

FOREX Investment and Trading



**An Interactive Qualifying Project Report
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By**

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ABSTRACT

The principal objective of this paper is to exhibit the most feasible method to establish a Forex firm successfully. The intent of this project is to provide a detailed explanation of the currency trading market for all kinds of audience.

Thus, it provides the essentials of the Forex market as well as samples of trades from the group, in which is possible to appreciate the common risks and mistakes a person is susceptible to while trading. In addition, it includes an explanation of the methodology utilized by the group such as the use of technical and fundamental analysis. Furthermore, automated trading is introduced.

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Chapter 1. Introduction

Barter was the form of exchanged used in the early days. This kind of exchanges are still used today, known as commodities. Livestock was often used as a unit of exchange. However, as farmers started growing, people started to use crops for barter. A farmer could ask another farmer to trade a pound of apples for a pound of bananas. This type of action, we can say was the first domino that fell in order to start the development of markets such as the futures market. Also as a result of this currency started to appear. Cowry shells became the alleged form of money in starting in China.

It was in China that they also started to develop metal currency. They used tools of metal, like knives and spades, and from this models round coins were developed. The Chinese coins were usually made out of base metals which had holes in them so that you could put the coins together to make a chain. Chinese coins relied on base metals, but this was later developed in Europe to the use of scarce metals like gold and silver which had a lot of intrinsic value.

As these currencies started to developed and their values started to be pegged to these metals, it later turned out to be changed and then the value was tried to be controlled by the countries. Later the foreign exchange market, the mechanism by which currencies are valued relative to one another, and exchanged, was developed. An individual or institution buys one currency and sells another in a simultaneous transaction. The exchange rate is determined through the interaction of market forces dealing with supply and demand.

Traders generate profits, or lose, by speculating whether a currency will rise or fall in value compared to another currency. The value is a reflection on the condition of that country's

economy with respect to other major economies. However, the market does not rely on any one particular economy. A trader can earn money regardless of whether an economy is flourishing or falling. Forex has been dominated by inter-world investment and commercial banks, money portfolio managers, money brokers, large corporations. With the advances of internet technology and leverage options, more and more individual traders are getting involved for the purpose of speculation. As other reasons such as facilitating commercial transactions exist for the participation in the Forex market, there exist a huge opportunity and profits for start of new firms with the proper knowledge and background. With this project our goal is to help the reader establish a Forex firm if so desired.

1.1 Project Description

The intent of this project is to provide a thorough description of a plan to establish an investment firm. In order to accomplish this goal several active investment companies in the forex market were researched to study their business plans, trading strategies, risk management and other aspects that constitute an investment firm. Based on this information, a forex firm was created by replicating some of the useful ideas, dismissing what does not work and adding some of the group's ideas to build a more versatile portfolio for clients. Nonetheless, before it was necessary to analyze all the information needed to create such company. There are many aspects related to the financial markets, specific countries' regulations, type of portfolio, ways of trading and necessary qualifications that one has to have an understanding of in order to have a reputable and successful investment firm.

The group initiated the project learning the basics about forex by getting familiarized with trading procedures and technical terms. Several different approaches to trade were also

presented since every team member had different risk levels. However, it was concluded that no matter what the trading plan was the technical and fundametal analysis were key for a good trade. The second step consisted in focusing on applying the trading experience in teams to try to simulate as much as possible the feeling of trading with real money in a company. In addition, the group developed programming skills while creating an Expert Advisor, or an indicator. However, it was not easy task since it involved a lot of researching and support from other students to be able to get familiar with the programming world due to the lack of experience in the area. Finally, the overall learning experience led the group to the simulated establishment of a forex firm as previously explained.

Chapter 2. Background

2.1 History of Financial Markets

Financial markets began to emerge as early as the 12th century in France because people wanted to manage and regulate the debts of agricultural on behalf of banks. The first “brokers” were men who traded with debts for the banks. Some men gathered in a building called “Van der Beurze” in what is now Antwerp, Belgium. This became their primary place for trading and also institutionalizing a formal way of trading. This idea spread around neighboring countries and it opened in different places across Europe. In Venice bankers began to trade government securities, something which was possible because these bankers were in independent city states ruled by influential citizens. Italian companies were the first to issue shares and all other companies in England and Netherlands followed suit. The Dutch East India Company which was founded in 1602 was the first joint-stock company (corporation/partnership of two or more individuals who own shares of that company) to get a fixed capital stock and consequently, continuous trading in company stocks started on the Amsterdam Exchange. This created room for active trading in various derivatives. Since then there are stock markets developed in most developing economies.

2.2 Types of Markets

Since the emergence of the stock market in the 12th century, there have been other markets that have also surged and prospered. Although we are going to base our company on the Foreign Exchange Market, we are going to identify the other major markets besides the foreign exchange market and give a brief description of each.

2.2.1 Stock Market

The original financial market, the stock market is one of the best ways for companies to raise money. When a private owned company needs more capital to expand its operations there are two ways they can get the money, borrowing money or going public. Publicly traded companies raise additional capital by selling shares of ownership in the public market. The liquidity that this market offers the ability to investors to easily buy or sell securities or stocks. Something attractive for investing in stocks, which offers a lot more liquidity than other less liquid markets such as real estate.

2.2.2 Bond Market

The best way to describe this market is that it is a market “where individuals can issue new debt (primary market), buy or sell debt securities (secondary market)”[wikipedia]. This is generally done in the form of bonds. Bonds are debt securities, in which the issuer owes the owners a debt and pays interest to use and/or to repay the principal of the debt at a later date. The primary purpose of the bond market is to provide a mechanism for long term funding of public and private expenditures. This market has been known for being one of the less riskier investments. It is highly sensitive to interest rates, and thus it is often used for changes in the interest rates.

2.2.3 Derivatives Market

The derivatives market is basically divided in three different sub-markets, which are: Future Contracts, Forward Contracts, Option Contracts (1).

Future Contracts

Future Contracts are contractual agreements, done on a trading floor or virtually through the Internet where you can buy or sell a particular commodity at a predetermined price in the

future. Thus if you believe a commodity is going to appreciate in value you will buy it, the same is true if you believe depreciation will occur. While some future contracts are settled in cash, others require the physical delivery of the asset (thus, if you bought contract for cattle, you better have a big house/farm, if not you could come to agreement to sell it before the contract matures.)

Forward Contracts

Forward Contracts are cash market transactions in “which delivery of the commodity is deferred until after the contract has been made. Although the delivery is made in the future, the price is determined on the initial trade date”-1. Most forward contracts do not have standards nor traded on exchanges. For example, if a farmer wants to lock-in a price for his grain for the upcoming harvest season, he would use a forward contract.

Option Contracts

In Option Contracts the buyer pays a premium to get in a transaction and thus, gains the option, but not the obligation to engage in a transaction, while the seller has the obligation to honor the transaction. The price of an option derives from the difference between the reference price and the value of the asset. If an individual wants to obtain the right to buy an asset at a specific price he uses a call. On the other hand, an option that gives the right to sell something as a put. The reference price at which the asset is to be traded is the strike price. Most options have an expiration date and if this option is not exercised by the expiration date, it becomes void and worthless (2).

2.3 Emergence of the Foreign Exchange Market

Money exchange has been around in different forms for thousands of years. Evidently, its practice has been evolving throughout time. The first currency traders were the moneychangers

from the Middle East introducing the coin exchange between cultures. A different form of currency was first utilized by the Babylonians who utilized paper bills and receipts. However, this idea was later implemented during the middle ages in order to ease the foreign money exchange trading for merchants.

Long before the foreign exchange market was created in 1973 as it is known today, it went through several alterations during its early stages. At the end of WWI it stopped being a quite stable market. The volatility as well as the speculative activity increased which was not as promising for many institutions at the time. Moreover, the elimination of the gold standard in 1913 along with the Great Depression caused the market to lose activity. Changes made to the market from 1931 to 1973 extremely affected the global economies and speculative activity was nearly null.

The WWII had an enormous effect in the development of the forex market and some currencies. After the stock market crash of 1929 the US dollar was but an unsuccessful currency until the WWII turned it around making it the most popular benchmarking currency. While on the contrary, the Great British Pound was tremendously affected by the Nazis losing its popularity as a major currency. It was not until the end WWII that in efforts to support the global economies Great Britain, France and the United States joined forces. Due to the United States was the only untouched country by war, the three nations met in Bretton Woods, New Hampshire, at was it was called the United Nations Monetary and Financial Conference. At the conference the Bretton Woods Accord was established to provide a safe setting in which global economies could reinstate themselves. The pegging of currencies and the International Monetary Fund (IMF) were established by the Bretton Woods Accord. Major currencies pegged to the

United States currency given its strength at the time, and fluctuation of one percent on both sides of the set standard was allowed for these currencies. In case a currency's exchange rate would reach the limit on either side of the standard, the banks were responsible for bringing the rate back into the range. The agreement failed eventually, but brought back stability for Europe and Japan's economy. (3)

Similar agreements were established with a greater fluctuation band for currencies such as the Smithsonian Agreement in 1971 and The European Joint Float in 1972. This last agreement was an attempt by the European society to be independent from the United States currency. Yet, in 1973 both agreements failed committing similar mistakes to the Bretton Woods Accord, and the free floating-system emerged as a result. This system was officially accredited in 1978 allowing currencies to freely peg or float. During the same year a second effort for independence from the US dollar was made by Europe presenting the European Monetary System which shared the same faith of prior agreements failing in 1993.

Since then the free-floating system has been used world-wide allowing currencies to move freely from other currencies and letting anyone to become a trader. Speculative activity has increased from all types of traders, from bank to just an individual trader. Sporadically central banks would interfere to move currencies to their levels. However the forex market working on supply and demand has been the main factor that caused its success since the global free-floating system.

This great market was only open to banks and big corporations; nevertheless thanks to the advances in technology it became available to everyone in 1995. Unlike traditional trading in which traders were required to meet in a single location called trading rooms to perform the

transactions, the Internet allowed individuals to trade from home at any time. These advantages allowed the foreign exchange market to become the fastest and most profitable trading market world-wide.

2.3.1 What is Forex?

So what is FOREX? This is the acronym used for Foreign Exchange Market. This is the largest financial market in the world with an estimated \$1.5- \$4 trillion in currencies traded daily. To grasp the vast size of the volume in this market, it would take the (NYSE) New York Stock Exchange at least three months to reach the amount traded in one day on the Forex market. One of the reasons for this vast volume is that unlike other financial markets, forex is not tied to an actual stock exchange, it is an over the counter (OTC) market. Also, this is a 24 hour market, meaning there is no closing time or opening time and individuals/institutions can trade the whole day if they wanted to. (3) However, because of the different time zones, there are different trading sessions, which are shown below in table 1.

Table 1 Trading Sessions

AM												PM														
1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12			
		London																								
							New York																			
																Sydney										
																					Tokyo					

In today's interdependent global economy, countries are not producing all of the goods they need themselves. They have learned that there are other more convenient ways of getting what they want from another nation in exchange for something else. Whether is labor, electronics, food, machines etc... some countries are the best at this sort of things than others and

that is why we have this exchange, because it benefits both economies to get “things” they both need. In order to carry out these trade transactions, there must be some sort of payment from one country to the other, and more times than not there is money involved. This is when currency trading comes in. One country pays the other in a certain currency and the value of this currency is determined by the stability or strength of the payer. Currency strength “expresses the value of the currency” this is also known as the purchasing power. The value, or what people perceive to be the value of a certain currency is related to many factors in the fundamental data, economic performance and stability and it is also calculated in relation to other currencies. Notice the fact of “perceived value” because this is one of the biggest tools traders use to place their positions.

This like other markets is driven by speculators who see financial/economic performance, their political stability and other issues to determine how much a certain currency is worth related to others. People and institutions interpret this news differently, thus some may think a currency is oversold or overbought and it is this thinking that creates gaps between what people believe and what actually is and creates opportunity to make money.

Through this market currencies are valued relative to another and exchanged. Currencies are not limited to paper currency, precious metals, energy resources and the value of other financial markets can also be traded through this mechanism. There are various players in the foreign exchange market; however, this was not always the case. Since early in the baby steps of the market, the only players were big institutions like investment companies, banks, corporations and the government. However, with the internet boom at the end of the 90s exchanging currency became available to the general public also known as “retail traders”. Now, these retail traders are responsible for the majority of the volume in the market. There are other reasons for

participating in the market, such as facilitating commercial transactions (a company based in the US paying for labor in China, hedging for future price change). Speculation has become the most popular motive for Forex trading participants.

In forex, traders make entries by speculating or predicting the value of a certain currency in comparison to another. You would buy the currency which seems to gain value and sell the other. People “predict” the value of a currency because in essence, that value represents the condition of that country’s economy with respect to other economies. Thus, if there are good economic news, or it is predicted that good news will come out and the price does not necessarily represent this information correctly, traders will look to buy that currency to make profit and vice versa when selling. However, information is interpreted in different ways and leads to people making different decisions. So, whether or not an economy is performing well or not, a trader can make money on it by buying or selling it, depending on his judgment

In Forex you can virtually exchange any currency that you want, however, there are major currencies that represent the biggest economies in the planet, and they are: USD (United States), EUR (European Union), GBP (Great Britain), CAD (Canada), AUD (Australia), CHF (Switzerland) and JPY (Japan).

2.4 Forex Trading

Although currency trading is very much like stock market, and other markets it has some differences from them, some of the differences are going to be explained briefly. Banks and other financial institutions are known as the “market makers” because they are the ones that pour billions of dollars in the market and move it up or down. The benefit of the foreign exchange

market is that is not tied to one country's economy, but it is a global market and that is why it is very difficult for these "market makers" to manipulate the price in their favor, this is one of the biggest markets in the world, having a volume of up to 4 trillion dollars a day, which offers a lot of liquidity. There are very few institutions with the buying (or selling) power to affect the market. However, there are some "big players" that are in the market, not necessarily to make money but to intervene if they feel the value of their currency is affecting the local economy. An example of this is the multiple Japanese interventions last year when the yen was getting "too expensive" for their liking. Another intervention was the Swiss Bank's when they decided to peg their currency to the euro in an effort to control their currency. Other participants are multinationals/corporations that expand overseas who have to pay wages in different currencies. These kinds of participants do not really care about making money in the market.

A very important factor that differs the foreign exchange market from other markets is the risk. This is in most people's opinion the riskiest trading one can do because of several reasons. One of them is that the leverage is greater here. While in the stock market you may get a 20:1 leverage, foreign exchange leverage may go up to 500:1 in some countries. This means bigger gains, however, if you do not know what you are doing more likely than not your account will be wiped out in a single trade. The volatility in the currency market is huge and the price may swing violently, especially around news times, which is why people recommend to only investing 10-20 percent of a portfolio in the currency market.

Trading is not for the faint of heart, a trader must realize that this is not certain science and that he will lose as well, the trick is to minimize those losses, and maximize the winnings. Having said that, depending on your objectives, there are various ways one can trade. One of

them is doing technical analysis, reading the charts to forecast the direction of prices through the study of past market data. Another form of trading is fundamental analysis; in currency trading is analyzing the financial, economic or political health of a particular country to determine the value of their currency.

In addition to the two different types of analysis, there are also diverse styles of trading. Day trading is one of them and this is what most people that trade for a living and as a career do. This is trading for relatively short periods of time, holding positions for several minutes to a couple of hours, in rare occasions keeping positions open for more than a day. In this type of trading is better to use technical analysis, because it can help you predict price direction more accurately than fundamental analysis. Fundamental analysis is for long term trading, companies placing probably one or two trades per year that will yield them huge amounts of points. This works because although the problems for a certain economy may be visible today, its effects may not be seen weeks or months from now.

2.4.1 Trading Terms

For a better understanding of the Forex market a brief explanation on the most commonly used terms in this market will be given.

Base/Quote Currency

This is the first currency written in a pair. For example, if the currency pair is EUR/USD, the Euro would be the base currency and the US dollar would be the quote currency. You would

Pip

A pip or basis point is the smallest measure of change in a currency. For example, in the US based pairs it represents one hundredth (1/100) of a cent.

Spread

The spread is the difference between the bid and ask. When you bid, you are buying and when you ask you are selling. The bid price is always greater than the ask price.

Hedging

Ability to hold both long and short positions at the same time

Lot

Standard unit of a transaction. Usually, this is equal to 100,000 units of the base currency.

There is also a mini-lot = 10,000 units and a micro-lot = 1,000 units.

Rollover/Swap

If you keep a position open for more than one trading day, you would have to pay/receive interest, depending on the currency pair you are trading. The rollover price represents the interest rate difference for the two currencies involved.

Leverage

The used of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.

Long

The buying of a security such as stock, commodity or currency, with the expectation that the asset will rise in value.

Short

The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value.

Margin Call

A broker's demand on an investor using margin to deposit additional money or securities so that the margin account is brought up to the minimum maintenance margin. Margin calls occur when your account value depresses to a value calculated by the broker's particular formula. It is sometimes called "fed call" or "maintenance call."

2.4.2 Technical Analysis

Technical analysis is the method used to study graphs to determine price movement. The theory behind this is that a trader can look at historical price movements to determine future prices since the market tends to repeat itself. Basically what this means is that if a price level held as a key support or resistance in the past, the market (traders) will remember this level and base their trades accordingly. This way you can find probable directions of price by looking in the past for similar patterns.

A very popular way to find trends is by localizing the peaks and troughs in the charts. A peak is the exchange rate's highest value in a specified period of time and a trough is the lowest value taken by the price on the same period of time. Downtrends and uptrends are established by a several number of troughs and peaks in the chart. Figure 1 below provides an example of the trendline from several troughs. Having a trendline facilitates a trader's decision on whether to go long or short on a price. While an uptrend signals to buy, a downtrend means to sell.

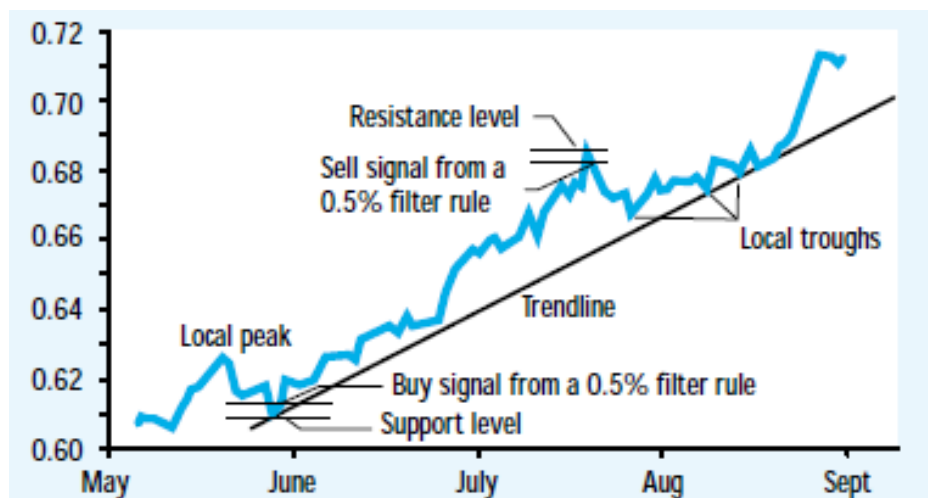


Figure 2-1. Peaks and Troughs / Resistance and Support Levels

Reversals of a trend are also very important while analyzing a chart. Peaks and troughs are used to identify these reversals as well. While local troughs are known as support levels, local peaks are resistance levels (see figure 1 above). If the price touch an uptrend's resistance level and does not goes beyond it, it is a clear signal of a reversal. However, if the price breaks through the resistance level there is a stronger possibility of a reversal. Similarly, this behavior applies to the support levels and downtrends.

Forex offers a vast variety of technical analysis indicators that are available to traders in all platforms. The Moving Average (MA), as an instance, is one of the most common and powerful technical indicators. It computes the average of prices over a specified period of time. An image exemplifying this indicator is provided in appendix A. The most useful way to apply the moving averages is to find a good relationship with the price. When the price crosses over a certain moving average could be a signal to buy while a signal to sell could be the opposite. Similarly the moving averages could generate buy/sell signals by crossing over each other.

The MACD (Moving Average Convergence/Divergence) indicator is one of the most trustworthy and simple to use technical indicators. This indicator is comprised by the plot of a “Fast” line and a “Signal” line. The “Fast” line is computed by obtaining the difference between two moving averages. The “Signal” line is computed from the “Fast” line and both are plotted in a single plane. Using a 12 and 26 period exponential moving average for the “Fast” line and a 9 period exponential moving average for the “Signal” line are the typical set up for this indicator. Similarly to the moving average indicator the MACD also signals buy/sell moves from crossovers between its two calculated lines previously described. Additionally, the MACD uses divergence and convergence with the price for profitable trades.

The Stochastic Oscillator indicator in Forex finds market momentum and it is composed by %D and %K, which are two oscillator lines. These two lines are computed by a formula that can be found in appendix A. %K makes a comparison between the latest closing and the recent trading range and %D is just a simple 3-day moving average of %K. It is recommended to buy when this indicator has an oversold reading which is below 20%. On the other hand, an overbought reading, above 80%, indicates to go short. The stochastic oscillator directs to a trend fatigue and change. In other words, a trader all the time enters on pull-backs, assuring safe stop loss levels.

The technical indicators mainly consist of a series of data points use to predict movements in currencies. Some indicators for FOREX are: Relative Strength Index (RSI); Fibonacci Numbers; Bollinger Bands; Momentum Indicator; Number Theory; Waves; Gaps; Charts info. A detailed explanation of these indicators is provided in chapter 4.

2.4.3 Fundamental Analysis

Fundamental analysis is the study that focuses on the economic, social, and political issues that affect the currency of a country. The more difficult part is analyzing what factors affect supply and demand. These factors determine whether the economy of a particular country is either strong or weak, thus showing this in its currency. In a nutshell, a good economy produces a higher currency value and a bad economy. However, there are some exceptions, countries that rely heavily on exports might intervene in the foreign exchange market to manipulate their currency, because even though they may have a strong economy they may not want their money too expensive because it will drive their exports down.

During the implementation of the project we were required to use fundamental analysis. In order to make profitable entries while trading, we needed good understanding on the current economic, social and political issues around the world. As previously mentioned, from the beginning of the project we studied the daily Gartman Letter. A sample of this letter is included in Appendix B. In addition we were able to look if the news could possibly affect our trading by going online to forexfactory.com. As an instance, this website provides the current news related to unemployment, statements recently created or big events going on and signals the viewer the level of impact it would have in the forex market. Another useful website used for a fundamental analysis was babypips.com. This website provides the most current news that facilitates the trader's decisions while taking positions.

In order to properly utilize the issues treated in the Gartman Letter and the websites previously described, it is very important to understand. There are several factors that affect the strength of a currency relative to others. Depending on the type of economy of the country this will have different levels of impact in the economy. For example, in an economy where the

major source of income are its exports, if the actual levels are below the forecast that is going to have a huge negative impact on the currency. For a country that has other means of producing income this might not have such a big effect. In addition, there are some currencies that are “related” to certain commodities, being as they are big exporters of them, or they are correlated to one another. For example, the Australian dollar is correlated with the gold and the Canadian dollar is inversely correlated to oil. There are also, currency pairs that are correlated one another, for example currently the EUR/USD and EUR/JPY are highly correlated with one another. Thus, for our own purposes we are going to see some indicators that contribute to these issues and the effect it has on them.

There are two kinds of interest rates, real and nominal interest rate. The nominal interest rate is the rate at which you get paid for your money in the bank. For example, suppose you buy a 1 year bond for face value that pays 5% at the end of the year. You pay \$100 at the beginning of the year and get \$105 at the end of the year. Thus the bond pays an interest rate of 5%. This 5% is the nominal interest rate, as we have not accounted for inflation. That is when the real interest rate comes in. The real interest rate is the nominal interest rate minus the inflation. Right now, in the US, having a savings account is not profitable, is about the same as putting your money under the mattress because the nominal interest rate is less than inflation, thus you are still losing money!

Inflation is the rate of increase of the general price level of all goods and services. For example, if the price of seeing a movie used to be \$5, inflation raises that figure to \$7, even though the service itself stays the same. Forex trading Inflation indicators measure the inflation level of a specific country's currency in a given time.

