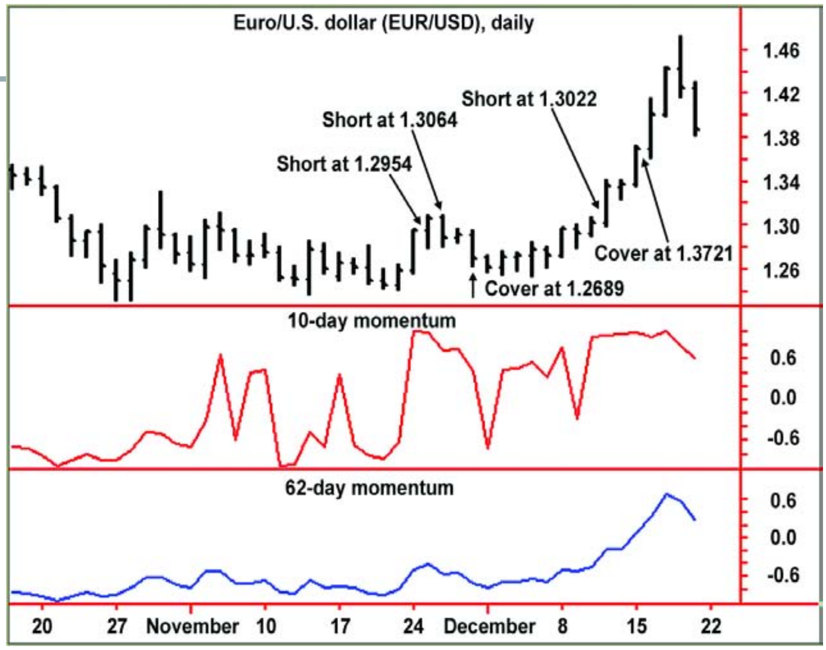
One big loser wipes out two winners.



Source: TradeStation

TRADE

Date: Nov. 25, Nov. 26, and Dec. 11, 2008.

Entry: Short the Euro/U.S. dollar pair (EUR/USD) at 1.2954, 1.3064, and 1.3022.

Reason(s) for trade/setup: These signals were the most recent results of the strategy based on the setup described in "Short-term momentum signals in the Euro" (*Currency Trader,* May 2008), "Euro momentum system, interrupted" (*Currency Trader*, June 2008), and "Euro momentum signal, tweaked" (*Currency Trader,* July 2008). The system goes short when a short-term momentum calculation is strong relative to a bullish longer-term momentum calculation. In this case, the 10-day momentum indicator (ranging from -1.00 to +1.00) had to be greater than or equal to 0.80 while the 62-day momentum was below -0.6.

Note: These signals were not actually executed in the market, so the results are shown for the following parameters: a 0.0240-point profit target (a representative value found in testing) and a move above the high of the entry bar as the stop-loss. In both cases, the exits are executed on the close of the bar that the condition is triggered on.

Initial stop: A close above the high of the entry bar, estimated as 1.3081 (for the first two entries) and 1.3406 (for the third entry) in the Trade Summary table.

Initial target: The first close 0.0240 or more below the entry price (estimated as 1.2754, 1.2864, and 1.2822 in the table).

RESULT

Exit: 1.2689 (first trade and second trades); 1.3721 (third trade).

Profit/loss: +0.0265 (first trade); +0.0375 (second trade); -0.0699 (third trade).

Trade executed according to plan? Yes.

Outcome: The first two trades were exited on Nov. 28 at a better-than-estimated price, thanks to the relatively big down move and low close on that day.

The third trade wiped out the accumulated profit — and then some — as the Euro began what turned out to be a very strong upside reaction that peaked in mid-December.

While the approach of exiting on the close helped performance on the winning trades, it was disastrous in the case of the losing trade.

Despite the two profitable trades, these results underscore a previously discussed weakness: The signals often come early and executing trades based on the opens and closes of the bars (rather than specific intrabar price levels) can put trades at a disadvantage. Past trades based on these signals from previous Trade Journals have used discretion to counter these problems. Further research should be conducted to see if these modifications can be applied systematically for future use.

Also, like any signal of this type, the system is vulnerable to bad signals when a market transitions from uptrend to downtrend, or makes an outsized move in either direction.

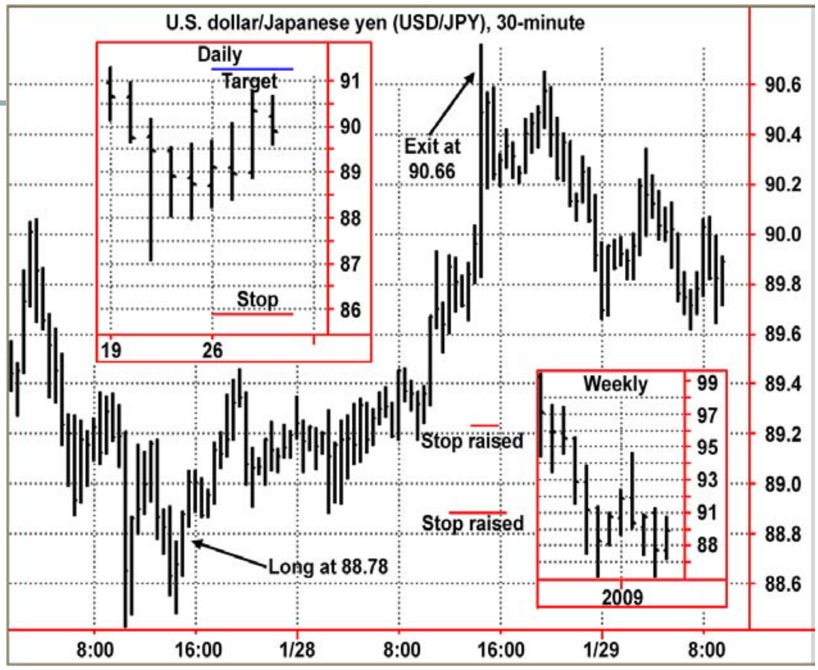
Note: Initial trade targets are typically based on things such as the historical performance of a price pattern or a trading system signal. However, because individual trades are dictated by immediate circumstances, price targets are flexible and are often used as points at which to liquidate a portion of a trade to reduce exposure. As a result, initial (pre-trade) reward-risk ratios are conjectural by nature.

