FOREIGN EXCHANGE NEWS, ANALYSIS AND EDUCATION FOR CURRENCY TRADERS

FX TRADER MAGAZINE

BEST FX BROKERS

HIGH FREQUENCY TRADING

EXOTIC OPTIONS

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MARNEY INDICATOR

eurozone future

A DRIVING MARKET FORCE

BIG TROUBLES STRONG RESPONSE

JULY - SEPTEMBER 2010

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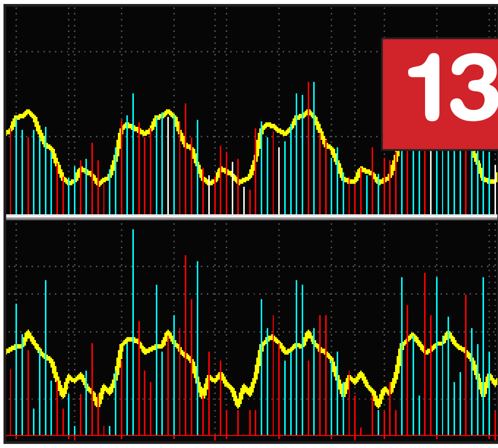

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Elite E Services is an electronic boutique brokerage specializing in currency trading, intelligence and technology surrounding foreign exchange markets. Elite E Services offers FX trading systems for clients and investors, FX consulting, technology and tools for trading, system development, custom programming, and FX solutions for businesses. The company offers it's Forex blog at http://www.eliteforexblog.com and a forex forum at http://www.eesfx.com

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JW Partners is an independent FX solution provider, based in Milan, with a strong FX specific know-how. JW supports institutional investors and HNWI in building quality FX multimanager portfolios, and FX underlying structures.

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Caspar Marney, started his trading career as a spot currency trader and technical analyst with HSBC in London. He then moved to SBC Warburg (later UBS) as a proprietary trader and global head of technical analysis for FX and precious metals, where he became one of the bank's most successful traders and a regular commentator on financial television.

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Tumultuous times for Forex traders

After the chaotic first six months of 2010, currency markets are now entering the second half of the year, with significant question marks about Europe continuing to dominate the outlook. During the second quarter, the euro faced its biggest test as the Greek debt crisis threatened to tear apart the European Union. As investors question the viability of the common currency, the euro was sent into a tailspin, which by early June, amounted to an 11% decline against the U.S. dollar from the end of March. At one point, the euro came within shouting distance of the $1.18 at which it exited the first day of trading when it was introduced in 1999.

Alessandro Balsotti writes, as usual, a pertinent analysis of the current Euro zone outlook, insisting on the importance and strength of the will that brought the euro project to life, and underling the impact of the recent Euro troubles on the Swiss Franc and the Hungarian Forint. Kevin Sollitt brings an interesting point of view about unstable forex markets and explains how to avoid most trading errors during violent market swings and preserve your trading capital.

Not everybody is pessimistic about the Euro future. For Jürgen Stark, European Central Bank chief economist, there is no crisis of confidence in the Euro, just a loss of market trust in the state finances of some euro zone governments. He explained at a conference in Frankfurt that the issue of shaky public finances isn't confined to the euro zone, but is rather "a global phenomenon", using his favorite argument that budget deficits in many advanced economies outside the euro zone, especially the U.K., U.S. and Japan, are far higher than the average within the European currency union. In fact, the European Commission estimates that the euro zone this year will have an aggregate budget deficit of 6.2% of gross domestic product.

Recalling Alessandro Balsotti's introductory quote from Niels Bohr: "prediction is very difficult, especially about the future", and our role is to continue providing you with market experts analysis… and forecasts.

Other interesting themes of this edition include the announcement in anteprima of the 2010 FX Traders' Choice awards. Javier Paz reveals which are the key attributes of the 2010 best FX brokers awards, based on the votes of 1.000 retail traders.