Inflation is raised for several reasons, which are not relevant for the current issue. In order to deal with inflation, reaction usually involves raising interest rates. This means that the specific currency in that country rises because of the interest rates. This is the short term affect that can be seen almost instantly in the online Forex market. After a while, when the interest rates are high, the currency is thus sold, and then it drops again. This means that in the long term, an increase in inflation indicators means a drop in the currency. There are other indicators that are components of inflation which would be talked about in more detail.

Consumer Sentiment also known as the “Michigan Index” (because its source is the University of Michigan) accounts for more than two-thirds of the economy, so the markets are always dying to know what consumers are up to and how they might behave in the near future. The more confident consumers are about the economy and their own personal finances, the more likely they are to spend. With this in mind, it's easy to see how this index of consumer attitudes gives insight to the direction of the economy. Just note that changes in consumer confidence and retail sales don't move in tandem month by month.

There are two monthly releases the preliminary and the final reading, just like the Conference Board Consumer Confidence Index based on expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index. The different times released are Preliminary 10:00 ET on the second Friday of the month (data for current month) and Final 10:00 ET on the fourth Friday of the month.

The unemployment rate is a major issue in the strength of an economy. It is important for traders because as an indicator it shows the percentage of people in the work force unemployed but is able and willing to work. It is kind of difficult to determine the rate with accuracy given

the fact that not all people who are not working want or are able to work. Some may be in school, working from home, handicapped or retired. Thus, those people are not counted towards this rate.

The unemployment rate is considered a lagging indicator. This means that it only changes after the underlying economic conditions of the nations have changed. This provides traders with clues about future interest rates and monetary policies. Lower than expected unemployment tends to appreciate currencies because traders believe that it could lead to higher interest rates. Alternatively, greater than expected unemployment weakens the currency because it is expected to lower interest rates.

There are more indicators that help keep the trader up to date with the important factors needed for worthy trading sessions. The description for some of these fundamental analysis indicators can be found in Chapter 4.

2.4.4 Automated Trading

Throughout this project we were able to learn the concepts and reasons for automated trading. When we started we had very little knowledge about programming. However, through this project we not only learned a lot about programming, but we also programmed our own programs for the MT4 platform. Amongst one of the things we learned is that computers and technology have come a long way from the first days of trading, when humans did not have such a luxury and technology. Now if the power were to go out in the entire world, preventing computers to perform their daily tasks, not only will most people not be prepared for such event, but it would make the markets crash, as technologies and computer are the main drivers of today's economy.

The technology today even lets you trade on the go, through devices such as smart phones and tablets. This is quite a benefit, as having open trades can be very stressful, and this is able to offer you some peace of mind. Just being able to open or close a trade on the go when you do not have access to a computer, turns out to be important in manual trading. Although, one should still never open a trade without a stop loss, as the market can be very volatile and in a few seconds of a trade going in the wrong direction you can wipe out an entire account. So now we can see how having automated trading can help, as you may not be able to monitor the trades yourself and a robot can follow your trading methodology and attempt to replicate it.

Now, one may wonder that if you can create a robot that can trade for you, why you wouldn't just get a trading robot, and become a millionaire without doing a thing. However, the reality is that there are no one hit wonders. You may see a lot of websites advertising great robots that will make you instantly earn vast amounts of money. However, most of these websites are just scams, and you will most likely end up losing your money. The forex world is a very risky world, but not only does trading involve huge amounts of risk, it is not too heavily regulated, allowing for some loopholes that cost new traders or even some with more experience in the market to fall into traps.

One of the main reasons that there are no one hit wonders when it comes to trading robots, would be that if there is something that is guaranteed in the market is that there is no way to perfectly predict the market actions. However, as we have learned the important thing is not to be able to predict the market actions, but more importantly to use sound trading practices. This is where robots can also be of big help, as psychology plays a big part in manual trading, and some

may be better off having their strategy implemented by a robot. We have learned that discipline is very important when it comes to trading.

Taking in mind that there are no one hit wonders, one will need more than one robot to become closer to replace the human aspect of trading. One robot might work under one condition, but might not work under another. Circumstances and scenarios change, and one robot might fit a person's trading personality or available capital, but not the other. For this reason, in professor Radzicki's words, you need to have a system of systems. You should have the ones that are doing better in the current scenarios be on the lineup. When customers are involved one should have different robot for different customers, as their style might not fit in with the profile of a certain robot.

2.4.4.1 Expert Advisors and Custom Indicators

So now you want to know where to start when it comes to automated trading. The platform most commonly used in forex for programming is Metatrader, which has its strategy tester and compiler called MetaEditor. The development language used in Metatrader is called MQL4 or MetaQuotes Language 4. The terminal also allows you to test and use your development. There is a forum for MQL4 at MQL4.com that goes into detail on everything you need to know if you are starting fresh when programming in this language. However, it is important to note that this is not the only way to create programs, it is just the most commonly used way. One can even implement the use of other software such as Matlab.

Once familiar with the language and having your methodology establish, you may use this to develop: expert advisors, custom indicator, scripts, library and included file (4).

Expert Advisors

An expert advisor is a program that allows you to automatize the analyzing and trading processes. This program can help you relieve you from the routine of analyzing the market and performing the trades manually. Expert advisors can inform you about a possibility to trade or open the trade automatically sending the order directly to the server. The use of the expert advisor, can be the perfect helper for the trader who likes to be able to choose and input the trade manually, yet getting the help of a robot alerting you of a specific set up that you may have otherwise missed. Expert advisor can sometimes also be called mechanical trading system or MTS.

Custom Indicators

Is an application similar to the technical indicator already embedded to the client terminal that will help you analyze the market. So if you have an idea of an indicator that would help you analyze the market better, you can write one. However, indicators do not trade automatically, but are for implementing of analytical functions.

Scripts

Scripts simplify thing that may not be present. For example, with a script you may be able to set up a way to close all positions with one single click, if that is not already an option.

Library

In MetaEditor there is a library and you may add your set of custom functions containing programs frequently used, but you have to execute it. They will not execute automatically.

Included file

This is more convenient than using libraries, due to the burden when calling library functions. Included file consist of source text of commonly used blocks of custom programs. This can be included in the compiling stage of expert advisors, scripts, custom indicators and libraries.

Now in the MQL4 community website you may also find developers sharing pieces of code, and ask question. Some of their codes can be useful in the development of your own program, and you will definitely find helpful ideas. The best of the forum is that if you are experiencing a problem while developing your program, you may find that another developer has experience the same problem and has found a solution. There are also developing competitions where if you have developed a good program you may also be able to enter and be rewarded.

Chapter 3. Methodology

If one desires to be a successful trader, one must create a trading plan that will be a guide for trading. Without a trading plan one cannot be profitable because there are no parameters to what you want and if you do not know what your goals are and the rules to enter a trade, then greed and emotional trading will take over and really make you lose a lot of money.

For this reason, our first task was to establish a trading plan. We decided to try different trading strategies to find the one or ones that would better suit our individual appetite for risk. There is a fine line between trading and gambling and that line is discipline.

Without discipline you might as well go gamble, although you still have better chances if you do currency trading. A lot of traders find it difficult to be successful in this business because they lack a trading plan that suits them. So this was a very important note to keep in the back of our heads, “discipline”.

There is no universal trading plan, because we are all different, we have different levels for risk, thus a trading plan should be suitable for each individual trader. For this reason we established, that each of us should give advice to each other, but that our unique trading plans and technique would and should develop differently.

In our trading plan we established that it should have quantitative parameters to manage your emotional/mental ability to manage losses and profits (especially losses), risk management and a way to avoid greediness.

Also, once people realize how complicated making an entry really is they get into deeper trouble because they cannot make decisions. For this reason, one of our tasks was to develop a trading robot, and try to minimize human error. We had the task to learn, or refine our programming knowledge, as well as get familiar with the MT4 programming language. Another tactic used for this was automated trading. Automated trading consists of creating a program that can execute for you according to specific entry and exit conditions when you are not around looking at the charts. After, researching information on the programming language, and after having had some experience on trading without a robot, we were given the task to program our own robot.

The last task we had to face for this IQP was to come up with a business plan that would lure customers into investing in our company. This plan had to advertise well enough of a return to make it competitive. Because we realized that not everybody wants the same thing, we devised different options which we could offer to our clients, each depending on their need or risk appetite. We researched the paperwork and steps needed to establish such a firm.

After, having had developed and refined our groups' trading plan and techniques we had to establish a trading plan for the business plan. A successful trading plan has to include your trading mindset, risk management (how many trades can go wrong), money management (how much money are you willing to lose?) and method (how you enter and exit trades). Look at the appendix at figure 1 for a sample trading plan.

Chapter 4. Project Execution

4.1 Trading Plan

Having a trading plan is essential, is as they say “If you fail to plan, you plan to fail”. In this case, if you do not have a trading plan, you might as well go to a casino. The difference between trading and gambling is having some guidelines to stick to and make you accountable for the type of entries you make. Having this in mind, we have come up with some “guidelines” of our own. Remember that a trading plan is created based on the risk factor that each person possesses, thus, trading plans should be customized to each person’s needs.

- Look at any important news during the day to account for volatility, preferably stay away from trading during news. (trade news few times).
- Trade only in high volume hours, from 8am-10:30am. Once or twice a week get up at 3am to trade during the London session.
- Work using the 5, 15 and 30 minute chart, to enter a trade these time frames have to agree more or less on the same direction.
- Use the bigger time frames to look for market direction, especially the 1 hour chart.
- CONSISTENCY
- Trade primarily using moving averages, elephant bars, TT, BT, highs and lows, double tops, support and resistance levels and especially do NOT trade against the moving averages.
- Learn how to use other indicators, such as the MACD

- Do not trade when level already passed or when max loss is reached. In this case, look at the charts and keep an eye on prices to possibly look for set ups when I can return to trade.
- If weekly max loss reached, use the time off to consider making adjustments to trading plan.
- Make 4 to 6 trades a day! (PATIENCE) Don't have to trade everything.
- Put a "take profit" on trades that I cannot monitor and use a trailing stop.

4.1.1 Trade Set Ups

Trading is risky business, however, the level of risk you are exposed to depends on the aggressiveness of the trader. There are different set ups that are riskier than others, thus to be able to execute these trades effectively and to get the most profit possible, we are going to adjust our position size depending on the risk of the trade. We are going to define high and low risk trades and our approach to them as we understand them. We are experimenting with different ways of trading and this is still a work in progress.

Low Risk Trades

-We have determined the following trades of being low risk because their probability of success has been high when backtesting them. The following is a list of the conditions that we believe will produce high probable trades: (Assume examples are for both long and short entries)

- Whenever the 8ma and 20ma cross above the 200ma we will look to go long if the price stays above the 200ma with at least two consecutive green bars closing above, that shows us that

the price it is ready to move up. Then, we will go one time frame lower to look for an "actionable event" a good place to enter the trade. As shown in the picture below.



Figure 4-1. Entry above 200MA

-During the trade, if there is a strong trend, there will be some pull backs to the moving averages, which we could use to add to our position or enter the trade. These entry points would be bottoming tails off the moving averages.

- Another entry point is when there is a big solid bar, either green or red (green for buying red for selling) after a period of consolidation. These type of bars are usually ignition for big trends shown highlighted in picture in picture.



Figure 4-2 Ignition Green Bar

-We have to be careful though on where these big bars occur, if there is an existing trend already and one appears is usually an exhaustion bar. Then, it would be a better idea to switch direction.

- When there are higher highs and higher lows look to go long. This means price is consolidating and is getting ready to get higher. The same is true for lower lows and lower highs

High Risk Trades

-We have determined that there are two types of high risk trades. One is countertrend trades and the other is trading volatile markets such as gold, S&P500 etc.

-When trading these high volatility markets we have decided to cut our standard position to a half. So for example, if our regular position is 5 mini lots, we would reduce it to 2.5 minis. These trades are going to be executed the same way as our lower risk trades, but because of the volatility and high spread (up to 10 pips) we have put them as high risk.

-When doing counter-trend trades we are also going to cut our positions to a half. We know that price does not move smoothly, it tends to retest support and resistance levels, especially after a big move. It could be just one big bar or multiple bars in the same direction, we know that when price is far away from the moving averages it tends to retrace back to them to find support to keep moving on the same direction. Because it is difficult to determine when the move has ended and price is ready to retrace, we are only going to enter when price has reached a major resistance or support level on the daily or weekly chart and/or when price is far away from the 200 ma.

4.2 Risk Management

Risk management is another important part of trading. Along with the trading plan, it helps you to stay on track, so you do not gamble. This sets the limits of how much “damage” or losses you can take because there are going to be bad-losing days. On those days, you need a risk “rule book” to define when you will stop trading. Again, this is a customized plan based on each person’s trading style. Below is our own:

- Risk 10-20 pips per trade
- Once daily target has been reached stop trading... In case I want to keep on going do more conservative on entries (i.e. they have to be of higher probability of winning and narrowing the stop loss gap. If I make a losing entry, stop for the day
- Three losing trades= stop trading for the day
- If two consecutive losing trades minimize the lot size by 25-50%, until I get two or three winning trades in a row.
- Do not trade on emotional days.
- DO NOT OVERTRADE

4.3 Money Management

Money management is can be confused with risk management, however, in money management you are more concerned on the amount of money you want to put per trade. In risk management, you set rules to see how many pips you are willing to let the price go against you. Here, you set rules to see how much money you are willing to risk. Thus, if you want to make an

entry and your stop loss is 50 pips away, but you only want to risk \$25, instead of making the usual entry of one mini lot, you would put 5 micro lots. Below is our customized money management plan.

- * \$100 income per day on a \$100,000 account

- * 5 mini lots = average trade size (\$5 per pip)

- * S/L= 40 pips, max loss is \$200 (20 pip loss per trade allowed).

- * First 2 trades are taken with goal of reaching \$100 for the day. They can be dealt with two different ways:

- 1) Target 1: close 50% @ +10 pips ($10 \times \$5 = \50); put a s/l @ +10 pips and trail price

- 2) Aim for the 20 pips and put a take profit @ +20 pips ($20 \times \$5 = \100)

- * Trades thereafter are reduced to 60% of the size to protect daily profit earned. Risk is going to be reduced on these trades.

- S/L = 10 pips ($\$3 \times 10 \text{ pips} = \30 max loss)

- Move S/L to break even after 10 pip gain and put a trailing stop or trail it manually.

NOTE: Ideally, 20 pip gains are ideal, trade could go further depending on how strong the momentum is at the time, or closed sooner if “feeling” of price reversal or stop loss hit.

- * If maximum loss is reached, stop trading for the day.

4.4 Technical Indicators Research

Forex Technical Analysis

Technical analysis is an attempt to forecast future price movements by examining past market data. To get a good view on investments price history, traders will look at charts to see if they're buying at a fair price, selling at a critical top or entering a choppy sideways market. Below you may find detailed explanations of some of the most used indicators.

Relative Strength Index (RSI)

Is an indicator that measures the ratio of up-moves to down-moves and normalizes the calculation so that the index is expressed in a range of 0-100. 70 or higher shows that the instrument is seen as overbought, which means price is above what is expected. 30 or less is means oversold or that it has fallen below expected. I have yet not used this indicator on my trades, as I have still not read enough techniques for this one. However, it seems like it would be useful to use. (8)

Formula :

$$RSI = 100 + \frac{EMA[N] \text{ of } U}{(EMA [N] \text{ of } U) + (EMA [N] \text{ of } D)}$$

EMA: An average U is calculated with an exponential moving average using a given N-days smoothing factor

Uday (today's close higher than yesterday's)

U = close(today) -close(yesterday)

D = 0

Downday (today's close lower than yesterday's)

$$U = 0$$

$$D = \text{close}(\text{yesterday}) - \text{close}(\text{today})$$

Recommended period: A smoothing period of $n = 14$

If the top of RSI was formed in the upper zone (overbought zone 'Right' 70%) and then the indicator returned to the middle zone, the price would move in the same direction

If the bottom of the RSI was formed in the lower zone (oversold zone 'Left' 30%) and then the indicator returned to the middle zone, the price would move in the same direction.

Divergence: when price reaches a new minimum/maximum, but is not confirmed by a new minimum/maximum on the RSI chart, the price correction takes place in favor of the direction of RSI.

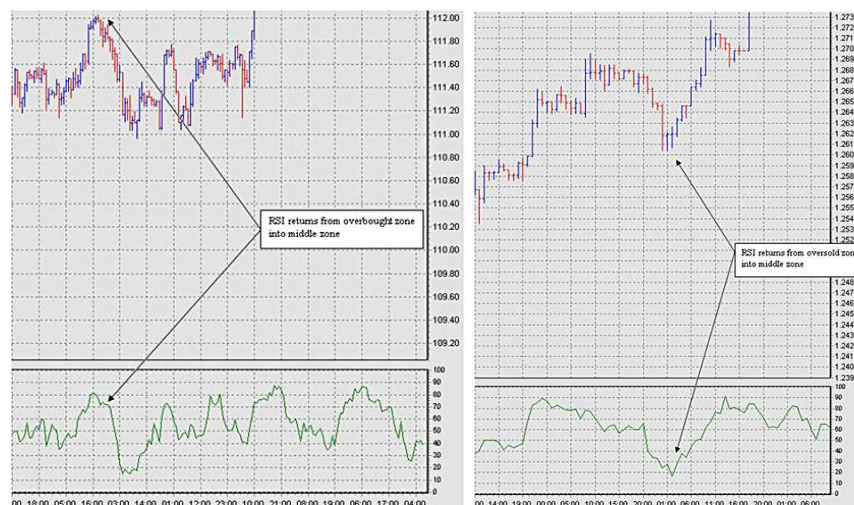


Figure 4-3 RSI Graphs

Stochastic Oscillator

Indicates overbought/oversold conditions on a scale of 0-100%. Oscillator readings below 20% are considered oversold. Oscillator readings above 80% are considered overbought. Based on observation that in a b up trend, closing prices for periods tend to concentrate in the higher part of the period's range. As prices fall in a b down trend, closing prices tend to be near the extreme low of the period range. The calculations, produce two lines, %K and %D which indicate overbought/oversold areas of a chart. Divergence between the stochastic lines and the price action of the underlying instrument gives a powerful trading signal. I had used this one before, but I was not familiar with it so it did not help me. I feel like this one along with the RSI could be a good combination. (9)

$$\%K = \frac{\text{close}_{today} - \text{lowest low}_{N \text{ days}}}{\text{highest high}_{N \text{ days}} - \text{lowest low}_{N \text{ days}}} \times 100$$

%D is a 3-day simple moving average of %K

$$\%D = \text{SMA}_3 \text{ of } \%K$$

If both lines have topped in the upper zone (above 80% mark) and then the indicator returned to the middle zone, the rate would move in the same direction.

If both lines have bottomed in the lower zone (below 20% mark) and then the indicator returned to the middle zone, the rate would move in the same direction.

Divergence: if rates produce series of new minimum/maximum and the oscillator doesn't then some rate correction is possible in the direction of the oscillator's movement.



Figure 4-4 Stochastic Graph

Simple Moving Average

A simple moving average (SMA) study for a historic data chart is calculated by adding a constant number of the price data values, where the value of the constant is known as the smoothing constant of the moving average, and dividing the result by the same value of the constant. This is repeated for all data points of the drawn chart to give a series of moving average points. (9)

$$NRM (mva - n) = \frac{(Sum (P_i) for i = 1 to n)}{n}$$

Where P = the price value of data point, which can be selected to be high, low, close or open (default is close).

An exponential moving average (EMA) is similar to a simple moving average except that the EMA gives more weight to recent prices (increases exponentially). This also results in a greater emphasis being placed on the most recent data point.

The calculation of a weighted moving average (WMA) is similar to that of a simple moving average except that every price point is linearly weighted according to its age. The emphasis therefore is placed on the most recent price values.

This type of moving average will respond to a changing price trend more rapidly than will a simple moving average, and will be seen to cross the price chart sooner than would a normal one. The weighted moving average is therefore said to be “fast”

Moving Average Convergence Divergence (MACD)

This one plots two momentum lines. The MACD line is difference between two exponential moving averages and the signal or trigger line which is an exponential moving average of the difference. If the MACD and trigger line cross, then this is taken as a signal that a change in trend is likely. This gives an indication whether to buy or sell. I used this indicator and have had some success with this. On my research I found a technique that involves the MACD and the 200 MVA 2H Chart.

MACD consists of three components:

- Signal line - the 9 day EMA of the MACD line
- MACD line - the difference between the 12 and 26 period exponential moving average (EMA)
- Block histogram - the difference between the MACD and the signal line

Formulas :

$$MACD = EMA[12]of\ price - EMA[26]of\ price$$

The signal line is formed by smoothing MACD with a standard period 9EMA.

$$\text{signal} = \text{EMA}[9] \text{ of MACD}$$

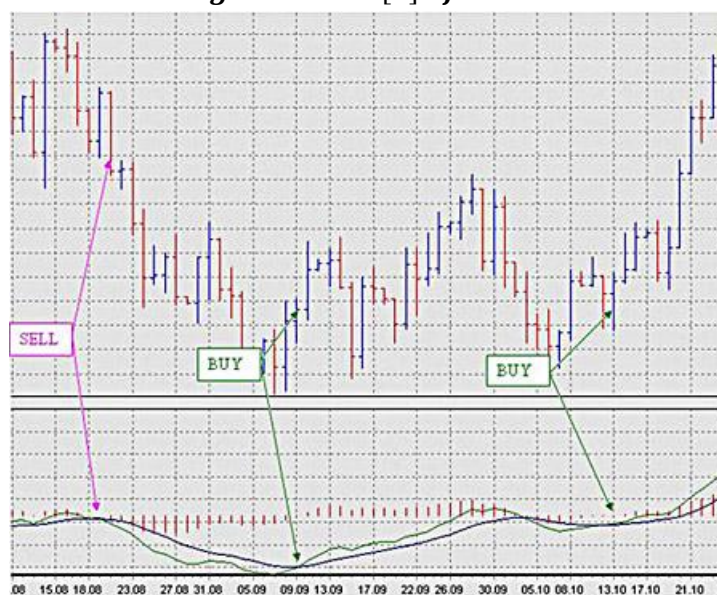


Figure 4-5 MACD Graph

When MACD is lower than Signal - you should sell.

When MACD is higher than Signal - you should buy.

MACD crossings with zero line up/down are being used as signals for buy/sell.

Average True Range (ATR)

Average True Range (ATR) is a popular volatility indicator used to measure the volatility in currency pairs. ATR does not provide any information about the direction of the trend (up or down), it only provides useful info about how volatile a currency pair is. A high volatile pair such as the GBP/JPY will have a high ATR while a low volatile pair, for example the EUR/GBP will have a low Average True Range. (8)

ATR Calculation

True Range (TR) is the largest of these three prices:

The difference of Today's High Price – Today's Low Price

The difference of Today's High Price – Yesterday's Close Price

The difference of Yesterday's Close Price – Today's Low Price

ATR Formula (14 days calculation)

$$ATR\ Current = \frac{13}{14}(ATR\ Previous) + \frac{1}{14}(TR\ Current)$$

ATR is a moving average of values of the TR range. Generally 14 days (standard on most forex charting software)

Forecasting currency pair movements with ATR is based on the same principle as other volatility indicators: the higher the value of ATR, the higher the probability of a change in trend (looking for tops and bottoms); the lower the ATR's value, the weaker (sideways or slow trending) the trend's movement is, we're now looking for possible breakouts.

