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introduce

1MinuteDaily Trading Strategy

Your guide to financial freedom.



www.1minutedaily.com

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Chapter I: Introduction

I.1. The winning strategy is the simplest one

There are many losing traders in this business. They think that they must be different, innovative and original to succeed. Yes, all that is true, but they unfortunately choose a too complicated approach. Different and original does not mean that it has to be more complicated! Keep it simple. All the top traders will tell you that *trading is easy*. The famous trader Dan Zanger trades nothing else but a triangle pattern and he turned 10,000 dollars into 42 million in 23 months! Another top trader, Larry Williams, trades well-known patterns. People wouldn't believe he could make a fortune trading simple patterns. He turned 10,000 dollars into one million and won the World Cup Championship. He taught his daughter Michelle Williams how to trade and she won the same competition as she was sixteen! Skeptics asked him to repeat these amazing results and he did. Don't believe? Just google it.

Most people are trying to succeed with help of sophisticated software, extremely complicated trading strategies, they are sitting in front of the screen all the day, but they are still losing. There are also some lazy traders who trade a simple pattern once a day. They wake up, send an order to broker in one minute and go swimming. They earn thousands every day and we call them top traders. What a joke!

Scientists are trying to understand the Universe and they build theories that seem rather complicated. As new experiments are made and new results are coming, scientists are trying to fit results into their theories. Sometimes the whole theory fails. Experience has shown that the most simple theories survive. Never forget *the Occam's Razor*:

- *If you have two theories that both explain the observed facts, then you should use the simplest one until more evidence comes along;*
- *Scientists must use the simplest means of arriving at their results and exclude everything not perceived by the senses;*
- *If you have two equally likely solutions to a problem, choose the simplest;*
- *The explanation requiring the fewest assumptions is most likely to be correct;*
- *The simplest explanation that covers all the facts is usually the best;*
- *Keep things simple!*

Occam's Razor philosophy is applied to many areas such as biology, medicine, religion, statistics... and *trading* of course. Often times currency traders spend so much time trying to understand a system that is so mathematically complex, that they never get to apply it. We teach a system that is easy to learn.

I.2. Why most traders fail to profit from breakouts

It is true that breakout strategy is a gold mine. In the financial markets, nothing works better than breakouts because every big move starts as a breakout from consolidation. The problem is that many traders chase the market blindly without any proven strategy. They get into a trade without knowing where to get out. They don't have a plan where to place profit target and stoploss order. Some traders get out too early from a winning trade because they do not follow a given system. Without a specific strategy to follow, a trader is likely to succumb to his emotions and get out of the trade. Sometimes traders don't use stoploss and they expose to unlimited loss potential. This is why they are predetermined to fail.

Another important task is a *false breakout*. When price breaks a consolidation or a significant high/low, traders get into the trade. But more often, the market quickly reverses back.



Good breakout = Profit



False breakout = Loss

Some traders try to avoid false breakouts by entering the trade a few pips higher than significant high or a few pips lower than significant low. That's a good idea, but they are **not making money consistently**. Let's explain why. When you enter the trade, first you have to pay the spread between the Bid and Ask prices. Although a typical spread is relatively low (about 2 pips for EUR/USD), it cuts a significant profit. Some traders avoid false breakouts by entering 6 pips above the significant high. This way they filter all breakouts that don't go further than 6 pips. Some traders use even more than 6 pips. What does it mean to the overall profit? Treat those 6 pips as an additional spread. Instead of 2 pips you pay $2 + 6 = 8$ pips. Eight pips from every trade! It is a game like trading EUR/USD with 8 pips spread – a pure gambling.

Another traders move stoploss to breakeven just as price breaks and moves a few pips their way. When the market continues to move, you can make money. When it turns to false breakout, you lose a small amount (don't forget that you pay the spread every time). Sometimes this method works, but not consistently. Sometimes you can catch the big move, but more often the price quickly turns back and you are out. Then you see another missed big move. This way you lose more often than you win and the big move cannot recover all the losses.

The main problem is that false breakouts occur more often than good breakouts. This is why most momentum traders lose more than they win. Fortunately, a tricky solution exists. Trade all the breakouts! If a breakout turns to false, your given orders will take care of it. The next paragraph will bring light.

I.3. The bright solution

After years of trading and testing, we must tell you there is no way to filter all false breakouts. We see traders spending hours, days and years looking for the Holy Grail – an indicator that will filter bad trades. Remember, indicators are derived from price action. Breakouts happen extremely quickly when compared to an indicator movement. You can't predict that breakout will be good or false. You can't predict the market. Filtering bad trades is completely unnecessary here. Trade all the breakouts! Nothing could be more simple. We will cover losses somewhere else and that's our unique approach.

Our *1MinuteDaily* strategy relies on a choppy movement on most Forex pairs during the Asian session. Most traders in London sleep when the Sun shines over the Pacific and this results to a very slow movement of GBP/USD pair between 9:00 PM GMT and 7:00 AM GMT (daylight saving time included). Don't worry, we will discuss time zones in more detail later (**III.1. Define the breakout area exactly**). Now, it's time to discover the secret.

At 7:00 AM GMT, the market reacts more quickly and there is a high probability that price will break out from consolidation.



Sometimes the breakout is false and price reverses. Then a new breakout strikes on the other side.

What is important here, the price moves much further during the day. Because the night range is more often a small fragment of the daily range, there is a high probability that price will break from

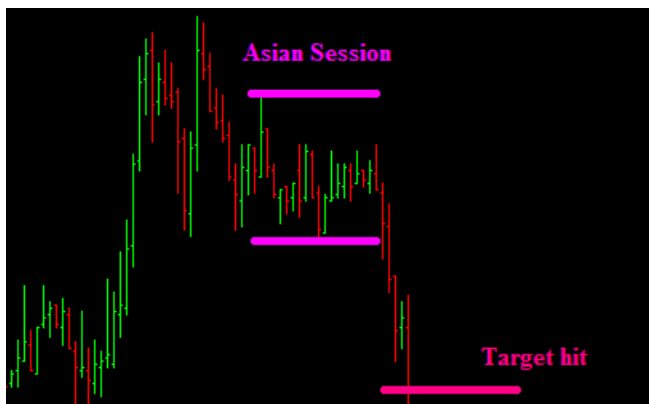
consolidation and it will hit **at least one** of our targets placed close to the consolidation area (the upper or lower target).



There is a very small chance that price will stay in a small range all day long. News are moving the market and the price is making new highs or lows during the day. Finally, the market moves in one main direction (the daily candle is either bull, or bear). Our goal is to profit from the short-term trend in a single day. Imagine two targets placed below and above the night range.



The distance between the upper target and upper band will be equal to the night range. The same holds for the lower target. Since the daily range will overrun the night range, **at least one of our targets will be reached**. If one target is missed, we should change direction and profit on the other side to recover the loss. Of course, all that will be made automatically by given orders.



The rules will become clear in **Chapter III: Entry rule** and **Chapter VI: Examples**. We will prove the profitability and consistency in **Chapter VII: Full backtest**. We trade all the breakouts and that's our unique way. Most traders are trying to filter false breakouts or they give up and stop to trade after a false breakout. Actually, nobody can predict the market.

Chapter II: Our proprietary indicators

II.1. Indicators: use them carefully

Do not forget that indicators are derived from price. Testing hundreds of new indicators is a waste of time. Indicators can help you to decide more quickly or define a trend, but they will not make you successful. Believe, there are many profitable traders using no indicators at all. They rely on a well-proven strategy and money management. It is a discipline that makes them successful. First, you need to understand the strategy and realise *why should the strategy work*. Losing traders are doing just the opposite: they build a system based purely on indicators and they follow it blindly. They don't have a clue about the logic behind the system. They don't ask any questions like: "*Why should such a combination of indicators work over time?*" You need to follow a system that you fully understand. You need a confidence that your system will never fail in future. And that's possible only if you follow a system based on some bright idea, not randomly created. We will teach you a system based on basic market fundamentals. Our system is based on the fact that price is forming a consolidation every night because of slower movement. It is not a Holy Grail working 100%, but the odds will work for you.

II.2. Chart setup

To import our new indicators into MetaTrader platform, you have to copy all the files *.ex4 (*Wave.ex4*, *1MinuteDaily.ex4*) into the folder where all MetaTrader indicators are installed.

You can find default indicators here:

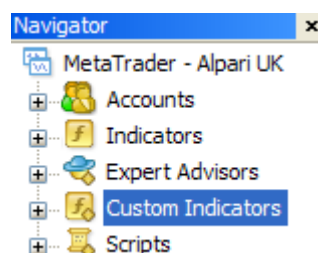
MetaTraderPath\experts\indicators

where *MetaTraderPath* is the full path where you installed MetaTrader;

for example: *C:\Program Files\MetaTrader 4\experts\indicators*

Start MetaTrader.

Expand the *Custom Indicators* left box (double click) and you will find there two new indicators: *Wave* and *1MinuteDaily*.

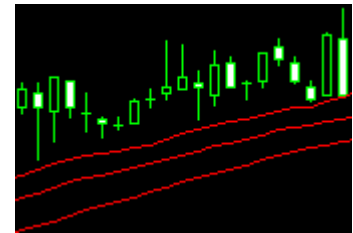
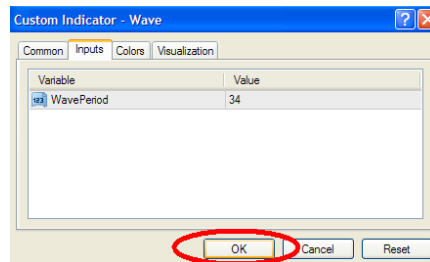
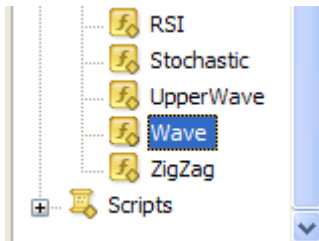


Wave

The *Wave* indicator is nothing special, it actually consists of three exponential moving averages with period 34. We will use this indicator later in **Chapter V: Trade filtering**.

