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Premiere mentoring group

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The TAU Money Management Strategy

Presented By: Charles A. Floyd II

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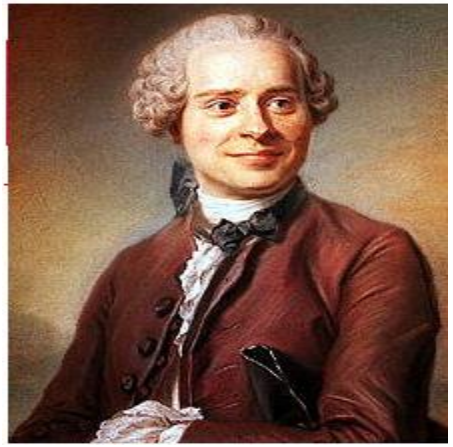
The Genius: Jean le Rond d’ Alembert



*A French Mathematician.

He is the Inspiration for numerous D’ Alembert betting systems

His system: Track your losses and increase

your bet when a winning streak begins.

His systems have sold to gamblers for thousands of dollars.

His Work Strikes Fear In LasVegas

His math theories have struck fear into the hearts of Las Vegas Casinos to this very day.

The casinos are so certain that their “house advantage” (odds at +50% in their favor) can be overcome by his strategy (that increases the bet amount at strategic points), that they eliminate

The effectiveness of the strategy by establishing table limits assuring you will never win your money back.

The Strategy

This strategy seeks to achieve a series of just two winning trades in a row, and by those two wins, make up for all previous losses in the series and also make a profit.

Statistical Probability of Winning Two Consecutive Trades

- In order to show profit from any series of trades, you must obtain two consecutive winning trades.
- Let’s examine the statistical probability of obtaining the same outcome twice in a row of any trade that has only two possible outcomes, and an equal probability for both. This would describe any number of “events,” such as flipping a coin, or betting if a market is going to go up or down by 10 ticks, or a rolling dice to see if the number that comes up is odd or even, etc.

1st Trade	2nd Trade
UP	UP
UP	DOWN
DOWN	UP
DOWN	DOWN

- Out of the four possible outcomes that we can get out of two trades, our “winning combination” (UP-UP) only appears once. That means in two trades, we have 25% chance of hitting our winning combination.

- When we go to a series of three trades, we now have eight possible combinations of the results:

1st Trade	2nd Trade	3rd Trade
UP	UP	UP
UP	UP	DOWN
UP	DOWN	UP
UP	DOWN	DOWN
DOWN	DOWN	DOWN
DOWN	DOWN	UP
DOWN	UP	DOWN
DOWN	UP	UP

Now we see that in the eight possible outcomes of the three trades, our winning combination (UP-UP) appears 3 times. The statistical probability of hitting the winning combination by the third trade is expressed by the mathematical formula:

% Probability = ((Winning Combinations ÷ Possible Combinations) / Number of Trades) x 100

% Probability = ((3 ÷ 8) / 3) x 100

% Probability = 12.50%

So the statistical probability of getting two consecutive results within three trades is 12.50%.

Chances of Achieving Two Consecutive Winning Trades

# of Trades	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
# of Possible Combinations	32	64	128	256	512	1024	2048	4096
# of Winning Combinations	27	81	243	729	2187	6561	19683	59049
Statistical Chance of 2 Wins	**16.88%**	**21.09%**	**27.12%**	**35.60%**	**47.46%**	**64.07%**	**87.37%**	**120.14%**

Risk Management

Trades	Probability
3	12.50%
4	14.06%
5	16.88%
6	21.09%
7	27.12%
8	35.60%
9	47.46%
10	64.07%
11	87.37%
12	120.14%

Now of course, one of the frustrating thing about real life is that it doesn't always listen to statistical probability.

“Risk Management” or How much to Risk on a Trade

- First, when describing how much we risk on each trade, we use the term “units.” Units refers to the total dollars risked on our <u>initial</u> trade.

Each trade will be a TRADE UNIT.

Suggested Risk Guidelines

- Aggressive: 50 Trading Units & Draw Down Limit of 55%
- Moderate- 75 Units & Draw Down Limit of 35%
- Conservative: 100 Units & Draw Down Limit= 25%
- Simply divide your account balance by the number
- Of units you wish to trade.

Example: $10,000.00USD account divided by 100

Risk units (Conservative) equates to 1 risk unit=$100.00

Start your trading series with a small enough amount (in relation to our total account) we don’t face any practical limit to the size of our future trades that would keep us from being able to successfully conclude a series of trades with a profit.

The Rules

First Rule

- At your first win, count the number of consecutive losses you had prior to your win. That becomes your Cancellation Number. Add together the units of those lost trades and now you will trade that number of units.

Second Rule

- If we have losses after a first win, and the number of losses is greater than out first Cancellation Number, then when we have another win we increase to the higher Cancellation Number.

Third Rule

- We never lower our Cancellation Number until a Run is complete. The Cancellation Number may go up, but not down.

Trade Examples

- 1st Trade
  - If you win your very first trade, that's an immediate End of run with a 1 unit profit. You then start a new run with 1 unit trade.
  - If you lose your trade, you trade 1 unit again. You keep trading only 1 unit until you win your trade. Every time you lose your trade, you track it by noting it in a log that we call the "Progression Log," in the following way:

- Upon losing your very first trade of the run, you write:
  - L1/1
- “L” for loss, the first “1” represents the unit you want to earn at the completion of the run and the second 1 is the 1 unit loss that you register.
- If you lose your next trade, then your write:
  - L1/1/1
- You simply append the lost trade to the end of the Progression.

