WWW TRADING SYSTEM eZine

Issue – 2

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1. FOREX: Margin Trading.

For attracting to FOREX investors who can trade with sums of several thousands USD in 1986 was introduced the mechanism of "margin trading".

The essence of this mechanism lies in pledging a certain sum by the investor and getting the possibility to manage lager credit; these credits are protected from speculative currency trades' losses with the sum of investor's pledge.

When investors decide to trade on FOREX, they conclude contracts with brokerage firms or dealing centers. Usually the company providing its services to the investor acts on the instructions of its client, but on behalf of the company and using the company's funds for arbitrary operations.

The banks, where the brokerage firms have their accounts, in a quickly manner provide firms with credits from 10 to 500 compared to the account sum.

In other words, this credit functions as leverage for the trades. The credit can be used for specific a reason only, which is for FOREX trading in our situation.

This kind of credits is very profitable for banks: they fully control funds movement and get considerable income from buy/sell currency rates difference. On top of this, banks often charge certain percentage for providing these credits.

The brokerage firms also get their part of pie: they get profit from buy/sell currency rates difference and charge commissions for providing their services to investors.

That is why the "burden of responsibility" for margin trading comes up to the investors only.

When investors wish to make buy/sell operation on FOREX, they give direct orders to their brokerage firms.

This order should include the sum of trading contract.

The trades are made in fixed volumes called "lots". Usually the size of one lot is equal to $100,000.

As I have already mentioned margin trades do not require from investor the whole sum of trading contract.

When investors want to make a trading operation, they deposit a certain sum, which depends upon the total size of the trading contract, and crediting conditions set up by brokerage firms.

When the brokerage firm provides the leverage of 1:100, this means that the investor has to pay the pledge of $1,000 for trading $100,000.

The pledge secures brokerage firms from possible trading losses on FOREX.

Margin trading is very popular because it is easily affordable to average investors. Investing ones capital for getting fixed income from securities foreign countries can hardly bring high profits. No one would dare to doubt that US exchequer bonds are stable and reliable, but they are expensive and give low revenue (about 6% annually); that is why they are regarded as long-term investments. Shares can give higher income, however the size of dividends strongly depends upon successful (or not) activity of the company and the favors of shareholders. Share purchasing for speculating for the rise of the shares is considered to be more interesting and profitable, but it requires large volumes of investments.

Margin trades do not have these restrictions: you can buy and sell whenever you wish and you will need 0.2-10% from the total size of trading contract.

2. WWW TRADING SYSTEM COMMENTS:
Time to Open the Position.

"Open the position when EMA5 has crossed EMA13.

Wait until the time interval (selected by you) closes. If by this time EMA5 and EMA13 have crossed with each other, enter the market at the price of opening the following time interval."

(WWW TRADING SYSTEM)

In my WWW TRADING SYSTEM I have already explained proper time selection for the moving averages. One fact to add: market researches prove that EMA13 is a perfect support/resistance line for most of the currencies.

Of course, there are many trading system, based on crossing of moving averages. I am not the first discoverer in this field. But nearly all the systems do not give direct and strict rules of entering and leaving the market.

Lets take one-hour charts.

When moving averages cross, this gives the signal that market trends are changing and stimulates the trader to open the position.

This is where the question comes into discussion. Is it possible to qualify the crossing of moving averages as the proper one,

if the averages have already crossed but the current hour has not expired?

My personal opinion is that crossing/non crossing of indicators can be verified only after time interval expiration as it reflects the correlation of forces of "bulls" and "bears".

Prices are somewhat passive and inert. Only time interval expiration (in our case, the end of one hour) can show that the possibility of new tendency to last long is very high.

That is why I recommend waiting till the end of current hour. If it showed the crossing of EMA5 and EMA13, then you should open the position at the price of the successive hour.

3. February 2003 Trading Results of WWW TRADING SYSTEM.

Trade period: February 2003.

Contract size (lot): $100,000.

Initial balance: $15,760.71.

Final balance: $18,603.8.

Profit: $2,843.09(18.04%).

Average profit for 1 lot: 70.73 pips.