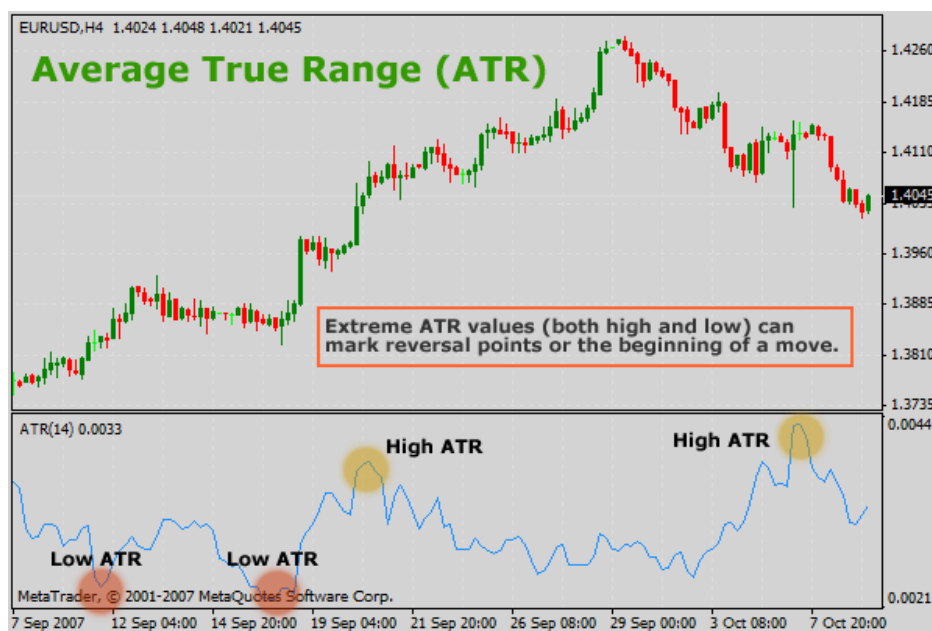


Figure 4-6 Average True Range Graph

Fibonacci numbers:

The Fibonacci number sequence (1,1,2,3,5,8,13,21,34.....) is constructed by adding the first two numbers to arrive at the third. The ratio of any number to the next larger number is 62%, which is a popular Fibonacci retracement number. The inverse of 62%, which is 38%, is also used as a Fibonacci retracement number. (used with the Elliott wave theory, see hereunder). I have yet to use this one, since I still do not fully understand how to implement it to good use.

(2)

Bollinger Bands Indicator

The Bollinger bands can be used as upper and lower bands as support and resistance. Similarly, you will find the market respecting the bands as they are often repelled by it.

Price breakouts tend to occur after the 2 bands (upper and lower) narrowed too far, as volatility lessens.

When prices move outside the bands, a continuation of the current trend is implied.

Price bottoms and tops made outside the bollinger bands followed by bottoms and tops made inside the bands call for possible trend reversals.

A move that originates at one band tends to go all the way to the other band. This observation is useful when projecting price targets.



Figure 4-7 Bollinger Bands Graph

Formulas :

Middle Band = 20MA (Moving Average)

$$Upper\ Band = Middle\ Band + [D * \sqrt{\frac{\sum_{j=1}^n (Close_j - Middle\ Band)(Close_j - Middle\ Band)^2}{n}}]$$

$$Lower\ Band = Middle\ Band + [D * \sqrt{\frac{\sum_{j=1}^n (Close_j - Middle\ Band)(Close_j - Middle\ Band)^2}{n}}]$$

Bollinger Bands serve two primary functions when trading forex:

To identify periods of low volatility in the currency market. Look possible for breakouts.

To identify periods when currency prices are at extreme, and possibly unsustainable, levels.

Gann numbers:

W.D. Gann was a stock and a commodity trader working in the 50's who reputedly made over \$50Mio in the markets. He made his fortune using methods which he developed for trading instruments based on relationships between price movement and time, known as time/price

equivalents. In essence he used angles in charts to determine support and resistance areas and predict the times of future trend changes. He also used lines in charts to predict support and resistance areas. (9)

Elliott wave theory:

The Elliott wave theory is an approach to market analysis that is based on repetitive wave patterns and the Fibonacci number sequence. An ideal Elliott wave patterns shows a five wave advance followed by a three wave decline. (9)

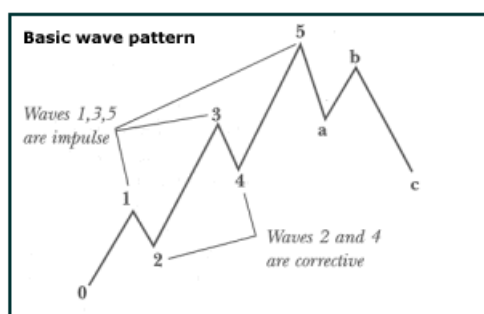


Figure 4-8 Basic Wave Pattern

Gaps

Gaps are spaces left on the bar chart where no trading has taken place.

An up gap is formed when the lowest price on a trading day is higher than the highest high of the previous day.

A down gap is formed when the highest price of the day is lower than the lowest price of the prior day. An up gap is usually a sign of market strength, while a down gap is a sign of market weakness.

A breakaway gap is a price gap that forms on the completion of an important price pattern. It signals usually the beginning of an important price move.

A runaway gap is a price gap that usually occurs around the mid-point of an important market trend. For that reason, it is also called a measuring gap.

A exhaustion gap is a price gap that occurs at the end of an important trend and signals that the trend is ending.

Trends

A trend refers to the direction of prices. Rising peaks and troughs constitute an uptrend; falling peaks and troughs constitute a downtrend, that determine the steepness of the current trend. The breaking of a trendline usually signals a trend reversal. A trading range is characterized by horizontal peaks and troughs.

Moving averages are used to smooth price information in order to confirm trends and support and resistance levels. They are also useful in deciding on a trading strategy particularly in futures trading or a market with a b up or down trend.

For simple moving averages, the price is averaged over a number of days. On each successive day, the oldest price drops out of the average and is replaced by the current price-hence the average moves daily. Exponential and weighted moving averages use the same technique but weight the figures-least weight to the oldest price, most to the current. Trends I believe are good to use as they can help give a good indication of what may be happening next.

Price Envelopes

Price envelopes consist of 2 moving averages and are plotted at a set percentage above and below a 3rd moving average. Price envelopes can be used to indicate overbought and oversold levels. Overbought conditions are found at the upper band and oversold conditions at the lower band.

Price envelopes consist of three moving averages:

- a middle band being a N-period simple moving average or exponential moving average (SMA or EMA)
- an upper moving average (SMA or EMA - upper band) plotted at a set percentage above the middle band
- a lower moving average (SMA or EMA -lower band) plotted at a set percentage below the middle band

The Percentage should be set so that about 85% of currency price activity is contained within the upper and lower bands. If currency price volatility increases/decreases, than adjust the bands %. (9)

Interpretation

The interpretation is similar to Bollinger Bands, Price Envelopes define the upper and lower boundaries of a currency pair's (or other instrument) normal trading range.

Popular Trading Signals from Price Envelopes

1. In trending markets

Take only signals from Price Envelopes in the main direction of the trend. If the main trend is up, take only oversold signals from Price Envelopes. Conversely, if the main trend is down, take only overbought signals from Price Envelopes.

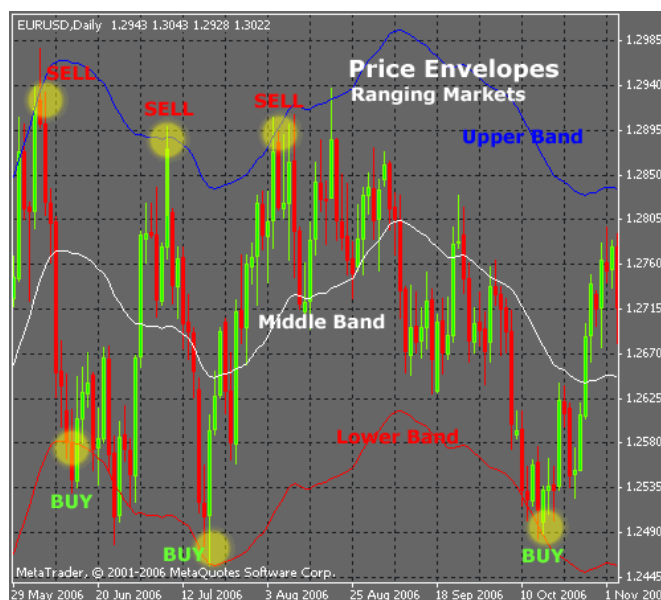


Figure 4-9 Price Envelope Graph

II. *In ranging markets*

A sell signal is generated when the currency pair reaches the upper band, similarly a buy signal is generated at the lower band. (8)

The Ichimoku Kinko Hyo Indicator

It is a strategy, it is not as versatile as some of the other, more basic tools like moving averages or the RSI. Thus it performs better in a more specific market type in which it is more effective as a strategy.

The Ichimoku Kinko Hyo indicator is calculated from four components with the following formulae:

1. Tenkan Sen: $(\text{Highest High} + \text{Lowest Low})/2$ over 7-8 bars
2. Kijun Sen: $(\text{Highest High} + \text{Lowest Low})/2$ over the past 22 bars
3. Senkou Span A: $(\text{Tenkou Sen} + \text{Kijun Sen})/2$ plotted over 26 bars into the future

4. Senkou Span B: $(\text{Highest high} + \text{Lowest Low})/2$ over the past 44 bars, plotted 22 bars ahead

Tenkan sen and kijun sen are essentially moving averages, and are used in a similar way with tenkan sen being the more sensitive of the two. The senkou span A and B are the main features of the ichimoku indicator separating it from an ordinary oscillator. These two values come together to create a cloud, or kumo, which is used as a support or resistance level by traders depending on market conditions. (8)

Trade signals are generated as the tenkan sen moves below or above the slower moving kijun sen, in a way very similar to the interaction of moving averages in the MACD, or the stochastics indicators. A bearish trend is indicated by the tenkan sen moving below the kijun sen, and vice versa. Once such a signal is generated, and we anticipate the development of a trend and open a position, the kumo (cloud) of the indicator comes into the picture. As mentioned elsewhere, the cloud is the support/resistance zone of the trade. In a bearish position, we expect that the price action will remain outside of the kumo most of the time, and if it remains in that region for too long, it may be time to reconsider or close the trade. Conversely, we will maintain our position for as long as the support/resistance zone established by the cloud holds. This makes 'letting profits run' a much easier task than it is with a simple crossover/ support/resistance strategy, since the problems created by volatility are handled better by the ichimoku cloud. I believe that this indicator sounds interesting and cannot wait to find out more and put it to test. I believe that learning more indicators can be very useful. (9)

Commodity Channel Index

The CCI is an oscillator. The CCI has a crossover line at zero, and an overbought level at 100, while values below -100 are regarded as signaling an oversold condition.. Here we see the indicator in action in the price chart above. It is interesting to note that the CCI gives many false signals even at extreme values. For example, the lowest value for our indicator, at -283.576 was recorded during a very minor, and passing bottom on the chart. As with most high sensitivity indicators using the ATR requires a lot of practice and patience in mastering it.

The CCI is used mainly as an overbought/oversold indicator similar to other indicators like the RSI. The overbought/oversold levels exist above 100, and below -100, respectively. Many traders prefer to focus on divergence/convergences between the price and the indicator with the purpose of reducing the number of trade signals, and avoiding whipsaws. (9)

The CCI was designed for the commodity market, but any market where prices show a tendency to move in cycles will prove to be fertile ground for its use. The forex market, with its cycles dictated by interest policy, and the economic boom bust cycle, is a suitable field for the application of the CCI.

Formula :

$$CCI = \frac{(Average\ Price - MA)}{(0.015 * Mean\ Deviation)}$$



Figure 4-10 Commodity Channel Index Indicator Graph

The Demarker indicator

DeMarker Indicator is an oscillator, and it is possible to use with it all the common techniques that are applied to oscillators. The oversold and overbought levels of the indicator are at 0.3, and 0.7, respectively. When the oversold value is exceeded, the expectation is that the prices may soon stop falling. In the opposite case, we anticipate that the uptrend will run out of steam in a short time.

If you remember how the RSI is constructed, you will note that the formulation of the demarker indicator is almost the same as that of the RSI with the difference being that the RSI most often uses an exponential moving average, while the demarker indicator uses the simple

moving average of the prices. But on the whole, both indicators compute the same formulae for the min-max values, and interpret them in very similar ways.

In short, it is fair to say that one will never need to create technical strategy where both the Demarker and RSI indicators are necessary. They are both oscillators, but beyond that, the great similarity between the two indicators means that using one will always grant us all the information that can be derived from the other. (8)

The Demarker indicator is calculated by first determining a DeMin, and DeMax value, which roughly correspond to the high or low of a particular time period. The obtained values are then plugged into a formula which generates the value of the indicator itself.

If the high of today is greater than the high of yesterday, we set the DeMin value at the difference of highs of the two time periods (High of today - high of yesterday). Otherwise, DeMax is set to zero. Similarly, if the low of today is lower than the low of yesterday, the difference between the lows of the two periods becomes the value of DeMin (low of today- low of yesterday). If the low of yesterday is equal or lower than today's low, DeMin is set to zero.

Now we plug these two values into the formula below:

$$\text{DeMark} = \frac{\text{N-period Moving Average of DeMax}}{(\text{N-period Moving Average of DeMax} + \text{N-period Moving Average of DeMin})}$$

Chaikin Money Flow

The formula for Chaikin Money Flow is the cumulative total of the Accumulation/Distribution Values for 21 periods divided by the cumulative total of volume for 21 periods. Since the last 21 periods are used the formula creates moving averages. (8)

Chaikin Money Flow says:

If a currency pair closes in the upper half of its trading range on a particular day and volume is strong, the pair is being accumulated.

If the pair closes in the lower half of its range on strong volume, the pair is being distributed.

The values of CMF can also be used to indicate buying and selling pressure:

Values that bounce between 0.1 and -0.1 and otherwise hang around the zero line are not strong enough to offer a bullish or bearish signal.

Values above 0.1 and below -0.1 are indicative of buying and selling pressure respectively.

Values above 0.25 and below -0.25 are indicative of strong buying and selling.

As with other indicators, Chaikin suggested looking for a divergence between the pricing action and the oscillator.

If a currency pair trends up while the CMF rolls over and heads down, the currency pair will very likely top out soon after.

On the other hand, if a currency pair trends down while the CMF bottoms out and begins to move up, the pair will very likely follow.

Average Directional Index (ADX)

A momentum indicator that measures the strength of a prevailing trend. ADX and can be extremely useful to determine if a trend is strong or weak or to filter out false breakouts in non-trending markets. ADX doesn't tell you if the trend is going up or down, it just tells how strong or weak the current trend is. ADX is used very often as a trend-confirming indicator in forex trending systems. As a general rule, if $ADX \geq 25$, the trend is confirmed, either up or down. (8)

Formula :

ADX = Modified Moving Average of DX (ADX fluctuates between 0 – 100)



Figure 4-11 ADX Graph

Momentum Indicator

The momentum oscillator has been in use for a long time. It is not known where and when exactly it originated. Its combination of simplicity and usefulness makes it quite likely that several early market technicians developed the idea independently of each other. Your charting package may have a slight variation on the original formula, but it will still be used in the same way. It should be noted that the momentum oscillator is a leading indicator, meaning that it gives signals before price action confirms them.

The momentum oscillator is unbounded, which means that it can technically go as high or as low as it wants - there is no maximum or minimum value.

Being simple to use, simple to understand, and simple to calculate are the main attractions of the momentum oscillator. Here is how we go about calculating it: (8)

$$M_x = P - P_x$$

where M_x is the momentum

P is the last (current) bar's closing price and

P_x is the closing price from x bars ago.

Like all oscillators, momentum is an attempt to calculate whether the current price has overshot to either the bullish or bearish extreme. Since momentum is unbounded however, we don't have an objective way to determine exactly how "overbought" or "oversold" the market is. What we can do instead, is look at historical data for the particular instrument we are charting, and determine suitable "overbought" and "oversold" areas based on past levels. The momentum indicator also usually has a zero line, where we can see that values above this mean an up-

trending market, and negative values indicate a down-trending market. This gives us 3 possible trade signals: when the indicator starts to emerge downward from our selected overbought line (or flattens) we sell, when it emerges upward from oversold (or flattens) we buy, or we can also do the same when the indicator crosses the zero line (9).

4.5 Fundamental Indicators Research

There are several factors that affect the strength of a currency relative to others. Depending on the type of economy of the country this will have different levels of impact in the economy. For example, in an economy where the major source of income are its exports, if the actual levels are below the forecast that is going to have a huge negative impact on the currency. For a country that has other means of producing income this might not have such a big effect. In addition, there are some currencies that are “related” to certain commodities, being as they are big exporters of them, or they are correlated to one another. For example, the Australian dollar is correlated with the gold and the Canadian dollar is inversely correlated to oil. There are also, currency pairs that are correlated one another, for example currently the EUR/USD and EUR/JPY are highly correlated with one another. Thus, for our own purposes we are going to see some indicators that contribute to these issues and the effect it has on them.

GROSS DOMESTIC PRODUCT (GDP)

This is the mother of all indicators, as it is the broadest of them all. This encompasses every sector of the economy and it represents the total value of the country’s production during the period and consists of the purchases of domestically produced goods and services by those individuals, business, foreigners and government entities. The GDP also has nominal and real value. The Nominal Gross Domestic Product measures the value of all the goods and services

produced expressed in current prices. On the other hand, Real Gross Domestic Product measures the value of all the goods and services produced expressed in the prices of some base year. (10)

There are several ways of measuring the Gross Domestic Product but by far the most widely used approach is the expenditure method where:

$$\text{GDP} = \text{consumption} + \text{investment} + \text{government spending} + (\text{exports} - \text{imports})$$

In currency terms, the GDP level of different countries may be compared by converting their value in national currency, either by using the current currency exchange rate, where the GDP is calculated by exchange rates prevailing on the international currency markets. This method offers better indications of that country's international purchasing power and relative economic strength. Another method of comparison is using the purchasing power parity exchange rate, whereby the GDP is calculated by the PPP (purchasing power parity) of each currency relative to a selected standard, i.e. the US dollar. This method offers a view of the actual living standards of lesser developed countries as it compensates for the weaknesses of the local currencies in world markets.

This is important in trading because is the ultimate measure of economic activity. Investors closely monitor the economy because it usually dictates how investments will perform. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market doesn't mind growth but is extremely sensitive to whether the economy is growing too quickly and paving the road to inflation. The GDP report contains a treasure-trove of information, which not only paints an image of the overall economy, but also tells investors about important trends within the big picture. GDP components like consumer spending, business and residential investment, and price (inflation) indexes are good indicators

of future market direction. Knowing this, the usual effect of this is that if the actual value is greater than the forecasted one, then that is good for the currency and vice versa. Also, there are 3 versions of this report, which are advance (1st), preliminary (2nd) and final (3rd). The Advance release being the first is usually the one with the highest impact.

Data is typically released during the final week of the month. The first or advance estimate is released during the final week of the month immediately following the end of a calendar quarter.

CONFERENCE BOARD CONSUMER CONFIDENCE

This indicator is released once a month, usually at the end and measures the level of a composite index based on surveyed households. A neutral level is in the region of 100. Figures below 75 are generally weak while levels above 125 are strong. A sharp drop in confidence can signal that the economy is weakening, but the correlation between spending and confidence figures is not very strong.

This is important in trading because the financial confidence of consumers dictate their level of spending, which here in the United States which is based on moving the money around and people consuming is very important.

A pessimistic consumer worries foreign investors in the U.S. markets. It raises the probability of falling interest rates and a weakening economy, both which are detrimental to the dollar's value. Foreign investors might sell the dollar and look for higher yields and a stronger economy elsewhere. A optimistic consumer can raise interest rates and the stock market returns to levels that provide a higher return relative to other countries in the world, and results in an

increased demand for dollars. This indicator is derived by surveying different households, about five thousand on the relative level of current and future economic conditions including labor availability, business conditions and overall economic situation. Typically if the current level is greater than the forecasted it is good for the currency, but if it is less than that makes the currency weak.

CONSUMER PRICE INDEX

This indicator measures inflation as experienced by consumers in their day-to-day living expenses. The increase in the CPI is what most people think of as the "inflation rate." It is used by retailers in predicting future price increases, by employers in calculating salaries and by the government in determining cost-of-living increases for Social Security. Signs of inflation means the central bank has to raise interest rates. The most widely used indicator of inflation is CPI. If CPI is increasing, then it gives a central bank such as the Fed the necessary supportive data to hike rates. Higher interest rates are bullish for the country's currency.

The CPI is a measure of the change over time in the prices paid by consumers for a market basket of goods and services. These goods and services include food, clothing, shelter, newspapers and CDs. Items on which the average consumer spends a great deal of money, such as food, are given more weight, or importance, in computing the index than items such as toothpaste and movie tickets, on which the average consumer spends comparatively less.

The CPI is measured by economic assistants that record the prices of over eighty thousand items each month. The recorded information is sent to the national office of BLS where commodity specialists, who have detailed knowledge about the particular goods or services

priced, review the data. These specialists check the data for accuracy and consistency and make any necessary corrections or adjustments

NEW & EXISTING HOME SALES

These are two different reports but are highly correlated with one another and they tend to have the same effect, which is why I have put them together in one category. This indicator measures the number of single family homes that were sold during the previous month. It is released monthly, about 25 days after the month ends. For what I have explained, new home sales tend to have more impact when released before the existing home sales (as they are highly correlated). This is important for traders because the sale of new/existing homes triggers a wide-reaching ripple effect. For example, furniture and appliances are purchased for the home, a mortgage is sold by a financing bank, and brokers are paid to execute the transaction. Thus this is a leading indicator of economic health. It makes sense once you think about it, since the recession back in late 2007 started because of a failure in the real estate market.

PENDING SALES

This indicator is released monthly about 15 days later than the Existing Home Sales, but it's more forward-looking as a contract is signed several weeks before the home is counted as sold. This is an indicator of economic health because it also triggers a wide reaching ripple effect, like renovations being done by home-owners, mortgage sold by bank, financing the loan and the brokers who get paid by carrying out the transaction.

THE BEIGE BOOK

This is a summary of economic conditions. Each Federal Reserve Bank gathers anecdotal information on current economic condition in its District through reports from Bank and Branch directors and interviews with key businessmen, economists, market experts, and other sources. The Beige Book summarizes this information by District and sector. This report allows outsiders to know what the Fed governors are looking at as they prepare for their upcoming FOMC meeting.

The Fed uses this report, along with other indicators, to determine interest rate policy at FOMC meetings. The Beige Book is considered a valuable tool, acting in essence as a general gauge on the overall strength of the economy, it is even considered that occasionally it can have the power to shift market reactions if the findings represent a significant enough deviation from current analyst expectations. If the Beige Book portrays inflationary pressure, the Fed may raise interest rates, which is dollar bullish. If the Beige Book portrays recessionary conditions, the Fed may lower interest rates, which is dollar bearish. This book is released eight times per year.

BUSINESS INVENTORIES

The Business Inventories Report includes comprehensive sales and inventory statistics from all three stages of the manufacturing processes, that is to say, manufacturing, wholesale, and retail. By the time the report is released however, all three of its sales components and two of the inventory components contained therein would have already been reported. As the retail inventory is effectively the only new piece of information the Business Inventories Report contains, the report itself causes few ripples in the market. Occasionally however, retail inventories do swing far enough to affect changes to the aggregate inventory profile which may

affect the GDP outlook. At the times when this does happen, the report has been known to elicit a small market reaction.

This is important in trading because traders look at how retail inventory numbers will influence interest rates. If inventories are rising at a faster pace than sales, this usually indicates that economy is slowing down. A slowing economy means lower interest rates, which is dollar bearish. It is considered dollar bullish if both sales and inventories are rising at the retail, wholesale, and manufacturing level. This report is released at 8:30am Eastern time six weeks after the month ends.

CURRENT ACCOUNT BALANCE

The Current Account Balance (CAB) is a function relating to a country's Balance of Payments (BOP), others being the Capital Account and the Financial Account. Basically, it is the broadest measure of international flows of capital, goods, and services in and out of a country. Theoretically, this level should be zero. The Current Account Balance can strongly reflect a country's overall economic position. If the CAB of a country is standing at a surplus, then it indicates that the economy is a net creditor to the rest of the world. It also demonstrates how much that country is saving as opposed to investing, meaning that the country is providing an abundance of resources to other economies, and is owed money in return.

A CAB level that is in deficit however, shows that an economy that is a net debtor to the rest of the world meaning that it is investing more than it is saving and so is using resources from other economies in order to meet its own domestic consumption and investment requirements (11).

A country's current account is a way to determine its economic activity and can allow us form a clear picture of the current extent of activity of a country's industries, services and capital market, as well as credit or debt to other countries.

The formula used for calculating the current account balance is $CAB=X-M+NY+NCT$. (Where X = Exports of goods and services, M = Imports of goods and services, NY = Net income abroad and NCT = Net current transfers.)

DURABLE GOODS

Measures demand for U.S. manufactured durable goods, from both domestic and foreign sources. When the index is increasing, it suggests demand is strengthening, which will probably result in rising production and employment. A falling index suggests the opposite.

Also one of the earliest indicators of both consumer and business demand for equipment

The durable goods orders reports serves to accurately measure the dollar volume of all orders, shipments, and unfilled orders of durable goods for the preceding month. For this purpose, durable goods are defined as those goods whose intended lifespan is of three years or more.