Add this indicator to the chart:

- 1) Double click on the *Wave* indicator on left.
- 2) On the popup window, click OK.
- 3) You should see three red lines in the chart. We call them *the Wave*.



1MinuteDaily

The *1MinuteDaily* indicator defines the consolidation area during Asian session. It also helps you to locate the upper and lower target by two single dots.

Add this indicator to the chart:

- 1) Double click on the *1MinuteDaily* indicator on left.
- 2) On the popup window (*Inputs* tab), edit the variables by double clicking on their values. They define the broker time zone, the start and the end of consolidation. We will discuss the variables later in paragraph **III.1. Define the breakout area exactly**.
- 3) You should see yellow dots in the chart.

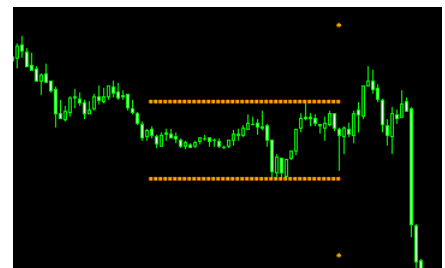
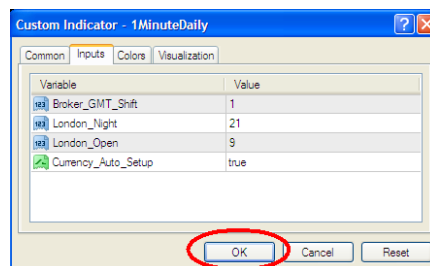
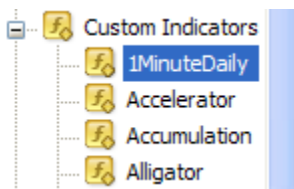


Chart properties

Optionally, you can change your chart style. We find it useful for this strategy.

1) Switch to *bar chart*.

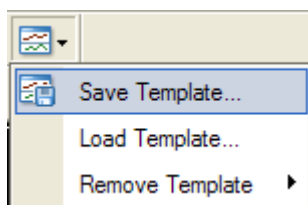


2) Remove the grid (CTRL+G).

3) Right-click on the chart and get the *Properties* (shortcut: F8). Change the bull-bar to green and the bear-bar to red.



4) Save your template for future reference.



New chart style.

Chapter III: Entry rule

III.1. Define the breakout area exactly

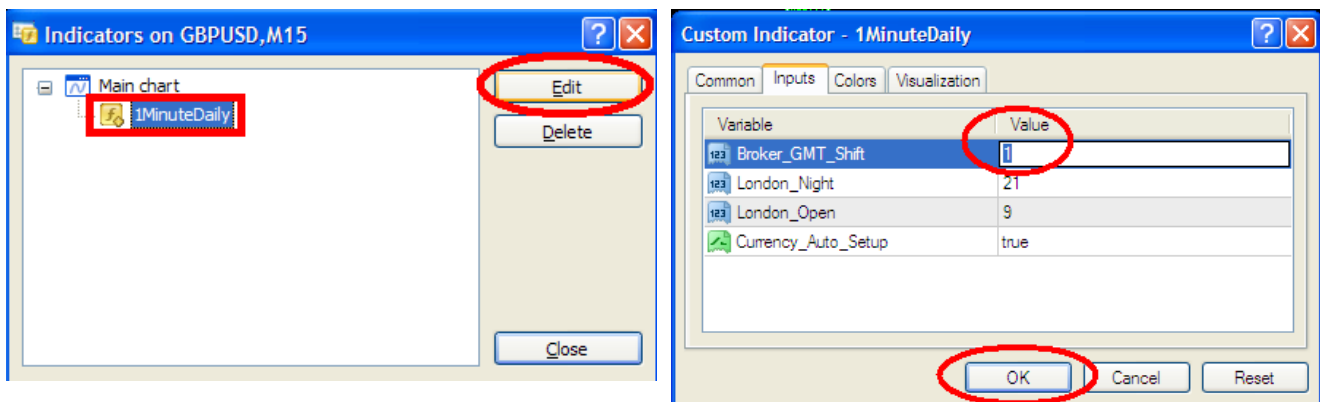
1) Locate the time zone of your broker / platform. Here you will find the current time in different time zones:

www.1minutedaily.com/time

Simply look at your chart, find out the last candle's opening time by moving your mouse over the candle, compare with the site above and find the matching time zone.



2) You have to set the *Broker_GMT_Shift* parameter to appropriate value. To get the *1MinuteDaily* properties, press a shortcut CTRL+I, select an indicator and click Edit.

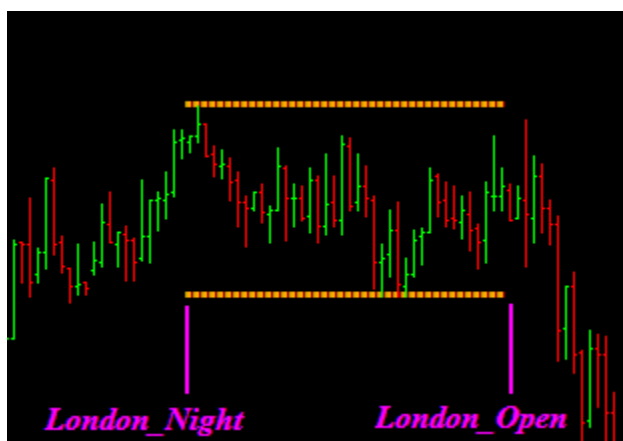


For example, if the matching time zone is GMT, then set *Broker_GMT_Shift* to 0. If it is GMT+1 (Central Europe), set *Broker_GMT_Shift* to 1. If it is GMT-5 (New York), set *Broker_GMT_Shift* to -5, etc.

The other variables remain unchanged. Times must stay in GMT. Compatibility with your broker / platform is solved automatically.

Session variable	Time in GMT	Affected currency pair	Explanation
<i>London_Night</i>	21:00	GBP/USD	Volatility decreases.
<i>London_Open</i>	7:00 (9:00 – see later)	GBP/USD	London session opens.

Example: For GBP/USD pair, the first candle inside the area opens at *London_Night* and the first outside candle opens at *London_Open*.

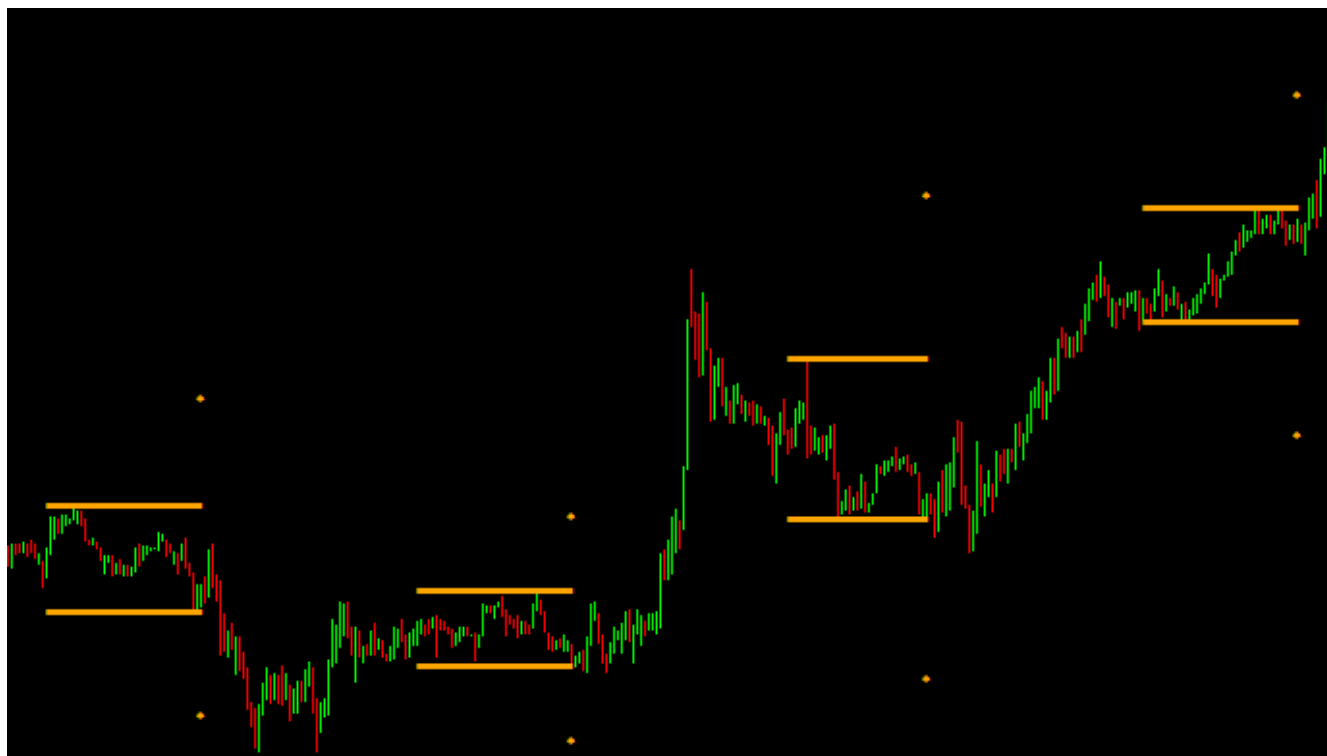


In the lower left corner, you see the breakout area information converted to your platform time.



With the *Currency_Auto_Setup* option, you can trade other currency pairs. The appropriate times are set automatically. This new feature is covered in **Chapter VIII: Update!**.

The breakout area is shown in the chart every day. You can zoom the chart and switch to timeframe you feel comfortable with.

