WALKER CAPITAL

Insiders Guide to Trading Investment Analysis

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Introduction

Trading has become tremendously advanced in the past few years, and as such, more individuals can trade, given the advent of easier admission to such prospects. When considering the likelihood of becoming a trader, one of the first questions a person must ask themselves is, "what market should I select?"

Forex market is one of the options that can help an individual gain while trading from home. The Forex market is an over the counter marketplace, and that implies that the brokers and dealers have direct transactions and contracts. Brokers provide a platform for retail investors/traders to trade the market, and they guarantee that there is a 24-hour trading atmosphere accessible for five and a half days a week, as long as both entities are enthusiastic to trade. As the market with the greatest level of liquidity, the FX market proposes several benefits for traders.

Forex trading has persistently become the primary source of income for those that appreciate online financial investing. Over the years, a majority of individuals have been able to conduct useful trades and have relished the benefits of this dynamic market. Due to the ease of approachability to Forex trading within the past few decades, more and more individuals are beginning to wonder what the main paybacks of Forex trading are. Although you might be aware of these advantages, it is vital to recognize what Forex has to offer in comparison to the overall financial market.

Market Size: The currency marketplace is the biggest financial market in the world. The liquidity that comes from a market that trades approximately $2 trillion each day empowers an investor to exit and enter strategically without having to worry about the price fluctuating too far before they execute their trade. Having a market of this size also makes it much more challenging for any single group to enter and try to influence the market. This means that an individual's analysis of demand and supply will most likely be more precise.

Profit Potential: Profit potential is what every trader wants to hear about, and the currency market has an abundance of it. An individual can make money in forex whether currencies are going down or up. If you think a currency pair has an upward trend, all you have to do is purchase it. And if you think a currency pair is going down, all you have to do is sell it. It is that easy. Short trades: While the above mentioned Forex benefits are quite essential, selling currencies without buying them first is one of the key advantages of Forex trading. One of the main trading philosophies is to purchase low and sell high, however with Forex an individual can also sell high and purchase low. With this, you can get gains on both upward and downward patterns.

Low Transaction Cost: In forex, typically the cost for a deal is built into the price. It is entitled as the spread. The spread is the difference between the buying and selling price, which makes the entire transaction cheaper than the other mediums.

An individual will never have to pay a fee when trading currencies with some brokers. Forex brokers, and even discount forex brokers, charge a commission for each trade placed– irrespective of whether you are getting in a position or out of one. The Spread margin is the fee a broker charges which you will have to pay the difference between the bid and the ask prices.

CHAPTER 1:

Forex Trading

Foreign exchange, otherwise known as FX or forex, is the exchange of several different currencies on a decentralized universal market. It is one of the biggest and most liquid financial markets around the world. Forex trading encompasses the simultaneous selling and buying of the world's money on this market.

Forex is one of the most extensively traded markets around the world, with a total daily average turnover stated to exceed $5 trillion a day. The forex market is not constructed in a central location or exchange and functions 24 hours a day from Sunday night through Friday night. A wide variety of currencies are continually being exchanged as individuals, establishments and organizations conduct global business and try to take advantage of rate fluctuations.

When trading forex, an individual must always guess on whether the price of the base currency will fall or rise against the other currency. It's essential to remember when looking at FX that a higher currency makes a country's exports more costly for other nations while making imports inexpensive. Likewise, a depreciated currency makes exports economic and imports more expensive, so foreign exchange rates play a noteworthy part in defining the trading relationship between two countries.

Spot Market and the Forwards and Futures Markets

There are three means that individuals, institutions, and corporations trade forex: the spot market, the forwards, and the futures market.

The forex trading in the spot market continuously has been the biggest market because it is the "original" asset that the futures and forwards markets rely on. In the past, the futures market was the most common venue for traders because it was accessible to individual investors for a longer time. However, with the initiation of electronic trading, the spot market has observed a huge swell in activity and now exceeds the futures market as the favored trading market for individual investors and risk-takers. When individuals refer to the forex market, they usually are denoting to the spot market. The futures and forwards markets tend to be more familiar with companies that need to hedge their foreign exchange risks out to a particular date in the future.