This report is also notable for the narrow category of non-defense capital goods which tend to mirror the GDP category PDE (producers' durable equipment) where shipments of non-defense goods are a good proxy for PDE in the current quarter, while providing an indication of PDE growth in the coming quarters. (12)

This report is released by the Census Bureau of the Department of Commerce around the 26th of the month at 8:30am eastern time for data of the previous month.

PRODUCER PRICE INDEX

Traders mainly use the PPI as an indicator of price inflation over time. Although the similarly-functioning Consumer Price Index (CPI) is considered to be a more useful measure of present inflation, the PPI's inclusion of goods in production makes it a potential leading indicator of future price inflation in certain industries.

One key drawback of the PPI for foreign exchange market applications: the PPI excludes all data on imported goods, making it difficult to detect the influence of one country's market on another with respect to currency prices. The report expresses prices through an percentage index of a baseline level of production (rather than through a dollar amount), and it divides its data into three broad categories: stage-of-processing, industry-based, and commodity-based. The report also expresses changes in the index from month to month and the index change from the previous year. The industry and commodity-based indexes are extremely extensive, allowing a high level of specificity when looking for data on a particular asset.(12)

RETAIL SALES

This is an estimate of the total sales of good by all retail establishments in the US for the month prior of the release of the report. Data is presented in nominal dollars, which means inflation is not taken into account. However, the data is adjusted for seasonal, holiday and trading day differences between the months of the year.

The use of the Retail Sales report in trading is clear, since the report provides extremely specific data about which industries and commodities consumers are spending most of their money on. However, one major drawback of the report is that it only reflects sale prices without taking into account inflation within the prices of certain volatile industries (gas and other energies in particular.) The report also doesn't provide any data on service industry sales, making the Personal Income and Spending report more useful in this area. Still, traders consider the Retail Sales report one of the most generally useful of the economic indicators, with a wide range of applications for various asset markets. (12)

This indicator is important because the Personal Consumption Expenditures or PCE represent about two thirds of the GDP. By monitoring retail sales, policy makers can make an assessment of the growth of PCE for current and future quarters. This reports' source is the U.S. Department of Commerce and it is released monthly.

TRADE BALANCE

This indicator measures the ratio of imports to exports for the country's economy. If there are more exports, that means there is a trade surplus and the trade balance will be positive. On the other hand if imports are higher there is a trade deficit, and the trade balance will be negative.

The importance of this indicator is obviously critical for any forex trader because the information on the net exports can help to predict future trends in inflation and foreign investment and can give clues to the future behavior of the currency market.

The trade balance is primarily composed of three factors: the price of goods, tax and tariff levies on imported or exported goods and the exchange rate between two currencies. This last

facto is fundamental to foreign exchange trading. Since trade balance depends heavily on current exchange rates, this is a key indicator for the state of a foreign exchange asset market.(That is why Japan has recently intervened so much in the yen, since so many people are buying it is making it stronger, something that Japan does not want because is detrimental to their main source of income, their exports.) (10)

There are a number of measures for trade balance, but one of the chief sources of information on the state of trade in the US is the International Trade report released monthly by the Census Bureau and the Bureau of Economic Analysis. This report is released around the third week of every month and details the performance of several exported goods and services in various sectors of the economy.

ISM MANUFACTURING SURVEY

The ISM Manufacturing Survey is used as an economic indicator of the market. It is felt that this survey is very important in determining what the market is likely to do, and it is published by the Institute for Supply Management, on a monthly basis. The report will indicate information from the previous month's historical data, and is released on the first business day after the close of the month.

This indicator provides details in the manufacturing aspect of the economy, and therefore is considered a strong indicator of the economy's movement. It is also the very first report that is provided as an economic indicator for the month, therefore it perhaps has more significant attention and benefit than might otherwise be the case. The survey deals specifically with the manufacturing industry in the country. ISM provides a wide range of other reports as well that help to define risk in the market at any given time. This has been talked about greatly in the

Gartman Letter, Mr. Gartman made every effort to emphasize the importance of that 50 level, where if the report is below it, it means contraction and if it is above it it means expansion of the economy.

PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX

Personal Consumption Expenditure, or PCE, is an inflation index similar to the Consumer Price Index. In the United States, it is released by the Bureau of Economic Analysis of the Department of Commerce and it is the preferred gauge of inflation by the Federal Reserve.

INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION

This indicator is affects both the inflation part and the GDP part of the economy, an explanation of why is as follows Industrial Production and Capacity Utilization (IPCU) is a measure of economic activity, released on a monthly basis by the United States Federal Reserve. The IPCU report for each month contains data for previous months (for example, June's report releases information on May) about the total amount of US industrial production for that month, expressed as a percentage of the gross production for a previous baseline year. The report also gives information about percentage changes from month to month and year to year, as well as a detailed breakdown of production by industry grouping, most broadly for manufacturing, mining and utilities. The data in the report is based on employment records that detail the total hours worked by industrial-sector employees. (10)

The report also includes a measure of capacity utilization, meaning the percentage ratio of actual production to potential production. The report presents data about average capacity over a number of years, a record of percentage change in capacity from month to month, and a

breakdown of capacity measures by industry and by stage of completeness (from crude to finished materials.)

Traders consider the IPCU report important as a gauge for the future performance of assets in the marketplace. Because of this, the report can also function as a "trigger" to increase buying or selling pressure in certain industries. A capacity utilization percentage of 85% or more can also be considered a signal for imminent inflation, but the inherent difficulty of measuring industrial capacity implies that this measure shouldn't be exclusively relied on to predict market behavior. (10)

This is an index designed to measure changes in the level of output in the industrial sector of the economy. The index is grouped by both products (consumer goods, business equipment, intermediate goods, and materials) and industry (manufacturing, mining, and utilities).

Chapter 5. Establishing a FOREX Firm

5.1 Corporate Structure

There are basically five ways a company can be structured. Next, there is going to be a list explaining the types of structures and advantages and disadvantages of each. (5)

5.1.1 Different ways you can legally structure your company

Sole Proprietorship

Pros:

- Easy to start and manage
- Inexpensive
- No separate tax returns, business gains and losses are reported in your personal income tax returns
- Flexible to manage, it gives you complete control
- Business expenses and losses are tax deductible

Cons:

- Unlimited personal liability for business debts and lawsuits
- Illness can endanger your business
- Difficult to find investors
- May be at a disadvantage attracting employers who are looking for ownership in the business

Partnership

Pros:

- Easy to set up
- The partners report their business share of gains and losses on their personal tax returns
- Partners have full authority of the business
- Business losses are tax deductible
- Partners can share the workload and contribute different ideas to the business
- More financial as well as intellectual resources for the business

Cons:

- Unlimited personal liability for general partners
- Each partner have full authority to commit the business to a contract (with exceptions)
- It's difficult to remove an unproductive partner from the business
- Personal assets are at risk if the business goes bankrupt
- The partnership ends if a partner leaves, retires, or dies

Limited Liability Company

Pros:

- Affords Limited Liability, The owners can only lose the amount invested in the company

- Is easier to manage than a S-Corporation and a C-corporation
- Formal Structure that is investment friendly
- The organization enjoys pass-through taxation (you pay taxes on your personal income) but you can elect for the LLC to be taxed as a corporation.
- Partners can divide profits not proportional to their investment in the company. Most LLC choose to divide profits proportionally.

Cons:

- If in a partnership, a partner has the authority to bind the partnership to a contract.
- The LLC dissolves if a partner leaves the organization, retires, or dies.

Corporation

Pros:

- Owners liability is limited to the investment in the company
- Easier to get investors
- Ownership is transferable
- The organization does not end when a shareholder (owner) dies
- Easier to separate business functions into sub-divisions
- A corporation can deduct cost of benefits provided to employers or owners

Cons:

- Complex to set up, maintain and difficult to dissolve
- C-corporations are subject to double taxation
- Costly to set-up
- Stricter rules for operations than Partnerships and partnerships
- If set up as an S-corporation, your company cannot have subsidiaries
- Not as much control as you would have with a Partnership or partnership

S-Corporation

Pros:

- If you plan to sell your S corporation the taxable gain in the business can be less than if you set up your business as a regular corporation
- You can declare business losses in your income taxes with an S corporation, offsetting your tax liability
- You can minimize FICA and self-employment taxes. Shareholder's profits are not taxed in this manner
- You can raise capital more easily than a sole proprietorship or partnership
- You have the limited liability protection without paying taxes as a corporation

Cons:

- S corporations cannot have more than one hundred shareholders
- The company shareholder cannot deduct the cost of fringe benefits provided to employees who own more than 2% of the corporation
- A shareowner cannot deduct losses more than the amount invested in the company
- Each S corporation shareholder has to be at least a U.S. Permanent resident
- Profits and losses for an S corporation are proportional to each members investment into the business
- You must receive compensation before earnings are distributed to shareholders (you must pay the employment taxes) important when the shareholder is also the employee.

5.1.2 Establishing your company in US vs off-shore

In order to establish good credibility we have decided to establish our company here in the United States. Dealing with money is serious business even more so when you are dealing with other people's money. Thus, because of the tight regulation that the US has on these types of companies, people will have a sense of "security" knowing that we abide by these laws and it is going to make it easier for us to gain clientele. Once we have kept a good record, we may discuss the possibility of establishing abroad branches of the company or just move the whole company overseas. This will benefit us because, already having a good reputation we would want less restrictions on the way business is done. This could also potentially lead to more clientele who are willing to take on more risk.

It was decided to structure the company as a Limited Liability Company because of the following:

Pros:

- Affords Limited Liability, The owners can only lose the amount invested in the company
- Is easier to manage than a S-Corporation and a C-corporation
- Formal Structure that is investment friendly
- The organization enjoys pass-through taxation (you pay taxes on your personal income) but you can elect for the LLC to be taxed as a corporation.
- Partners can divide profits not proportional to their investment in the company. Most LLC choose to divide profits proportionally.

Cons:

- If in a partnership, a partner has the authority to bind the partnership to a contract.
 - The LLC dissolves if a partner leaves the organization, retires, or dies.
-
- We have decided to start working with up to 10 clients in order to size things up first.
 - We wish to manage the money of close friends and family to avoid any legal issues until we get a legal advisor.
 - Minimum accounts of \$5000.00.

- We will provide two options of trading.
 - -Manual Trading
 - -Automated Trading
- In order to hire traders we plan to run background checks and also they need to possess the adequate licenses.

5.2 Money Management

5.2.1 Different ways you can set up the money management aspect of your company

Some of the financial management consists of managing the financial resources, including accounting and financial reporting, budgeting, collecting accounts receivable, risk management, and insurance.

Some decisions or options are whether you will manage your financial records yourself or whether you will have someone else do it, like accounting system, taxes, fees. Also need to decide what risk taking for investors, the amounts for the fees and insurance types.

Insurance is something that needs to be taken care of as it may end up hunting you in the end. Sometimes uncontrollable events happen that may cause you to lose important data. On a technological world like today, if for some reason there is a flood and the computer systems fails, just being down for one day could cost the company great amounts of money. So insurance needs to be considered for your property, office, equipment, and employees. This in a way is a way of risk management as, not being insured involves a great amount of risk.

Part of the management, is the fees you would like to charge. There has been a great deal of talk about the usual “2 and 20” standard fee. Which according to an article in New York Times has been the standard fee that funds have been charging, this is to charge 2 percent of assets under management and 20 percent of profits above a predetermined benchmark.

Due to the talk about the fees, we had decided that our management fee since we will not have a reputation right away to start with a management fee of 1% and performance fee of 13%.

These fees are usually expressed as an annual percentage, but calculated and paid monthly or quarterly. Management fees for hedge funds are designed to cover the operating costs of the manager, whereas the performance fee provides the manager's profits.

Some hedge funds charge a redemption fee (or withdrawal fee) for early withdrawals during a specified period of time (typically a year) or when withdrawals exceed a predetermined percentage of the original investment

Managers of hedge funds use particular trading strategies and instruments with the specific aim of reducing market risks to produce risk-adjusted returns, which are consistent with investors' desired level of risk.

A hedge fund itself has no employees and no assets other than its investments. The portfolio is managed by the investment manager, a separate entity which is the actual business and has employees.

Since we have specialized in the foreign exchange markets during this year, at first this is the type of program we are going to offer. We are aware that because of its leverage this may be the riskier of investments and we would make sure that our clients would understand that.

Further, we would take into consideration the client's tolerance for loss and accommodate an investment plan depending on those needs. To do this we would create three different levels of trading plans: low risk, moderate risk and high risk. The characteristics of these plans would depend on the maximum drawdown and return target that the individual has.

5.3 Licenses and Regulations

5.3.1 Regulating agencies

The United States Commodity Futures Trading Commission (CFTC), is the federal agency that regulates commodity futures and options markets in the United States. Also, one would have to register under the Securities Exchange Commission (2).

5.3.2 Types of license needed

First, a potential hedge fund manager does not need to have a series 7 license in order to manager a hedge fund. The series 7 license is the general securities representative license which allows an individual to be a representative (broker) of a FINRA registered member firm (brokerage firm or broker-dealer). The series 7 allows a representative to take and place trades for a customer. It is also a prerequisite for many of the other FINRA exams (such as the series 24). Because the hedge fund is not regulated as a broker, a hedge fund manager does not need to have a series 7 license (assuming that the manager is also concurrently acting as a broker-dealer representative).

Second, a startup hedge fund manager may need to have a series 65 license in order to become registered as an investment adviser. There are two potential ways a hedge fund manager would be required to register as an investment adviser – under the federal rules (the Investment Advisers Act of 1940) or under the various state rules (commonly referred to as the state blue

sky laws). If a manager is required to register with the SEC under the Advisers Act then, for federal purposes, the manager will not need to have taken the Series 65. However, the Advisers Act allows states to impose certain requirements on all federally registered investment advisers with a place of business in their state. Generally the states will require all federally registered investment advisers to “notice file” in their state which entails paying a fee to the state. The state can also require that all investment adviser representatives have the series 65 license. This means that anyone who talks to clients/investors or makes any trading decisions or analysis will need to have this license. The definition of investment adviser representative basically encompasses every employee or owner of the investment adviser other than secretary type employees. If you are a federally registered investment adviser you should discuss whether members of your team need to be licensed as representatives at the state level. (5)

If you are not a federally registered investment adviser (generally all managers with less than 30 million of assets under management) then you will need to determine whether your management firm needs to be registered as an investment adviser at the state level. Many states require investment advisers with a place of business** in the state to register. Some popular states that require investment adviser registration are California, Texas, Washington and Colorado. However, there are many states which have exemptions from the registration requirements. Some popular states that have exemptions (through regulation or special order) from investment adviser registration for hedge fund managers are New York, Connecticut, Florida and Georgia. Again, you should speak with your legal counsel or compliance professional to determine whether your hedge fund management firm will need to be licensed as an investment adviser in the state (6).

Finally, if the hedge fund trades futures or commodities then the manager may need to be registered as a commodity pool operator with the National Futures Association. In order to register as a commodity pool operator at least one person at the management company will need to take the Series 3 exam.

What are the certification or examination requirements in Massachusetts?

Each investment adviser representative submitting an application for registration must demonstrate compliance with either (a) or (b). below:

a. Currently hold the professional designation of

- Certified Financial Planner,
- Chartered Financial Analyst,
- Chartered Financial Consultant,
- Chartered Investment Counselor, or
- Personal Financial Specialist.

b. Have obtained a passing score in the Uniform Investment Adviser Law Examination (Series 65), or the Uniform Combined State Law Examination (Series 66) and the General Securities Representative Examination (Series 7). (7)

5.4 Marketing

5.4.1 Marketing of a firm

5.4.1.1 Performance Evaluation Parameters of a fund

Below are marketing parameters to evaluate performance of a fund.

Absolute Returns

A hedge fund must be evaluated based on absolute returns, but those returns also need to be consistent with the fund's strategy. There are funds that employ strategies that generate very consistent returns over time with limited volatility. An example of this type of fund is an asset-backed lending fund that makes loans and collects payments that are predictable and consistent over time. These funds can generate anywhere from 8-12% per year and are often used as a substitute for fixed income when fixed income is not attractive (7).

There are other fund strategies that should have similar returns and there are also strategies that should generate higher returns, albeit with much higher volatility. In either case, a hedge fund that describes its strategy as pursuing absolute returns should always have positive returns over 12-month periods, for example. Most hedge funds fall short of these expectations, but in a perfect world, absolute returns should be positive and consistent.

The Sharpe Ratio

One metric that is widely used in the hedge fund world is the Sharpe ratio. The Sharpe ratio measures the amount of return adjusted for each level of risk taken. It is calculated by subtracting the risk-free rate from annualized returns and dividing the result by the standard deviation of the returns. This metric can be applied across hedge funds with different levels of

returns and volatility to determine whether the hedge fund is generating any alpha (excess return) by taking on additional risk. A good Sharpe ratio will vary by strategy and anything above 1 tends to be an attractive return. As with other measures, however, the following analyses should be conducted using Sharpe ratio as well as pure returns metrics.

Benchmarks

A very common analysis, and one that is prevalent in the mutual fund world, is to analyze relative returns versus a benchmark. For example, a large-cap manager would be compared to the S&P 500 Index, and his or her performance would be evaluated based on the fund's returns and standard deviation relative to the index. For hedge funds, the relative performance analysis is more challenging but not impossible (6).

Although most hedge fund marketing materials compare themselves to the S&P 500 to display their outperformance and uncorrelated returns, as investors, we have to understand if the manager is doing well relative to other hedge funds using the same or similar strategies. The first step in this process is to gain enough of an understanding of the hedge fund manager's style in order to determine which hedge fund index, if any; their performance can be compared to.

As mentioned in the section on strategies, many strategies can be categorized into certain buckets, but each fund has a unique strategy. In many cases, some hedge funds may have multiple strategies, making the index decision more difficult. Let's evaluate a simple example: Suppose we are evaluating a long/short equity fund that focuses on event-driven opportunities such as mergers, management buyouts, share buybacks or any other events. There is both a long/short equity index and an event-driven index, and the obvious solution is to run a comparison to both. We could evaluate whether the hedge fund's performance is more like one

index than the other. If the fund compares well versus both indexes, however, then additional due diligence is warranted. If the fund compares poorly, then the due diligence process may end there.

Once a hedge fund passes the index test, we could then get more specific in our comparisons by evaluating the hedge fund performance versus peers that use similar strategies. The first level of peer analysis would be a comparison of returns versus other hedge fund managers that state they apply the same strategy. Most databases group hedge funds into categories, which are closely related to the hedge fund indexes mentioned above. However, unlike the hedge fund index, which may only have a limited number of funds, choosing all the funds in a category gives the analysis a much broader perspective and allows the analyst to place the fund in quartiles relative to peers.

Quartile Chart

This analysis can go even deeper and become more sophisticated by carefully evaluating funds and including in the peer analysis only those funds with the most comparable strategies. The number of these hedge funds would be smaller than if using the database categories, but will give the analyst a much better idea of how this fund compares to others.

In the peer analysis, we are looking for hedge funds that consistently perform in the top quartile of their peers on an absolute return comparison, standard deviation, and a variety of other metrics relevant to the analysis. We are looking for performance relative to peers during certain market cycles, as well as performance over short and long periods of time. After all, if a fund manager cannot consistently outperform his or her peers, then chances are we are better

served investing in some of the better-performing peers, or, in cases where investing in a hedge fund index is possible, investing in a well-diversified index of funds using a certain strategy.

5.4.2 Marketing for the Company

In our company, we have decided to offer three different types of investment portfolios, consequently we are going to make advertisement that targets individuals in each group. The following is going to be an overview of the advertisement we are going to make to the different prospective clients.

Internet is the place to be since it is so accessible to people worldwide. Thus, we will start by visiting the websites with the most traffic that are related to financial information, such as google finance, wall street journal etc. and posting comments on them so people can get to know us. We would expect people in the more aggressive group to be on these sites.

Then, for our other more conservative prospects, the advertising will be more complicated and will not come until we have established our name as a trusted one, since the people in this group are older individuals who have worked all of their life for their money and are not willing to risk much. Thus, for this group, the advertising would have to be word of mouth, or network marketing. Getting one or two people that can trust us with their money and once they see their progress and our good performance they can be our walking advertisement.

Lastly, we will encourage our current customers to refer their friends by paying them a commission for doing so. This will ultimately will be our best advertising because is easier to get customers trust through someone they already trust.

5.4.2.1 Secure Investments Corporation (SEINCO) Available Portfolio Options

SEINCO, LLC – Options Offered

When creating an investment company, it was decided that the best way to attract as many clients as possible was to offer a variety of investment plans, each according to each individual's financial goal. The following are the descriptions of the three different portfolios offered to our clients.

Low Risk

- Maximal drawdown: 2% of funds
- Target Return: 8%
- 5:1 Leverage

Moderate Risk

- Maximal drawdown: 5% of funds
- Target Return: 15% of funds
- 10:1 Leverage

High Risk

- Maximal drawdown: 10% of funds
- Target Return: 20% of funds
- 20:1 Leverage

Note:

*For all options, if target profit is reached for the year, any excess profits will be split 50/50 with the client.

*Management fee included in the advertised return.

Chapter 6. Results

6.1 Introduction to Results

Throughout this project, the more we learned about the financial markets, the more surprised we got at all the factors that come to affect it. We were more surprised however, at how irrational it behaves sometimes. Because of this we learned that one has to be very careful and have certain parameters or rules for each transaction to protect, one's assets from this irrational behavior because "the market can stay irrational for far longer than you or I can stay solvent" as Mr. Gartman put it in one of his letters. Other things we have learned in this project is that there is no one correct way to trade there is only "your way" if a person can stick to his/her system where the probabilities work in your favor, over time this will make you profitable. However, it takes months and years to finally realize and understand this concept, as easy as it sounds it is the hardest thing to learn because in the first months of trading when we think we have "learned the system" there are new ways in which we can sabotage ourselves. It is not after numerous failures that we understand that consistency is what really matters. That is why so many people fail at doing this, it is a big emotional rollercoaster that not all people can deal with.

In addition, we learned the great amount of scammers that are in the foreign exchange market. Since this market is poorly regulated especially outside the United States people can easily get away with stealing other people's money. Because of this it is very important to have a reputable name and that takes time and months of consistent profitable trades. Moreover, having a clean record is also essential while opening a forex firm since it is the presentation card that would bring potential customers. As previously explained, establishing a forex firm requires lots

of effort and consistency in order to be successful. A trusting environment needs to be created for our customers to feel comfortable and secure about their money.

