

Correlation v 1.3 FAQ

Please test it in a demo account and make sure you understand how to use it before using it in a live account. Updates will be released monthly to all approved users. Demo versions are free and will be posted on the website monthly.

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. 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. As I write, 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 unless something exceptional, like a terrorist attack, occurs.

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 goal 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 any broker using MT4 **version 4.**

1. Place this EA in the following folder C Drive/Programs/BrokerName/Experts.
2. Launch BrokerPlatform.
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

Currency Pairs	Currency1-2 are the two currencies to trade.
CurrOneLong	True is for a long position. False is for a short position. Same rule for CurrTwoLong
CurrOneLots	How many lots do you wish to enter the trade with? Same question for CurrTwo Lots. These can be set to different values to create a ratio if desired.
SwapTradeSize	If a value is present, the program will place trades automatically according to the schedule. This feature can be used to put interest earned into the market to compound growth.
SwapTradeFreq	This feature enters a trade once 24 hours has passed since the last update by default. The purpose is to reinvest the interest earned. <i>This value should be adjusted to the actual interest earned per day, and the margin requirements you find appropriate.</i> For example, if you have a \$5,000 account and are trading two pairs at \$1,000 each, that would leave a \$3,000 margin. Using this example and to keep the ratio the same, you would add two 1K micro-lots worth \$10 each every time you gained \$50 in interest and/or swing trade profits. This would give you \$30 in margin, which is the same ratio.
Send Email	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. Set this value to zero to disable it. A value of one sends email every hour. A value of 24 sends email once per day. 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.
AutoTrade	If this value is selected, the program will automatically re-enter the trade if the positions are closed to book net profits.

- 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. For example, if you have two positions open at 100:1 ratio, there is \$2,000 tied up in this trade. A \$300 TP value would give you a 15% profit each time the trade had a positive swing. Another way of looking at it is in pips. \$300 also represents 30 pips of profit each time it is hit. Be careful not to set this value too low as the profits can be lost through slippage.
- Relative Profit If there were two pairs open and a \$300 TP, that would be 15 pips per pair profit. What there were twenty pairs open? That would be only 1.5 pips profit, and easily a loss through slippage. One would want to multiply the open lots and make the TP \$3,000 to achieve the same relative profit, correct? If this feature is enabled with a “true” value, the program will calculate the relative and absolute values, and close the trades based on the absolute value. *Relative value is the amount of TP the trader would like from each set of trading pairs. Absolute value is that TP value multiplied by the number of trading pair sets.* For example, if \$300 in TP is selected, the program assumes that is the TP for TWO lots – one in each correlated currency. If there are more (or less!) lots due to swap trading or larger entries, the absolute value is calculated. If there are FOUR open lots, the absolute TP would be \$600.
- EmailFrequency The interval in hours between email alerts. The first email is sent as soon as the program is launched.
- CloseOrders If set to “true” all orders in the named currency pairs will be closed.

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.

Manual Changes

This EA identifies its trades with the comment block. A long GBPUSD, long USDCHF order would be labeled with “GBPUSD/USDCHF-L/L.” You may place a manual order with the appropriate comment block and the EA will “adopt” the trade as one of its own. There are several instances when a manual trade may be desirable.

1. When one side of the trade was not automatically filled for some reason.
2. When it is desired to adjust the ratio to compensate for market direction.
3. When one wants to “reset” the 24 hour clock. For example, the trades may have automatically closed to take profit just after rollover. You may want to add your next position the next day *before* roll-over. You can manually enter this at any time and the 24 hour clock will begin from that point.
4. When one wants to be tricky with the interest. If one wants to squeeze every bit of interest out of trade, one could enter the interest earning side of the trade manually a minute before rollover, and the interest paying side of the trade a minute afterwards. I guess this would be for the coupon clipping crowd...

Email Capability

This EA will email major alerts if this feature is enabled. To set it up 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.

Sample Set-ups

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

Start program with negative correlation trade

CURRENCY_PAIRS

Currency1 GBPUSD
CurrOneLong true
CurrOneLots 1
Currency2 USDCHF
CurrTwoLong true
CurrTwoLots 1

SWAP_TRADING

SwapTradeSize 0.01 (set a higher value for brokers with higher minimum lots.)
SwapTradeFreq 1

SEND_EMAIL

EmailFreq 24

AUTO_REENTER_TRADE

AutoTrade True

TAKE_SWING_PROFITS

Relative profit True
Take Profit 300

CLOSE_ALL_ORDERS

CloseOrders False

Start program with positive correlation trade

CURRENCY_PAIRS

Currency1 GBPJPY
CurrOneLong true
CurrOneLots 1
Currency2 CHFJPY
CurrTwoLong false
CurrTwoLots 1

SWAP_TRADING

SwapTradeSize 0.01 (set a higher value for brokers with higher minimum lots.)
SwapTradeFreq 1

SEND_EMAIL

EmailFreq 24

AUTO_REENTER_TRADE

AutoTrade True

TAKE_SWING_PROFITS

Relative profit True
Take Profit 300

CLOSE_ALL_ORDERS

CloseOrders False

Entering a trade

TIMING THE MARKET: Those who think they know where it is going may time their entry into market to minimize drawdown or capture swing gains. This is tricky.

LOW, LOW LEVERAGE: The point of this trade is to earn interest. If you are leveraged low enough you will continue to earn interest and weather any drawdowns. If you have too many trades, you risk margin calls and losing money. While you reinvest the interest in new positions, you are averaging your position and reducing drawdown.

RATIO ADJUSTMENT: In the market of this week a ratio of two or three to one on the USDCHF to the GBPUSD would have minimized the drawdown and had the added benefit of almost doubling the interest returned.

SNEAKING INTO THE MARKET: Rather than taking a position all in one order and weathering any drawdowns, one could ease into the position over time. The advantage is the trade is spread out over the market and less vulnerable to drawdowns. The disadvantage is that you give up some interest income as you do this. For example, if you wanted one lot each of of GBPUSD and USDCHF you might add .05 lots each day for 20 days right before interest (SWAP) is posted. Assuming \$10/day in interest you give up \$100 in interest to average in over that time.

GO THE OTHER WAY! (yeah, this if #5, but I wanted to see who is still paying attention...): We talk about two long positions in the GBPUSD and USDCHF to earn interest. While that is the focus of this trade, there is no rule that says you must “go long.” If you are convinced that the cable (GBP) is going to get trashed against the dollar and know that the swissie will lag behind, you could take both positions short. If you are in and out fast, you pay no interest. If you keep the position, you give up around \$10 in interest (SWAP). For example, last night my program took short position as I have just described and cashed out as the dollar gained strength for a total of almost \$1,000 in profits in demo account testing. Since I won't be in that trade today when SWAP is posted, I will pay nothing in interest.

Trading for the swing only

One could trade the highly correlated EURUSD/USDCHF long for both pairs looking for swing action profits on a stronger EURUSD, and/or trade the EURUSD/USDCHF short for both pairs looking for swing action profits on a weaker EURUSD. This technique is

more successful when the strength/weakness is based in the EUR economy. It also requires a belief in one's ability to predict the market direction.

Error messages

Occasionally, there are error messages when a trade cannot be placed. If you want to know what that code means, click on the yellow diamond with the exclamation point to bring up the MT4 program module. On the right side, enter "error codes" into the search box. A list will be returned.

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 Barnsley