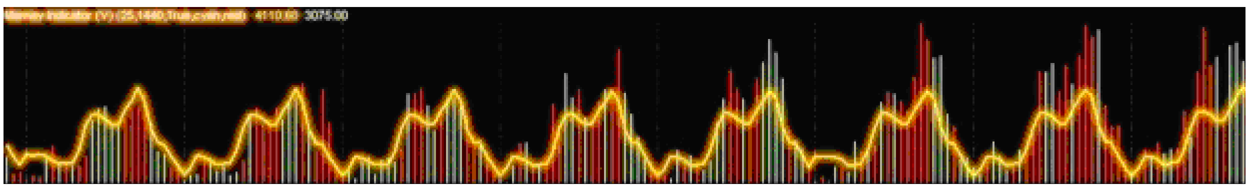
We also wanted to bring light on the recent release of MetaTrader 5, thanks to an exclusive interview with Alexander Saidullin, director of platform development at Metaquotes Software. Although MT5 is better news for equity traders or forex brokers wanting to expand on new financial and equities markets, the new platform will offer forex traders more analysis data, timeframes, indicators and analytical tools. However they will have to learn a new programming language and develop their strategies from scratch.

Talking about strategies and indicators, don't miss the 6th article of Caspar Marney, which reveals the codes of his proprietary Marney Indicators, results of years of research, and which illustrate the study that has been presented in his previous articles in FX Trader Magazine. For readers who would like to receive a specific PDF file containing all of Caspar Marney's articles since April 2009, please contact editor@fxtradermagazine.com.

We'll keep you updated on major researches, trading strategies, market events and releases. Good trading.

Emmanuelle Girodet

Marney Indicators



As this is the last article in the series, I'd like to introduce the proprietary Marney Indicators™, which have helped me to create profitable trading strategies by identifying and exploiting non-random behaviour.

Having learnt a great deal from other traders, sharing their insights on the markets, I hope that they will serve as a worthy contribution.

The indicators illustrate a lot of the research that has been discussed in the previous articles; the commonality of currencies as well as their unique differences, how increasing volume and range confirm a trend, as well as the importance of time as an indicator.

I was surprised not to have found these indicators already written elsewhere, as research and back testing has shown that they provide a significant edge, in exploiting non-random and therefore predictable behaviour.

Research with EBS data has shown that the number of price updates per unit of time, correlates very highly to actual volume traded. Therefore, while actual volume is not readily available for FX, many data providers now include the number of price updates, so that they can be plotted, as a proxy for volume and this can be exploited using the Marney Volume Indicator™ (MVI).

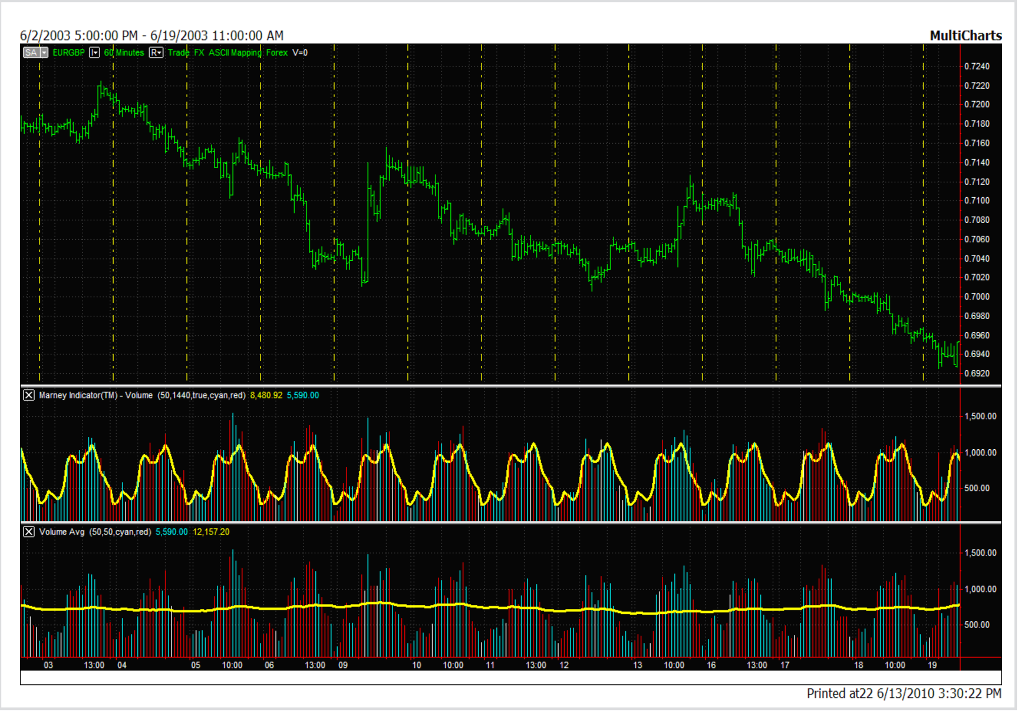
Marney Volume Indicator

The MVI plots a time-adjusted profile of volume, throughout the twenty-four hour trading day. An example of the Marney Volume Indicator™ is shown below, applied to a 60min chart of EURGBP.