How important are stats in Forex Trading

Statistics is a calculated body of science that relates to the classification, collection, presentation, understanding, and exploration of data. Sounds familiar? It must because this is what the FX market is all about. Statistics. Forex market is erratic yet predictable under specific conditions. What is true for the long term picture may not be accurate for the short term, and typically this is the way things are. Statistics is a study that gives us a significant edge when trading forex. Some ways statistics can facilitate:

- Market movements - Some movements or patterns of the market can be predicted but only under specific conditions, which is how profits are made. Statistics do not ensure winning, but it can help you deal with probabilities. These probabilities can help you manage your expectations. However, it is imperative that you must know how to read the statistics correctly

- History is likely to repeat itself - This is the most rudimentary rule of technical analysis. In fact, if it weren't for the statistics in our opinion nobody in the forex market would ever make profits. However, luckily, trading is not gambling, and patterns tend to recur. The past does not repeat, nonetheless, some characteristics of it repeat over and over again. It is up to you to spot them.

- Recognizing the entry and exit point - is one of the greatest key advantages that statistical analysis delivers to the forex traders. An individual might be an economic expert, but if they don't know this kind of analysis, then they will never know which is the best price and time to enter the market and in which price should they close their running trade. This analysis is deliberated to be the number one trading equipment for a forex traders career. Before you jump into the online world of forex trading ensure that you have a rich understanding of the analysis in forex trading.

- **Identifying prevailing trends** - In FX, currency is continually traded in pairs. As a forex trader, you will always trade one currency in comparison to another currency. This means that to make a profit an individual always has to observe the economic performance of the two countries. Nevertheless observing all the economic events of two countries is tremendously difficult since most of the traders use numerous currencies in their trading. However, by the virtue of statistical analysis, one can effortlessly identify the predominant trend in the market and use it as a currency relationship in their trading. The forex market always moves in a recurring manner, and as a trader, your primary job is harmonizing with the rhythm of the market. Statistical analysis facilitates an individual to identify the key levels in the market and gives them unique opportunity to trade live currency pairs.

- **Finding proof** - Traders who wish to prosper should put in the struggle to build a rule-based system. With a simple exercise book or a spreadsheet, the statistical conclusion can be worked through to understand if this idea works in a particular selected market in the picked time frame. The more data, the better chances of a profitable trade. An idea can be tested using 500 bars of data, but use 1000 bars to demonstrate the strength of the idea. These sorts of statistics will display the win-loss ratio; therefore they are so significant in constructing an internal belief system around the rules. Then the result can be used as a business trading plan that will require only trivial modifications and enhancements.

Profitable Trading

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Developing an Entry and Exit Plan:

This is an important part if you want a successful trading experience. For this purpose, an individual must calculate and decide the price at which they will want to purchase a forex contract. Also, how much of the forex contract they will buy at one time (denoting the entry level strategy). Similarly, for the exit strategy, you must plan the profits you will earn and a determined price at which you will be willing to sell the forex if the trade goes well. An individual must also decide on how much losses they are set to take if the business trading plan goes contrary to their expectation (which will be the escape plan).

Coming up with a business trading plan is as important as following the business trading plan completely. Being an accidental trader must also be avoided because they purchase forex contracts with a mindset and that could lead them to lose a lot of money.

Market hours and overlapping time zones

The forex market is open 24 hours a day and five days a week. This market functions in multiple time zones, which is why it can be accessed at practically any time. The continued liquidity of the forex market is contingent upon the fact that there is always a market open someplace around the world. From New Zealand opening in Asia until the US closes, the market is continuously working from Sunday to Friday evenings as seen in GMT. There are three main sessions that collect the most of the volume, and those sessions are connected to the leading local share markets opening and close: Tokyo, London, and New York. During specific hours of the day, these gatherings overlap. The preeminent time to trade is when there is an intersection in trading times amid open markets. Overlaps presents opportunities in the market with better liquidity and volatility .

Ignoring the phase the market is in

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Trade only when you are clear

All Forex pairs offer valuable information with the buy and sell signs in their technical indicators. However, the simplest and perhaps most significant buy/sell signal is the key resistant/support level. An individual must know how to detect the key support and resistant intensities in order to trade for profits when they are going downwards, upwards, or even sideways. Effective traders go long when a forex activates a breakout above a key resistance point, they short Forex pairs on a breakdown beneath a key support level, and they trade forex options when forex pairs take a sideway direction. If you cannot read the buy/sell signal visibly, it does not hurt to sit on the cash for a few days while the choppiness in the forex disappears.

Failing to treat every trade as just another trade

Undisciplined traders habitually think that a particular situation is sure to give profits and sometimes take risk several more times compared to their normal level. This can result in a hefty drawdown as such conditions often do not work out. Every trade is merely another trade and only standard profits must be anticipated every time. Supernormal returns are a bonus and only come along rarely! Any expectations of regular supernormal profits will end up in disappointment. This is why the risk should not be augmented unless your account equity grows enough to facilitate that risk.

