

*Peter says:* Traders all over the world look for indicators of the mood of the market crowd. Those indicators reflect the fact that most crowd members think alike and are wrong much of the time. Our goal is to track the crowd and do the opposite of what it does. This is why we developed our indicator for measuring the mood of Forex traders—Forex Club Sentiment Index, or FCSI. We calculate it on the basis of open trades by the thousands of clients of our Forex Club.

The indicator's formula is very simple:

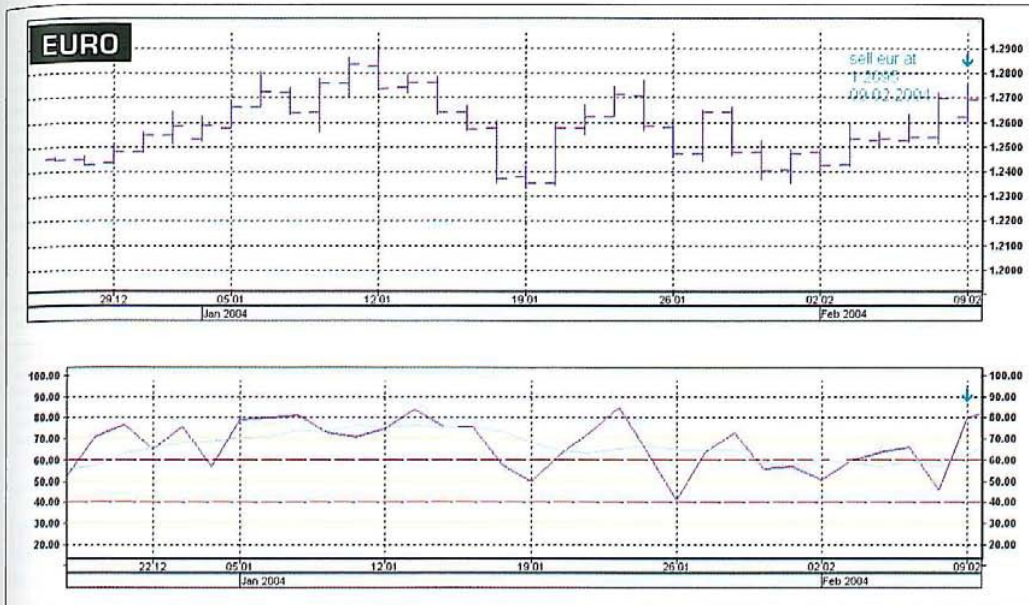
$$\text{FCSI} = (L/T) \times 100$$

L = the number of long positions in any currency

T = the number of all positions in any currency

FCSI reflects the percentage of long positions in any currency among the clients of our firm, oscillating between 0 and 100. When it rises above 70, it becomes overbought. When it falls below 30, it becomes oversold. Values between 30 and 70 are neutral. Our next step was to develop a mechanical trading system based on FCSI.

## TRADE 1 PETER'S ENTRY



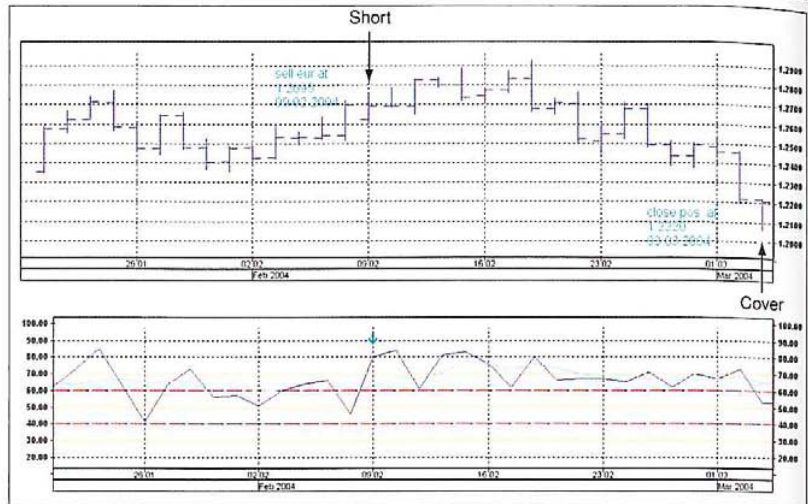
Upper pane: Daily bar chart  
 Lower pane: Daily FCSI with a five-day simple moving average

### Euro

At the right edge the euro is rising, and we can see in the lower pane of the chart that the crowd likes it. The rising FCSI shows that the crowd is buying into this rally. A few minutes before the close, FCSI rose above 80. My system calls for shorting when FCSI closes above 70, and I followed my system—shorted the euro market on close.

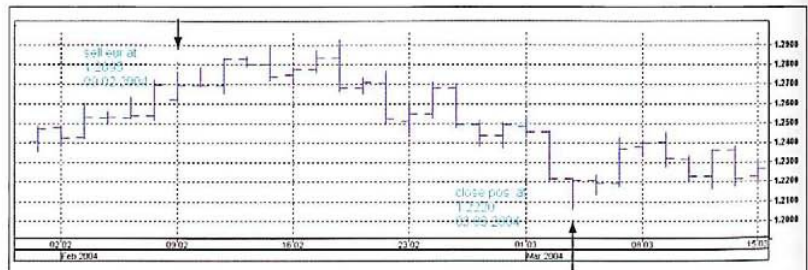
Will this  
trade make  
or lose money?

## TRADE 1 PETER'S EXIT



The euro went up for a few days after I shorted. It kept making marginal new highs, but I never covered. According to my system, I have to hold shorts until FCSI falls below 60 percent. It never went below that level; on the contrary, it kept rallying, even rising above 80 on several occasions.

As the euro began to slide, the crowd of traders became less and less bullish. At the right edge of the chart FCSI fell below 60%, nearing 50% just before the close. My system tells me to cover when FCSI penetrates 60%, and I exited market on close—purely mechanical.



### TRADE SUMMARY

Short Euro  
 Shorted 2/9/2004 @ 1.2695  
 Covered 3/3/2004 @ 1.2220  
 Profit = 475 points