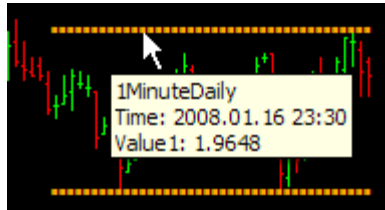


Next, we will discuss the strategy with the GBP/USD pair (London session). The consolidation ending time 7:00 GMT was just guessed. We will test the strategy for other values in paragraph **VII.3. Backtest results for different entry times**. After that, we will find the best *London_Open* value.

III.2. Single order

Determine the upper and lower band by moving the mouse cursor over the band or simply looking at the values in the Data Window (CTRL + D).





Buy order:

- 1) Place a buy-stop order just one pip above the upper band.
- 2) Place a stoploss just one pip below the lower band.
- 3) Place a profit target at the upper yellow dot.



Sell order:

- 1) Place a sell-stop order just one pip below the lower band.
- 2) Place a stoploss just one pip above the upper band.
- 3) Place a profit target at the lower yellow dot.



III.3. Sophisticated order

Our goal is to catch all possible breakouts. Our sophisticated order consists of two single orders. Place one buy order and one sell order at a time.

When the upper band is broken first, the buy order is filled automatically. Both the profit target and stoploss will become active.

- If the stoploss is hit, then the lower band is broken and the sell-stop order is filled;
- If the profit target is hit, you have to cancel the pending sell-stop order.

III.4. Practical implementation: Place your orders and leave.

- 1) Set your alarm clock to 9:00 GMT for GBP/USD. This is the time of consolidation end and the time of the first outside candle open.
- 2) Login to your platform and place the orders as described above.
- 3) Leave your computer and enjoy the life!
- 4) In case the profit target is hit, you have to cancel the second pending order. Some modern broker platforms allow you to set the expiration price for a pending order (if price goes too far, the order should be cancelled automatically). If your broker does not support this feature, you can set an alert (for the MetaTrader platform, switch to the Alerts tab on the bottom, click-right and choose Create) and cancel the order manually when the alarm rings. We personally do not set an alarm, we use to check the price every two or four hours because it is unlikely that the market will reverse so quickly after the profit target is hit. It's your choice.

III.5. Pay the spread

Every time you open a position, you have to pay the spread between the Bid and Ask prices. The typical spread is 2 – 5 pips and it cuts your overall profit. We have found that performance increases if we move our profit target 2 – 5 pips further. Look at your chart and notice that the price goes further in most cases. For that reason, we work with slightly moved profit targets. This way we kill off the spread and gain additional small profit.



Chapter IV: Trade filtering

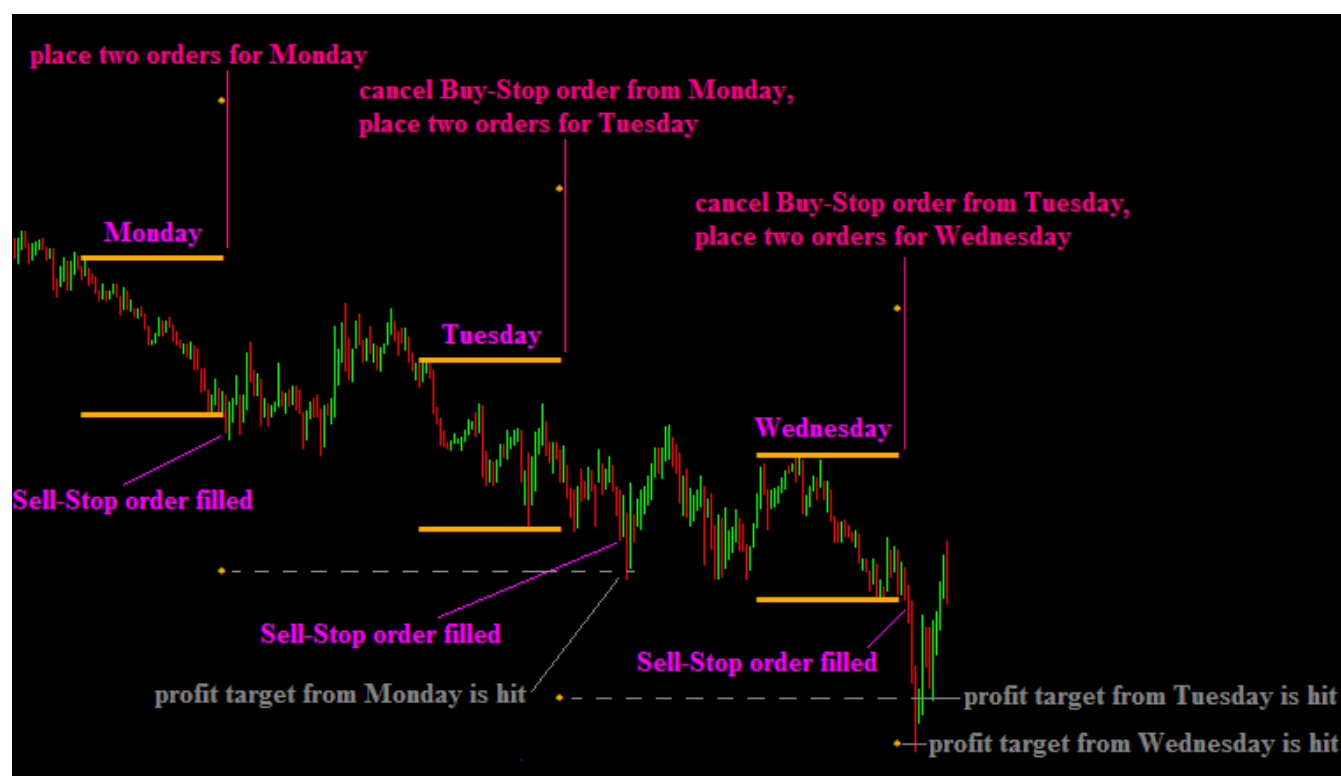
IV.1. Time filter

Sometimes the first order is filled and the position remains open for more than 24 hours. You have to cancel the second pending order.

Remember:

- Before placing the two stop-orders for the next day, **cancel** all pending stop-orders;
- Leave all positions open! Never close a position in advance. The stoploss and profit target will take all the work.

Example:



You will see more examples in **Chapter VI: Examples**.

IV.2. Wave filter

This is an advanced filter. Use this filter only if you are familiar with the basic strategy. We will use the *Wave* indicator as a trend definition. It is well-known that trading with the trend increases success rate. Yes, trend is your friend!

If most bars are below the *Wave* during Asian session and the *Wave* is sloping down, then open just one sell-stop order. It is more likely that the down-trend will continue. You can miss some false breakouts this way.

If most bars are above the *Wave* during Asian session and the *Wave* is sloping up, then open just one Buy-Stop order.

Example:



IV.3. News filter

When the big news are released, we recommend you to stay away from the market. Don't place any orders on the first Friday of every month. The U.S. non-farm payrolls (NFP) report is released at 12:30 PM GMT (8:30 AM EST) and the market becomes really wild.

Date	6:21am	Currency	Impact	Detail	Actual	Forecast	Previous
Fri	8:30am	USD		Non-Farm Employment Change	-533K	-320K	-320K

Chapter V: Consistency and the math behind

The average night range of the pair GBP/USD is about 100 pips. Let's divide all possible situations into four classes.

Class A: One true breakout



The profit is equal to the night range. Since we place an order one pip away from the band, the net profit is 100 pips – 1 pip = 99 pips.

Class B: False breakout & True breakout



In this case we lost 102 pips on the long position and made 99 pips back on the short position. The net profit is –3 pips.

Class C: One false breakout



We lost 102 pips. Since the position was opened too long, the second order was cancelled and not filled (according to paragraph IV.1. **Time filter**).

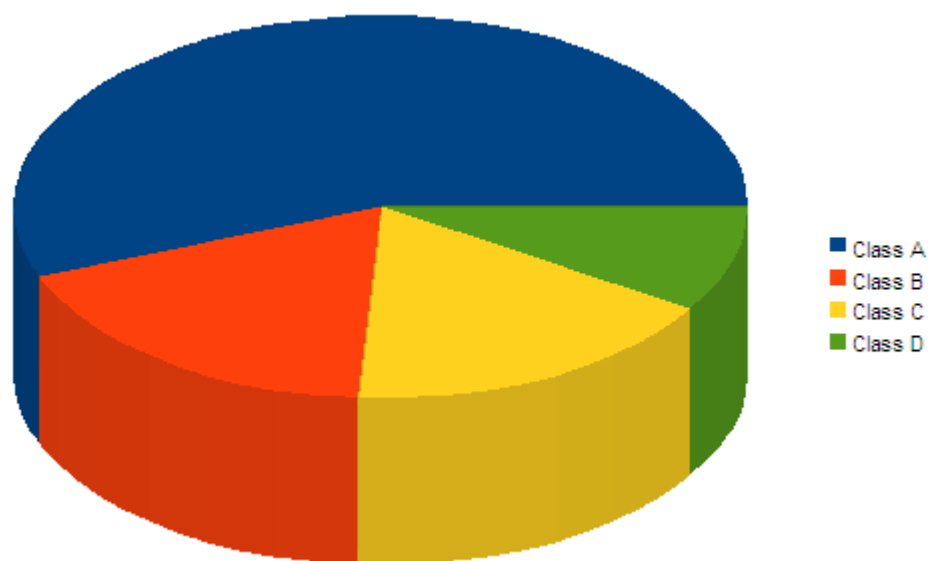
Class D: Two false breakouts



The worst case scenario. We lost on both positions. We lost 102 pips two times; –204 pips total.

We have determined the percent occurrence of every scenario over the past few years.

