading indices shown in real time. The results were unexpected. Due to the modern facilities of information processing the shares reacted to the President's words immediately and started falling down. Nowadays Bush tries to address the nation in the evening, but even this may not always be of help. Drastic geopolitical statements made in the evening may result in rising of prices for gold in Australia, and then in Japan and Europe. That is why after a "fiery" statement of its President in the evening, America may get up and find out that the gold prices went loco during the night.

Delicate Instrument of Big Economy

Bank rates can be called a mirror of big economy. Their changes (even slight ones) result in immediate reaction of the markets. Bank rates are the delicate instruments, that is why central banks are very careful in using them. For example, the spring lowering of rates to 3.75% by the Bank of England was eagerly met by the homeowners, because the real estate market got great perspectives for the increase of its prices. On the other hand, the same bank rate change provoked small panic of the City. Nine members of MPC in the Bank of England aimed their efforts at minimizing the possible negative consequences for UK economy from the Iraq war. However, the market makers trading securities decided that central bank knows something very bad about the country's economy and (to be on the safe side) brought down FTSE 100 index.

At the same time the meeting of European central bank took place. Unlike their British colleagues, they did not change the bank rates and left them on the level of 2.75%. At that period of time the officers of European central bank thought that strong euro would hold the inflation within the necessary limits. But after March 6th ECB broke the expectations of the investors and lowered the rate to 2.5%.

However, the support of upper inflation Eurozone limit is not the only aim for its economy. On the other hand, the European exporters suffer from strong euro and wait for resolute decisions of ECB. Some economists consider that European economy has many advantages in comparison to the American system. As an example of it, they mention that Europe has not got such big deficit and overproduction in comparison to the American economy. The consumer debt is 46% of gross domestic product in Europe and 82% in the USA.

In the USA the head of FRS Alan Greenspan shows ho desire to change the bank rates, because he adheres to the fact that the rates already perform all the necessary functions for stimulating the economy. No doubt that weak dollar and low bank rates help a great deal to sustain the competitive prices on the world market for American goods. But in the same time American economy depends a lot from foreign investments. The low bank rates of 1.25% (the lowest rates for the last 41 years) make the investments into US economy not a very desirable zone for foreign investments.

Japan seems not to care a lot about their bank rates; for the last several years the rates are very close to zero. The only thing the Bank of Japan would not tolerate is making of the inflation target. According to the words of ex-vice minister of foreign trades of Japan Eisuke Sakakibara, the creation of inflation limits without proper scenario (which is capable of predicting the movements for the prices on goods and services) is not effective. Though some American economists support the idea of creating inflation target, they do not take into account current problems of Japanese economy. Its economy is not a laboratory for macroeconomic experiments.

If we take into consideration the nature of today’s global economy which is developing through a sequence of impossible jerks, it may seem that the whole world is becoming one big experimental laboratory for macroeconomists.

2. Currency Trading Systems.

Trading through brokerage companies.

Unlike brokers on commodity exchanges, FOREX brokers do not open their own positions; they just provide operational services to their clients. Brokers help the purchasers of the currency in finding those who are selling this currency, optimizing this price and fulfilling the trader's order in a quick and precise way.

Brokers usually get the commissions, paid in equal parts by the seller and the purchaser of the currency. The size of commissions is settled by the bank for the brokerage companies individually.

Brokers give their clients the prices either in two-way form (buy and sell) or one-way form (buy or sell). Traders can give different prices, as they "read" the market in a different way, and their interests may vary. A broker having more than one price (for two-way and one-way form of price presentation) is always optimizing the price.

In other words, the broker always shows the client the highest bid price and the lowest ask price possible. In such way the market is provided with the optimal spread (difference between the bid and ask prices).

Another advantage of the brokerage services on this market is that a broker can offer the clients a wider choice of banks. Some European and Asian banks have night sessions. That is why the orders sent to these banks can be delivered to brokers (working with American banks), who – in their own turn – increase the liquidity of the market.

Direct dealing.

Direct dealing is based on trading reciprocity.

One member of the market – a bank which is setting the prices – presumes that another member of the market (bank as well) will agree to these prices when setting its own prices.

Direct dealing gives greater freedom of actions for trading than a brokerage market can give. Sometimes traders can benefit from it.

Direct dealing used to be realized via telephone. The chances of mistakes in such situations were very high. Direct dealing changed greatly when in mid 80s the dealing systems were introduced. These systems are in fact specific nets of Internet connected computers, when every member bank is given its own terminal. The systems are fast, reliable, and secure. Plus, they are constantly improved, trying to support all operations made by a dealer. The software is very effective in getting the long figures of exchange rates and standard quantities. It provides fast connection to the partners, easy switching between the partners, and simple access to the databases. In other words, traders have access to the constantly updated visual information on their own displays.

Many banks offer combined services for brokers and dealing systems. Traders establish their own personal relations with brokers and other traders. But the intermediaries are chosen on the basis of the prices that they offer.