6.2 Team Program

Team Robot

Our team robot is based on the idea of ignition bar. The parameters of the robot are as following:

Bar that is at least 90% solid

-It has to clear at least previous 10 bars

-It has to clear previous high

-It has to be noticeably bigger than other bars

-has to be above 8SMA & 20SMA

- Make entry when price retraces 20% of the bar

-Put stop loss below the ignition bar

- At 50 pips take profit, close the position completely

-Once 20 pips in profit, move stop loss to break even & take half of position off

- Trail the price at 15 pips (only close half the position)

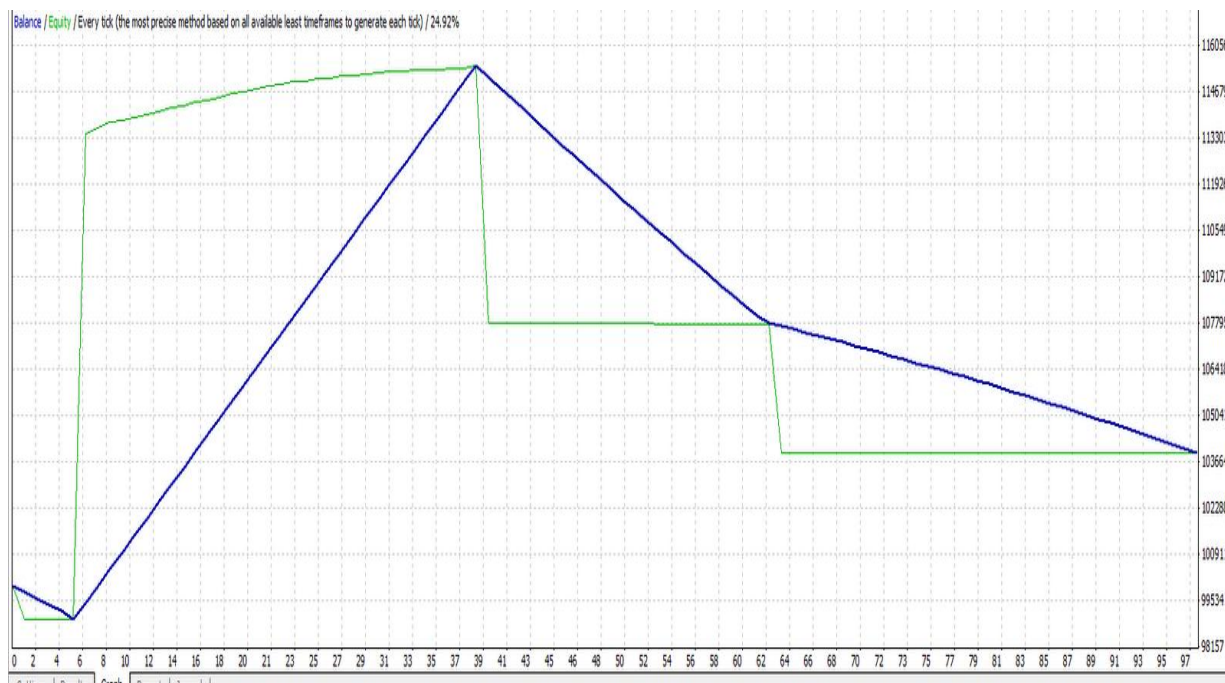


Figure 6-1. Trading Graph

Bars in test	30806	Ticks modelled	1756476	Modelling quality	24.92%
Mismatched charts errors	0				
Initial deposit	100000.00				
Total net profit	3965.00	Gross profit	16500.00	Gross loss	-12535.00
Profit factor	1.32	Expected payoff	40.88		
Absolute drawdown	3940.00	Maximal drawdown	11517.00 (9.97%)	Relative drawdown	9.97% (11517.00)
Total trades	97	Short positions (won %)	0 (0.00%)	Long positions (won %)	97 (94.02%)
		Profit trades (% of total)	33 (34.02%)	Loss trades (% of total)	64 (65.98%)
	Largest	profit trade	500.00	loss trade	-340.00
	Average	profit trade	500.00	loss trade	-195.86
	Maximum	consecutive wins (profit in money)	33 (16500.00)	consecutive losses (loss in money)	59 (-11517.00)
	Maximal	consecutive profit (count of wins)	16500.00 (33)	consecutive loss (count of losses)	-11517.00 (59)
	Average	consecutive wins	33	consecutive losses	32

Figure 6-2. Program Report

Chapter 7. Conclusion & Recommendations

At the beginning of our trading experience the research of all the common terms in the forex world was crucial. Additionally it was very important to learn that trading is not gambling, thus it is essential to base every one of our entries with some sort of analysis. As previously described there are many tools that can minimize our exposure to risk and loss and consequently have bigger gains.

In order to become a profitable trader there has to be awareness on the economic, social and political changes that could affect the currency market. Furthermore, the use of technical indicators is also encouraged to support the global macroeconomic issues and facilitate the trader's decisions. Experimentation has led the group to conclude that the more analysis utilized the better the outcome produced. This does not mean to use all indicators available, just to get a little information of every aspect of the factors that affect a currency. For example, a common strategy used was the use of moving averages, support and resistance levels and the fundamental knowledge.

We considered the trading plan to be a critical tool for traders. In order to create a trading plan it is encouraged to seek guidance from experts, however every trader should make his/her trading plan based on their own personality. This tool is created to avoid common mistakes and major risks related to an individual's confidence zone.

The currency market is full of risks. Careless mistakes such as not setting up a stop loss can result in the loss of an entire account in just seconds, due to the high volatility and leverage

that is present under certain events in the market. In order to avoid serious loss, small losses are still expected as no system is flawless; a methodology needs to be established.

When we initially signed up for this course we thought we had several things in mind that we wanted to learn. Some of these things were to learn about the financial markets and how these news affect the value of a specific's country's currency. Also, we wanted to learn trading techniques necessary to be able to make use of this knowledge to learn how to make money. That was our initial goal, however, once we actually started the project, we realized that there were other things that were required of us, like knowing how to do automated trading and know how to set up an investment company.

Although these were unexpected assignments, it was interesting and useful to learn about them, especially the automated trading portion. We found that automated trading was very useful to take out the emotional part of trading. The assignment on the investment company was useful, it taught us how this business works and the risks involved in it.

Our main challenge in the automated trading was that none of us really had enough experience with computer language to be able to write the programs we wanted to write and thus we had to resort to classmates in other groups to help us with this part. For the assignment on researching about types of companies available, while we found this information useful, we felt that too much time was spent on it.

Finally, we hoped that more time was spent on the actual trading portion of the class. For example, there could have been assignments on studies of the psychological effects of trading,

the state of mind one should be in, reasons for taking a trade and not to panic until the event that triggered the entry was eliminated.

Some recommendations for next year is that the project itself could be diversified into different categories since there are going to be two professors now teaching it. Groups could be given the choice on what interests them the most and expose what they have learned to the whole class.

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Appendices

Appendix A. Macroeconomic Issues that Influenced the FOREX Market

EUROPEAN DEBT CRISIS

Starting around mid- September news came out that the banks of US, England, Switzerland, Japan and Europe were going to establish a huge repo line. This was to create some much needed sentiment of relief around the world to alleviate some of the concerns people had about the global economy and the growing possibility that we might be headed for yet another recession. This helped greatly the European economy who is at the brink of disintegrating due to the high debt of the PIIGS (Portugal, Italy, Ireland, Greece and Spain), especially Greece who Mr. Gartman says that “it is not a matter of if, but when” they file bankruptcy. This news helped the Euro make a noticeable rally of almost two cents. However, this did not help the inevitable, because there was a rather large gap south of the euro price the very next day showing the increasing panic in the markets around the world, specifically in Europe where the probabilities of Greece defaulting are increasing by the second. That is not the most troublesome part, what is most feared is that the rest of the PIIGS will follow suit, with the argument “if they did it, why can’t we?” Something that will be likely since Italy’s economy was downgraded due to these fears, not only are they in trouble but they have the second largest debt in Europe.

Another added consequence of this crisis is the repercussions that this crisis is going to have in the surrounding countries that are not in the union, but are part of Europe, countries such as England being one of them. Many people are afraid that unless something is done quickly the situation is going to spiral out of control. It seems the failure of French President Nicolas

Sarkozy and German Chancellor Angela Merkel to come to an agreement is getting a lot of people nervous. This is interesting, the bailout fund will only include the European Union members, which are 17, but the recapitalization of Europe's banks will involve all 27 members. Thus it seems this is now, not only a problem regarding the union, but a wholesome common problem. This is understandable being as Europe is such a huge economy worldwide, its collapse would have severe consequences around the world, so it should not be in anyone's interest because no one would benefit. The same would happen with the US economy. As I understand it Britain is partly involved in the union, this shall create a lot of skepticism in people whether they should still be in it.

Mr. Gartman did make a point in his letter of September 23rd that, even though Greece is at the brink of bankruptcy, its debt is nothing compared to that of Japan's. However, in the case of Japan, there is not much worries considering that most of its debt is carried by its citizens. This is a society that really understands the benefits of working together, it is true that if Japan defaults it is going to be disastrous for its citizens, but no banks or countries are going to be in danger. In fact, something like this is not too likely to happen being as this culture has learned to work together and carry their own weight, besides the only ones affected by the default are going to be themselves, so it is in their best interest for them to work hard in meeting that deficit. This is how all governments should be, the Japanese people trusts their government so much they are willing to buy their debt, knowing that in the long run they will be taken care of. On the other hand we have Greece, which most of its debt is being bought by Germany and France. Add to that the fact that most Greeks do not pay taxes, it is a recipe for disaster. The only problem that Japan faces is its aging population, "the indigenous buy-side clients" are dying or getting old and that would really put at risk the Japanese economy. However, Japan is a perfect

example of a government who has intervened in the foreign exchange market to manipulate its currency. Since “in these difficult times” many people are seeing the yen as a “safe heaven” because the dollar and the euro are not doing too well. This in result drives the price of the yen up, something that the Japanese do not want because that affects their export output, thus, they have intervened in the markets by doing massive selling to keep their price down, which is around the 76 yen per dollar level. Another notable intervention in the foreign exchange market was that of the Swiss government who decided to “peg” its currency to the euro at 1.20 francs. Historically, the Swiss economy has been a rather safe heaven due to the fact that is a very neutral country and it does not get involved in wars, they do not even have military forces. The Swiss government was being affected by the demand of their currency and thus, decided to intervene. This peg sent the Swiss about seven cents up versus the US dollar, thus weakening it. The Swiss government said that it will go to any length necessary to maintain this peg, because not only will it help its exports but it will also help the Euro currency. The weird part about this event is that usually is the weaker currency that pegs to the stronger one, not the other way around. Before the peg the Swiss government lost billions of dollars trying to keep their currency down, thus they decided to go for the peg and they were willing to go to any lengths necessary to protect this peg. This sort of stuff usually does not last long. This will be a real test of the Swiss governments’ word. In the October 14 Gartman letter the Euro started to gain some strength as expectations from the G20 meeting in Paris was about to be held. This shows a lot of optimism from the people putting their hopes of the bailout on this meeting, I could only imagine what the consequences on the Euro are going to be if everything does not come out as planned. Nonetheless, Mr. Gartman says that the euro “is nothing we see optimistically” thus, being the respectable man that he is and with the arguments he presents, I should follow suit. He gives a

good case on why he thinks this way, saying that although they might reach an agreement it is only something temporary, on top of that, the S&P has downgraded Spain to an AA- and suggesting that its outlook is negative. This is enough to convince me, to be rather cautious.

Mr. Gartman has made it clear that it is not a matter of “if” but, a matter of “when” Greece defaults. And apparently the markets are on the same page since they are “steadily walking down” the value of the Greek debt. With this in mind there isn’t going to be an element of surprise when it does since everyone is already expecting it. One of the solutions to solve this was the expansion of the ECB’s Balance Sheet, something that the Deutschebank thought of only detrimental to the economy, and thus it is going to be short of it. Hmmm.... Is this a sign that the end of the rally of the Euro is about to come to an end and finally collapse?

Going back to the Greek bailout, it is worth noting that the Germans are the ones actually doing most of the bailing out. In order to maintain the Maastricht Treaty of the European Union, Germany has to back a plan to bailout Greece. This comes in conflict with the popular vote in Germany, and the are Germans tired of using their taxes to pay Greek debt. It makes sense, why would you want to pay for someone else’s mistakes, especially when you know they do not pay their own taxes. Politically this has had some serious repercussions on the image of Ms. Merkel, whose popularity had been decreasing in light of her support of the bailout. This seems like a punishment for what Germany caused in World War Two. However, it is not only Germany’s decision to approve the bailout; it has to be an anonymous decision. Something important to point out is that, it is true that Germany is the leading economic powerhouse in the European Union, nonetheless, the union has benefited Germany a great deal because of the easiness of exporting goods out it has benefited greatly from countries such as Greece importing their goods.

Thus, if Greece does indeed go bankrupt, it is going to cause chaos in Germany now that they would not be able to import the same amount of goods. It is sort of like what is happening with the United States and China, as a capitalist society, consumerism is the rule of thumb here and China is happy exporting all of its cheap labored products here. Other questions that are raised in this bailout is whether if the Maastricht Treaty is worth the troubles, meaning if it was worth keeping Greece in the European Union but more importantly if it is worth just being in the Union. However, government officials have made it clear that “Greece is, and Greece will remain a member of the euro area” but “the EU was facing its greatest challenge”. Measures have been taken to approve a bailout for Greece, but there has been delay due to the need of Greek officials to reduce fiscal deficit, which per capita is one of the lowest in Europe, however, Greek people are not too fond of paying taxes. That is why everyone is so worried, however, there has been bills passed to cut the deficit such as property tax bills and there has been penalties put upon to those who do not pay up. The pressure the bailout has put on the European economy, specifically on the euro has been great, driving the price down more than 10 cents in less than a month. Nonetheless, there has been some recent optimism in the euro zone that leaders may be ready to take decisive action to tackle the debt crisis. But as Mr. Gartman proposed, such measures would be more long term and they would probably won't go into effect into next year, for which time Greece's bankruptcy has already come and gone. That is why I will not be surprised for the euro to drop significantly even more than ten cents to at least lows in recent years of \$1.20.

So the rescue fund in Europe expanded from 400 billion to 2 trillion Euros. Also the banks will be recapitalized at 9% capital ratio, something that the European Banking Authority demanded from the original 60-70 level. This means they can only lend 9% of their capital

and most likely take some losses on the money they have already borrowed, or more accurately on the bonds they bought from the Greek government. What interests me the most, however, is the way this is going to affect the euro. Mr. Gartman said this was a sort of response to America's QE (Quantitative Easing) I and II back in 2008. He explained a plunge in the dollar index of about 10 points, then a recovery rally to break the previous highs (barely) to just plunge back down even further. If history is a good indicator, then we should expect the euro to fall considerably in the next few months. His comments of "eventually" and "profitability" made a lot of sense to me. You can know where the market is going, but if you don't know when the eventual pivotal point is, then you better have a generous stop loss and be prepared for an emotional rollercoaster. Being able to identify a time able entry is the difference and can save you a lot of headaches.

It seems that the problems there are endless, Greece's promises of debt/GDP ratio just got revised and consequently higher for this and next year and as Mr. Gartman has said " If history is any guide, both of those "misses" will prove optimistic and will almost certainly be much worse". Furthermore, those news on the Spaniard newspaper that all of Europe's countries have breached the deficit limit and debt limit established by the Maastricht Treaty on 137 occasions from 2000 through 2010 is bad news. What is even worse is that Germany, the leading country broke those limits 14 times. It really makes me wonder what will happen to the union with this bailing out, will it survive or perish through it as they realize that not all countries are capable of meeting the standards.

OPERATION TWIST

So, another big macroeconomic issue covered in the Gartman letter was the measures the Fed was going to take to try and fix the economy. This operation twist has been seen as a “last resort” being as it was used back in the sixties and it failed miserably. They are trying it again in hopes that it will work this time, which induces you to think that apparently there are no other alternatives and they are just plain desperate. I guess, it is not such a bad idea, after all it is well worth the shot at doing nothing and watching how the economy crumbles to the ground. So “operation twist was implemented to drive down the costs of the interest rate in the 10-year bonds, which affect other interest rates such as mortgages which will also be driven down. The Fed will buy bonds long term and sell them short term, which will in turn reduce the interest rate because the demand is will be higher. Many people are concerned over the real effect that this is going to have and more importantly whether it is going to have any effect at all since rates are already down and there seems to be no reaction in the economy. Going to the core of this, the people, even with interest rates as low as they are, banks are not lending money to basically anyone. “This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative” is what the Fed said, really? Not even people with good credit, good income and working. It seems the only people they are willing to lend are those who already have loads of money, who don’t need money. Another criticized part of this highlighted by Mr. Gartman was that by doing this, the Fed will take away the ability of banks, specially smaller ones to makes money. This is because banks make their money lending long term and borrowing short. Now that this is the case, how are they going to be able to make profits? No wonder they are so scared right now to lend to anyone. Many people argue that this

is still not enough and it is a bad idea, but there seemed to be no other option at the time, thus, we shall wait and see what happens with this ordeal.

CHINA AS A RESERVE CURRENCY

Now, with all the commotion going on around the world and talking about safe or stable economies, China is way up there. The Chinese government knows this and that is why it is trying to internationalize the Renmibi. It makes sense since the Chinese have own most US debt and all they do is save their money and their economy is growing significantly. They want the spotlight and maybe even replace the US dollar as a reserve currency. Having this in mind, there was news that Nigeria shifted some of its reserve to the Chinese Renmibi. This shows China's commitment and growing influence in the international market and to move away from the US dollar. Although it is only a third world country, this is something the US should not ignore, it is a bold initiative (who knows what services the Chinese offered to provide though).

HIGHER TAXES?

Moving on to a different topic, on one of his letters Mr. Gartman mentioned how Warren Buffett wanted the taxes to be raised for the people in the highest percentile tax bracket. He made noticeable points that, those measures would not affect Mr. Buffet much since his taxable income is less than one percent of his net worth. The only thing that this did was to give support to Obama and his leftist supporters for doing something probably very counterproductive for the economy. There have been various cases that support the idea that over-taxing the rich is in fact a bad idea, they either take their wealth somewhere else or it just disappears. For example in Greece this is exactly what is occurring, "Mr. Papandreou, a staunch socialist, for he prefers raising taxes on Greece's wealthy; but the number of Greek millionaires is falling by the day as

their wealth has collapsed and/or as they've left for less onerous political and taxable jurisdictions". Also, there is a sort of confusion as to what millionaires are, and I really never thought about it until it was brought up in the letter by Mr. Gartman, "the words millionaires and billionaires" are rather too much for people who are considered in the highest tax bracket earning only 250K a year. These people are well off, and some of them might be in the millionaire level with good investment habits. Even fewer can really boast of having a net worth in the millions, let alone billions, these are here in the United States "thousands of millions", which in this category, there is about less than .01 percent of the population. To prove his point, Mr. Gartman gathered some information from the Internal Revenue Service (IRS) about what each of the individuals in the different tax brackets pay. This data showed that about 80% of the households in the lower tax bracket pay only 11% of the total tax revenues, leaving the top 20% of the nation's households to pay the rest! How is it that with this information, the government still wants to raise the taxes on the rich? Even more concerning, how is it that Mr. Buffet expects this as well? I know that he is a charitable man as he has joined the Bill Gates foundation, but that is voluntary work, and I am pretty sure these "rich" people (or at least some of them) also have done some type of donations or voluntary work, because some way or another they have to be grateful for the opportunities that they've had in this country and would want to give back. But if taxes are raised, they won't have that "extra money" to help others out, and instead that money would most likely not be well spent in government programs, which takes us to the Social Security Administration (SSA), which has received plenty of criticism and even being called a "Ponzi scheme" by Dr. Williams and several other people for us, the young generation today. Because the essence of this is that there are always more youths than old folks in a growing population, however, this views are no longer accurate today. The US population is getting older

and the population growth is declining making a recipe for disastrous events, because starting from the baby boomers, we are not going to have a big enough of youth to support this system, and sooner or later this was bound to happen. We are in a capitalist society and once everyone is conscious of that, stop blaming the government for all their misfortunes and start taking responsibility for their actions everything will start to work better for everyone.

US-CANADA TRADE RELATIONS

Another important factor touched upon in the Gartman letter was the trade relation problems between the U.S. and Canada. Being as these two countries share the largest border in the whole world and also the least protected and also the greatest trading partners in the world, this is serious news. This is a very beneficial relationship for both countries since most of Canada's exports (about 75%) come to the U.S. This reminded me of a months-long conflict between Colombia and Venezuela. Being from Colombia the collateral damage that this brings to both countries especially Colombia was very concerning, being as they were the major trading partners in South America... All of this was due to the personal tension between both presidents and the guerrilla conflict. This brought a great deal of repercussions to both economies for the period being. Protests and roadblocks were seen on any given day from people that were affected by the cut in relations between these two neighbors. There were even talks about war from Chavez (eventually everybody noticed that he was exaggerating the conflict for his own benefit), however, it really did get that bad. I am talking about this because although I was not living there at the time, I had family members who talked about how the prices in everything were going through the roof. Thankfully a new president was elected and everything was smoothed out.

Fortunately here, the presidents are a little more objective and practical and are going to talk things over before they get any worse.

JOBLESS CLAIMS

The weekly jobless claims have not given much to talk about as they stay on or around that 400K level, and until it drops significantly to about 375K or above 425K there is not really much to talk about, only that it is moving sideways or consolidating. The only real disconcerting part is that it has clearly broken the downward trending line that started back in the spring of 2009. This sideways movement clearly broke the trend line, but it is still kind of downward sloping, thus, I am guessing it could re-enter that downward trend. Only time will tell.

A little background on the jobless claims is that there is the initial report and then, there is the revised, the initial report usually has the highest impact. The Initial Jobless Claims report provides information on how many individuals have filed for state unemployment benefits during the previous week. This number can be a predictor of what the economy is doing. If there is a significant increase in these claims, it could potentially be pointing to slowing job growth, as unemployment rises. On the other hand, when this number decreases significantly, it can be a sign that the economy is accelerating in job growth and therefore is economically sound. Yet, most investors will only consider this in a four week average, as these factors can be very volatile. Finally, most investors will tell you that a significant number of changes are a move of at least 30,000 claims up or down. Anything less can be merely normal fluctuations.

THE JAPANESE YEN

The yen has been consolidating for quite some time now having traders keeping the price below 77 yen, however, they are wary of the Japanese government who insinuated that they will have to intervene because of the repercussions a high valued yen will have on the Japanese exports. Thus, they have attempted several times to push the yen above that psychological 77 yen level and they succeed but it comes back down. Looks like this is going to consolidate for quite some while. The reversal to the upside is still hovering around the same area, which shows the commitment of the Japanese to keep a weak yen. I agree with this, it seems that although in Europe people think a price under 77 is no problem, the Japanese think otherwise, and it seems they are putting quite the effort to weaken the yen and they should know what is best for them, right? As the time goes by it would be interesting to see how committed they are. What is also interesting, is that although, knowing the big debt Japan has, people are still willing to buy into the Yen. Don't they think that there is a probability that they could also default at this rate?

GOLD

The gold has finally broken upward the downtrend line in yen terms, but in euro and dollar terms it has not been able to break that resistance. However, this can be a good indicator to predict that eventually gold in euro and dollar terms will follow anytime and I will be monitoring it constantly. Something I have noticed is that the gold in US dollar terms is usually more bearish than in euro and yen terms, respectively. I do not know if this is a common trend but if the case these past couple of days is a norm, it shows that if there is going to be a break to the upside, the gold in yen terms is the most bullish. However, if there is a break south of an upward trend, the gold in dollar terms is the first one to break that level.

On a different topic about gold, Mr. Gartman shared something that Ms. Gillian Tett (Managing and assistant editor of the Financial Times) wrote, which made a lot of sense to me. Since that bear 180 early in September, I thought it was time to buy gold again, since price had already “corrected” itself, thus I was expecting small rallies of gold. However, the price went south by the end of last week, something which was really concerning, nevertheless, price is already rallying and it did not break the channel I had created. With this and with the news from Ms. Tett that governments have intervened in the price of gold down is interesting and whether or not it is the cause of the strength of the gold I am not sure, but I feels a lot more comforting now to go long on gold.

FRENCH ELECTION

There was a comment about the French Presidential election and how the current president, Mr. Sarkozy is second to his rival, the socialist Francois Holland. Mr. Gartman acknowledged that he is not a fan of Mr. Sarkozy, however, he prefers him to Mr. Holland. I can understand why, because Gartman, being the strong supporter of capitalism that he is would be against most if not all of the policies of a socialist government.

EXPLOSION OF INFLATION IN PRE-WWII GERMANY

The article that Mr. Art Cashin wrote about the explosion of inflation in pre-World War II Germany was very interesting. It was almost unbelievable the levels of inflation that this country created in their ignorance about monetary policy or just simple fear of riots or a civil war. I mean just the fact that a kilo of butter cost 1000 times more than the entire money supply in the nation 10 years earlier is ridiculous. All of this happened because Germany had a solid economy back in 1913 and thought that WWI would be short lived and that they could cover the

costs of the war with the post war reparations that they as victors would receive. Worst of all, not only did they not receive anything (they lost) but they also had to pay the damages themselves. Nonetheless, there were people who thought that this was just a “speed bump” in the economy. Now, the author was speculating whether this is something that would happen here in the US, saying that this also occurred in Zambia some years back. I know things are bad, however, I think that is kind of an exaggeration. First of all Zambia was and I think still is a very unstable country and second of all we did have a war (still do) but it is not of such magnitude.

TAXES

On the letter of October 17, Mr. Gartman told of a story of “On cash only maid service and modern playwrights”. He wrote that he once hired a maid to do the cleaning for his house, and the rate she was charging was a bit expensive but he agreed nonetheless. However, she offered to work for less if he paid in cash, and being the righteous man that he is Mr. Gartman showed her the door. Tax evasion is a problem in every single part of the world where there is a government, there are always those who do not want to pay their fair share and that is unacceptable. I see this happening mostly with poor people who want to live off welfare, or rich people who want to “protect” their capital. This is and will always be a problem because unfortunately not everyone is as righteous as Mr. Gartman.