	Average profit	Percent occurrence
Class A	+99 pips	56%
Class B	−3 pips	18%
Class C	−102 pips	17%
Class D	−204 pips	9%

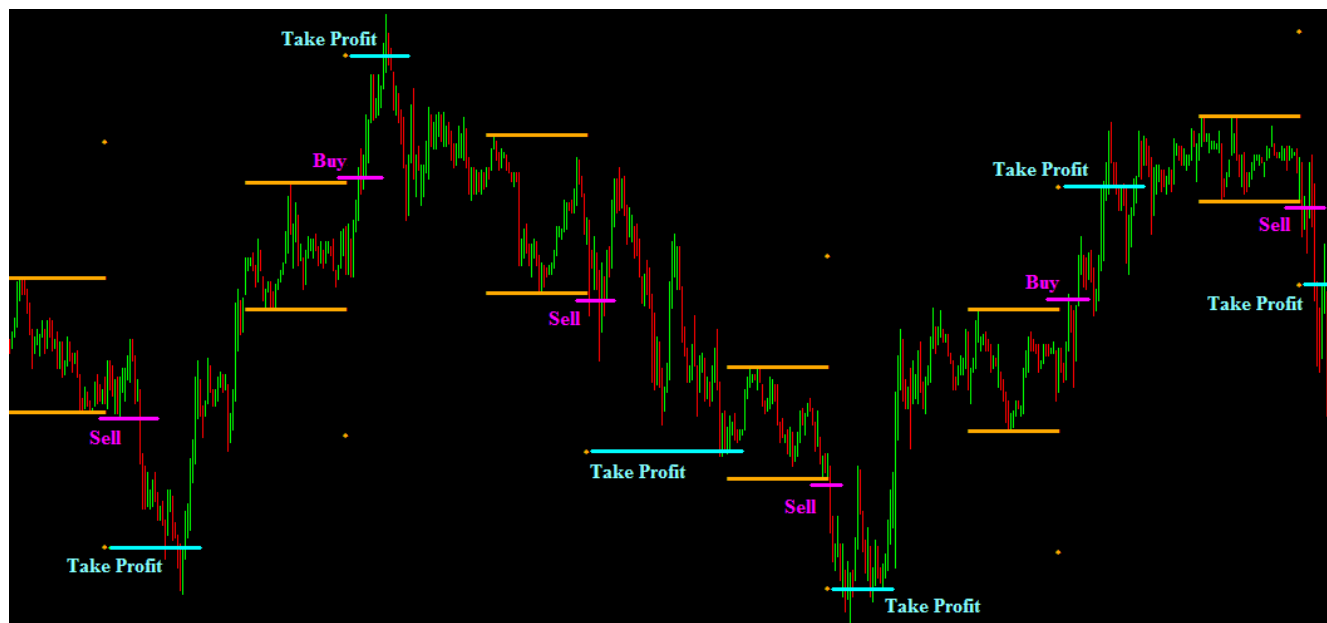


The average profit is $99 \times 56\% - 3 \times 18\% - 102 \times 17\% - 204 \times 9\% = 20$ pips.

It's positive! We just proved that our mechanical strategy works. With a bit subjective approach, it could only be better.

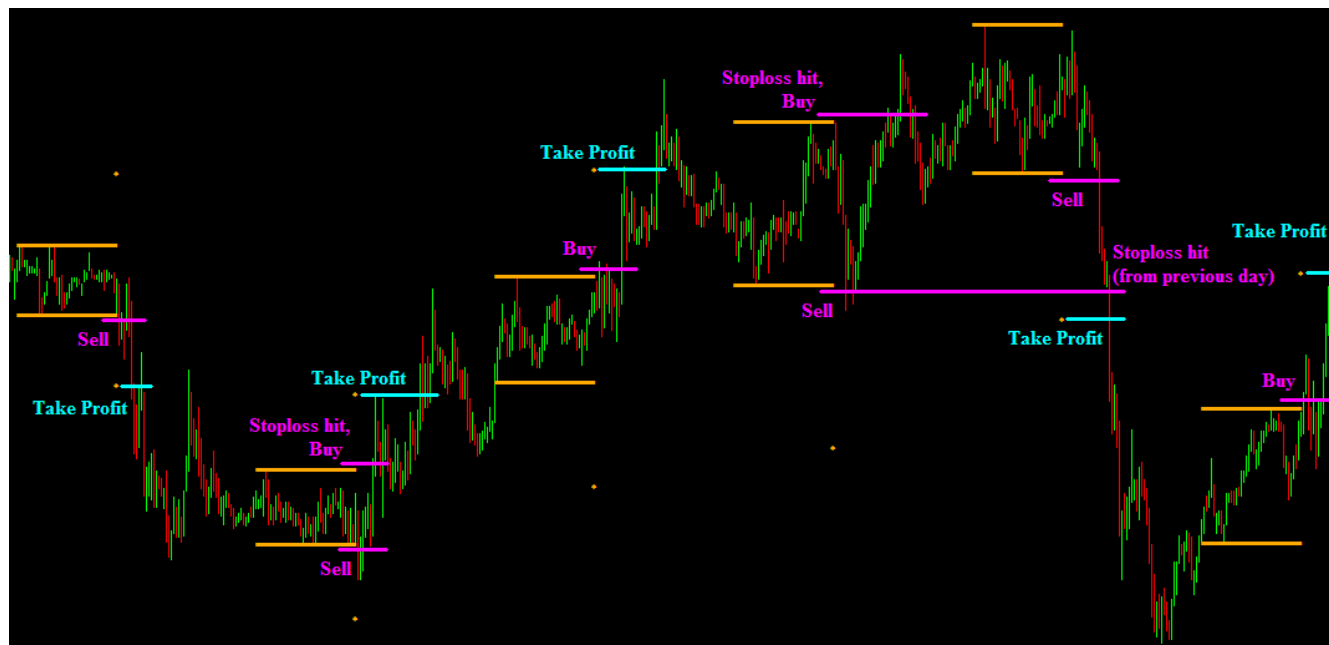
Chapter VI: Examples

A typical happy week (GBP/USD, 9th October 2007):



Notice how the price accelerates when the breakout happens. Notice how the market tends to reverse when the profit target is hit. The chart shows that our *1MinuteDaily* strategy is robust.

Another example (GBP/USD, starting with 16th October 2007):



- There are four true breakouts in the chart (the first, third, fifth and sixth day). In **Chapter V: Consistency and the math behind**, we called them “Class A” trades.
- On the second day, the short position was closed with a loss, but another buy-stop order was filled. We took a profit that covered our loss. This situation comes under “Class B”.
- On the fourth day, the worst-case scenario happened (“Class D”). The short position was closed with a loss, the buy-stop order was filled, but the profit target was missed again. The long position remained open until the stoploss was hit on the fifth day.

We have chosen the next example to show you how our strategy behaves in uptrend (GBP/USD, 25th October 2007):



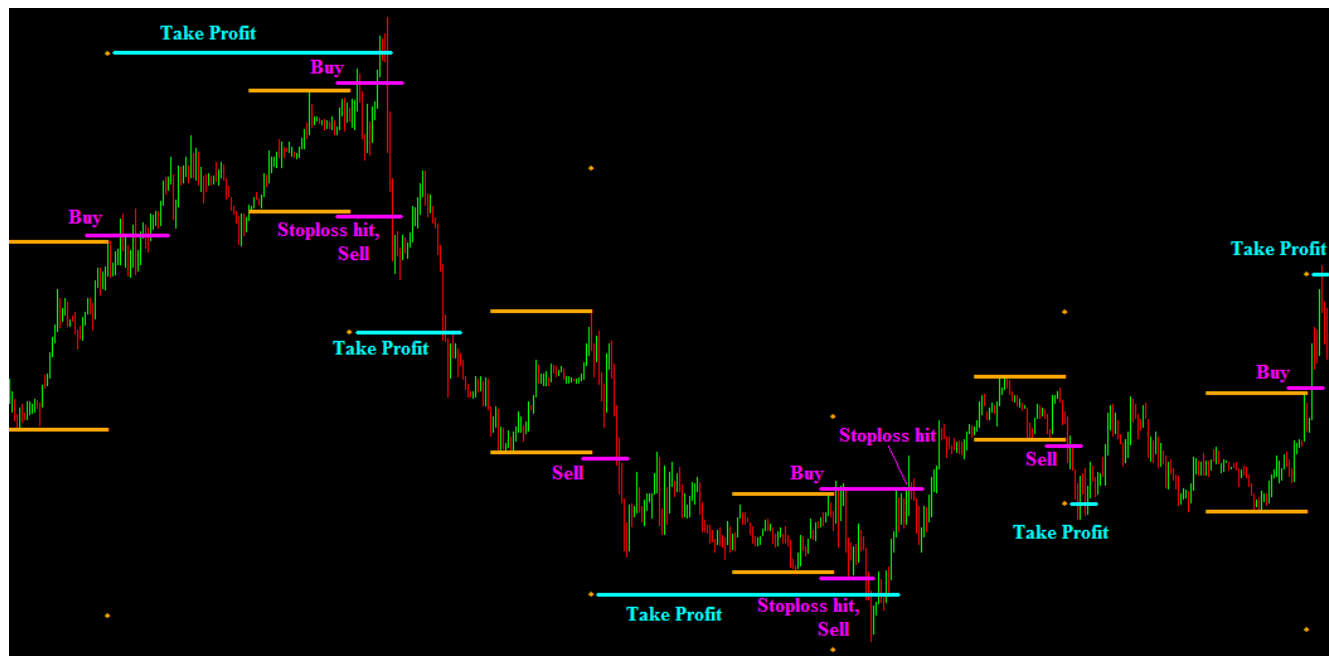
Our strategy works very well when the market is trending up or down. Most traders do not apply breakout strategies on a trending market. *Momentum traders* are looking for breakouts when the market is forming a triangle consolidation. *Swing traders* are looking for rallies and bounces when the market is trending up or down. As demonstrated by us, a breakout strategy works very nice in a trending market. Most traders would disagree.

“Disregard the majority opinion. It is probably wrong.”

Max Gunther: The Zurich Axioms

And that's the reason why we focus on the GBP/USD pair. It is the best trending currency pair among of all other pairs.

