

Correlation v 1.0 FAQ

Please test it in a demo account and make sure you understand how to use it before using it in a live account. This software version will expire September 3rd, 2006. Updates will be released monthly to all approved users.

This Expert Advisor can only place trade orders based on YOUR parameters. It does no market analysis or thinking on its own. That is YOUR job before you consider risking YOUR money.

Trading Successfully

It is common knowledge, supported by industries studies, that less than 5% of individuals earn profits trading the Forex market. Most individuals lose almost all of their account balance, plus the hundreds or thousands of dollars spent on seminars, systems, training, books, etc. that sit unused in a box in the garage.

If you think this can't happen to you, ask yourself how you will avoid this fate. Are you somehow better than almost everyone? Do you have a plan? Have you tested it over time?

The best decision most individuals can make is to not trade. This will save countless hours and thousands of hard-earned dollars. Anyone who still wants to trade needs a plan. Correlation trading fits that goal.

Simple Trading Plans that Work

The simplest trading system, and one used by large funds and banks world-wide, is the carry trade in which we borrow one currency to control another thereby earning interest. This trade can return 50% or more per year depending on the interest paid, the margin required and any reinvestment of returns. A common pair for this trade is the GBPUSD. When almost everyone loses money in Forex, wouldn't it be nice to earn money???

The drawback to this trade is that the individual must maintain accounts at two brokerages, rebalance the accounts regularly, and periodically make trades in the interest-free brokerage to keep them happy with your account.

A similar trade is the correlation trade. Certain currencies have high positive or negative correlations. This means that a negative move in one currency is usually offset by a positive move in the second currency. If the two currencies have a high positive correlation, a long/short trade would be required. If the two currencies have a high negative correlation, a long/long or short/short trade would be required. If the interest (SWAP) differential is

favorable, this will result in daily interest payments to you. At this time, this works well with two long positions in the GBP/USD and the USD/CHF, or a long GBP/JPY and a short CHF/JPY.

The drawback is that this is not the perfect correlation one would have if trading the same pair in two accounts. As a consequence, an account with correlation trades will experience periods of drawdown. However, because of the correlation, drawdown should be relatively small.

One benefit is also due to this imperfect correlation. At times, there will be a net unrealized profit between the two pairs. One could close both sides of the trade, book the profit, and immediately re-enter the trade. Although the purpose of this trade is to bank interest, profiting from the positive side of imperfect correlation just means more money for you.

Other benefits are that this trade can be accomplished in one account minimizing the total funds required to maintain accounts and margin. (Note, this trade can be set-up across two accounts to maximize interest, but that would require a much higher cash commitment and periodic rebalancing the accounts) This trade also does not require any charts/analysis/market watching/nail biting.

Further, over time the interest earned will exceed any potential drawdown and keep the account net positive.

The following two sites provide a further discussion of correlation trades, and an analysis of current currency correlation values.

<http://www.investopedia.com/printable.asp?a=/articles/forex/05/051905.asp>

<http://www.mataf.net/en/analysis-correlation.htm>

Installation

This EA works with Interbankfx **version 4.**

1. Place this EA in the following folder C Drive/Programs/Interbankfx/Experts.
2. Launch Interbankfx.
3. Select the desired currency pair.
4. From the Expert Advisor menu on the left, double-click Correlation.
5. Select the Inputs Tab and adjust the inputs below to suit your needs.
6. Right-click on the currency window to remove an Expert Advisor.

7. Double-click on user inputs to change defaults.
8. Save inputs for future use.

User Inputs

StopProgram	This value must be set to “false” to start the program. The default is “true” to eliminate unwanted execution at startup.
CloseOrders	Set to “false” to start the program. If set to “true” all orders in the named currency pairs will be closed. To execute, set StopProgram to false, and CloseOrders to “true.”
Lots One	This is the number of lots to trade for the first currency pair. Some traders tinker with ratios in an attempt to balance relative pip value, volatility,
LotsShort	This is the user’s maximum exposure in short orders. Set to zero to prevent short orders.
TakeProfit	If this value is selected, each time the net profit reaches this value, the program will automatically close all open positions to book the profit.
AutoTrade	If this value is selected, the program will automatically re-enter the trade if the positions are closed to book net profits.
SwapTrade	This feature enters a trade once per day. The purpose is to reinvest the interest earned each day. It will activate once 24 hours has passed since the latest trade.
SwapTradeSize	This value sets the SwapTrade size.
EmailMonitor	This allows the user to set up email monitoring. At user-defined intervals, the program will send an update email. This provides the user with account and trade information. The absence of an update alerts the user that there may be a problem with the computer that requires attention. When the program is started and this feature enabled, an email is immediately sent and the timer set to the previous hour mark. It will send emails at user-defined hourly intervals from that time.
EmailFrequency	The interval in hours between email alerts. The first email is sent as soon as the program is launched.

Margin This represents the lot margin dollar requirements and assumes 100:1 margin. This is needed for the margin available calculations and alerts. It is also the minimum value to have in the account for trading. If the available margin dips below this value, trading is suspended. If the user is trading two lots, this should be at least \$2,000.

Currency Window Requirement

This program is not dependent on the currency window to which it is attached. It can be attached to any window. If the currency pair desired is already managed by another EA, this one can be activated in any other currency window.

Saving Settings

Use the “Save” button on the parameter input dialog box to save settings, which will allow a quicker restart after the program has been turned off.

Screen Data

When the EA is running the currency window displays the current open and pending trades as well as account balance, equity, margin and hedge trader data.

Email Capability

This EA will email major alerts if this feature is enabled. To set it up in Interbankfx go to the menu Tools/Options/Email and enter the appropriate information for your email address. Please contact your email provider if you need help to set this up.

Certain cell phones have the ability to receive email and may be used for the contact. One way to create cell phone alerts is to set up a yahoo account for these alerts. In that account, enable cell phone notification. In that way each time an email is sent, an alert is forwarded to a cell phone.

The value of this feature is that the computer does not need to be monitored constantly.

Program Operations and Warnings

Margin requirements: This program will cease operations if it detects a low margin.

Sample Set-ups

Double click on the Correlation EA. Click on “Common” on the upper left corner. Turn on live trading.

Start program with negative correlation trade

Stop program	false
Close orders	false

Currency1	GBPUSD
CurrOneLong	true
Currency2	USDCHF
CurrTwoLong	true
Lots	1
Take Profit	300
AutoTrade	true
SwapTrade	true
SwapTradeSize	0.01
EmailMonitor	true
Email Frequency	24
Margin	2000

Start program with positive correlation trade

Stop program	false
Close orders	false
Currency1	GBPJPY
CurrOneLong	true
Currency2	CHFJPY
CurrTwoLong	false
Lots	1
Take Profit	300
AutoTrade	true
SwapTrade	true
SwapTradeSize	0.01
EmailMonitor	true
Email Frequency	24
Margin	2000

Questions

I can be reached at pacificforexgroup@mac.com if you have any questions about the operation of this program, other programs to be released, monthly licensing, or correlation trade theory.

Trade carefully, be patient,

Bill Barusley