Over-eagerness in booking profits

Gains in any trading account are frequently skewed to simply a few trades. Traders must not be over-eager to book profits as long as the market is performing right. A majority of marketers tend to reserve profits too early to relish the winning feeling, thus letting go considerable trends even when they have a good entry point into the market. If at all, profit holding ought to be done in phases, always keeping a few positions open to take benefit of the rest of the move. Remember trading must comprise of small profits, small losses, and big profits.Big losses are something that must be dodged. The purpose of trading should be to get a position noticeably into money, and then uphold irregular stop losses to secure profits. Most trading is breakeven trading. Income and accounts sizes from trading are heightened only when you make eight to ten times what you had put on risk. If an individual can make this happen once in a month or even once in two months, they would be fine. The central point here is to not get shaken by the everyday noise of the market and to understand the market through to its rational target. Remember, most money is made not by specific entries but by sitting on lucrative positions long enough. It is boring to do nothing once a spot is taken but the maturity of a trader is recognized not by the amount of trades he makes but the amount of time he sits on profitable trades and hence the significance of profits that he creates.

Trading for emotional highs

Trading is a costly place to be treated as a sport for thrill or to get emotionally excited. Traders must ensure a high degree of emotional balance to trade like an expert. If an individual is stressed because of some unconnected events, there is no need to add trading anxiety to it. Trading should be evaded in periods of high emotional stress.

Failing to realize that trading choices are not about consensus

Our training since childhood frequently impedes the behavior essential for successful trading. We are continuously taught that every time we take a decision, we must consult numerous people, and then do what the widely held belief says. The fact of this market is that it never does what the mainstream thinks it will do. Trading is a job of a loner. Traders ought not to talk to a lot of people throughout trading hours. They can talk to knowledgeable trader's aftermarket hours however more on procedure than on what the other trader thinks about the market. If an individual has to continuously ask someone else about their trade then he/she should not be in it. Traders must constantly try to develop their trading skills, which do not only include the charting skills but also money management and position sizing skills. Effective trader's spot that money cannot be made equally effortlessly all the time in the market. They back off for a while if the market is too unpredictable or irregular.

CHAPTER 2

Trading Performance

Just because an individual has been trading and made or lost some money, it is not the end of the real trading procedure. It does not halt when you hit that buy/sell button. Rather ensure continued success in trading for longer periods, you must move onto the next stage and analyze the trading results. Many traders and investors make the mistake of assuming that they need an intricate trading system to profit from the forex market steadily. On the contrary, there are various easy statistical analysis tools that an individual can utilize to manage their business activities. Some of the best-perfor-ming measures are the ones with the least amount of moving parts, which means that they are simple.Given that these stats are simple, they can be easily comprehende and consistently followed. So why is it important to measure trading performance Trading performance measurement should be part of the trading plan and if it isn't then you must add it. Suppose that you are a professional athlete, what do you reply on?

Feedback, right? Similarly, for traders, these metrics offer kind of feedback which can help them to move in the right direction. This insight can aid them in evolving from the learning process.

However, measuring trading performance is also not a one-time thing. An individual trader will have to adhere to a routine; for instance they can review the information at the end of each day, week or month. There needs to be consistency in the analysis if you want to advance. An individual must also commit to taking some action with their findings. There is no point of doing all that analysis if you are not going to do something fruitful with the information. By analyzing your results and figuring out an appropriate action with what you discover, you can put yourself on the path to trading success.

Further, in the book, we will mention the key metrics that can help an individual to analyze the trading process and system statistically.

CHAPTER 3

Ratio's

There are hundreds of diverse performance metrics or statistics that can be utilized to weigh a business trading plan. Traders frequently develop an inclination for those metrics that are most valued based on their particular trading style or business goals. Let's look at a few important ones.

Sharpe Ratio

Most forex traders look at total earnings over several time frames — such as one-year, three-year, and five-year — when assessing an investment. These yields can be a bit deceptive since they are not adjusted for risk. The Sharpe ratio is a measure for computing risk-adjusted returns that resolves issues that arise through beta coefficient, by taking the average return earned beyond the risk-free rate per unit of instability or total risk — a complete measure of risk. Investors can unswervingly compare numerous investments and assess the amount of risk that every manager took on to create the same percentage points of return, which makes for a much fairer evaluation. The Sharpe ratio is a very common performance metric, and it is used universally by traders, investors, and everywhere in the financial world. The advantage of the Sharpe ratio is that it also examines the risk of a trading technique and that it provides information about the unpredictability of account growth. It is imperative to know that the greater a Sharpe ratio of a trading method, the superior the return a trader can anticipate about the potential risk and the size and occurrence of drawdowns. Furthermore, when contrasting two trading approaches with the same percentage yield, the one with the greater Sharpe ratio has had less account instability in the past and an evener growth.