An example when the market looks wild (GBP/USD, 13th November 2007):



- There are four true breakouts in the chart (the first, third, fifth and sixth day). In **Chapter V: Consistency and the math behind**, we called them “Class A” trades.
- On the second day, the long position was closed with a loss, but another sell-stop order was filled. We took a profit which covered our loss. This situation comes under “Class B”.
- On the fourth day, the worst-case scenario happened (“Class D”). The long position was closed with a loss, the sell-stop order was filled, but the profit target was missed again.

Chapter VII: Full backtest: 6119% in two years

VII.1. How to test a strategy

Instead of the other complex strategies and scalping systems, our strategy can be easily tested on historical data. You do not need a programmer or complicated software. Everything you need is a 15-minute chart.



1) Look at the chart and label every day as explained in **Chapter V: Consistency and the math behind**.

2) Then assign a number to every label:

A: +99

B: -3

C: -102

D: -204

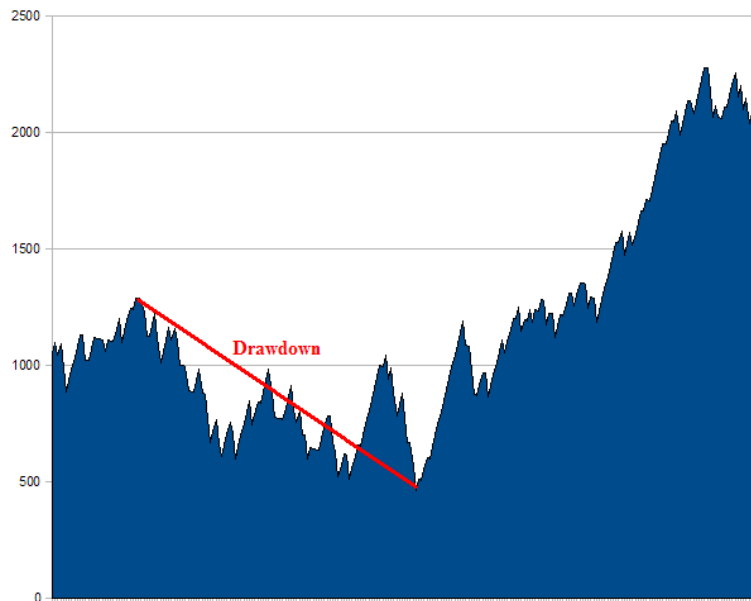
<http://forexwinners.net/>

3) Sum up the numbers to obtain the total profit for a given period.

This is a rough test assuming that average range is 100 pips. A very precise test including money management is shown in the next paragraphs.

VII.2. Equity

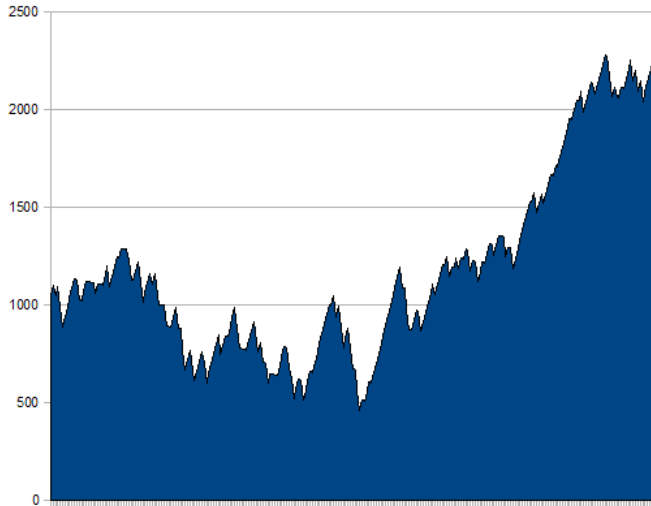
The account equity gives us much more information than the total profit number. There is another important parameter called *drawdown*. Drawdown is a reduction in account equity from a series of trades. The more smooth the equity curve looks, the more powerful the strategy is.



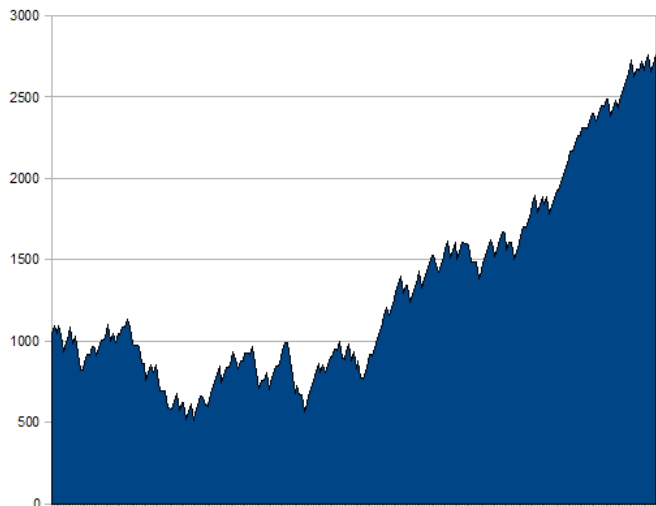
This is the account equity from backtesting results in the year 2007. Starting with \$1000 we doubled our account. There is an ugly drawdown on the equity curve. We have to do some more research in the next paragraph.

VII.3. Backtesting results for different entry times

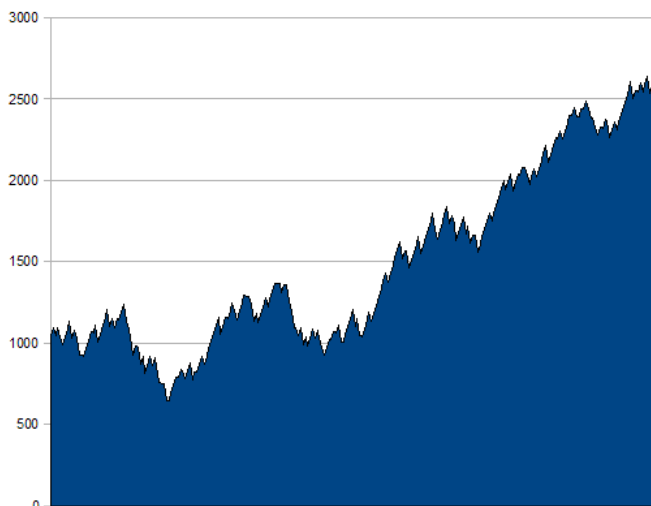
The consolidation ending time 7:00 GMT was just guessed. To find a more effective value for the *London_Open* parameter, we have to test our strategy for different values. The market tends to accelerate **after** 7:00 GMT, so we should test the times 7:00 GMT, 8:00 GMT, 9:00 GMT and 10:00 GMT. Starting with \$1000 and risking \$50 on every trade:



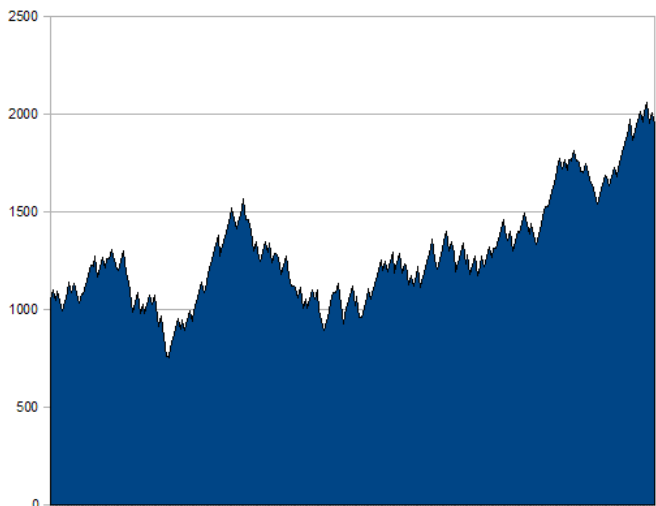
London_Open = 7 (GMT): Final account \$2284



London_Open = 8 (GMT): Final account \$2755



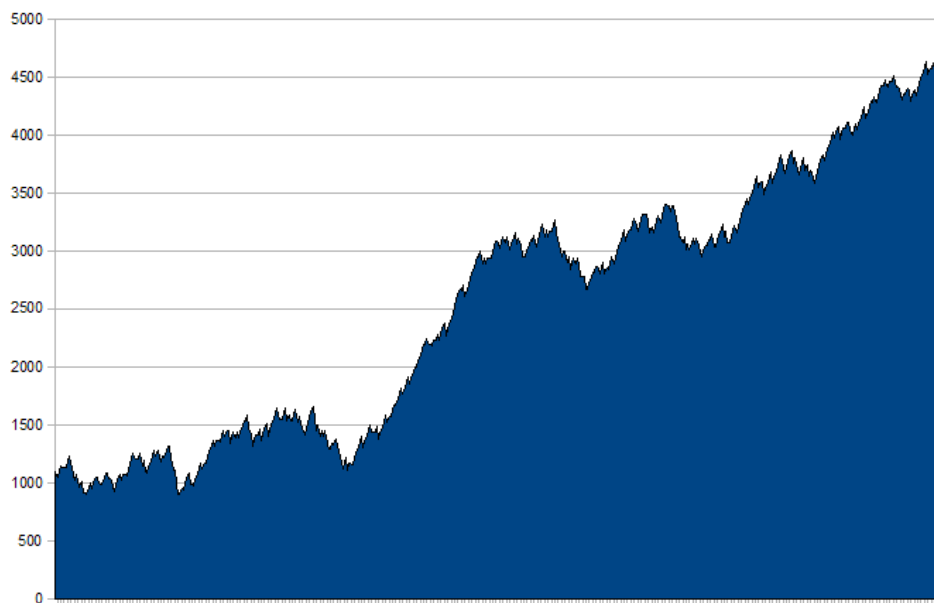
London_Open = 9 (GMT): Final account \$2635



London_Open = 10 (GMT): Final account \$1952

Which account equity would you choose? If you have chosen the second one because of the greatest profit, then go back and read the previous paragraph again. If you have chosen the third chart, then you are right. Take a look at the half-year. Unlike the second chart, this period was profitable. We like consistency more than the overall profit.