I have used MultiCharts to illustrate and code the examples and Olsen Financial as the data source, as they have one of the longest historical databases available for foreign exchange, together with the number of price updates, as a proxy for volume.

The histograms show the hourly volume, via the proxy of price updates. If the corresponding hour was an up event then the bars are coloured blue and red for a down event.

The vertical dashed yellow line is a session break, showing 0000hrs GMT.



The top yellow line is the Marney Volume Indicator™ (MVI) and the bottom yellow line is a simple moving average applied to the volume, showing the dramatic difference that time-adjusting the average makes.

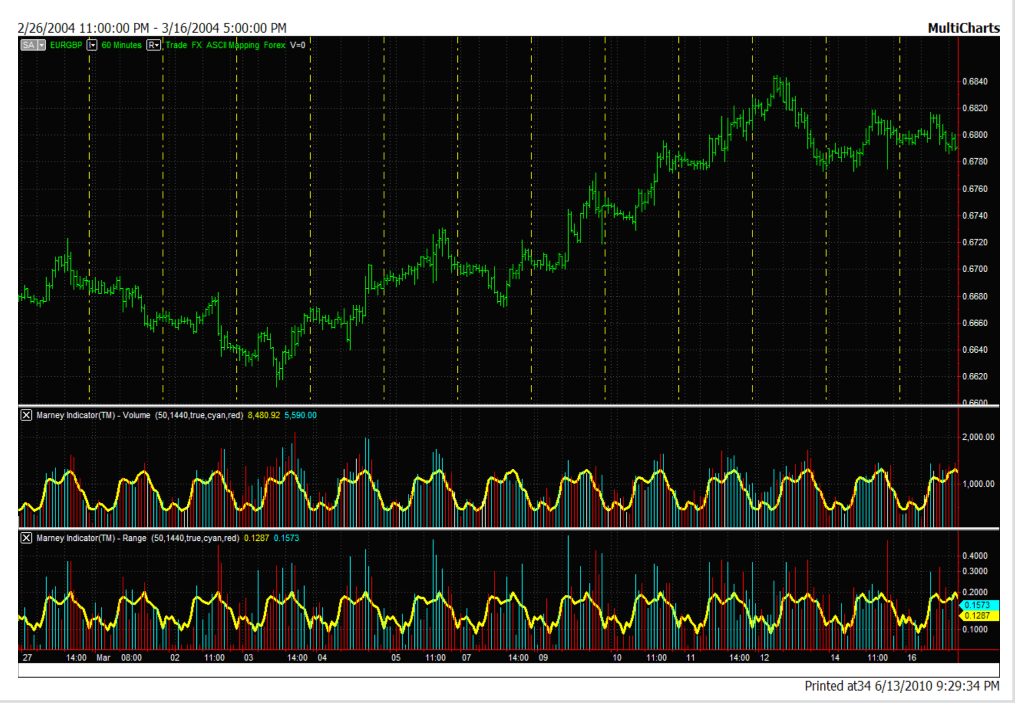
The MVI line shows the time-adjusted average over the previous 50 sessions. By time-adjusting the averages, the unique, predictable profiles of each currency pair are revealed. i.e. the volume from 0000hrs to 0100hrs is taken for the previous 50 sessions and the average is plotted, followed by 0100hrs to 0200hrs for each of the twenty-four hours in the trading day, by using arrays in the code for the indicator.

The Marney Volume Indicator™ therefore provides a significant improvement over the classic volume rule of simply looking for above average volume.

For any given time of day, we therefore know not only whether volume is above or below average but by how much, for that time of day also whether it is likely going to increase or decrease.