Matching systems.

The matching systems (unlike the dealing systems) are anonymous. The procedure for relations of other traders and the market is the similar to the broker market.

However, physical persons cannot optimize the prices. Plus, the liquidity may be limited in time measures. Matching systems are good in trading small volumes. Among other advantages of the matching systems it is worth to mention their high speed, reliability, and safety.

Traders use dealing systems, matching systems, and brokers' services on interbank market, combining them and benefiting from their advantages.

3. WWW TRADING SYSTEM COMMENTS:
Capital Management.

The success of a trader depends upon many factors. One of them (maybe, the most important one) is the way a trader manages his/her trading assets.

Most of the traders may think that they are very good at predicting future tendencies: they think they know how to distinguishing profitable trades from unprofitable. As a result of it they change the number of trading contracts according to their personal opinion, being sure that they know what is going to happen.

When traders convince themselves that they can see a profitable trade and start using great part of their assets for it, the troubles will surely be ahead.

Your hopes to get too much on one trade can cost you a lot, when you forget about crucial rules of capital management.

So, what sums of trading assets should be traded?

First of all, you should define the risk level, which you can sustain. Usually the risk level for the transaction should be within the limits of 1%-10% (some “hothead” traders can increase the risk level up to 20%-30%).

So, when your trading assets are estimated at $10,000, your potential losses should not be more than $1,000.

The risk level depends on individual peculiarities of traders and their aims.

Another significant factor is the maximum loss, which occurred when using your trading system. It can be defined by examining the results of the trades, generated by your system. The maximum loss is an important parameter, which characterizes crucial aspects of your trading system.

How can the problem of effective capital management be solved? I would give you the formula, founded by a prominent trader Larry Williams. If you want to define the number of contracts that are to be traded, make use of the following formula:

$$\text{Number of contracts} = \frac{\text{Sum on your account} \times \text{Risk percentage}}{\text{Maximum system loss}}$$

Larry Williams made millions using it. The effectivity of the formula is proved by successful trading of numerous traders.

4. July 2003 Trading Results of WWW TRADING SYSTEM. Second Part of the Month.

Trade period:	July 2003
Contract size (lot):	$100,000
Initial balance:	$159,741.27
Final balance:	$198,694.59
Profit:	$38,953.33 (24.39%)
Average profit for 1 lot:	68.3 pips.
Average loss for 1 lot:	28.2 pips.
Profitable trades:	13 (36%).
Unprofitable trades:	23 (64%).

Trade Table

Open	Price	Date	Close	Price	Date	Commentaries	Lots	Balance
Sell	1.3514	07.01.03	**Buy**	1.3452	07.02.03		**29**	**173,107**
Buy	1.3452	07.02.03	**Sell**	1.3439	07.02.03		**31**	**170,111**
Buy	1.3453	07.02.03	**Sell**	1.3438	07.02.03		**31**	**166,651**
Sell	1.3437	07.02.03	**Buy**	1.3466	07.02.03		**30**	**160,190**
Buy	1.3459	07.02.03	**Sell**	1.3452	07.03.03	stop order	**29**	**158,682**
Buy	1.3487	07.04.03	**Sell**	1.3483	07.04.03		**29**	**157,822**
Sell	1.3484	07.04.03	**Buy**	1.3504	07.06.03		**29**	**153,527**
Buy	1.3501	07.06.03	**Sell**	1.3690	07.08.03		**28**	**192,724**
Sell	1.3690	07.08.03	**Buy**	1.3762	07.08.03		**35**	**174,413**
Buy	1.3762	07.08.03	**Sell**	1.3707	07.08.03		**32**	**161,624**
Sell	1.3711	07.08.03	**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**
Sell	1.3671	07.18.03	**Buy**	1.3639	07.21.03		**34**	**194,550**
Sell	1.3606	07.21.03	**Buy**	1.3619	07.21.03		**35**	**191,209**
Buy	1.3640	07.21.03	**Sell**	1.3608	07.21.03		**35**	**182,998**
Sell	1.3607	07.21.03	**Buy**	1.3587	07.22.03		**33**	**187,855**
Buy	1.3586	07.22.03	**Sell**	1.3593	07.23.03		**34**	**189,607**
Sell	1.3594	07.23.03	**Buy**	1.3498	07.24.03		**34**	**213,788**
Buy	1.3497	07.24.03	**Sell**	1.3474	07.24.03		**39**	**207,142**
Sell	1.3476	07.24.03	**Buy**	1.3488	07.24.03		**38**	**203,762**
Buy	1.3486	07.24.03	**Sell**	1.3456	07.25.03		**37**	**195,531**
Sell	1.3455	07.25.03	**Buy**	1.3468	07.27.03		**35**	**192,153**

Trade Table

(continuation)