The two years backtesting results show us that our *1MinuteDaily* strategy is consistent and really powerfull. Starting with only \$1000, we made \$3653.

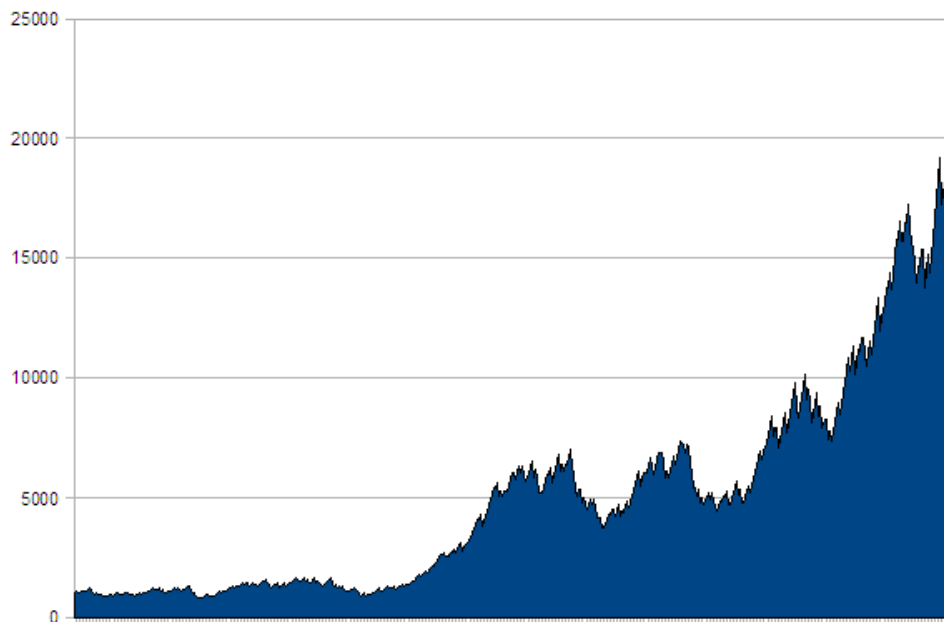


You can find the full backtesting results in the Excel sheet: RESULTS.xls, Sheet: GBPUSD fixed.

GBP/USD						
fixed money management, risking \$50 per trade						
Consolidation area (times in GMT)	Night range (pips)	Class	Profit/Loss (pips)	Open Minilots	Profit/Loss (dollars)	Total profit (starting with \$1000)
2006.01.02 21:00 - 2006.01.03 09:00	156	A	155	0,3	46,5	1046,5
2006.01.03 21:00 - 2006.01.04 09:00	91	A	90	0,5	45	1091,5
2006.01.04 21:00 - 2006.01.05 09:00	83	C	-85	0,6	-51	1040,5
2006.01.05 21:00 - 2006.01.06 09:00	63	A	62	0,8	49,6	1090,1
2006.01.06 21:00 - 2006.01.09 09:00	72	A	71	0,7	49,7	1139,8
2006.01.09 21:00 - 2006.01.10 09:00	65	B	-3	0,8		
2006.01.10 21:00 - 2006.01.11 09:00	88	B	-3	0,6		
2006.01.11 21:00 - 2006.01.12 09:00	57	B	-3	0,9		
2006.01.12 21:00 - 2006.01.13 09:00	98	A	97	0,5		
2006.01.13 21:00 - 2006.01.16 09:00	68	A	67	0,7		
2006.01.16 21:00 - 2006.01.17 09:00	64	C	-66	0,8		
2006.01.17 21:00 - 2006.01.18 09:00	67	D	-66	0,5		

VII.4. Results with *True Money Management* risking 5% per trade

Please read the *True Money Management* book first. Using the advanced money management, starting with \$1000 and risking just 5% from current account on every trade, our account reached \$18,615 (eighteen times more than our initial account!). We made 1761.5% in two years trading the same strategy (!), but applying the *True Money Management*.

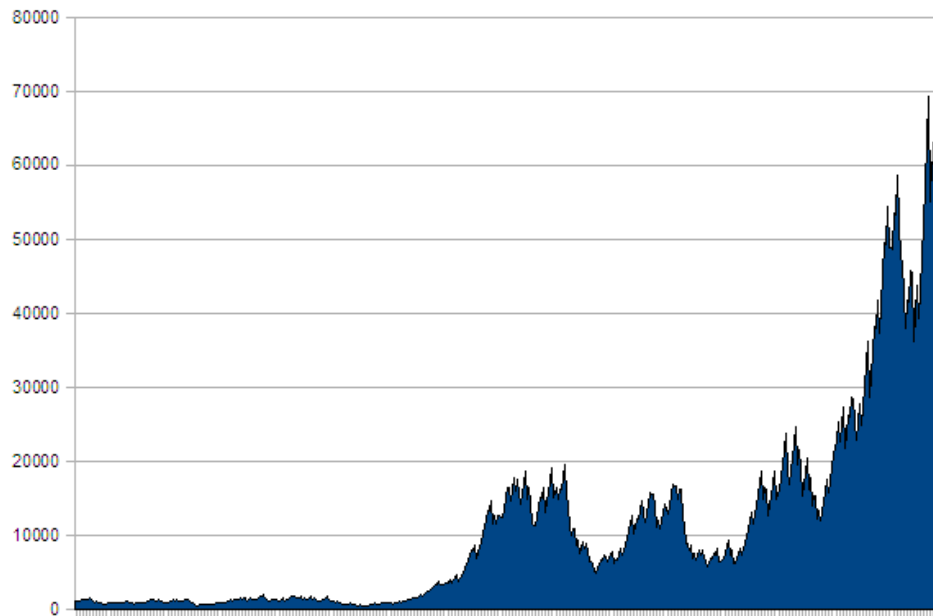


You can find the full backtesting results in the Excel sheet: RESULTS.xls, Sheet: GBPUSD 5.

GBP/USD True Money Management, risking 5% per trade						
Consolidation area (times in GMT)	Night range (pips)	Class	Profit/Loss (pips)	Open Minilots	Profit/Loss (dollars)	Total profit (starting with \$1000)
2006.01.02 21:00 - 2006.01.03 09:00	156	A	155	0,3	46,5	1046,5
2006.01.03 21:00 - 2006.01.04 09:00	91	A	90	0,6	54	1100,5
2006.01.04 21:00 - 2006.01.05 09:00	83	C	-85	0,7	-59,5	1041
2006.01.05 21:00 - 2006.01.06 09:00	63	A	62	0,8	49,6	1090,6
2006.01.06 21:00 - 2006.01.09 09:00	72	A	71	0,8		
2006.01.09 21:00 - 2006.01.10 09:00	65	B	-3	0,9		
2006.01.10 21:00 - 2006.01.11 09:00	88	B	-3	0,7		
2006.01.11 21:00 - 2006.01.12 09:00	57	B	-3	1		
2006.01.12 21:00 - 2006.01.13 09:00	98	A	97	0,6		
2006.01.13 21:00 - 2006.01.16 09:00	68	A	67	0,9		
2006.01.16 21:00 - 2006.01.17 09:00	64	C	-66	1		
2006.01.17 21:00 - 2006.01.18 09:00	67	D	100	0,6		

VII.5. Better results with *True Money Management*

Since the *True Money Management* is a conservative trading approach, it is normal to risk 10% per trade. The results are impressive:



You can find the full backtesting results in the Excel sheet: RESULTS.xls, Sheet: GBPUSD 10.

GBP/USD True Money Management, risking 10% per trade						
Consolidation area (times in GMT)	Night range (pips)	Class	Profit/Loss (pips)	Open Minilots	Profit/Loss (dollars)	Total profit (starting with \$1000)
2006.01.02 21:00 - 2006.01.03 09:00	156	A	155	0.6	93	1093
2006.01.03 21:00 - 2006.01.04 09:00	91	A	90	1.2	108	1201
2006.01.04 21:00 - 2006.01.05 09:00	83	C	-85	1.4	-119	1082
2006.01.05 21:00 - 2006.01.06 09:00	63	A	62	1.7	105.4	1187.4
2006.01.06 21:00 - 2006.01.09 09:00	72	A	71	1.6		
2006.01.09 21:00 - 2006.01.10 09:00	65	B	-3	2		
2006.01.10 21:00 - 2006.01.11 09:00	88	B	-3	1.5		
2006.01.11 21:00 - 2006.01.12 09:00	57	B	-3	2.3		
2006.01.12 21:00 - 2006.01.13 09:00	98	A	97	1.3		
2006.01.13 21:00 - 2006.01.16 09:00	68	A	67	2.1		
2006.01.16 21:00 - 2006.01.17 09:00	64	C	-66	2.4		
2006.01.17 21:00 - 2006.01.18 09:00	67	D	-68	1.1		

Our final account is \$62,187. We made \$61,187 from \$1000 in two years! Starting with \$10,000 you should make \$611,870, etc. This is the way how the lazy multimillionaires are born. Working just one minute daily and making 61-times in two years is a dream of every small trader. It's not a dream, it's reality!

VII.6. A little more work: far better results

If you had time to monitor the market regularly, you could make even more money. Don't forget that you have learned a basic *mechanical* strategy. Sometimes the price goes very close to the profit target, but it suddenly reverses and the target is missed. It is a good idea to move the stoploss to breakeven when the price comes close to the profit target. This way we filter some losing trades. Believe, the performance will increase dramatically.

Chapter VIII: Update!

VIII.1. Forex systems: Watch out for “weak ice”

There are so many perfect forex systems out there. Many traders are trying to follow a system that was *over-optimized*. An over-optimized system works perfectly on historical data, but fails on the new data.



