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Correlation Trading tips

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Hi everyone,

We have some correlation traders in our group who have asked questions. Since my older posts have been archived I'm starting a new thread on this.

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. If you can pick the market direction well, why not just trade straight up?

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. Patience is required as this trade can last months as you add to the position.

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 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 is #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) per day. For example, last night my EA 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 while I was catching up on my beauty sleep... Since I won?t be in that trade today when SWAP is posted, I will pay nothing in interest. (This was in a demo account for those who keep track of such things.)

Trade carefully, 
Bill

Posted Sep-10
[\[Message Id=1075361\]](#)

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1 R Timing the market

Hi Ramsey,

Yes! The GBPCHF chart is an excellent tool for those wish to time the market using that chart for their entry points. In this case, the focus is on the swing profits.

Also, the downswings from that chart can be used for a profit by trading both pairs short, or by changing the ratio in favor of the USDCHF. Again, this is for hunting the swing profits.

The averaging-in entry style is more appropriate for those who do not wish to follow indicators and are focusing on the interest profits.

Take care,
Bill

Posted by Bill on Sep-10

billbarnsley@mac.com, [Message Id=1078004]

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2 R When to enter correlation trade

Bill,

Why not use gbp/chf as indicator before enter this correlation trade. Because when gbp/chf move up, we are in positive swing, gbp/chf drop, we are in negative swing. simple as that. So I think if we take profit and re-enter the correlation trade right away, it not a good idea, because chances are, the trade may can get caught in a negative swing. So my strategy is only enter the trade when gbp/chf show the sign of up trend. I use daily Bollinger Band 20,2 to help me determin when is a good time to enter the trade.

My favorite correlation trade are GBP/USD and USD/CHF, gbp/jpy and chf/jpy. Both give us positive net interest.

Posted by Ramsey on Sep-10

bongrak@yahoo.com, [Message Id=1077995]

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3 R That is the best lesson of all! Go Clinton!

Thank you Clinton!

Too many times I watch posts of incredible success, then nothing... What many new traders and students don't realize is that "nothing" usually means the trader was wiped out. The bad thing is that the talk of huge success and no failure for a reality check leaves many with the impression that all then need to do is open an account, go out for lunch and they will be rich when they return.

So, to echo Jim - this is the easiest hard work, or the hardest easy work we will ever do. If we can become consistently successful even at a very small account for pennies, then it is just a matter of scale. We can practice for a year and then make money every month, it just might beat that forty year job thing.

If my mutual fund guy gave me 30% returns each quarter, I would be excited. Heck, I

would send him a Christmas present Good job on your "real" returns. Now what will happen is that you will re-evaluate and then bang out 30%/month returns. I know you will do just that. ☺

Lastly, I was one of the people who emailed you. Shoot me an email when you get the email running again.

Take care,
Bill

on Sep-09
billbarnsley@mac.com, [Message Id=1077175]

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