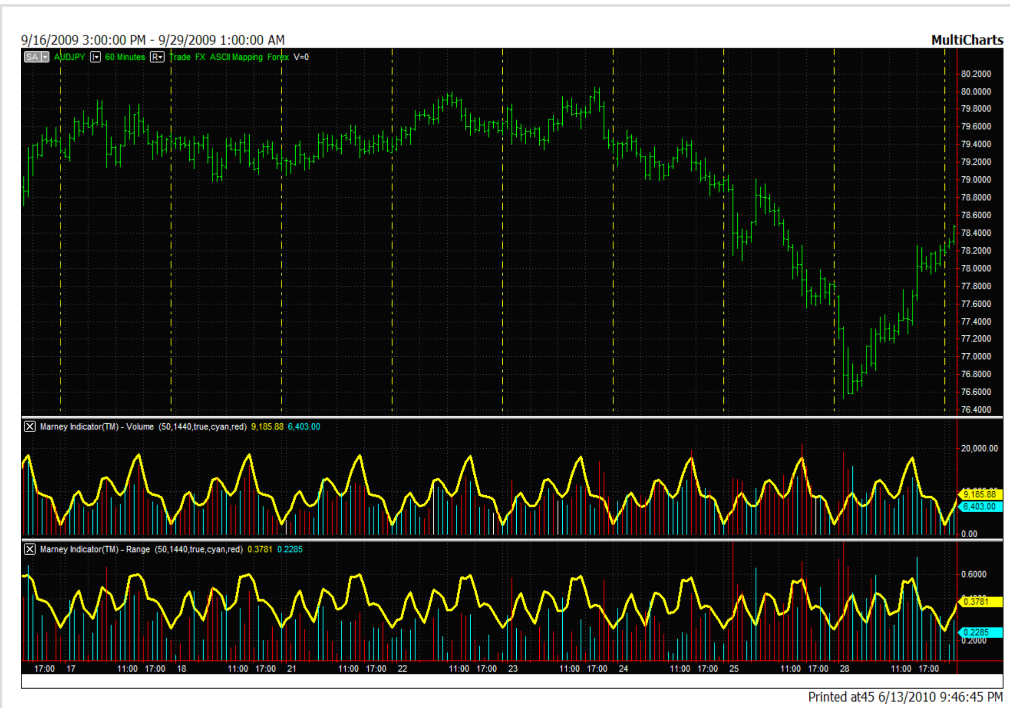
Marney Range Indictor

A similar technique can be applied to ranges, taking the true range for each hour of the day over a preceding number of days and plotting that as a time-adjusted average. An illustration is shown below using the same



EURGBP data, showing the Marney Volume Indicator™ as the top study and the Marney Range Indicator™ as the bottom study.
As described in 'FX Trader Magazine' Jan-Mar 2010 edition, by studying historic data, we know that both hourly volumes and ranges throughout the trading day are both highly correlated and predictable. By plotting both the MVI and MRI together we can see this in real-time.

The chart below shows the indicators applied to AUDJPY.



As we might expect, the ranges and volumes are much higher during the Asian session than for a currency such as EURGBP and the peaks are much more defined when Asia, Europe and then the US enter the market.

We also see the highest volumes and ranges for AUDJPY during the London afternoon session, although not a natively active time zone for the currency pair, a common characteristic of currency pairs, previously identified and explained in this series of articles.

Real-time Volume and Range Analysis

As illustrated in the last article, profitable trading strategies can be developed from being able to predict when the highest volumes and ranges during the day are likely to occur in an individual market.

By being able to plot expected volume and ranges in real-time, those concepts can be enhanced even further. Using the MVI and MRI, we can see whether the current range and volume is higher or lower than expected for a given time of day.

If the market is making a new high and both the range and volume is higher than expected for that time of day, then the move may be considered to be more significant and conversely if a move occurred on particularly low volume and range, then it might be considered less significant.

I have carried out a considerable amount of research around this basic idea and found a number of ways that these indicators can be used, to profitably exploit predictable behaviour in the markets.

The code for both indicators is available for free from my website and I hope that it provides readers with an additional edge in their trading, whether systematically or as an additional tool for discretionary decisions.