Over-optimization is a process of adjusting the indicator's parameters. You can easily find a perfect system created by randomly chosen indicators. The only thing what you have to do is to tune up their parameters to appropriate values so that the system looks perfectly on historical data. And if you have enough adjustable parameters, there is no doubt that you will find such a good combination. But you never know what parameters will be good an hour later...

“On the left, there is a history. On the right, there is a mystery.”

Now, let's talk in general about how to avoid over-optimization when creating a forex system. Imagine that you have found / created / bought / learned / developed a system based on moving averages and it works great when the EMA period is 34. Try to test the system with EMA period 33 or 35, or ask the vendor / trader if the system works with some other values close to 34. If the system totally fails with EMA period 33 or 35, then you are “walking on weak ice”. A little change should not discard the system. Such a system does not have any chances to work in future. It is over-optimized.

As you have seen in the last chapter, the system works for various times after 7:00 GMT. If one used it at 7:00 GMT instead of 9:00 GMT, he would made a profit as well.

Another tricky way to prevent over-optimization is to optimize your strategy on some historical data and then test it on the new data – the so called *forward-test*.

The most robust and convincing test is to review the results after some time. And that's what we have done in this update.

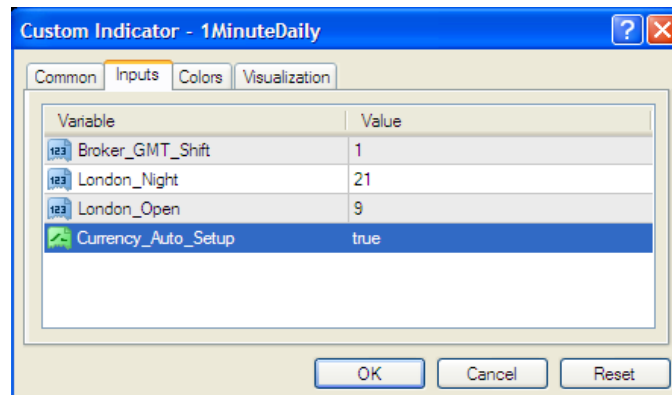
VIII.2. How to trade USD/JPY and GBP/JPY one minute daily

When London wakes up, the other markets become affected. The most interested currencies are GBP and JPY. The permanent trade surplus country Japan has very low interest rates, whereas the persistent trade deficit country UK has substantially higher interest rates than Japan. Thus the basic idea of covered interest arbitrage is to borrow in the country with lower interest rate and invest in the country with higher interest rate. The market is moving as investors and banks in Japan and UK are exchanging currencies. That's why we focus on USD/JPY and GBP/JPY – the mover.

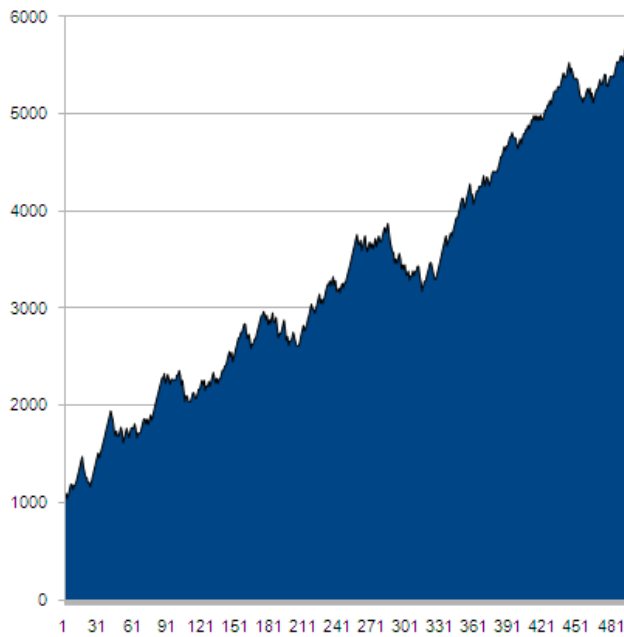
The USD/JPY pair is affected a bit later than GBP/USD. A statistical research of GBP/JPY cross pair leads to increasing volatility somewhere between London and Tokyo session and the best time to trade is 19:00 GMT.

Time in GMT	Affected currency pair	Explanation
23:00	USD/JPY	Volatility decreases.
11:00	USD/JPY	Volatility increases.
7:00	GBP/JPY	Volatility decreases.
19:00	GBP/JPY	Volatility increases.

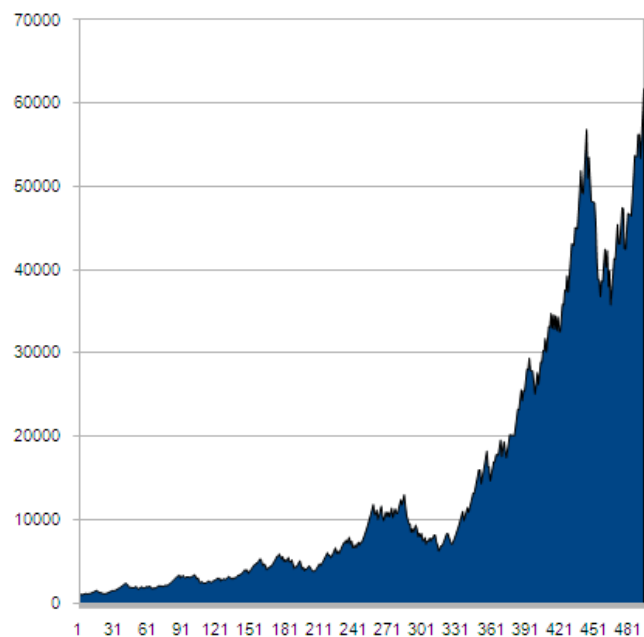
With the *Currency_Auto_Setup* option set to true, you don't have to care about the times. The breakout area will be set up automatically for GBP/USD, USD/JPY and GBP/JPY.



VIII.3. Updated results



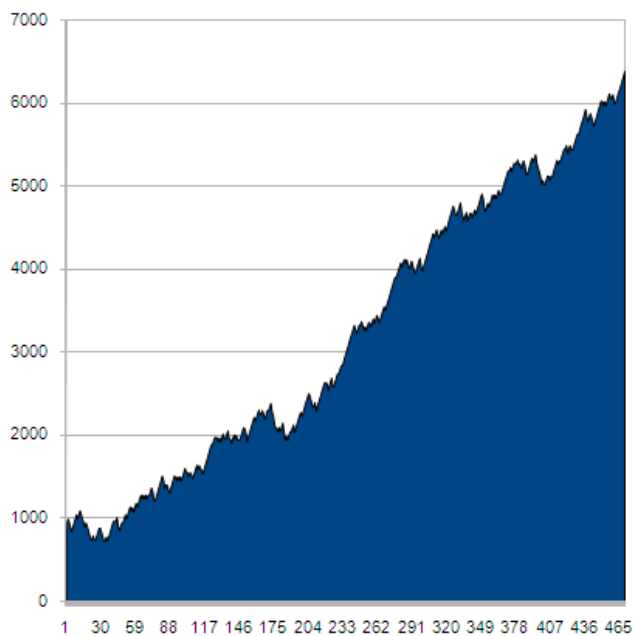
GBP/USD, fixed money management



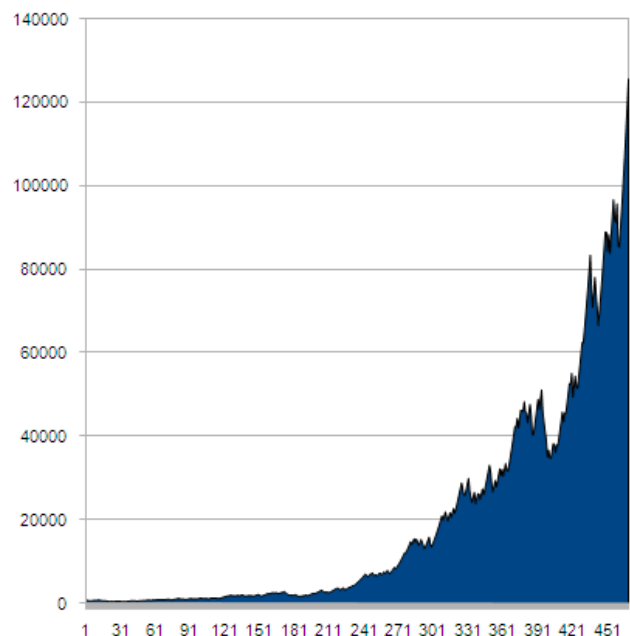
GBP/USD, true money management

GBP/USD							
fixed money management, risking \$50 per trade							
Consolidation area (times in GMT)	Night range (pips)	Class	Profit/Loss (pips)	Open Minilots	Profit/Loss (dollars)	Total profit (starting with \$1000)	
2008.01.02 21:00 - 2008.01.03 09:00	80	A	79	0,6	47,4	1047,4	
2008.01.03 21:00 - 2008.01.04 09:00	66	A	65	0,8	52	1099,4	
2008.01.04 21:00 - 2008.01.07 09:00	88	C	-90	0,6	-54	1045,4	
2008.01.07 21:00 - 2008.01.08 09:00	161	A	160	0,3	48	1093,4	
2008.01.08 21:00 - 2008.01.09 09:00	130	A	129	0,4	51,6	1145	
2008.01.09 21:00 - 2008.01.10 09:00	51	A	50	1			
2008.01.10 21:00 - 2008.01.11 09:00	133	B	-3	0,4			
2008.01.11 21:00 - 2008.01.14 09:00	86	C	-88	0,6			
2008.01.14 21:00 - 2008.01.15 09:00	68	A	67	0,7			
2008.01.15 21:00 - 2008.01.16 09:00	85	B	-3	0,6			
2008.01.16 21:00 - 2008.01.17 09:00	91	A	90	0,5			

