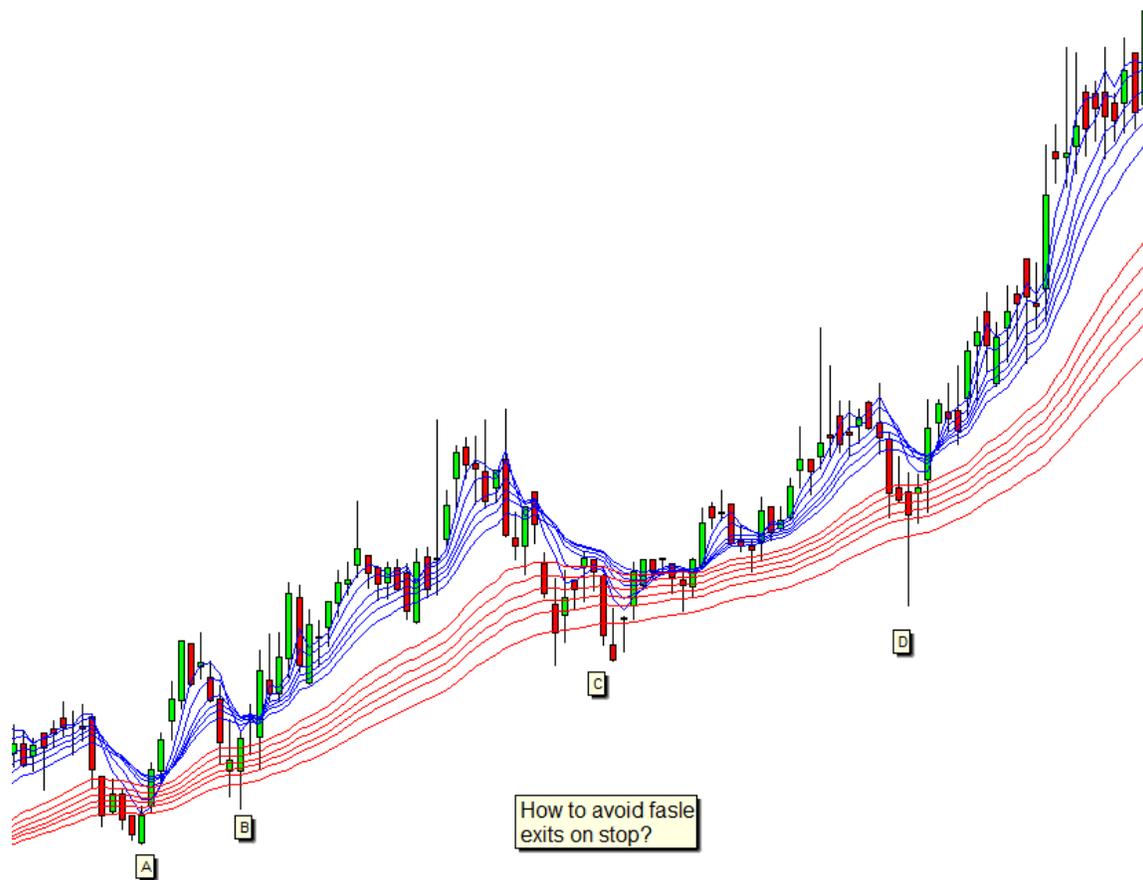


HOW LONG A TREND IS NEEDED FOR SUCCESS?

By Daryl Guppy

One of the essential differences between equity trading and FX trading is the longevity of the trend. Equity traders look for trends that may last weeks or months. The focus is on well defined trend breakouts or well defined trends that are entered at points of temporary weakness. These are the two key methods for equity position trading.

This is a problem in a market where trend stability and trend sustainability is an issue. Equity markets show rapid retreats and trend reversals as shown at points A, B, C and D. It's becoming more difficult to set a good stop loss because price activity will often dip below the stop and then rapidly rebound.



There is no simple or easy solution to decide which dip is false, and which dip is an exit signal.