TRADE SUMMARY

Date	Contract	Entry	Initial stop	Initial target	IRR	Exit	Date	P/L	LOP	LOL	Trade length
11/25/08	EUR/USD	1.2954	1.3081	1.2754	1.18	1.2689	11/28/08	+0.0265 (2%)	0.0393	-0.0126	3 days
11/26/08		1.3064	1.3081	1.2864	11.76	1.2689	11/28/08	+0.0375 (2.9%)	0.0503	-0.0006	2 days
12/11/08		1.3022	1.3406	1.2822	0.52	1.3721	12/15/08	-0.0699 (-5.4%)	—	-0.0699	2 days

Legend: IRR — initial reward/risk ratio (initial target amount/initial stop amount); LOP — largest open profit (maximum available profit during lifetime of trade); LOL — largest open loss (maximum potential loss during life of trade).

Despite its overall strength, the dollar hasn't fared well against the yen — but a relative low is a relative low.



Source: TradeStation

TRADE

Date: Jan. 27.

Entry: Long the U.S. dollar pair/Japanese yen pair (USD/JPY) at 88.78.

Reason(s) for trade/setup: The dollar/yen pair (USD/JPY) went into a huge slide as the financial crisis unfolded in late 2008 — the yen was virtually the only major currency against which the dollar failed to gain ground as money managers pumped funds into the U.S. currency and Treasuries as a safe-haven. Covering of short yen positions from carry trades inflated the yen even more, however.

The USD/JPY pair made a multi-decade low near 87.00 (the lowest price since 1995) during the week ending Dec. 19, bounced, then almost precisely matched that low the week ending Jan. 23. Believing the market was at least temporarily exhausted and will attempt to put in a short- to intermediate-term bottom, we went long the next week as price managed to stay above the previous week's low.

At this point the market may be determined to test the 1995 low around 81.00, however, so we will want to get out of the position on a strong move below the previous week's low.

Initial stop: 85.87, which is approximately 1.23 below the December and January lows.

Initial target: 91.25, just shy of the previous week's high. Take partial profits, raise stop to breakeven, and wait for a move to 94.00, the round-number price below the early January high. Exit another portion of the trade at this level and raise stop.

RESULT

Exit: 90.66.

Profit/loss: +1.88 (2.12 percent).

Outcome: When the market rallied close to 90.00 the day after entry (Jan. 28), we raised the stop to just above breakeven (88.88). With the U.S. Federal Reserve scheduled to make a statement on interest rates later that day, a large disruption seemed possible — although not probable, given the Fed had already used all its bullets in effectively cutting rates to zero in December. How the markets would interpret the Fed's description of economic prospects and intended future actions was the issue — and that, as always, is quite a wild card, especially in the immediate aftermath of an announcement.

The stock market rallied big in anticipation of the Fed statement which, when released, turned out to be a slightly longer, more emphatic version of its December statement, and stressed the extraordinary steps the Fed was willing to take to support the U.S. economy (the Fed left rates unchanged).

The dollar/yen, which was already up moderately on the day, rallied sharply on the announcement, and with a more than a 2-percent profit suddenly in hand, we decided to take profits at 90.66 (just after the pair hit what turned out to be the intraday high at 90.77), since the markets often reverse substantial portions of Fed-announcement-driven moves. Even if it was destined to continue higher, the odds were good we could re-enter at a lower price.

By the end of the day, the decision seemed to have paid off: The pair pulled back to around 90.25 later in the afternoon, and by the next morning had dropped as low as 89.62. We were prepared to re-enter relatively quickly, but given the wiggle room the market provided, we decided to see if the pair would decline more (the longer-term trade idea was still intact on Jan. 29); if it turns up again, we will stop ourselves into the market on a move above 90.40.

Note: Initial trade targets are typically based on things such as the historical performance of a price pattern or a trading system signal. However, because individual trades are dictated by immediate circumstances, price targets are flexible and are often used as points at which to liquidate a portion of a trade to reduce exposure. As a result, initial (pre-trade) reward-risk ratios are conjectural by nature.

TRADE SUMMARY

Date	Currency	Entry price	Initial stop	Initial target	IRR	Exit	Date	P/L		LOP	LOL	Trade length
								Point	%			
1/27/09	USD/JPY	88.78	85.87	91.25	0.85	90.66	1/28/09	1.88	2.12%	1.99	-0.28	1 day

Legend: IRR — initial reward/risk ratio (initial target amount/initial stop amount); LOP — largest open profit (maximum available profit during lifetime of trade); LOL — largest open loss (maximum potential loss during life of trade).