GBP/USD							
True Money Management, risking 5% per trade							
Consolidation area (times in GMT)	Night range (pips)	Class	Profit/Loss (pips)	Open Minilots	Profit/Loss (dollars)	Total profit (starting with \$1000)	
2008.01.02 21:00 - 2008.01.03 09:00	80	A	79	0,6	47,4	1047,4	
2008.01.03 21:00 - 2008.01.04 09:00	66	A	65	0,8	52	1099,4	
2008.01.04 21:00 - 2008.01.07 09:00	88	C	-90	0,6	-54	1045,4	
2008.01.07 21:00 - 2008.01.08 09:00	161	A	160	0,3	48	1093,4	
2008.01.08 21:00 - 2008.01.09 09:00	130	A	129	0,4	51,6	1145	
2008.01.09 21:00 - 2008.01.10 09:00	51	A	50	1,1			
2008.01.10 21:00 - 2008.01.11 09:00	133	B	-3	0,5			
2008.01.11 21:00 - 2008.01.14 09:00	86	C	-88	0,7			
2008.01.14 21:00 - 2008.01.15 09:00	68	A	67	0,8			
2008.01.15 21:00 - 2008.01.16 09:00	85	B	-3	0,7			
2008.01.16 21:00 - 2008.01.17 09:00	91	A	90	0,7			



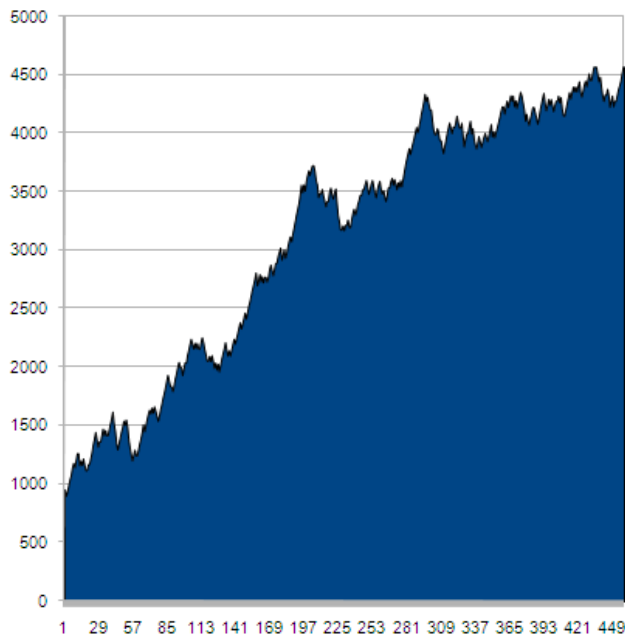
USD/JPY, fixed money management



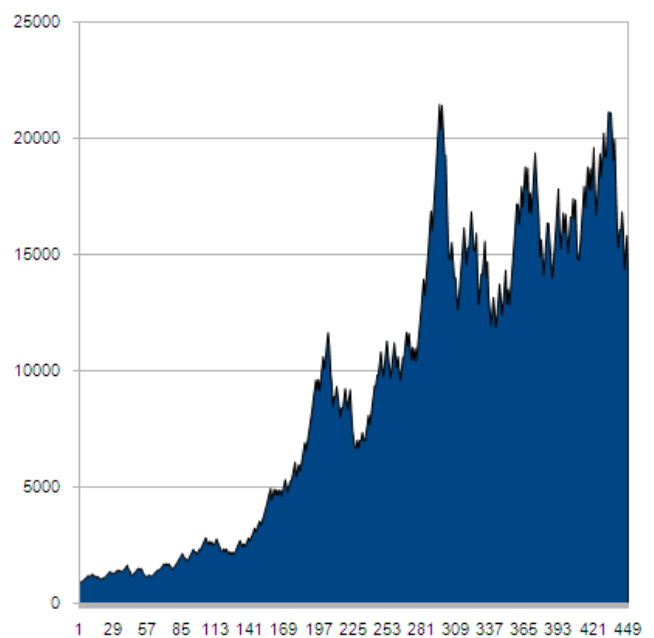
USD/JPY, true money management

USD/JPY fixed money management, risking \$50 per trade						
Consolidation area (times in GMT)	Night range (pips)	Class	Profit/Loss (pips)	Open Minilots	Profit/Loss (dollars)	Total profit (starting with \$1000)
2008.01.02 23:00 - 2008.01.03 11:00	134	C	-136	0.4	-54,4	945,6
2008.01.03 23:00 - 2008.01.04 11:00	81	A	80	0.6	48	993,6
2008.01.06 23:00 - 2008.01.07 11:00	118	C	-120	0.4	-48	945,6
2008.01.07 23:00 - 2008.01.08 11:00	84	C	-86	0.6	-51,6	894
2008.01.08 23:00 - 2008.01.09 11:00	88	C	-90	0.6	-54	840
2008.01.09 23:00 - 2008.01.10 11:00	52	A	51	1		
2008.01.10 23:00 - 2008.01.11 11:00	106	A	105	0.5		
2008.01.13 23:00 - 2008.01.14 11:00	134	A	133	0.4		
2008.01.14 23:00 - 2008.01.15 11:00	101	A	100	0.5		
2008.01.15 23:00 - 2008.01.16 11:00	103	C	-105	0.5		
2008.01.16 23:00 - 2008.01.17 11:00	103	A	102	0.5		

USD/JPY True Money Management, risking 5% per trade						
Consolidation area (times in GMT)	Night range (pips)	Class	Profit/Loss (pips)	Open Minilots	Profit/Loss (dollars)	Total profit (starting with \$1000)
2008.01.02 23:00 - 2008.01.03 11:00	134	C	-136	0.4	-54,4	945,6
2008.01.03 23:00 - 2008.01.04 11:00	81	A	80	0.6	48	993,6
2008.01.06 23:00 - 2008.01.07 11:00	118	C	-120	0.4	-48	945,6
2008.01.07 23:00 - 2008.01.08 11:00	84	C	-86	0.6	-51,6	894
2008.01.08 23:00 - 2008.01.09 11:00	88	C	-90	0.5	-45	849
2008.01.09 23:00 - 2008.01.10 11:00	52	A	51	0.8		
2008.01.10 23:00 - 2008.01.11 11:00	106	A	105	0.4		
2008.01.13 23:00 - 2008.01.14 11:00	134	A	133	0.3		
2008.01.14 23:00 - 2008.01.15 11:00	101	A	100	0.5		
2008.01.15 23:00 - 2008.01.16 11:00	103	C	-105	0.5		
2008.01.16 23:00 - 2008.01.17 11:00	103	A	102	0.5		



GBP/JPY, fixed money management



GBP/JPY, true money management

GBP/JPY fixed money management, risking \$50 per trade							
Consolidation area (times in GMT)	Night range (pips)	Class	Profit/Loss (pips)	Open Minilots	Profit/Loss (dollars)	Total profit (starting with \$1000)	
2008.01.03 07:00 - 2008.01.03 19:00	365	C	-367	0,1	-36,7	963,3	
2008.01.07 07:00 - 2008.01.07 19:00	191	C	-193	0,3	-57,9	905,4	
2008.01.08 07:00 - 2008.01.08 19:00	201	A	200	0,2	40	945,4	
2008.01.09 07:00 - 2008.01.09 19:00	251	A	250	0,2	50	995,4	
2008.01.10 07:00 - 2008.01.10 19:00	248	A	247	0,2	49,4	1044,8	
2008.01.11 07:00 - 2008.01.11 19:00	210	A	209	0,2			
2008.01.14 07:00 - 2008.01.14 19:00	200	A	199	0,3			
2008.01.15 07:00 - 2008.01.15 19:00	215	A	214	0,2			
2008.01.16 07:00 - 2008.01.16 19:00	394	C	-396	0,1			
2008.01.17 07:00 - 2008.01.17 19:00	297	A	296	0,2			
2008.01.18 07:00 - 2008.01.18 19:00	315	A	314	0,2			

GBP/JPY True Money Management, risking 5% per trade							
Consolidation area (times in GMT)	Night range (pips)	Class	Profit/Loss (pips)	Open Minilots	Profit/Loss (dollars)	Total profit (starting with \$1000)	
2008.01.03 07:00 - 2008.01.03 19:00	365	C	-367	0,1	-36,7	963,3	
2008.01.07 07:00 - 2008.01.07 19:00	191	C	-193	0,3	-57,9	905,4	
2008.01.08 07:00 - 2008.01.08 19:00	201	A	200	0,2	40	945,4	
2008.01.09 07:00 - 2008.01.09 19:00	251	A	250	0,2	50	995,4	
2008.01.10 07:00 - 2008.01.10 19:00	248	A	247	0,2	49,4	1044,8	
2008.01.11 07:00 - 2008.01.11 19:00	210	A	209	0,2			
2008.01.14 07:00 - 2008.01.14 19:00	200	A	199	0,3			
2008.01.15 07:00 - 2008.01.15 19:00	215	A	214	0,3			
2008.01.16 07:00 - 2008.01.16 19:00	394	C	-396	0,2			
2008.01.17 07:00 - 2008.01.17 19:00	297	A	296	0,2			
2008.01.18 07:00 - 2008.01.18 19:00	315	A	314	0,2			

Conclusion: GBP/USD is still doing great. Moreover, the performance has increased dramatically as compared to the previous results (from 1761.5% to 6074.6%). Trading the GBP/JPY pair with true money management (5%) is a bit riskier than the other currency pairs, but acceptable. The USD/JPY pair is a big winner: \$125,740 from \$1000, and that's 12,474%!

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Happy Trading!



Risk disclaimer:

Trading foreign exchange on margin carries a high level of risk, and may not be suitable for all investors. The high degree of leverage can work against you as well as for you. Before deciding to invest in foreign exchange you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose.

CFTC RULE 4.41 - Hypothetical performance results have many inherent limitations. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk. Variables such as the ability to adhere to a particular trading program in spite of trading losses as well as maintaining adequate liquidity are material points which can adversely affect actual real trading results.