FX trading provides a solution because the time frame - time in the market - is reduced. The leverage component means that good profits can be generated from moves that equity traders would generally ignore.

The search for FX opportunity starts with the 5 day average daily range of price for each of the currency pairs.

Currency Pair ↕	5 Day ADR, 5 ▲	10 Day ADR, 10 ↕
GBPNZD	343	278
EURAUD	179	183
GBPCAD	175	161
GBPJPY	173	155
EURUSD	171	168

Membership of this list changes each day. The Average Daily Range shows the best hunting ground for current trading opportunities. This is where ANTSSYS traders gather because the trade pickings are good. Start with the top 5 pairs on this list and inspect them for compatibility with the ANTSSYS trading methods. Please note that this screen extract is not the ADRs used in the GBP/CAD case study trade.

Here's the trading notes we prepared for Oanda clients for GBPCAD*.

BULLISH on GBP/CAD

Entry around 1.9228

Stop loss at 1.9160

Profit target near 1.9359 plus

Comment

This is a rebound and continuation of longer term uptrend breakout. Price has moved above short term resistance. Price is clustered in the upper section of the short term GMMA. Initial stop is just below the upper section of the short term GMMA. Enter on continuation of rebound. Confirm ANTSSYS entry signal. Use classic ANTSSYS method to capture the rally with first target exit at 75% of 5 day trading range (175 pips). Tighten profit stops using ATR stop loss.



The objective is not to trade the rebound trend over several days. The objective is to trade a portion of the next day's price movement. We know that there is an 85% probability that the next day's price movement will equal 75% of the 5 day ADR. That's an 85% probability of a 131 pip move in the GBPCAD* pair.



Here's how the trade developed. The daily price chart for GBPCAD* captures the rally rebound. The entry signal is confirmed with the ANTS analysis. This suite of indicators is available on the OANDA platform or via the [ANTS home page](#). The target is 1.9359. Progression towards the target is managed with an ATR stop. For case study purposes exit is made when the target level is achieved. Using the ATR stop traders were able to exit at a higher price as the move continued to 1.9400.

For equity traders this one day rally rebound is only part of a longer term trend continuation. For us, this one day rally rebound is the entire trade. We want to capture this move and then close the trade. We are trading spot FX because we do not have the resources to actively monitor the continuation of this trend in a 24 hour global market.

Pair		GBPCAD	
Trading Capital		\$100,000.00	
\$ for 1 lot	\$50.00		
\$ per pip	\$100.00	Cash Value	\$5,000.00
Direction		*Click for long or short	
	Long		
Open	1.9228		
Close	1.9359		
Stop Loss			
	1.9208		
# pips	-20		
\$ value	-\$2,000.00		
% Loss	-2.00%		
Pips		131	
		Profit	\$13,100.00
		% Profit	262.0%

So what does a 131 pip move mean? If you trade at \$5 a pip it means a \$655 profit. Trade at \$10 a pip and this is a \$1310 profit. Trade at \$20 a pip and it's a \$2620 profit. For case study purposes we trade at a standard capital size of \$5000 per trade at \$100 per pip. We use cash \$20,000 for equity trades, \$10,000 for CFD trades and \$5000 for FX trades. These allocations reflect the risk in each of these instruments.

At a \$5000 trade size the GBPCAD* trade returns \$13,100 profit or 262%. Is this an unusual situation?

The ANTSYSS method looks for 60 to 150 pip trades in short term time frames. Oanda trades notes this week for GBPAUD had a 161 pip target. (\$16,100 profit) Oanda trade notes this week for EURAUD had a 134 (\$13,400 profit) pip target. Both these targets were achieved. These were opportunities identified and traded in real time and if added to the newsletter case study portfolio would dramatically boost returns. However our purpose is to illustrate the application of trading techniques so we add a single example to the case study portfolio.

When time in the market is the critical risk then the FX market reduces this risk. You do not need a long trend to make a reasonable profit.