Another article on taxes was the one of corporate taxes and how corporations do everything they can, to “legally avoid” taxes. From the famous statement of Mr. Frankfurter “no man is to pay one more penny in taxes than he should and it is everyman’s right to minimize his tax liabilities to the best of his abilities within the law”. And here since corporations are treated as a human being thus, have the same rights. However, because of this they are moving off shore

moving and keeping most of the profits and jobs abroad. Mr. Gartman made the statement of how this is what needs to be replaced... the “system of red tape and patronage that creates this situation is what must be replaced”. And it makes perfect sense, if you are given the opportunity to not pay taxes, wouldn't you try not to pay anything? How can the government expect companies to pay their taxes if they are legally allowed not to. That is why they spend so much money on lawyers and accountants to look through the tax code for any and all tax benefits.

THE NEXT BUBBLE

Apparently, there is speculation on what is going to be the next bubble. The last one was the real estate market, which has since dipped 70% from its highs in late 2006. Now speculators are putting their eye in the agriculture industry as the rapid advance of the farmland prices over the past couple of years. I wonder how much power speculators have over this. It is nice to know that with the little knowledge that I have, that this “bubble” indeed is very possible knowing that such a steep incline would eventually produce a retracement or “price correction”. I think this is just another proof of how the markets are just human psychology and how everything and anything that is moving away from a steady pace, eventually returns to a balance.

GLOBALIZATION

Globalization seems to be the norm in this modernized world. It has made the world smaller and created several trading partners around the world. The U.S. being the biggest economy today, being the consumerist society that it is one would think that most of its products are imported, especially with the wide known fact of cheap Chinese labor. However, it was surprising to know that 88.5% of those expenditures were American made. This shows how the US economy is relatively closed to the world. Acknowledging this, moving on to more

protectionist measures would indeed have “serious unintended consequences” to the economy. Rather, the US should have a more open market.

PRICE OF COMMODITIES, OIL AND METALS

Since we started reading the Gartman Letter, Mr. Gartman makes sections for the prices of commodities, metals and oil. And it has come to my attention that all of these depend on the strength of the US dollar, they are inversely related. There are other factors of course such as the supply and demand of these commodities, in the case of oil and agriculture the weather also has a lot to do and last but not least is the political stability of the countries that produce the crude (OPEC). Oil prices are under heavy pressure, more accurately the Brent/WTI spread, under news that the likelihood of rebel taking over Libya is greater. High ranking senator such as John McCain are going to Libya to speak with representatives of the resistance movement... we'll just have to wait to see what happens with this news when they meet in Martyrs Square in Tripoli to hold a news conference. On other oil news, it seems yet another great deal of oil has been found on the mid-eastern US, I hope that is good news for us that have to pay at the pump...With this in mind, Mr. Gartman did not mention much about the death of Gaddafi in Libya. One thing is almost certain though, with his death the path for oil exports from Libya clears up, which will produce more supply and possibly driving the price down.

UNITED STATES' INTERVENTION ABROAD

The US is the biggest economy around and its imperialist practices throughout the 20th century helped it greatly to gain more power and wealth, especially here in the Americas. So, the comment from Mr. Gartman about President Obama's opinion on the armed struggle happening on Turkey, I was rather confused. You see, at first, I thought of the president as a guy who would

put people first and he has showed that in all of the programs that he has done, for example the overhaul of the healthcare industry and he is considered rather leftist, some even calling him a socialist. When ex-president Bush went into Afghanistan and then to Iraq, most people now are convinced that such effort was made because of the oil there (and to battle terrorism), but most people would agree that he would not put so much effort into that war if it were not for the “oil rich” lands that were there. Now, Mr. Gartman made the comment that we should watch out and pay attention to this because of the “oil fields in northern Iraq” (where the conflict is currently) I just did not see President Obama on that same route, not only is he not republican but rather, there are more sensitive obligations here at home than try to spend more money over oil.

STUDENT LOANS: THESE WILL PROBABLY HAVE TO BE FORGIVEN

In one of his most recent letters, Mr. Gartman wrote about the “huge size of the loans that recent college graduates are carrying as they leave university”. This is nothing but the, truth. I have talked to several of my friends here in WPI and at other schools, mostly private, and once they graduated they owed sums up to 80 thousand dollars. That is ridiculous. Noting the fact that it rose from \$100 billion in 200 to about \$560 billion this year and that mortgage debts have been forgiven, it makes sense that this is also forgiven. In fact, college students are the future of this country and if tuition costs keep raising the way they have been is going to discourage a lot of people from continuing into higher education, as has already happened to many people. I agree with Mr. Gartman that an agreement has to be made, but more importantly tuition rates have to be cut. A good example is Canada, you can basically go to college there for free, I have heard that the government even gives you stipends to go to college stimulating education and Canada seems to be better off right now than we are. There is something the United States should learn.

BIG vs. SMALL BUSINESS

On the letter of October 24th, there was an article that was titled “Contrary to Popular Opinion” which described that contrary to what everyone believed, big businesses are the ones generating jobs and keeping them. The pay scale is even higher in bigger companies than in small ones, “out paying” by \$27 to \$16 per hour in small companies. Another benefit from Big Companies, especially in this recession is the fact that small business are “scraping by” thus, reducing benefits. This is rather eye-opening since we have heard so many times, especially by presidential candidates in the 2008 election to help “small business” and how they were the true creators of jobs in the US. This leads to a plan to subsidize these small companies to eventually become “big”. So, the question now is, was all of the money invested on the wrong idea?

EUROPEAN UNION CRISIS

I have several topics of macroeconomic concern, however, the European crisis is such a big topic that I created a section for it, because it is the most talked about news right now and it is the one that currently has had the biggest impact on the financial markets around the world. I will include several different news and stories here for the sake of trying to keep all the same information in one place.

01/05/12- “The euro is taking a serious beating today, falling more than 1% to \$1.2791, its lowest level in 15 months. But it’s still too expensive. Remember, back in the Spring of 2010, when euro-zone fears first really gripped the market’s imagination in a let’s-all-panic sort of way, the euro dipped below \$1.20 against the US dollar. There’s no good argument for why it should be more valuable than that today, particularly with the euro-zone sinking into recession as

we speak, while US economic data keep surprising to the upside. Julian Jessop at Capital Economics sees the euro hitting \$1.10 before long”.

This is some interesting news, the \$1.10 level is actually the lowest the euro has seen in almost a decade. I am not expert, but it is almost certain that the euro will hit \$1.20 technically speaking, there is some serious support there from the monthly 200 moving average. The price will most likely pierce through the 200ma but how much depends on the performance of Europe. I am a little doubtful that the euro will go that low, since in today's globalized world a lot of economies depend on one another. It is not like 100 years or even 50 years ago that if an economy went south only they suffered the consequences. Now, everyone suffers the consequences, we do not have to look too far back to realize this. Just look at the recession that occurred 4 years ago here in the U.S., we were certainly not the only ones that went into recession. Due to the fact the US is such a big economy it affected economies worldwide and the same will likely occur with the European Union.

There is no question that the European debt crisis threatens global growth, what one would like to know is, how low will this take and how deep is it going to go?

On the more technical side of things, the euro has been dropping significantly over the last few trading sessions; it only begs the question is it done? I say this because it has not retraced back to test previous resistance levels and it scares me to short it because it is already extended. There is no question that the euro is bearish, but until it takes a breather and checks back into previous resistance levels, preferably in the highs \$1.28 I will not feel comfortable holding short positions for too long.

Sun 8, 2012 – “Greece should leave the euro zone and devalue its new currency unless Europe is willing to provide "massive" funding for the indebted country, Czech central bank Governor Miroslav Singer said in a newspaper interview.” This was what one of the leaders in Europe said, and it seems he is part of a group of people that are convinced of the same solution. It is an emblem of the saying “go hard or go home”. In other words, the only way he and other people see this problem with Greece is that if you are going to do something do it right or don’t do it at all and I agree. Mediocrity does not lead to anything. So far the help that has been given to Greece only serves to delay the bankruptcy and help the Greeks, move their money out of the country. Some, money has been spent already and it has not worked very well to solve the problem in Greece and it has created serious tension in France and Germany.

Around the same time that this was happening, French President Sarkozy met today and held a brief press conference that was “heavy on the solidarity proclamations and light on details”. Both Merkel and Sarkozy want Greece to make good on the agreements and stay in the European Union. Let us see how this turns out.

In other worrisome European macroeconomic news, following the news on 01/04/12 that “Italy’s largest bank by total assets... UniCredit... said yesterday that it has no choice really but to offer existing shareholders the right to buy two new shares of stock in the bank at 1.943 euros each... more than 40% discount” This was the news that helped the euro sink even lower.

On the January 5th Gartman Letter, Mr. Gartman made a really bold statement which is quite long but it is worth getting it all down, he wrote “Tectonic plates beneath the forex market do not shift often, but when they shift they shift for very long periods of time. The plates have shifted in favor of the US dollar; the plates have been shifting in favor of the other non-US

dollars, and now the plates are shifting in Sterling's favor. We say this hear and we do not say this lightly, but it is clear to us that we've entered a long period when the winds shall favor the "English speaking countries" and the English speaking currencies. We will do well in the days, weeks, months and years ahead to err constantly in favor of owning these countries and these currencies at the expense of most other countries and most other currencies. Mark this down; note this and hold us accountable two months hence; two years hence and a decade hence". I believe this is quite remarkable that he is able to make such a statement so boldly, that statement was pretty much all that I could remember from that day's letter.

PIMCO PREDICTS FURTHER RBA RATE CUTS ON CHINA SLOWDOWN, BUDGET TIGHTENING – BLOOMBERG.COM

As mentioned before, in today's economy everything is pretty much a domino effect. The Reserve Bank of Australia will have to cut their already low interest rates further because of the sluggish performance of Chinese economic expansion. "Demand from China for resources has fueled a mining boom that has buoyed Australia's economy and kept it out of recession for two decades".

Australia is in a mission to create a budget surplus and it is taking necessary actions by cutting the interest rates and cutting on its spending. All of this in spite of the fact that its revenues are falling, a very daunting task.

SNB CHAIRMAN, PHILIPP HILDEBRAND, RESIGNS WITH IMMEDIATE EFFECT

The Swiss National Bank Chairman resigns from his post following "the insider trading" of his wife. One of the things that I like about the foreign exchange market is that there were not

reports that were given to some people so they could benefit, thus making it a better playing field for all of us. However, I did acknowledge that there must be some form of insider trading. Then, these news came out and made me realize that although there may not be financial reports to look at, there are always going to be people finding a way to get ahead, fairly or not. I am just glad that this market is big enough so that these inside traders do not affect it too much.

IRANIAN CONFLICT

Mr. Gartman made some comments on the conflict regarding to Iran that “Iran’s entire navy, army and air force is laughable inferior to even one US carrier battle group, much less to two. The mullahs know that any belligerent act would be the excuse needed by the US military to destroy the Iranian navy entirely and to bomb the nuclear facilities that Iran has been preparing for the past several years”. I would have to agree with him, I believe that any nation in the world right now that intends to pick a fight with the United States is just really looking for disaster. However, were a war to break out there will also be serious consequences here in the US to an already weak economy and you can never underestimate the determination of someone who has nothing to lose. I would rather fight a strong enemy that has a lot to lose, than a weak one with nothing to lose because he would be the most irrational and unpredictable of the two. Having said that energy prices are ridiculously high due to this tension, but not everyone in Iran is that irrational and they are worried about the sanctions imposed by the United States, fearing that other nations will also stop trading with them for their fears of sanctions from the U.S.

What lack of petroleum products?

One of Mr. Gartman's "favorite columnist" wrote an interesting piece about fossil fuels and petroleum products. He said that for the first time last year in 62 years the United States was a "net exporter of petroleum products". This was due to the fact that "progressives believe that only government's energy should flow unimpeded" thus creating an excuse for rationing energy and creating a surplus of energy. He made note of the progressive's horror to see that in 2011 Americans began to comprehend the abundance of fossil fuels that are on our own backyard. I remember watching documentaries last year about the vast amounts of untapped oil and natural gas reserves that the U.S. has and kept wondering why they would not use them. Of course, there is the objection of harm to the environment but isn't taking oil out of here the same as anywhere? Is this land too holy to be untouched? Wouldn't it be better to drill here and make sure things are done correctly than to worry about other countries that may have conflict of interest with the US such as Iran and avoid the headache? I just do not understand.

WILL THERE BE INFLATION OR WILL THERE BE DEFLATION?

The topic of labor cost and the way that affects the US economy has always interested me, especially because of the history that American corporations have of taking jobs somewhere else to third world countries where labor is up to 1/10th cheaper than in US soil. Mr. Gartman also touched upon this topic in his "Comments on the Capital Markets" section where he explained that yes, there will be both inflation and deflation. There will be inflation in commodity prices and deflation in labor costs "for the very simple obvious reason that several billion laborers in China, India, Indonesia, Malaysia et al have entered the global labor force in the past two decades". Although their productivity levels are lower, machines and education are closing that gap within these countries. That is why even though factory type jobs in the US are

increasing the pay scale for these types of jobs is declining in order to stay competitive. I wonder what will be the level where this will settle, where a balance will be drawn so no more jobs are taken overseas because the labor here in the US keeps getting cheaper.

In addition, there was a comment of serious concern, that “the era in which we live, the era of the high school educated workers living a middle-class lifestyle is over and shall likely never return”. This really just adds to the problem here in the US, with higher education costs so high that only a fraction of students are able to attend it, thus this will create a bigger gap between the “haves and have nots” being as opportunities are being limited. There needs to be some serious education reform in order to avoid those dire consequences.

Attending college will eventually become a necessity and while I think is great that people from low income families like me get the chance to go to school, some students will be left out because college really isn't for everyone and there are other ways you can be successful. What I am against is that needing a college degree for a job that you can perfectly do without a college degree, it would just be useless and a waste of time for the student to go to college just because high school education is not good enough. But, hey I guess you got to stay competitive.

GOLD AND OIL

Since its highs of lower \$1900s per ounce gold started to decline since the beginning of the last quarter of the year 2011 to about \$1530 per ounce. There are some articles and people that do talk shows who believe that \$4000 per ounce is achievable for this 2012. The same goes for oil, there are some people who believe crude will hit \$200 a barrel by the end of this year. I found this to be interesting and rather supportive of my views on this metal and energy source. I believe that as this economic crisis evolves around the world, gold will be sought after for a safe

heaven. In addition oil is still an energy source the world heavily depends on. It is true that we are moving on to different sources of energy like nuclear, solar and wind power etc. However, that is not going to happen overnight and the OPEC (Organization of Petroleum Exporting Countries) will surely try to get the most out of their oil before it becomes obsolete. That creates a bias for me to only go long. We'll see how these first few weeks have to say.

MACROECONOMIC NEWS TIMELINE

The following were some of the major macroeconomic events that took place starting in term B. They represent the day by day occurrences as noted on "The Gartman Letter" and other sources of financial news such as www.Bloomberg.com among others that will be later noted. These news corroborate the troubled euro-zone economic situation, its effect on other markets and other news that affect the macroeconomic world.

This past week there were some macroeconomic issues that have had some implications in the Forex market. Next, we will discuss these issues.

The intervention by Japan authorities weakened the Yen. This had been expected after Mr. Jun Azumi, the newly appointed Prime Minister said that he would take measures against the "too strong Yen", while also instructing the ministry staffers to be ready for an intervention operation. Mr. Gartman has said that it takes time for new Administrations to get their act together for intervention operations. Since, Mr. Azumi had appointed his staff to prepare for an intervention, such an act was expected.

Another, signal that this intervention would happen, was that the Japanese authorities signaled that the Bank said that it would buy an additional ¥50 trillion of JGBs.

Mr Azumi said that he will “continue to intervene until I am satisfied.” According to Mr. Gartman when the Japanese authorities intervened last earlier in the year, they did it in several rounds, but only during Japanese trading sessions. In that the Yen’s weakness that they had achieved ended quite fast. Would the same happen?

The weakening of the Yen is important for them as they require, or more so depend on exports. For these a weak Yen is a good thing, which is why all the interest in weakening it. This of course at first caught our attention as one would normally not think weakening your own currency to be good. Then, again what with the work weakening sounds good?

For this trade opportunity some certainly made huge gains, while other lost a lot, since the move was around 300 pips in matters of an hour or two.

THE EUPHORIA OVER THE EUR.

After a summit meeting, the 50% “haircut” apparently will only be towards the Greek sovereign debts that the private institutions own; that which the “public” of government institutions own shall be left with the 21% “haircut” previously agreed upon. The €150 billion held by “Troika” and the ECB will not be included in the “haircut”. Greece had about €350 billion in outstanding debts. The plan was to cut it to €175 billion, which is a bearable number, but now instead its cut to €275 billion.

Also, it was said that the restructuring that has taken place was “voluntarily”, but it seems to be more of a voluntold type of case. The authorities in question had no choice, but the decision by the ISDA to accept and declare the “haircut” was not a credit event caught us off. It has caught off the hundreds of institutions that had bought CDS’s as proper hedgers, and this will

create for new rounds of legal actions to be taken by those who find that their hedges are worthless and portfolios worth-less at the same time. Pursuing legal action could be very plausible by these institutions, while at the same time also choosing not to “volunteer”. Now, this decision by the ISDA shall end up being the lawyer’s relief act of 2011 by the time it’s over. This would serve to raise rates to everyone in Europe, leading to the eventual decision of the ECB to monetize European sovereign debt. Mr. Gartman gave a pretty good advice by saying that EUR is terribly bearish.

The past month was very unfavorable for the euro. The start of this month doesn’t look positive for the shared European currency either. This week can define the future of the currency for a long time as the story of the Greek debt crisis may come to an end (most likely a bad one). Another important event this week is the monetary policy meeting of the European Central Bank.

- The Australian dollar declined today, falling for the third straight session, as the renewed concerns about Europe’s sovereign debt crisis sapped investors’ demand for higher-yield

- The Canadian dollar extended its decline for the third consecutive session today as the negative market sentiment, caused by the difficult situation in the European Union, outweighed the fundamentals that weren’t all bad.

- Japanese yen is rising today as Q3 GDP results indicate that Japan is recovering from the March 2011 earthquake and tsunami. Also boosting the yen today is safe haven demand as, once again, European stability is called into question.

- Situation in Europe keeps getting worse by the minute, it seems France is also now in trouble and their bonds spiked higher.
- There were debates on whether countries should remain in the union. Something unthinkable just a few weeks ago.
- Monetary Union "is in its death throes"
- The US is spending a fifth of a billion dollars per hour that it does not have. And the plan for 2012 is to cut only 7 billion???
- Economically the US is doing far better than the rest of the world. This produces a stronger dollar. S&P showing bullishness as well as a better outlook for the jobless claims.
- Mr. Gartman criticized Italian people (and Europe overall) for their ridiculous amount of vacation and holidays. It was going to eventually catch up with them.
- The Obama administration decided not to buy Canada's oil. Making them sell it overseas. Bad move for the economy and relations as Canada is one of the if not the closest US allies.
- Mr. Papademos assumed the Prime Minister's position in Greece after Mr. Papandreou resigned. Worst situation for Europe.
- There was commentary on Iran's nuclear program, and how it is unlikely that Israel it is going to attack Iran. But It seems that they want Russia and China's help, that is why they have made it
- 1% of the Population defends the other 99%. (Interesting fact)

- Mr. Gartman showed a table of "under the table" commerce, either legal or illegal....

It is quite fascinating how much of each country's GDP and/or "taxable income" is lost to these transactions

US dollar is down across the board on the latest move by the world's major central banks to increase liquidity. In an effort to inject confidence in global markets, several central banks are coordinating efforts to make the US dollar cheaper. Also due to this, all major currencies surged greatly against the dollar because of this. Aussie went up more than 250 pips, the bearish euro also got up there with at least 200 pips plus as well.

- Again, this idea from the central banks to keep the dollar cheap has created an attraction for higher risk currencies.

- Big move to try and save Europe. Polish officials are now saying that they are more afraid of German inactivity than of its power. Them being the only country who has the necessary economic funds to try and help Greece and Italy out of their crisis.

- Asian currencies dropped for a fourth week, led by South Korea's won and India's rupee, as Europe's debt crisis showed no signs of abating, prompting investors to favor safer assets including the dollar.

- The main driver for the moves of the US dollar, as well as most other currencies, this week was the quantitative easing, which weakened already weak greenback. The favorable US nonfarm payrolls allowed the dollar to return some strength yesterday, but it posted weekly losses against most major currencies.

- The Australian dollar surged yesterday as most other currencies, but today it relinquished its gains as the domestic fundamentals hurt the prospects of the currency.

- During these past two weeks the Australian dollar was retreating at first as new sentiment for riskier currencies came around 11/22. However, this week with “risk appetite” increasing the attractiveness for high yielding currencies such as the Aussie.

- Mr. Gartman showed in his letter this week how much of the bonds in France, Italy, Spain are maturing this month. Also adding that it should be very difficult to honor those maturities and that will be the start of the plummet of the Euro.

- On 12/01, The Canadian dollar extended its rally today as the forecasters promised that the tomorrow’s reports about the employment in Canada and the United States will show positive developments of the labor markets.

- On 11/29, The positive sentiment is still present on markets, allowing the Canadian dollar to rise, reaching the highest level since September against the euro. And as Mr. Gartman had predicted a few letters back, he started to buy Canadian dollar and selling Euro.

The gold market rose smartly... grains came up from their lows, that WTI crude is trading above “par,” that copper has rallied and that the non-US dollar dollars have followed suit following the decision by the People’s Bank of China to cut its reserve requirements earlier this week.

French President Nicolas Sarkozy called for “major changes” to current treaties that demands greater budgetary discipline on part of the European member states, help countries in difficulty and most important of all, take decisions on a majority vote rather than unanimously.

New ECB President, Mr. Draghi called for price stability “in both directions” of deflationary and inflationary risks... these are attributes of a regime weakening its currency to strengthen its economy. (SHORT of EURO)

Weekly report was higher at 402K, slightly worse than the expected 395K.

Seems things are heating up pretty badly in the Middle East, “Gen. Vahidi advised the U.S. and its allies to understand Iran’s military prowess. He further said that in the event of a war, Iran would “teach” the US what a real war is like”

Canada’s economic recovery compared to the United States’ came to a halt being as it started to increase their unemployment rate losing 54,000 jobs in two months something great compared to its population, even so it rose relative to the euro. I agree with Mr. Gartman, this is a really good sign of strength of the Canadian dollar relative to the euro, it begs the question “what might have been had Canada’s jobs figure been even modestly positive instead of shockingly negative?”

Mr. Corzine, head of MF Global had moved funds from a segregated customer account to the company’s trading account to meet margin call demands, so now, he will most likely indeed go to jail.

S&P 500 is preparing to downgrade most of Europe’s countries, putting them on a watch list for the next 90 days. However, it was also said that Austria, Belgium, Finland, Germany, Netherlands and Luxemburg would only have their rating cut by a “notch”, the rest would have their grade cut by two.

Interesting article on college bound students and the majors they chose. This article talked about a focus on STEM studies instead of “less useless” liberal arts college degrees with a considerably higher unemployment rate.

There are going to be a series of meetings over in Europe over the course of the next few weeks to decide what will be the best action plan to get out of this financial crisis. Leading the way is Germany, who according to Mr. Gartman shall “get to dictate Debt/GDP ratios; Germany shall get to dictate spending programs; Germany will dictate taxation regulations; Germany simply will get to dictate and the others shall have very little choice but to sign on, like it or not”. The US will be there as a referee to make sure everything is fair and balanced.

All of these meetings in Europe have brought a lot of uncertainty about the Euro and that can be seen in the charts being as the Euro right now barely gets below \$1.33 and above \$1.35, this is a consolidation waiting on the results of the meetings. Even Mr. Gartman, who has been short of the euro for so long, is advising that “the sidelines look inviting” because nobody can be sure of where all of this is going right now.

Appendix B. Sample Gartman Letter

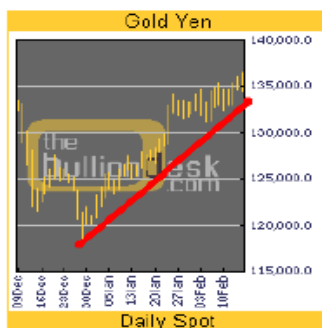


THE GARTMAN LETTER L.C.

