

Trading Strategy (Test Stage)

Traded instrument: USD/TRY

Reason for choice of instrument: ATR size and strong directional performance.

Strategy description: intraday, straddle, based on break of whole-number levels.

Edge potential: to be confirmed.

Period for testing: six months (20th February - 20th August 2017).

Maximum daily profit sought: $\frac{3}{4}$ of standard setting (14-day) Average True Range (however, see (ci) under 'Risk controls').

ENTRY STRATEGY: two entry orders, long and short, set at the nearest whole-number level (distance from price may differ for short and long depending on bid-ask spread; the impact of this asymmetry will be assessed in due course). Order must be at the next available whole-number level only if Bid or Ask price (whichever is closer) is AT LEAST fifty (50) pips away from it; if not, then the next whole-number level up (or down) will be used.

Type of entry order set-up: manual but GTD automatic cancellation by 10pm GMT intraday if untriggered (GTD = Good Till Day).

Time of daily entry orders set-up: between 7am (start of Frankfurt session) and 8am (start of London session); **however, if a swell in volatility is noticed prior to that (sometimes between 5am and 7am), orders may be set-up sooner.**

RISK CONTROLS:

- a) maximum exposure size: 5k per trade (0.1 leverage);
- b) maximum numbers of potential trades per day: two (one long, one short);
- c) maximum total exposure as % of equity per trade (that is, size of stop-loss); variable, depending on ATR; on a 500-pip ATR, stop loss is $\frac{1}{4}$ of ATR, making for a risk exposure of 0.02% of equity;
- ci) Stop loss will be include commission cost, where commission cost is C and pip size will be $[C \times 10]$: for example, if the stop loss (= $\frac{1}{4}$ of ATR) were 100 pips, and C = £0,50, we would reduce the stop loss by $[0,50 \times 10 =]$ 5 pips, thus $[100 - 5 =]$ 95; the profit target will be three times this figure.
18th MAY UPDATE: given the current statistics, with 53/79 trades being losing ones, and that net losses have exceeded gains by over £174 (losses: ca. £701; profits: ca. £526), I will begin a new plan starting tomorrow, 19th May. See bottom of document for new strategy.
- cii) as explained in ci) above, commission costs will need to be factored into the final P/L calculation.

TARGET: $\frac{3}{4}$ of 14-day ATR.

Overriding of triggered entries: if trades have not hit either stop-loss or profit target by 10pm,

they should be closed manually, unless...

See '**Roll-Over**' and '**Overlapping Trades**' below;

ROLL-OVER: given the interest rate differential in favour of the TRY, short trades left open beyond 10pm will accrue positive roll-over, that is, interest. This will mitigate a negative outcome or enhance a positive one for trades left open after 10pm.

OVERLAPPING TRADES: if a short trade is left open (e.g. to accrue Roll-Over, for which see the above paragraph) and the next day's short trade is also triggered, the same rules will apply, that is, both trades will be left to run and/or managed according to the strategy rules (including those seen in the 'Strategy Amendments' section below).

STRATEGY AMENDMENTS, beginning 19th May 2017 (three months after test period start).

The modifications to the strategy will be as follows:

- a) maximum daily profit sought: double the stop size, with stop size being 1/4 of standard setting (14-day) Average True Range minus total commission (currently £0,50);
- b) paragraph (ci) of 'Risk controls' should now read “the profit target will be **twice** this figure”.
- c) **STOPS:** if a trade nears the target but fails to hit it, do one of the following:
 - 1) if the end of the American session (10pm) is near, close the trade manually;
 - 2) if there are (for example) several hours to go before the end of the American session and the trade is in profit, move the stop to at least break even or, if possible, to 50% of the target, changing the stop to Trailing Dynamic. A typical definition of 'in profit' would be if the trade had reached the next whole-number level (thus being 100 pips in profit);
- d) **IF A TRIGGERED ORDER HITS THE TARGET, THE REMAINING ORDER (in the opposite direction) SHOULD BE CANCELLED MANUALLY;**
- e) **if an order closes in profit but through hitting the (trailing) stop**, with the daily momentum still in the direction of that trade, and if there are sufficient hours left in the trading day (e.g. the whole or part of the afternoon), **a new order should be set up in the same direction** as the previous one, using all the usual parameters, given that d) above has been implemented.

NB: the testing period will continue unchanged, that is until 20th August, thus giving us three months for the modifications to play out.