

I have been trading by hedging EUR/USD nad USD/CHF. It is true that the pairs are very closely related (as shown by the correlation data. However the slight difference in correlation leads to a volatility.

It is this diff which i trade...

Method: BUY 1 unit EUR/USD

Buy 1 unit USD/CHF

With only 2 units traded on oanda the monetary value is negligible. What i am looking for is a positive or negative difference in pip value.

i.e. EUR/USD = -245 pips

USD/CHF = +145 pips

(If his was perfectly correlated then pip values shoud be exact opposites) IT IS THIS VARIANCE WHICH I RELY ON TO MAKE PIPS.

When the difference reaches a negative/positive value of 100 pips. i place larger positions on BUYING both pairs and waiting for this variance to return to normal (i.e. correlated). By doing this i make the 100 pips profit

If the initial 2 unit BUY trade results in:

EUR/USD = +176

USD/CHF = -74

In order to make money as the charts correlate again, both pairs need to be SOLD and 100 pips are taken...

I dont know if i have explained this well. I have been making consistant profits with a small outlay (\$100.00) for the past 8 months. The beauty of this system is that i am not trying to predict the trend of the chart, all i do is wait for deviations away from perfect corellation and take profits on its return. As this is a totally mechanical system, anyone with programming knowledge (NOT ME!!!!) can back test this and pls post yr results.

I would be very interested in the input of experienced traders as i am making profits but i dont know if i am just lucky.....Regards

Raj

Sorry I know you were hoping it was just luck --- It isnt, this is a standard arb trade which is real simple and real effective. There are a number of variations and of course this one is about the best. You can do this with AUDUSD NZDUSD and EURUSD GBPUSD. BTW this will tend to work in the future since it exploits the structure of the market. Some of the professional currency platforms allow you to subtract one currency chart from the other so that you can see a graph of these differences and trade them more easily. Now you do realize some would call this trade "a crossrate bollinger band countertrend trade" ---but these people would not appreciate the elegance of your more "digital" indicator --- BTW you should be able to determine within a few hours this is going to occur by plotting EURCHF with an ATR indicator. When the ATR is flat you will be able to make your trade within a few hours..

Altman: thanks for your help buddy. will make a search on some of those terms. Cheers :)p.s is it possible for someone like myself to get acces to the "professional platforms" you mentioned?

Liam: I see a diff of 100 pips approx every 10 days. However you can trade after a 20 pip change but it may have some more juice in it and as a result i always wait for a 80 - 100 pip change. Trial and error is the best way to determine what suits you the most! I try to minimise my losses by cutting my trade short if i place the BUY/SELL and it makes a loss of 80 pips(i.e. the pips continue to deviate from the initial correlation). Also i take the profits when the change is positive 100 pips. (0.8:1 - risk reward ratio)

A PROBLEM THAT I FACE IS THAT I HAVE TO ACTIVELY WATCH THE MARGIN / PIP DIFFERENCE. DO ANY OF YOU VETERANS OUT THERE KNOW OF ANY PLATFORMS OR INDICATORS THAT PROVIDE MARGIN ALERTS??? (except alert fx - which is "owned" by MG forex)

[QUOTE]Originally posted by rajesh:

[QB] Altman: thanks for your help buddy. will make a search on some of those terms. Cheers :)p.s is it possible for someone like myself to get acces to the "professional platforms" you mentioned?

Yes Ra- I never ever will endorse a product.-- But take a look at the CQG website --- a few of the locals here swear by this platform. It allows you to graph subtractions/divisions of any relationship you can fathom. CQG implements congestion count which is can be used on these types of strategies.

Ra you can make literally millions on this type of strategy --- I hope you remember your friends when you do