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GOLD IN YEN/OUNCE: The trend here has been decidedly more "pleasant" and decidedly more certain than gold in any other currency and given our urge to err against the Yen, we shall henceforth trade gold in Yen terms almost exclusively.

OVERNIGHT NEWS:

THE YEN IS WEAK, AS IT HAS BEEN ALL THIS WEEK, following the Bank of Japan's decision earlier to expand its holdings of Japanese Treasury securities rather materially and thus embarking



THE YEN/DOLLAR: The Trend is Dead! Long Live the Trend!: Keep this chart in mind over the coming days, weeks months and perhaps even years as we sell the Yen against almost everything.

upon its own QE, or as we prefer, embarking upon its own much needed monetisation program intent upon spurring the economy and inflation. To that end, we wish to draw everyone's unqualified attention to what we think shall prove to be the most important chart of the next several years included this page in the "lead position" at the bottom left. It is the weekly chart of the Yen/dollar rate going back to early '07 and we think this chart is "catching" the turning of what has heretofore been a relentless bullish run for the Yen/a relentless bearish run for the US dollar relative to the Yen a the very incipency of this tidal shift. It may take some while more to absolutely prove the technical merits of this case we are putting forth, and indeed it is quite possible... although we hope, for our sake, that it is quite improbable... that the trend line drawn

here may yet prove formidable and reassert itself, but we think otherwise, for Japan needs a much, much weaker Yen to survive economically and the authorities are doing what they must to get it.

The BOJ's decision earlier this week was the proper decision. Further, aggressive, expansion of the Bank's balance sheet is necessary to stem the long standing, relentless deflation that has gripped Japanese society for the past two decades. The

Bank's Governor, Mr. Shirakawa, made it clear that raising the inflation rate to 2% is his goal, and we take him at his word. What he's done is simply the first "down-payment" on that pledge. We expect more such actions to be taken at future BOJ monetary policy committee meetings and we expect them to be even larger than that which was announced this week.

Further, if the MOF were wise, it would use the Yen's recent weakness to its advantage, intervening... even unilaterally... against the Yen now that it is already weakening rather than awaiting Yen strength to do so. If the MOF's officials really understood "trading psychology," they'd use the current weakness to their advantage by selling more Yen now that weakness has begun, for as even the most rudimentary traders knows, and as our "Rules of Trading" mandate,

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one tosses rocks into the wettest paper sack for it breaks the most readily.

Turning back to the chart of the Yen/dollar then, the dollar has held its lows against the Yen for the past seven months. That we find impressive, for in order for a bear market to have ended new lows cannot, by definition, be forged. The old lows must hold, and in this instance they are and they have. Now, however, the last important interim high has to be taken out from below, and that means the high for the dollar made in the autumn of last year following the intervention effort then which drove the dollar to just under 80 Yen/dollar. When that interim high is taken out from below, then and only then can we truly know that the dollar's bear market has ended and that the Yen's bear market has begun.

Speaking one last time this morning of intervention, Monday would be a wonderful time for the MOF to act, for the US market is closed for President's Day and liquidity will be at a minimum. If the MOF is serious about its intent, then it should use what "weapons" are available to it and that means exploiting weak spots; ill-liquidity is a very "weak" spot. It should be used; likely, however, it won't be.

We need to be inured then to 20 and 30 and even 50 "pips" in the Yen/dollar rate, for if we are correct on this notion we are not looking for the dollar to rise to 81 or 82, but we are looking for it to rise, over the course of the next several years, to 95 or 102 or even higher. We are looking then for a tectonic plate shift in the Yen/dollar rate as Japan's debt/GDP rate... already the highest in the industrialised world by a huge factor... become worse... much. We are looking for the demographics of Japan, which are already horrific, to become worse and we expect the monetary and political authorities in the years ahead to know that the only way out of these circumstances is by massive, unequivocal devaluation of the Yen relative to the dollar and relative to the other "non-US dollars" at the same time. We are looking then at a "campaign" trade, not a mere swift punt. We can see this developing as clearly as we've seen anything in our trading careers and we are willing to bet upon it.

This then is the trade that "Old Turkey" spoke of in Jesse Lefevre's autobiography of Jesse Livermore when he spoke of his "position" and of not wishing to be taken out of that position when the market was working in his favour. This is the trade that Jesse Livermore was speaking of when he said that he'd seen many men who were bullish at the very proper time but who made little money from the trade for they got out of their position far too early, fearing that they'd lose their hard-won early profits and in the process left the huge profits hard upon the table. This is that trade and now that we are long of gold/short of Yen and are long of the Aussie and Canadian dollars/short of the Yen, we shall err upon the side of owning almost anything else and predicating that in Yen terms going forward. We shall want to own crude oil in Yen terms; we shall want to own soybeans in Yen terms; we shall want to own steel, and copper, and railroads and wheat and dollars in Yen terms. We trust we are clear. This is THAT trade:

	02/17	02/16		
Mkt	Current	Prev	US\$Change	
Japan	79.00	78.80	+ .20	Yen
EC	1.3166	1.3007	- 1.59	Cents
CHF	.9170	.9280	- 1.10	CHF
UK	1.5855	1.5675	- 1.80	Pence
C\$.9950	1.0030	- .80	Cents
A \$	1.0780	1.0665	- 1.15	Cents
NZ\$.8370	.8265	- 1.05	Cents
Mexico	12.78	12.94	- .18	Centavos
Brazil	1.7160	1.7280	- 1.20	Centavos
Russia	29.95	30.27	- .32	Rubles
India	49.28	49.40	- .12	Rupees
China	6.2995	6.2995	unch	Renminbi

That said, we can move on to the more prosaic concerns and paramount of course is Europe. Things are falling apart in Europe and as W.B. Yeats reminds us, "*The centre cannot hold.*" There is more and often talk of a Northern and Southern eventuality in Europe. We've spoken of this eventually for months... indeed for years... and where our comments were in the past considered radical and lunatic, they are now far less so and far more publicly embraced. Eventually the "profligate" Southern European nations shall have no choice but to hove off of their own accord from the Monetary Union or be hove-off of the accord of German/France/Belgium et al, for Greece needs a "de-valuable" drachma, as Portugal shall need a "de-valuable" escudo and as Italy needs a "de-valuable"

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Lira, and Spain her peseta. Either the Southern countries of Europe make that chose of their own volition or it shall be made for them, but the Northern citizenry will not continue to pay for Southern profligacy much longer. That is simple a fact.

Things are worsening in Greece by the hour, and although almost certainly the Greek government will sign the accords mandated of it by the Troika over the weekend, that shall not make things better in the long run. Indeed, in our opinion it shall only serve to make things worse, for the lives of Greek citizens shall become intolerable under this regime of austerity imposed upon them from the North.

Inflation in Greece is now running 5.5% on an annualised basis, up from 0.6% at the end of '09... and the former shall rise sharply in the weeks and months ahead. Tax rates are being forced higher, and as they are tax revenues into the state are falling! Unemployment is at 20% and rising. And amidst this, incomes are being forced... by the North... downward by 20-30%. This shall be... if is not already... intolerable. Rebellion rather than acquiescence lies directly ahead, and to think otherwise would be naïveté of the first and worst order.

Turning to the US, the weekly jobless claims number seemed to surprise Wall Street somewhat as it fell below 350 thousand for the first time in years. We, however, were not surprised at all. The trend in claims is and has been downward. It shall remain downward for months into the future and it is but a matter of time until claims fall below 300 thousand. Housing starts too were better than expected, but we were not at all surprised by that number either given the excellent weather that prevailed across so much of the US in January compared to year's past. What did

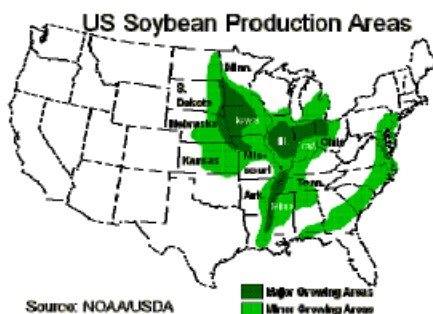
catch our interest regarding 'start' however was that last month's number, originally reported as 657 thousand annualised starts, was revised upward to 689 thousand. Starts are up almost 10% year on year and they will go higher as the year progresses.

Today we shall have the Conference Board's Leading, Coincident and Lagging Indicators, with the market's great focus upon the former while we focus upon the ratio of the latter two. The "Leaders" will be up; it is only a matter of how "up?" The consensus has them "up" 0.5% and we've no reason to argue. That seems quite reasonable. We'll worry about the Ratio of the Coincident to Lagging Indicators on Monday; there's no rush today.

Finally for the "monetarists" among us... of which we are one... we note that the adjusted monetary base as reported by the Fed St. Louis rose last week but by the very, very barest of margins. The Base is effectively unchanged from last June when the Fed's 2nd round of QE ended.



COMMODITIES PRICES ARE FIRM, AND IN SOME INSTANCES QUITE SO,



and we can "blame" some of that strength upon the weaker US dollar of course; but there are other fundamental factors at work, especially in the grains, that are reasonable and worthy of note. For example, as noted here two weeks ago, there is increasing talk that farmers in the Deep South here in the US are moving away from soybeans and to peanuts. This is not random noise but is instead

worthy of note for as the map this page makes clear the land either side of the Mississippi River down through Arkansas, Louisiana and Mississippi is a "major" growing area for "beans." Adding to the bean market's strength

was the report out of Argentina by the government there that it had reduced the size of its bean crop to something on the order of 44.25 million metric tonnes compared to the USDA's estimate of 48 million. The market has known for some while that the 48 tonne estimate was far too high, but 44.25 million is low and falling.

Corn was the outstanding performer yesterday, however, rising smartly even as soybeans and wheat were weak, on the news that China will soon start importing corn from Argentina. With Mr. Xi's "party" here in the US signing export sales of grains from the US, the fact that Chinese buyers are busy elsewhere around the world buying grain where it previously had been reticent to do so tells us much about demand: it is higher than we thought and shall be higher still going forward:

	02/17	02/16	
Gold	1732.9	1718.8	+ 14.10
Silver	33.50	33.10	+ .40
Palladium	686.00	672.00	+ 14.00
Platinum	1631.0	1609.0	+ 22.00
Gold/silver	51.75	51.95	- .20%
DJ/UBS	145.21	144.92	+ 0.4%
Reuters CRB	316.41	313.95	+ 0.5%

Turning to gold, we remain bullish of gold and as we have been we remain steadfastly bullish of it non-US dollar terms, focusing in recent days upon gold in Yen terms, where we once focused almost solely upon gold in EUR and perhaps tangentially in Sterling terms. As we write, and noting the chart of gold/Yen at the upper left of p.1, gold is trading ¥136,760/oz, up from ¥135,000/oz earlier this week. Gold in dollar terms has been steadfast at or near \$1728-1730/oz for the past three weeks, but in Yen terms, as the chart makes clear, the trend has been pleasantly and consistently upward. It shall remain so.

ENERGY PRICES ACROSS THE BOARD ARE HIGHER, meaning that even nat-gas is trading better than it was earlier this week. Too, we note that the term structures continue to point bullishly for the contango in WTI has narrowed appreciably over the course of the past week while the backwardation in Brent has widened. Two weeks ago this morning, the April '12/red' April '13 WTI contango was \$1.89. This morning that has narrowed to \$1.14. Over the same period, the

April'12/red' April'13 backwardation in Brent has gone from \$4.26 to \$7.62, a profound "tightening" of that market... or given that we like to average the two markets in order to smooth away any internal exigencies that might have a short term effect upon one delivery point and not upon the other, two weeks ago the average April year spread has gone from an 88 cent backwardation to one that stands \$3.24. It is difficult, if not wholly impossible to be bearish in an environment where the term structures are this strong.

Regarding oil exports from Iran to other nations, our good friend, Daniel Gerber of Petro-Logistics in Switzerland wrote to us yesterday to clarify the situation [daniel.gerber@petro-logistics.com]. Daniel and his brother took over this excellent firm when their father, Conrad, passed away three years ago and have kept up the number of impressive contacts that Mr. Gerber Sr. had created over the years in the energy markets all around the world. Their statistics on the movement of crude around the world is and always has been exemplary, and when they write to us we read their information with a great deal of interest. Yesterday, Daniel wrote to say, clarifying the situation,

Dear Mr. Gartman,

I trust this finds you well. Just a quick note to comment on the Iranian figures you quoted today. Accurate information on Iran is hard to come by however we are fortunate in that we have excellent sources on the ground in Tehran among other areas of the Islamic Republic.

Using data from 2011 as a whole, China is actually the biggest "taker" of Iranian crude followed by India, Japan and then South Korea. In order, they take the following percentage of Iran's crude oil exports:

- *China: 20%*
- *India: 15%*
- *Japan: 13%*
- *South Korea: 10%*

However, things have changed in the first part of this year. China and Japan have both reduced their imports of Iranian crude. On the other hand, India has increased its purchases and is currently the biggest

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importer thus far in 2012. Things will continue to evolve as Iran looks for new markets for its crude and continues to battle against the financial restrictions imposed by the US and EU.

Please don't hesitate to contact us if ever you would like an update on the Iranian situation. For that matter, any OPEC nation or the Former Soviet Union. It's our bread and butter! Wishing you the very best and thank you as always for your interesting publication.

Best regards, Daniel Gerber

So we stand very modestly corrected, and we are always grateful to have our ideas "fixed" and made whole and proper.

Apr WTI	up	158	103.01-06
May WTI	up	164	103.55-60
Jun WTI	up	168	104.11-16
July WTI	up	169	104.58-63
Aug WTI	up	169	104.83-88
OPEC Basket		\$118.13	02/16
Henry Hub Nat-gas:		\$2.48	

SHARE PRICES ARE HIGHER AND RATHER MARKEDLY SO

and it is clear to us that we've made a grave error in trading judgment in reducing our hard won long positions materially this week. Having turned bullish of equities in mid-December at precisely the right time and at a time when our bullishness engendered laughter from others, we turned less bullish earlier this week and the market is telling us as it moves higher that we were uncommonly wrong in reducing our exposure. Fortunately, we have remained long of equities and that is of course better than neutrality but we were manifestly long and we should be reaping larger rewards for our stewardship. We take some further solace in the fact that we've spoken of owning shipping companies and they've rallied even as the market faltered mid-week and rallied even more sharply as the market rallied broadly yesterday. Nonetheless, becoming less than enthusiastically bullish is an error of first water and we take ourselves to task for having taken that path:

S&P	up	15	1,358
CanS&P/TSX	up	123	12,485
FTSE	down	7	5,885

CAC	up	13	3,393
DAX	down	6	6,752
NIKKEI	up	146	9,384
HangSeng	up	252	21,454
AusSP/ASX	up	15	4,196
Shanghai	unch		2,357
Brazil	up	774	66,142
TGL INDEX	up	0.7%	8,001

ON THE POLITICAL FRONT, we bring to everyone's attention the difference between society in China and that of the Anglo-Saxon world concerning the plight of Ms. Wu Ying who is standing trial for her life in the Jinhua Intermediate People's Court in Zhejiang. Ms. Wu was only a short while ago one of China's "richest" women, reputed to have had a net worth of several hundred million Renminbi, or just over \$100 million, all apparently gotten from a Ponzi-like scheme that fell apart and for which she has been brought to trial. We've no problem with her having been jailed and brought to justice, for clearly she deserves this fate. But she is charged with a capital crime and may be put to death for her crimes.

Putting to death confirmed rapists and murderers here in the US seems quite reasonable to us, but Europe takes us to task for the supposed inhumanity of that act. Europe's wrong. However, putting someone to death for crimes against capital seems to fall far short of a capital offense worthy of death... and yet we've seen nothing from the Europeans concerning Ms. Wu's apparent fate. We, on the other hand, give to China its right to impose its own laws and if it deems Ms. Wu's acts "capital," so be it.

Finally, this seemed not to make any of the front pages of newspapers anywhere in the world and should have, but few have heard of the incredible near catastrophe that took place in the last days of last year in the Russian naval shipyard at Murmansk when the nuclear submarine *Yekaterinburg* caught fire, requiring hundreds of shipyard workers and firefighters to put out. The fire, having begun amongst the scaffolding surrounding the boat as it was in dry-dock for repairs, engulfed the *Yekaterinburg*, and in the process compromised the boat's hydraulic systems, requiring that the fire fighters enter the flaming boat to remove the torpedoes still aboard. Had the torpedoes caught fire they could have exploded the boat entirely and thus exposing the sub's nuclear reactors and the sub's

nuclear tipped missiles aboard. As the influential Russian newspaper, the *Commersant Vlast*, said "*Russia was a step away from the largest catastrophe since Chernobyl.*" We are almost glad we never knew.

COMMENTS ON THE CAPITAL MARKETS

ON CLOSING THE INCOME GAP: The talk these days of the wide and widening "income gap" in the country; that is, the government wants to narrow the dichotomy between the lowest levels of income and the highest, with the President using this "gap" as his lead point in almost every presentation he makes, blaming the highest income earners for the nation's problems and telling the lowest income earners that better times lie ahead so long as he is at the nation's helm. Oh, by the way, this is not the US and President Obama we are speaking about, but rather this is China.

One of China's perceived problems is the rising difference between the incomes earned by the nation's "urban" dwellers and those in the country's "rural" settings. It has always been a problem for China that the nation's "urbans" earn more than the country's "rurals," but the gap is widening rather than narrowing, and it has been widening most swiftly in the past few years. According to the National Bureau of Statistics, in '06 the per capita income of a rural Chinese was RMN 3,587 while that of his/her "urban" counterpart was RMN 11,759. In other words, the average urbanite earned 3.38 x's as much as the average "rural-ite."

By '08, that had widened to the point where the average rural dwelling Chinese was earning RMN 4,761, or one third more than he or she had earned in '05, but the average "urbanite" was now earning RMN 15,781, an increase of 34% and still 3.3 x's as much as his rural counterpart.

This then brings us to last year. Yes, the per capital income of the average "rural" Chinese had risen... to RMN 6,977, or very nearly twice what he or she had earned only six years previous [Ed. Note: To be precise, the increase from '06 to '11 was 195%, so that is indeed

rather close to a perfect "double."]... but that of his/her fellow "urbanite" had leaped higher, rising to RMN 21,810, which is a gain of 185% over the same period. The "urbanite" is still making 3.1 x's as much as his rural counterpart and the simple arithmetic "gap" between the two has gone from RMN 8,172 in '06 to a very material RMN 14,833. Is there any wonder why the greatest mass exodus in the history of mankind is taking place in China as tens of millions of rural Chinese are making their way from the western "rural" provinces to the eastern "urban" cities? Is there any wonder at all?

HE'S BETTING THE FARM: John Fredriksen is not a farmer. He's a ship owner and some may argue that he may well be the largest ship-owner in the world. Certainly he is one of the world's wealthiest men for Mr. Fredriksen is the Chairman of Frontline, one of the world's largest owners of VLCCs... Very Large Crude Carriers... and he is apparently making the bet that VLCC rates have to move higher for he is putting forth an order to buy ten new medium-range VLCCs.

Mr. Fredriksen noted recently that the price of VLCCs has fallen from \$180 million each back at the peak several years ago to "only" \$85 million presently. Further, these new ships, although larger than those of the past, are far more efficient than were their older counterparts, using far less "bunker fuel" per day and apparently saving as much as \$10,000/day in expenses. Mr. Fredrickson notes that the world's oil refining capacities have moved farther and farther away from the world's oil fields. In the process, the demand for VLCCs, he believes, shall rise... has to rise... simply must rise... if the supply/demand for tankers even holds at parity.

Frontline was until only recently the world's largest owner of VLCCs, but having sold ten ships in recent years, it has fallen back to 2nd or 3rd, depending upon one's accounting. Fredriksen said that with his new orders for the ships in question, "Eventually when [the market] comes back we would like to be number one [again], obviously." We have learned few things in the world that we can count upon with some sense of certainty but we've learned this: When a gentleman worth \$8-\$13 billion, and a leader in his industry, having reduced his exposure to that industry as

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the industry collapses, decides to expand his exposure, betting on the future, it is wise to follow his lead. He's betting the farm; we should be willing to bet a piece of our own much smaller "acreage."

RECOMMENDATIONS

1. Long of Three Units of Equities: We are long of equities and we have been long of equities for more than eight weeks... an eternity + some in our business but Tuesday, February 14th we reduced our exposure from "seven" to "five" units. This position has served us uncommonly well. It shall serve us well in the future, but we had thought a correction was beginning and we hoping to weather the storm we've cut our position back materially.

To that end we thought it is wise earlier this week and again yesterday... Thursday, Feb. 16th... to reduce our position by half from what it had been: from seven units now down to three. All we can say is that we are grateful we are still long something and we were apparently wrong in reducing our exposure.

2. Long of Three Units of the Canadian dollar and Two Units of the Aussie dollar/short of Five Units of the Yen: We have remained long of Canada and Aussie/short of Yen and we are very comfortable this morning as the crosses have moved rather nicely in our favour. For example, since earlier this week, the Aussie/Yen cross has moved from 82.50 Yen/Aussie to 85.10 this morning and it was only a few weeks ago that it was 80.50. We've been fortunate indeed.

3. Long of Four Units of Gold and Four Units of Copper/ short of Two Units of the EUR terms and Six of the Yen: Friday of three weeks ago, we bought two units of gold in EUR terms. As we wrote, with spot gold trading \$1725/oz and the spot EUR trading 1.3140, so spot gold/EUR was €1313.

Wednesday, January 25th we returned to our position in copper. We began the trade with two of the units and as copper traded upward through 3.8450 and remained there for an hour or more to prove its validity we added a third unit. Now we sit tight.

Given our antipathy toward the Yen, and given the antipathy that the Minister of Finance and the Minister of Economics have to the Yen also, as noted here mid-week last week, it seemed a reasonable risk/reward to buy gold Friday morning in Yen terms, adding to our position of gold in EUR terms that has served us reasonably well. One unit was sufficient with gold at or near ¥134,000. It is this morning ¥135,400/oz and we thought it was reasonable and right to add to this trade yesterday... Wednesday, Feb. 15th... and now we sit tight.

4. Short of One Unit of the Ten Year Note: We ventured in recently as a seller to the Ten year notes for the first time in a very, very long while. We sold the March 10 year note at or near 131.16 and we can "see" the nearby note future trading initially to 124. Our risk shall be to last week's high and no more.

Given that we've weathered the first correction against us we think it is time to add to this trade and so we shall, recommending

selling another Unit of the Ten year notes upon receipt of this commentary. Given that March will soon be deliverable, we need soon to roll our positions into June futures but for now we'll sell March futures, and will roll them early next week. As we write, June T-notes are trading 130 7/8's... or 130.28 in the modern parlance,

The following is not a recommendation, a solicitation or an offer to sell the securities and reflects publicly available pricing information provided for informational purposes only. The Gartman Letter L.C. serves as a sub adviser to the products mentioned below. Investors in the CIBC Gartman Global Allocation Deposit Notes should go to:

<https://cibcppn.com/Screens/CA/CAN/ProductUnderlyings.aspx?ProductID=221&NumFutures=3> Existing investors in HAG should go to: http://jovian.transmissionmedia.ca/fundprofile_hap.aspx?#HAG&c=&

The following positions are "indications" only of what we hold in our ETF in Canada, the Horizon's AlphaPro Gartman Fund, at the end of the previous trading day. We reserve the right to take positions opposite of what maybe in our "Notes" and ETF from time to time as market conditions warrant.



Long: We own an "Asian" short term government bond fund, corn, soybeans, the C\$, the A\$, gold, copper, and the S&P 500 Index.

Short: We are short the Euro, Swiss Franc, and Yen.

The CIBC Gartman Global Allocation Notes portfolio for February is as follows:

Long: 10% Canadian Dollars; 10% Australian Dollars; 20% Gold; 5% Corn; 5% Soybeans; 5% S&P 500 Index; 5% Copper

Short: 20% Euro; 10% Swiss Franc; 10% Japanese Yen.

Horizons Gartman Fund (TSX: HAG): Yesterday's Closing Price on the TSX: \$7.92 vs. \$7.92 Yesterday's Closing NAV: \$7.98 vs. \$7.98

CIBC Gartman Global Allocation Deposit Notes Series 1-4; The Gartman Index: 132.67 vs. 132.43 previously. The Gartman Index II: 109.83 vs. 109.63 previously.

For the year-to-date, the NAV on our ETF is 2.4% while the value on our notes series 1-4 is +2.4%.