Average loss for 1 lot: 25.82 pips.

Profitable trades: 11 (33.33%).

Unprofitable trades: 22 (66.67%).

Trade Table

Open	Price	Date	Close	Price	Date	Commentaries	Lots	Balance
Sell	1.3637	02.03.03	Buy	1.3497	02.05.03		2	17,835.2
Buy	1.3496	02.05.03	Sell	1.3572	02.06.03		3	19,524.6
Sell	1.3573	02.06.03	Buy	1.3566	02.07.03		3	19,679.4
Buy	1.3565	02.07.03	Sell	1.3558	02.07.03		3	19,524.6
Sell	1.3559	02.07.03	Buy	1.3579	02.10.03		3	19,082.8
Buy	1.358	02.10.03	Sell	1.3565	02.10.03		3	18,751.4
Sell	1.3566	02.10.03	Buy	1.3573	02.10.03		3	18,596.7
Buy	1.3572	02.10.03	Sell	1.3558	02.10.03		3	18,287.2
Sell	1.3552	02.10.03	Buy	1.3589	02.10.03		3	17,470.4
Buy	1.3586	02.10.03	Sell	1.3658	02.11.03	stop order	3	19,060.2
Sell	1.3661	02.11.03	Buy	1.3673	02.12.03		3	18,797
Buy	1.3674	02.12.03	Sell	1.3664	02.13.03		3	18,577.6
Sell	1.3663	02.13.03	Buy	1.3575	02.14.03		3	20,522.3
Buy	1.358	02.14.03	Sell	1.369	02.17.03		3	22,952.4
Sell	1.3689	02.17.03	Buy	1.3735	02.17.03		4	21,612.7
Buy	1.3735	02.17.03	Sell	1.3722	02.17.03		3	21,328.8
Sell	1.37	02.18.03	Buy	1.372	02.18.03		3	20,891.4
Buy	1.3719	02.18.03	Sell	1.3729	02.19.03		3	21,110.1
Sell	1.3729	02.19.03	Buy	1.3745	02.19.03		3	20,760.9
Buy	1.3744	02.19.03	Sell	1.3725	02.19.03		3	20,346.2
Sell	1.3726	02.19.03	Buy	1.3578	02.21.03		3	23,616.2
Buy	1.3577	02.21.03	Sell	1.3652	02.24.03		4	25,825.8
Sell	1.3651	02.24.03	Buy	1.3677	02.24.03		4	25,065.4
Buy	1.3677	02.24.03	Sell	1.3652	02.24.03		4	24,334.2
Sell	1.3653	02.24.03	Buy	1.3609	02.25.03		4	25,627.5
Buy	1.3609	02.25.03	Sell	1.3535	02.25.03		4	23,452.5
Sell	1.3535	02.25.03	Buy	1.3597	02.25.03		4	21,628.5
Buy	1.3596	02.25.03	Sell	1.3552	02.25.03		3	20,657.7
Sell	1.3551	02.25.03	Buy	1.3573	02.25.03		3	20,171.4
Buy	1.3574	02.25.03	Sell	1.3551	02.26.03		3	19,663.1
Sell	1.355	02.26.03	Buy	1.3588	02.27.03	stop order	3	18,824.1
Buy	1.3597	02.27.03	Sell	1.3579	02.28.03		3	18,427
Sell	1.3579	02.28.03	Buy	1.3571	03.03.03		3	18,603.8

NB: The prices of opening and closing the positions provided in this report may slightly differ from the prices you have in your charts. This difference is explained by the fact that during real trades it not always possible to get the rate, coinciding with the price of closing or opening the successive hour. The rates can

also differ, depending upon the market maker, which provides you with its services.

The conditions set up by a brokerage firm can also result in different way of profit/loss calculation.

This notwithstanding the difference should not be more than 1 – 2 %.

COMING NEXT WEEK !

In the next issue of WWW TRADING SYSTEM eZine you will find information about:

1. **FOREX: Types of Currency Exchage Rates.**
2. **WWW TRADING SYSTEM COMMENTS: Time to Close the Position.**
3. **March 2003 Trading Results of WWW TRADING SYSTEM.**

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