MARNEY VOLUME INDICATOR™	MARNEY RANGE INDICATOR™

MARNEY VOLUME INDICATOR™

```
input: avgLen(10), mins.
in.session(1440), autobars(True),
upcolor(cyan), dncolor(red);
var: start(0), end1(0), end2(0),
x(0), p(-1), count(0), avg(0),
barsinday(0), DayNumber(0);
array: xv[199,1440](0);

if bartype < 2 then begin

start= (Sessionstarttime(1,1));
end1= (sessionendtime(1,1));
end2= (sessionendtime(1,2));

value1 = timetominutes(start);
value2 = timetominutes(end2);
if start > end2 then
value3 = 1440+(value2-value1);

if start < end2 then
          value3 = -(value1-
value2);
if autobars = false then value3 =
mins.in.session;

barsinday = ceiling(value3/
barinterval);

if d<>d[1] then begin
    if count=barsInDay then begin
        p=iff(p<avgLen-1,p+1,0);
        for x=1 to barsInDay
begin
    xv[p,x]=ticks[barsInDay+1-x];
        end;
    end;
    count=1;
end else count=count+1;

if xv[avgLen-1,count]>0 then
begin
    avg=0;
    for x=0 to avgLen-1 begin
        avg=avg+xv[x,count];
    end;
    avg=avg/avgLen;
   plot2(ticks,"ticks",default
,1);
   plot1(avg,"avg",yellow,defau
lt,1);
end;

if close > open then setplotcolor
(2,upcolor);
if close < open then setplotcolor
(2,dncolor);

end;

if bartype > 1 then begin
          avg =
averagefc(v,avglen);
          plot2(v,"ticks",default
,1);
          plot1(avg,"avg",yellow,
default,1);

if close > open then setplotcolor
(2,upcolor);
if close < open then setplotcolor
(2,dncolor);

end;
```

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MARNEY RANGE INDICATOR™

```
input: avgLen(10), mins.
in.session(1440), autobars(True),
upcolor(cyan), dncolor(red);
var: start(0), end1(0), end2(0),
x(0), p(-1), count(0), avg(0),
barsinday(0);
array: xr[50,1440](0);

if bartype < 2 then begin

start= (Sessionstarttime(1,1));
end1= (sessionendtime(1,1));
end2= (sessionendtime(1,2));

value1 = timetominutes(start);
value2 = timetominutes(end2);
if start > end2 then
value3 = 1440+(value2-value1);

if start < end2 then
          value3 = -(value1-
value2);
if autobars = false then value3 =
mins.in.session;

barsinday = ceiling(value3/
barinterval);

if d<>d[1] then begin
    if count=barsInDay then begin
        p=iff(p<avgLen-1,p+1,0);
        for x=1 to barsInDay begin
            xr[p,x]=truerange[bar
sInDay+1-x];
        end;
    end;
    count=1;
end else count=count+1;

if xr[avgLen-1,count]>0 then begin
    avg=0;
    for x=0 to avgLen-1 begin
        avg=avg+xr[x,count];
    end;
    avg=avg/avgLen;
   plot2(truerange,"range",defau
lt,1);
   plot1(avg,"avg",yellow,
default,1);
end;

if close > open then setplotcolor
(2,upcolor);
if close < open then setplotcolor
(2,dncolor);

end;

if bartype > 1 then begin
          avg = averagefc(trueran
ge,avglen);
          plot2(truerange,"range"
,default,1);
          plot1(avg,"avg",yellow,
default,1);

if close > open then setplotcolor
(2,upcolor);
if close < open then setplotcolor
(2,dncolor);

end;
```

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Conclusion

This series of articles has been the result of years of research, learning many expensive mistakes along the way, such as identifying arbitrary mathematical algorithms that appeared to be the Holy Grail, finding systems that worked particularly well on some markets but not others and systems that appeared to work well both in and 'out of sample'.

Almost all of these ideas and discoveries were flawed.

I have learnt that each mistake was, in some way, a result of either over optimisation, or curve-fitting, even if inadvertently. I hope that these articles help others to avoid many of the pitfalls of building trading systems that it has taken me years to learn; with no doubt many lessons still to be learnt.

To summarise, in a few simple rules:

Keep it simple – if a system looks too good to be true, it probably is.
There is no 'Holy Grail' – only applying a small robust edge with consistency and discipline, over a portfolio of instruments, with good risk management.

Avoid arbitrary formula – if you test enough parameters, you will always find some that work, both in and out of sample, or on some markets. That doesn't mean they're robust parameters, nor even robust ideas.

Do base systems on market behaviour that can be explained and understood.

Remember that nothing in the world can take the place of persistence.

Caspar Marney