A risk averse trader must look for methods to curtail the Sharpe ratio of his trading system to elude noteworthy account swings. If returns were connected perfectly through time, the Sharpe ratio would not be complex to the time unit of measurement; it would have been dimensionless. Nevertheless, in a perfect financial market, proceeds are estimated to be statistically self-regulating through time and, in practice, yields usually are found to be rather statistically independent through time. The point is that Sharpe ratio evaluations must be completed using the same return intervals.

Sharpe ratios must be calculated and regularly compared with the same unit of time. They then can be easily automatically deduced and compared across investments. However, Sharpe ratios overlook diversification impacts and are mainly useful in comparing earnings only on a stand-alone basis. This means that they characteristically should be used when investigating total portfolios instead of evaluating components that will be employed to diversify a portfolio. It should be noted that a well-diversified portfolio is conventionally defined as encompassing only small amounts of diversifiable risk.

The Sharpe ratio must be utilized with caution when measuring the performance of specific investments, such as options and option-like plans, which have return distributions that are lop-sided or contain the possibility for nonlinear payoffs.

Sortino ratio

The Sortino ratio is a variant of the Sharpe ratio that separates detrimental volatility from total overall volatility by utilizing the asset's standard deviation of negative asset yields, known as downside deviation.

This ratio is responsible for measuring the risk-adjusted return of an investment portfolio, asset, or strategy. As explained already, it is a variation of the Sharpe ratio however it penalizes only those returns that fall below a required rate of return or a user-specified target, whereas the Sharpe ratio deal with both upside and downside volatility equally. Although both of these ratios measure an investment's risk-adjusted return, they do so in considerably different ways that will often lead to different conclusions owing to the investment's return-generating efficiency.

The emphasis on downside risk makes the Sortino Ratio more pertinent to investors because it looks at possible losses as opposed to merely volatility. Investing, after all, is usually fixated on making money not just on extenuating risk. Also, the investor-defined standard aligns well with the motivation of making money. Though the risk-free rate of return can certainly be employed if it aligns with an investor's goals, calculating volatility against a risk-free benchmark can be an entirely unsuitable comparison if, for instance,

the investor has an assortment of large-capitalization forex contracts that are more expected to perform like the Standard and Poor's 500, the Dow Jones Industrial Average or another equity benchmark. With the Sortino Ratio, financiers are free to select the benchmark that best matches their purposes.

The formula to calculate it:

sharpe_ratio = [(average_returns * 252) – (risk_free_ratio)] / standard deviation, where risk_free_ratio is CBOE Interest Rate 10 Year T No (^TNX)

Sortino ratio can also be classified as a semi standard deviation, because it utilizes the downside standard deviation instead of standard deviation, to measure risk in the denominator. Consequently, the Sortino ratio can be used for investments with Askew returns, particularly those where the downside danger seems larger than the upside prospective. As a semi standard deviation, the target semi standard deviation (TSSD) emphasizes on the downside deviations. As a target semi standard deviation describes a downside deviance as the damaging variations compared to the target return rather than a zero or a mean return.

Therefore, this ratio utilizes the notion of a target rate of return both in conveying the return in the numerator and the risk in the denominator.

Even if the target return is fixed equal to the riskless rate, the Sortino ratio is not equivalent to the Sharpe ratio. Though they would share an identical numerator, the denominator will be the same merely for impeccably symmetrical distributions and where the mean return of the asset equates the riskless rate. The point is that the stress of the Sortino ratio is the usage of downside risk instead of the use of a target rate of return.

Sortino Ratio Calculation Example

Just like the Sharpe ratio, a higher Sortino ratio is better. When looking at two similar investments, a rational investor would prefer the one with the higher Sortino ratio because it means that the investment is earning more return per unit of bad risk that it takes on. The formula for the Sortino ratio is as follows:

Sortino Ratio = <R> -Rf / Od

Where,

<R> = Expected Return

Rf = The Risk FreeRate of Return

Od = Standard Deviation of Negative Asset Returns

Here, R equals the asset's or portfolio's annualized return, r(f) equals the risk-free rate, and DD equals the asset's or portfolio's downside deviation.