Good luck and good trading, Dennis Gartman

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Appendix C. SUMMARY OF PIPS/DOLLAR MADE SINCE TERM B

Adrian's Trades

Type	Size	Item	Profit	Pips
sell	0.1	eurusddt	\$ 0.90	0.9
buy	0.2	eurusddt	\$ (33.20)	-16.6
buy	0.1	eurusddt	\$ 30.90	30.9
sell	0.1	eurusddt	\$ (52.10)	-52.1
sell	0.1	gbpusddt	\$ 9.50	9.5
sell	0.1	xausddt	\$ 5.50	5.5
sell	0.1	eurusddt	\$ 18.50	18.5
buy	0.1	eurusddt	\$ (16.60)	-16.6
sell	0.1	eurusddt	\$ (5.30)	-5.3
sell	0.1	eurjpydt	\$ 81.50	81.5
buy	0.1	usdcaddt	\$ 19.74	19.7
sell	0.1	eurusddt	\$ 0.70	0.7
sell	0.1	gbpusddt	\$ 8.70	8.7
sell	0.1	eurusddt	\$ (3.00)	-3.0
sell	0.1	eurusddt	\$ (5.40)	-5.4
sell	0.1	usa500dt	\$ (20.10)	-20.1
sell	0.05	gbpusddt	\$ (5.20)	-10.4
sell	0.05	eurusddt	\$ 11.80	23.6
buy	0.05	usdcaddt	\$ 2.66	5.3
buy	0.1	eurusddt	\$ (11.20)	-11.2
sell	0.05	eurgbpdt	\$ (3.49)	-7.0
buy	0.1	xausddt	\$ 1.30	1.3
buy	0.1	xausddt	\$ 4.10	4.1

buy	0.1	xauusddt	\$ 0.30	0.3
sell	0.05	eurgbpdt	\$ (4.73)	-9.5
sell	0.05	usa500dt	\$ 1.45	2.9
sell	0.05	xauusddt	\$ 1.80	3.6
buy	0.05	xauusddt	\$ (2.00)	-4.0
buy	0.15	eurusddt	\$ 4.80	3.2
sell	0.05	xauusddt	\$ (34.20)	-68.4
sell	0.05	xauusddt	\$ 26.10	52.2
sell	0.05	xauusddt	\$ 45.00	90.0
sell	0.1	eurusddt	\$ (73.70)	-73.7
buy	0.1	eurusddt	\$ 49.50	49.5
sell	0.1	eurusddt	\$ 7.10	7.1
sell	0.05	xauusddt	\$ 6.00	12.0
sell	0.1	eurusddt	\$ (35.60)	-35.6
buy	0.1	eurusddt	\$ 45.80	45.8
sell	0.05	xauusddt	\$ 2.15	4.3
buy	0.1	gbpusddt	\$ 3.50	3.5
sell	0.05	xauusddt	\$ (5.45)	-10.9
buy	0.05	xauusddt	\$ (48.80)	-97.6
sell	0.1	gbpusddt	\$ 3.10	3.1
sell	0.1	gbpusddt	\$ 4.30	4.3
buy	0.1	usdcaddt	\$ (10.18)	-10.2
sell	0.1	eurusddt	\$ (11.50)	-11.5
buy	0.1	xauusddt	\$ (10.60)	-10.6
sell	0.1	gbpusddt	\$ (6.40)	-6.4
sell	0.05	eurusddt	\$ (7.15)	-14.3
sell	0.03	xauusddt	\$ 17.70	59.0

sell	0.05	eurusddt	\$ 1.30	2.6
sell	0.05	eurusddt	\$ (4.95)	-9.9
sell	0.05	eurusddt	\$ (6.70)	-13.4
buy	0.02	usdcaddt	\$ 6.30	31.5
buy	0.05	usdchfdt	\$ 12.45	24.9
buy	0.03	usdcaddt	\$ 2.12	7.1
buy	0.05	usdcaddt	\$ 5.45	10.9
sell	0.05	eurusddt	\$ 2.20	4.4
buy	0.03	eurjpydt	\$ (2.50)	-8.3
buy	0.01	xausddt	\$ 15.54	155.4
sell	0.05	eurusddt	\$ (5.90)	-11.8
sell	0.05	eurusddt	\$ 10.45	20.9
buy	0.03	usdcaddt	\$ 8.73	29.1
sell	0.03	eurusddt	\$ 10.77	35.9
sell	0.03	gbpusddt	\$ 7.83	26.1
buy	0.05	eurusddt	\$ (3.55)	-7.1
sell	0.05	audusddt	\$ 13.80	27.6
sell	0.08	eurusddt	\$ 2.08	2.6
buy	0.02	xausddt	\$ (4.58)	-22.9
buy	0.05	gbpusddt	\$ 21.10	42.2
buy	0.05	eurusddt	\$ 15.05	30.1
buy	0.05	audusddt	\$ 13.40	26.8
sell	0.05	eurusddt	\$ 2.70	5.4
sell	0.02	eurusddt	\$ 8.42	42.1
buy	0.2	eurusddt	\$ (24.20)	-12.1
sell	0.02	eurusddt	\$ 1.86	9.3
sell	0.02	eurusddt	\$ (4.34)	-21.7

buy	0.03	xauusddt	\$ (24.96)	-83.2
sell	0.05	audusddt	\$ (15.25)	-30.5
buy	0.05	audusddt	\$ (2.15)	-4.3
sell	0.05	audusddt	\$ (30.25)	-60.5
buy	0.1	audusddt	\$ 21.50	21.5
buy	0.1	audusddt	\$ (2.00)	-2.0
buy	0.05	audusddt	\$ 2.75	5.5
sell	0.1	audusddt	\$ 3.70	3.7
sell	0.05	audusddt	\$ (68.35)	-136.7
sell	0.05	eurusddt	\$ 5.10	10.2
sell	0.05	eurusddt	\$ (3.65)	-7.3
sell	0.05	xauusddt	\$ 3.10	6.2
sell	0.05	usdchfdt	\$ (6.06)	-12.1
buy	0.05	usdchfdt	\$ 7.12	14.2
buy	0.05	eurusddt	\$ 4.20	8.4
sell	0.05	eurusddt	\$ 6.95	13.9
buy	0.01	xauusddt	\$ 11.35	113.5
buy	0.1	audusddt	\$ 2.70	2.7
sell	0.01	eurusddt	\$ 5.62	56.2
sell	0.01	eurusddt	\$ 4.46	44.6
sell	0.01	eurusddt	\$ 2.98	29.8
sell	0.05	eurusddt	\$ 16.65	33.3
buy	0.1	eurusddt	\$ (9.60)	-9.6
sell	0.2	usdchfdt	\$ (15.50)	-7.8
buy	0.05	usdchfdt	\$ 17.59	35.2
sell	0.05	gbpusddt	\$ 1.25	2.5
sell	0.05	usdchfdt	\$ (34.70)	-69.4

sell	0.05	audusddt	\$ (12.50)	-25.0
sell	0.05	xausddt	\$ 6.50	13.0
buy	0.02	xausddt	\$ (10.10)	-50.5
buy	0.05	eurusddt	\$ 1.70	3.4
sell	0.05	eurusddt	\$ 15.00	30.0
buy	0.01	xausddt	\$ 30.59	305.9
buy	0.02	gbpusddt	\$ (4.00)	-20.0
sell	0.05	eurusddt	\$ (4.50)	-9.0
sell	0.05	audusddt	\$ 14.55	29.1
sell	0.05	eurusddt	\$ 12.35	24.7
sell	0.02	eurusddt	\$ (4.44)	-22.2
buy	0.01	xausddt	\$ (9.08)	-90.8
buy	0.02	usa500dt	\$ (10.00)	-50.0
sell	0.01	xausddt	\$ (7.84)	-78.4
buy	0.2	eurusddt	\$ (15.60)	-7.8
sell	0.1	eurusddt	\$ (6.30)	-6.3
sell	0.1	eurusddt	\$ (7.00)	-7.0
sell	0.02	eurusddt	\$ 2.74	13.7
buy	0.05	eurusddt	\$ (4.25)	-8.5
buy	0.02	xausddt	\$ (3.82)	-19.1
sell	0.02	xausddt	\$ (3.72)	-18.6
buy	0.02	xausddt	\$ (9.00)	-45.0
buy	0.02	xausddt	\$ (4.80)	-24.0
buy	0.02	usa500dt	\$ 7.98	39.9
sell	0.02	usa500dt	\$ (5.20)	-26.0
sell	0.05	eurgbpdt	\$ 17.46	34.9
sell	0.05	eurusddt	\$ (5.00)	-10.0

buy	0.02	usa500dt	\$ (6.62)	-33.1
sell	0.1	eurusddt	\$ (7.80)	-7.8
buy	0.02	xauusddt	\$ (8.00)	-40.0
buy	0.05	usa500dt	\$ (4.05)	-8.1
buy	0.05	usa500dt	\$ 1.45	2.9
buy	0.02	usa500dt	\$ 4.98	24.9
buy	0.02	xauusddt	\$ (6.60)	-33.0
buy	0.03	xauusddt	\$ (6.00)	-20.0
buy	0.03	xauusddt	\$ (10.53)	-35.1
buy	0.02	xauusddt	\$ (12.84)	-64.2
sell	0.02	usa500dt	\$ 3.98	19.9
buy	0.05	eurusddt	\$ (6.10)	-12.2
sell	0.05	eurusddt	\$ 5.20	10.4
buy	0.02	xauusddt	\$ 3.96	19.8
buy	0.02	xauusddt	\$ 8.14	40.7
buy	0.05	xauusddt	\$ 32.65	65.3
sell	0.05	xauusddt	\$ (10.00)	-20.0
buy	0.02	xauusddt	\$ 10.34	51.7
buy	0.03	xauusddt	\$ (28.74)	-95.8
buy	0.02	xauusddt	\$ 10.60	53.0
buy	0.05	xauusddt	\$ (2.95)	-5.9
buy	0.03	audusddt	\$ 8.22	27.4
buy	0.02	usa500dt	\$ 20.58	102.9
buy	0.05	usa500dt	\$ (23.45)	-46.9
buy	0.1	xauusddt	\$ 4.70	4.7
sell	0.05	eurusddt	\$ (8.10)	-16.2
sell	0.02	eurusddt	\$ 10.12	50.6

sell	0.02	audusddt	\$ (2.84)	-14.2
sell	0.02	eurusddt	\$ 1.30	6.5
sell	0.05	eurusddt	\$ 1.40	2.8
sell	0.1	eurgbpdt	\$ 4.14	4.1
sell	0.05	xausddt	\$ 6.55	13.1
buy	0.05	xausddt	\$ (18.65)	-37.3
buy	0.05	xausddt	\$ (29.35)	-58.7
buy	0.1	xausddt	\$ 5.70	5.7
buy	0.05	xausddt	\$ (44.35)	-88.7
buy	0.2	eurusddt	\$ 33.80	16.9
sell	0.05	eurusddt	\$ (10.50)	-21.0
sell	0.1	eurusddt	\$ 8.10	8.1
sell	0.15	eurusddt	\$ 12.00	8.0
buy	0.03	xausddt	\$ (15.75)	-52.5
sell	0.15	eurusddt	\$ (30.75)	-20.5
sell	0.05	eurusddt	\$ 16.90	33.8
sell	0.2	xausddt	\$ 9.40	4.7
buy	0.2	xausddt	\$ (2.20)	-1.1
sell	0.05	audusddt	\$ (3.70)	-7.4
sell	0.05	usdjpydt	\$ (4.88)	-9.8
buy	0.02	xausddt	\$ 2.98	14.9
sell	0.1	xausddt	\$ (13.50)	-13.5
buy	0.05	xausddt	\$ (11.85)	-23.7
buy	0.03	xausddt	\$ (6.72)	-22.4
buy	0.03	xausddt	\$ (5.46)	-18.2
buy	0.1	eurusddt	\$ (4.70)	-4.7
sell	0.1	eurusddt	\$ (2.70)	-2.7

sell	0.05	eurusddt	\$ (10.10)	-20.2
sell	0.04	eurusddt	\$ 14.24	35.6
buy	0.04	xausddt	\$ 3.76	9.4
sell	0.1	eurusddt	\$ (5.40)	-5.4
sell	0.05	eurusddt	\$ (7.85)	-15.7
sell	0.05	eurusddt	\$ 26.95	53.9
buy	0.05	xausddt	\$ 21.05	42.1
buy	0.03	xausddt	\$ 6.90	23.0
buy	0.03	xausddt	\$ 7.38	24.6
buy	0.05	eurusddt	\$ (2.70)	-5.4
buy	0.01	xausddt	\$ (2.96)	-29.6
sell	0.05	eurusddt	\$ (6.65)	-13.3
sell	0.05	audusddt	\$ 3.50	7.0
sell	0.05	eurusddt	\$ 9.50	19.0
sell	0.05	audusddt	\$ (4.45)	-8.9
sell	0.05	eurusddt	\$ (4.40)	-8.8
sell	0.05	audusddt	\$ (17.45)	-34.9
sell	0.05	eurusddt	\$ (23.60)	-47.2
sell	0.05	eurusddt	\$ 15.70	31.4
buy	0.1	eurusddt	\$ 26.20	26.2
buy	0.1	eurusddt	\$ (42.20)	-42.2
sell	0.1	eurusddt	\$ 35.70	35.7
sell	0.1	eurusddt	\$ (13.80)	-13.8
sell	0.1	eurusddt	\$ 3.50	3.5
sell	0.05	eurusddt	\$ 1.95	3.9
buy	0.05	eurusddt	\$ 4.56	9.1
buy	0.1	eurusddt	\$ (26.00)	-26.0

sell	0.1	gbpusddt	\$ (30.00)	-30.0
buy	0.1	usdcaddt	\$ (10.69)	-10.7
sell	0.05	eurusddt	\$ 4.07	8.1
buy	0.1	usdjpydt	\$ 10.20	10.2
sell	0.1	eurusddt	\$ (21.90)	-21.9
sell	0.1	xauusddt	\$ 56.20	56.2
sell	0.2	eurusddt	\$ 73.00	36.5
buy	0.1	usdcaddt	\$ (30.00)	-30.0
sell	0.1	eurusddt	\$ (20.00)	-20.0
		Total	\$(78.68)	242.5

Alberto's Trades

Symbol	Volume	Date	P/L	Pips	HoldTime
EUR/USD	0.1	11/2/2011	\$102.80	102.80	10.25 hrs
EUR/USD	0.01	11/9/2011	(\$1.23)	(12.30)	2min
EUR/USD	0.01	11/9/2011	(\$1.00)	(10.00)	4 min
EUR/USD	0.1	11/10/2011	\$5.20	5.20	4hrs
EUR/USD	0.2	11/14/2011	(\$23.20)	(11.60)	3mins
EUR/USD	0.2	11/15/2011	(\$20.80)	(10.40)	3mins
EUR/USD	0.4	11/16/2011	\$104.80	26.20	1.99hrs
EUR/USD	0.1	11/16/2011	\$29.90	29.90	1.99hrs
EUR/USD	0.1	11/16/2011	\$68.70	68.70	3.2hrs
EUR/USD	0.2	11/16/2011	(\$66.40)	(33.20)	56mins
EUR/USD	0.2	11/17/2011	(\$79.20)	(39.60)	8.5hrs
EUR/USD	0.01	11/22/2011	(\$0.35)	(3.50)	5mins
EUR/USD	0.01	11/22/2011	\$0.89	8.90	33mins
EUR/USD	0.5	11/23/2011	\$238.50	47.00	7.25hrs

EUR/USD	0.01	11/24/2011	(\$0.66)	(6.60)	2.25hrs
EUR/USD	0.1	12/6/2011	\$10.80	10.80	10mins
EUR/USD	0.1	12/6/2011	(\$6.00)	(6.00)	43mins
EUR/USD	0.2	12/7/2011	(\$18.80)	(9.40)	35mins
EUR/USD	0.1	12/7/2011	\$9.30	9.30	42mins
EUR/USD	0.3	12/7/2011	\$36.90	12.30	13mins
GBP/USD	0.3	12/7/2011	\$78	26.00	20mins
GBP/USD	0.01	12/7/2011	\$0.05	0.50	5mins
EUR/USD	0.01	12/8/2011	\$0.29	2.90	15mins
EUR/AUD	0.01	1/24/2012	(\$4.51)	(42.45)	1day
EUR/USD	0.1	1/24/2012	\$20.13	20.1	12hours
EUR/JPY	0.05	1/31/2012	\$1.57	2.4	12mins
EUR/JPY	0.05	1/31/2012	\$15.73	24	23mins
EUR/JPY	0.05	1/31/2012	\$1.77	2.7	12mins
EUR/GBP	0.01	1/31/2012	(\$2.86)	(18.1)	34mins
Total			\$500.32	196.55	

Edgar's Trades

Symbol	Volume	Date	P/L	Pips	HoldTime
EUR/USD	0.1	11/1/2011	\$45.60	45.60	5mins
EUR/USD	0.2	11/3/2011	(\$28.20)	(14.10)	3mins
EUR/USD	0.1	11/4/2011	\$40.00	40.00	17mins
EUR/USD	0.01	11/7/2011	\$6.75	67.50	42mins
EUR/USD	0.3	11/7/2011	\$26.80	8.93	7mins
EUR/USD	0.01	11/9/2011	(\$3.70)	(37.00)	3mins
EUR/USD	0.1	11/11/2011	(\$38.90)	(38.90)	54mins
EUR/USD	0.2	11/11/2011	\$99.80	49.90	32mins

EUR/USD	0.4	11/15/2011	(\$67.10)	(16.77)	6mins
EUR/CAD	0.5	11/16/2011	(\$28.28)	(5.80)	43mins
EUR/USD	0.3	11/16/2011	(\$42.90)	(14.30)	45mins
EUR/USD	0.2	11/17/2011	(\$79.20)	(39.60)	8mins
EUR/GBP	0.3	11/17/2011	\$50.92	10.80	31mins
EUR/USD	0.4	11/17/2011	\$154.80	38.70	27mins
EUR/USD	0.1	11/18/2011	\$27.10	27.10	33mins
EUR/USD	0.01	11/21/2011	\$0.93	9.30	4mins
EUR/USD	0.01	11/23/2011	(\$0.63)	(6.30)	5mins
EUR/USD	0.1	11/23/2011	(\$83.20)	(83.20)	10mins
EUR/USD	0.2	11/28/2011	\$100.00	50.00	1.02hrs
EUR/USD	0.5	11/29/2011	\$155.00	31.00	43mins
EUR/CAD	0.3	11/30/2011	\$48.00	(16.00)	25mins
EUR/USD	0.2	12/1/2011	(\$41.30)	(20.65)	13mins
EUR/USD	0.01	12/1/2011	\$0.57	5.70	9mins
EUR/USD	0.5	12/5/2011	\$250.00	50.00	31mins
EUR/USD	0.5	12/6/2011	(\$165.00)	(33.00)	46mins
EUR/USD	0.3	12/7/2011	\$237.60	72.00	25mins
EUR/USD	0.4	12/7/2011	\$200.00	50.00	39mins
EUR/USD	0.3	12/8/2011	(\$105.00)	35.00	27mins
EUR/USD	0.5	1/12/2012	(\$200.00)	(40.00)	16mins
EUR/USD	0.3	1/17/2012	(\$63.00)	(21.00)	11mins
EUR/USD	0.3	1/25/2012	\$40.80	13.60	24mins
EUR/USD	0.5	1/30/2012	(\$21.20)	(4.24)	14mins
EUR/USD	0.5	1/31/2012	(\$46.60)	(9.32)	17mins

EUR/USD	0.1	1/31/2012	\$17.50	17.50	21mins
Total			\$487.96	218.51	

Appendix D. Code of Program

Ignition Bar EA

```
//+-----+
//|                IgnitionBar.mq4 |
//|                Copyright © 2011, MetaQuotes Software Corp. |
//|                http://www.metaquotes.net |
//+-----+

#property copyright "Copyright © 2011, MetaQuotes Software Corp."
#property link      "http://www.metaquotes.net"

extern double       barpercent          =2.5;
extern int          numberofbars       =10; //number of past bars to look at
extern double       retracement         =0.2; //retracement requirement
extern double       volume              =1;
extern double       stoploss            =5;
extern double       takeprofit          =50;
extern double       takehalf            =20;

double pip;
double pastbars[];
bool   Condition1=FALSE;           //Bar must meet size criteria
bool   Condition2=FALSE;           //Bar must have retraced by retracement number
bool   HalfOrderClose=FALSE;       //need to update new ticket number when true
double openprice;

//+-----+
//| expert initialization function      |
//+-----+

int init()
{
//----
if (Digits==5 || Digits==3) pip=Point*10; //Check for 5 digit broker, 3 JPY
else pip=Point; //For 4 Dig broker
```

```

Print("Pips are", DoubleToStr(pip,5));

ArrayResize(pastbars, numberofbars);          //Size array for past bars

openprice=Open[0];

//----

return(0);

}

//+-----+
//| expert deinitialization function          |
//+-----+

int deinit()

{

//----

//----

return(0);

}

//+-----+
//| expert start function                    |
//+-----+

int start()

{

double CurrentBar,high, targetprice, vol;

bool check;

int maxpos, ticket,total;

double SMA8      = iMA(Symbol(),0,8,0,MODE_SMA,PRICE_CLOSE,0);
double SMA20     = iMA(Symbol(),0,20,0,MODE_SMA,PRICE_CLOSE,0);

if (openprice != Open[0])                    //Check for new bar

{

Condition1=FALSE;

Condition2=FALSE;

openprice=Open[0];

} //Close new bar Check

```

```

CurrentBar=(High[0]-Low[0])/pip; //Current Bar size

high=High[1]; //High is at least as high as bar 1
for (int i=0; i<numberofbars; i++) //Fill past bar array
{
    pastbars[i]=BarSize(i+1);
    if (High[1+i]>high) high=High[i+1]; //Find highest high in past bars

} //end i loop

maxpos = ArrayMaximum(pastbars,WHOLE_ARRAY,0); //Find maximum past bar

if (CurrentBar>pastbars[maxpos]*barpercent && High[0]>=high)
{
    Condition1=TRUE; //BarSize has been met
} //End first Condition check

if (Condition1==TRUE) //Look for retracement
{
    targetprice=High[0]-((High[0]-Low[0])*retracement);
    if (Ask<targetprice && SMA8<Ask && SMA20<Ask) Condition2=TRUE; //We want to go long
} //end Conition 1 if statement

total=OrdersTotal();

if (Condition1==TRUE && Condition2==True && total<1) //Send Order
{
    ticket=OrderSend(Symbol(),OP_BUY,volume, Ask, 3,0,0,NULL,010101,0,Green);
    Print("Ticket for send is ", ticket);
    OrderModify(ticket,OrderOpenPrice(), Low[0]-stoploss*pip, Ask+takeprofit*pip, 0, Green);
} //end buy order

```

```

total=OrdersTotal();
if (HalfOrderClose==TRUE)
    {
    for (int k=0; k<=total;k++)
        {
        OrderSelect(k,SELECT_BY_POS,MODE_TRADES);
        ticket=OrderTicket();
        vol=OrderLots();
        if (OrderSymbol()==Symbol() && vol!=volume)
            {
            OrderModify(ticket,OrderOpenPrice(), OrderOpenPrice(), OrderTakeProfit(), 0, Green);
            }//end Symbol check
        }//end k loop
        HalfOrderClose=FALSE;
    }//end stoploss move loop

```

```

total=OrdersTotal();
for (int j=0;j<total;j++)          //cycle through open orders
    {
    OrderSelect(j,SELECT_BY_POS,MODE_TRADES);
    ticket=OrderTicket();
    if (OrderSymbol()==Symbol())
        {
        if (HalfOrderClose==FALSE)
            {
            if (Bid>=OrderOpenPrice()+takehalf*pip)
                {
                Print("Ticket for modify is ", ticket);
                check=OrderClose(ticket,volume/2,Bid,3,Green);

```



```
        if (check==FALSE)
        {
            Print("Order Close Failed");
        } //end check
        HalfOrderClose=TRUE;
    } //end close half
} // end halfclose check
} // end check Symbol
    if (HalfOrderClose==TRUE) break;
} //end cycling

//----

//----
    return(0);
}
//+-----+

double BarSize(int pos)
{
    double diff;
    diff=(High[pos]-Low[pos])/pip;
    return(diff);
} //end BarSize
```