- the fourth loss is written as L/1/1/1/1/1 or L with 5 times 1. Remember, the first 1 is the unit you want to make at the end of the run. So, after your win, you **cancel out 1 unit**, because that was the amount you were risking/betting during that trade. And you're left with four 1's. As you become more familiar with the strategy you will see that those four 1's actually count the number of previous losses, which is important to note

The Cancellation Number

The Cancellation Number

- " The Cancellation Number"
  - **The idea is to cancel all the numbers of the progression in order to complete the run.** When you have accomplished this, you will have cancelled all the lost trades and gained your 1 unit of profit
  - **Now here is a critical part of the strategy.** After your winning trade, you count the number of consecutive losses you had up to that win. That number becomes your "Cancellation Number."

Cancellation Number Cont.

- In this example we count 4, at the four 1's showing in our Progression; that is we had 4 consecutive losses before we won our trade. So, now, you will place a trade risking the sum of the first 4 numbers of your Binary Progression, which, in this example, is 1+1+1+1=4
- So your Cancellation Number is 4, and your next trade is 4 units. If you win that trade, you simply append the 4 to the end of your Progression, and write: /1/1/1/4
- If you win the trade, you would be cancelling all your remaining numbers: ~~1/1/1/1~~

Cancellation Number Continued

- And with all 4 numbers cancelled, that completes the run with 1 unit of profit, and you now start all over again at 1 unit
- If we had 6 consecutive losses and then a win, our Cancellation Number is 6, and then you would trade the sum of the first 6 numbers of your Progression. An obviously the next win would cancel all 6 of the numbers. We have just demonstrated the first rule of the System.

Stop Loss Safety Net

- In order to protect profits from the possibility of a long series of trades that do not close the run, we recommend the use of a Draw Down Limit. This simply means that you should have a pre-determined point in which you would abandon a series of trades if your account balance is reduced by a certain percent.
- A Draw Down Limit simply means that if a series of trades reaches a predetermined loss point, the trade is abandoned and the Binary Equation Strategy is “reset” to our beginning trade parameters.
- Here is the results of myten month market test and the corresponding Draw Down Limits.

Mode	**Total Account Units**	**Draw Down Limit**	
Aggressive Mode	50	55%	
Moderate Mode	75	35%	
Conservative Mode	100	25%	

Third Rule

- We never lower our Cancellation Number until a Run is complete. The Cancellation Number may go up, but not down.

Winning Trade Examples

Date	Dir	W/L	Progression	Units	Total	DDL

Winning Trade Examples

Date	Dir	W/L	Progression	Units	Total	DDL
12/2/09	S	L	L1/1	1	-2	-25
12/2/09	B	W	L1	1	-1	-25
12/2/09	B	L	L1/1	1	-2	-25
12/2/09	S	L	L1/1/1	1	-3	-25
12/2/09	B	L	L1/1/1/1	1	-4	-25
12/3/09	B	L	L1/1/1/1/1	1	-5	-25
12/3/09	B	W	L1/1/1/1	4	-4	-25
12/3/09	S	L	L4/4	4	-8	-25
12/3/09	B	L	L4/4/4	4	-12	-25
12/3/09	S	W	L8	8	-8	-25
12/4/09	B	W	Complete	1		

Charles Signals Results-Conservative 100/25

DATE	PAIR	DIRECTION	Win/Loss	Progression	Units	DDL
1/3/2008	GPBUSD	SHORT	Win	Complete	1	-25
1/24/2008	GPBUSD	LONG	Win	COMPLETE	1	-25
2/1/2008	GPBUSD	SHORT	W	COMPLETE	1	-25
2/14/2008	GPBUSD	SHORT	W	COMPLETE	1	-25
2/27/2008	GPBUSD	SHORT	LOSS	L1/1	-2	-25
3/18/2008	GPBUSD	SHORT	W	L1	-1	-25
3/24/2008	GPBUSD	LONG	W	COMPLETE	1	-25
4/3/2008	GPBUSD	LONG	W	COMPLETE	1	-25
4/8/2008	GPBUSD	SHORT	199070	COMPLETE	140	-25
4/16/2008	GPBUSD	LONG	197660	COMPLETE	166	-25
4/23/2008	GPBUSD	SHORT	197710	COMPLETE	202	-25
5/14/2008	GPBUSD	SHORT	LOSS	L1/1	-2	-25
5/16/2008	GPBUSD	LONG	194740	L1	-1	-25
5/27/2008	GPBUSD	SHORT	197540	COMPLETE	1	-25
6/17/2008	GPBUSD	LONG	195130	196170	104	-25
6/24/2008	GPBUSD	SHORT	LOSS	L1/1	-2	-25

System Summary

We make trades with a fixed amount of risk per trade, and assuming that we are losing those trades, we simply track the total amount of our losses until we have our first win.

After our first win, we then place another trade for an amount equivalent to our previous losses in the series. If we win, we have made up all our losses and made a profit.

If we lose, we continue to place trades for the higher amount until we have another win, then again we add up our previous losses and place a trade for an amount equivalent to our losses.

If we win, we have now made up all losses and made a profit. If we lose, we continue the strategy as described- until we achieve two wins in a row or we reach our draw down limit.

Got Questions?