For example, assume Fund X has an annualized return of 12% and a downside deviation of 10%. Fund Z has an annualized return of 10% and a downside deviation of 7%. The risk-free rate is 2.5%. The Sortino ratios for both funds would be calculated as:

Fund X Sortino = (12% - 2.5%) / 10% = 0.95

Fund Z Sortino = (10% - 2.5%) / 7% = 1.07

Even though Fund X is returning 2% more on an annualized basis, it is not earning that return as efficiently as Fund Z, given their downside deviations. Based on this metric, Fund Z is the better investment choice.

CHAPTER 4

Max Drawdown

Maximum drawdown denotes to the "worst case scenario" for a trading era.This measures the highest difference, or loss, from an earlier equity peak. This statistic can aid in measuring the amount of risk and establish if a business trading plan is conceivable given the size of the trading account. Overall, this number must be as small as possible, and trading strategies that require significant maximum drawdowns ought to be evaded.

As a plain rule, a trader must commence their analysis of a business trading plan by defining how much he or she can afford to put in jeopardy. If the maximum drawdown for a business trading plan surpasses this amount, the trader might not need to look any farther; the business trading plan needs to be revised before it can move to the next level. While this performance metric frequently appears at the bottom of trading performance reports in many software packages, it is amongst the most treasured. It is suggested that buyers begin their analysis by observing the maximum drawdown, as this defines the viability of a business trading plan.

In its easiest form, draw down risk is a technique to measure how long it takes for a mutual fund or other venture to recover its losses after it falls from a preceding high. For instance, if a trader put $4000 to trade with and later he has lost $2000. That would be 50% drawdown.

Although this notion is comparatively straightforward, it has rarely been addressed in a concrete sense because, for all practical purposes, it primarily signifies the negative half of standard deviation. SD measures an investment's or fund's total volatility, while drawdown risk only considers the drops in price over time to calculate downside risk.

In order to calculate Max. Draw down (% how much the equity (not the balance) has declined since its latest high.)

This can be calculated using the formula:

CCD = highest_historical_balance – current_balance + account_withdrawls.

Drawdown risk becomes more and more pertinent to traders as they approach their retirement age. In most circumstances, the drawdown risk escalates with an investment's general risk and instability.

However, some investments can recuperate their losses much more rapidly than others, and this can be a key pointer of how well those individuals can manage that particular investment. For example, an investment that can mislay over half of its worth in a short time and take years to recover is probably not very well managed.

Nonetheless, this kind of loss can be overwhelming for an individual who is about to retire, and so this sort of risk needs to be prudently measured to devise its possible impact on your trading portfolio. If you are going to stop working next year and 25 percent of your reserves are held in an aggressively growing fund that has done very well over the past few years, then that deposit might well be due for a significant retracement. If that materializes, will you be capable of preserving your planned lifestyle in retirement without having to work for a while longer?

While other technical gauges, such as beta, standard deviation, r-squared and Alpha assist as analytical tools that can be employed to mathematically quantify and group certain features of an investment, draw down risk is a much more "tangible" measure of the probable effect that a significant loss might have on your portfolio and your life. This risk measurement tries to answer the real query, "Just how long will it take an individual to get back to where they were if the bottom falls out?"

CHAPTER 5

Expectancy

Traders need to have a realistic and solid understanding of what they anticipate in the future, and precisely what returns they expect to generate regarding profits. Majority of the traders when asked about what kind of returns or draw-downs they expect using their trading strategy, generally respond by saying that they have no idea. They want to be profitable but do not realize how a string of trades might influence their overall portfolio value. This kind of trading without rules and planned expectations is a major barricade to success.

Expectancy measures a trading strategy's profit potential. It contemplates on both the reliability and win rate as well as the amount added by each win. That way, it can equate trading strategies that repeatedly win small gains with approaches that seldom win but win big when they do.

Expectancy = (win_rate * avg_win) – (loss_rate *avg_loss)

Expectancy is what it sounds like. It facilitates an individual to comprehend how winners, losers, losses and gains associated with each other over the long term. This procedure helps you recognize what your trading system profits would be, and aids in validating your back testing.

A trading system's expectancy is possibly one of the most influential statistics an individual can have because it is a method of quantifying the performance of a system that is free of the size of the trading float. In short, it yields the expected dollar return for every dollar risked by the trading system. This is unlike the reward-to-risk ratio and average wins to losses, in that it outlines a return in dollar terms for every dollar that the person risks. If your method has an expectancy of +0.75, on average, you will be expected to make 0.75 times the amount you endangered in the trade. If you risk $1, then you would expect to make, on average, $0.75 for every trade you take.