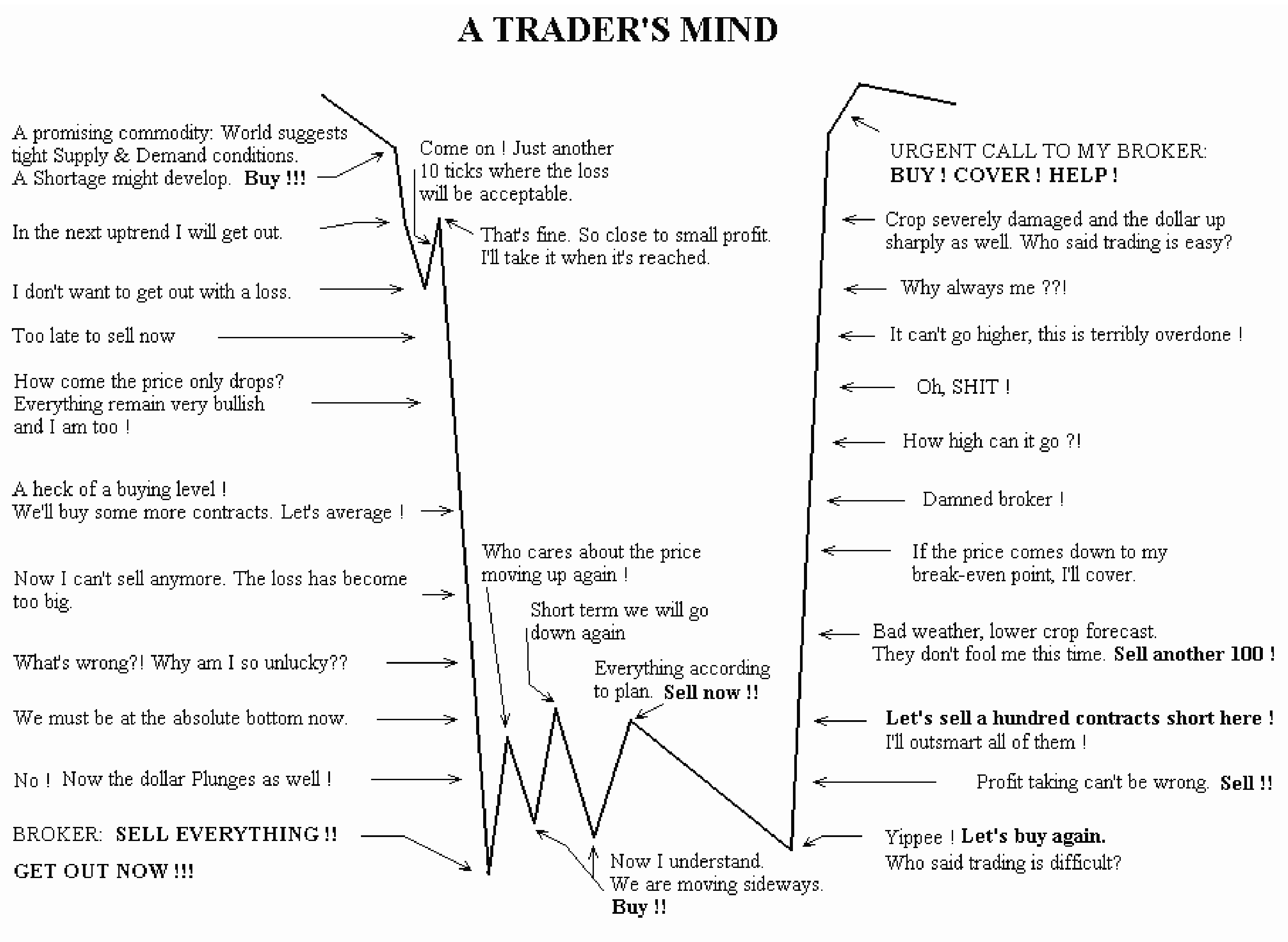
Open	Price	Date	Close	Price	Date	Commentaries	Lots	Balance
Buy	1.3469	07.27.03	**Sell**	1.3438	07.28.03		**35**	**184,097**
Sell	1.3439	07.28.03	**Buy**	1.3488	07.28.03		**33**	**172,109**
Buy	1.3486	07.28.03	**Sell**	1.3472	07.28.03		**31**	**168,890**
Sell	1.3474	07.28.03	**Buy**	1.3462	07.29.03		**31**	**171,654**
Buy	1.3461	07.29.03	**Sell**	1.3415	07.29.03	stop order	**31**	**161,060**
Buy	1.3485	07.29.03	**Sell**	1.3660	08.01.03	stop order	**29**	**198,695**

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



COMING NEXT WEEK!

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

1. Personality: Warren Buffett.
2. Fundamental or Technical Analysis: What is Better?
3. WWW TRADING SYSTEM COMMENTS: Capital Management (continuation).
4. August 2003 Trading Results.
5. Trades and Humor.

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