Over a lot of trades, the expectancy is the predicted to gain of the trading strategy. Higher expectancy is usually better. You must always avoid trading approaches with negative expectancy.

CHAPTER 6

Trades

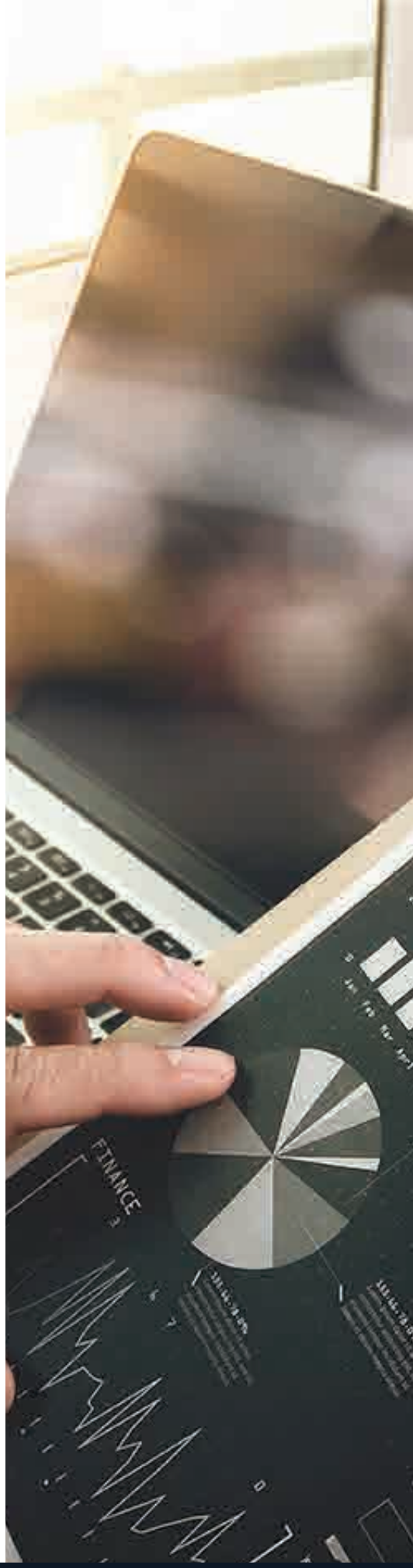
While fortunes can occasionally be made overnight in FX trading, as with the majority of businesses, they are typically made with practice, time, patience, strategic thought, and by following a feasible trading plan. Once a trading plan is settled and applied, the results will produce a series of metrics or statistics. This information will provide the trader with significant information that can then be utilized to expand their trading system.

Forex metrics play a noteworthy role for traders that have established a business trading plan and utilize statistical analysis to regulate how to augment their trading practices and skills. In addition to systematic and discretionary traders who trade for their account, other financial specialists frequently use trading metrics to evaluate performance.

One of these metrics is known as Trades, which denotes the total number of trades carried out. Your trading system must not give too few or too many trades. The number of trades a trading system provides should be roughly the same as that which can accurately be taken.

Both sides of the coin, however, are correspondingly dangerous. If a system offers too many trades, an individual will be forced to select between signals, consequently adding uncertainty to the network. With ambiguity comes rational decision and this often has a damaging impact on the performance of the trading system. On the contrary, if a system provides too few trades, an individual's trading capital will not be entirely consumed, and they might not take full advantage of the existing trading opportunities.

So how can you calculate the optimum number of trades for your trading system? In theory, it is simpler and can be calculated using a concept called 'opportunity'. Opportunity helps in determining the optimal opportunity for a trading system.



What are Pips?

Currency exchange rates vary in fractions of a dollar called Pip, where a Pip is a contraction for Price Interest Point (or Percentage in Point) and is the minimum price movement that a currency can make. A pip essentially measures the quantity of change in the exchange rate for a currency-pair and signifies the minimum incremental change conceivable. For instance: for currency pairs where the price is presented with four decimal places, one pip will be equivalent to 0.0001. So for EURUSD, a pip would signify the change in price from, let's assume, 1.1013 to 1.1014

If an individual wants to get paid as a trader and be a money maker, then they need to collect as many pips as possible. This is a way with which traders earn from their trades. Pips are imperative in the Forex market as it fundamentally characterizes how the market is priced and how much it swings, or moves up and down. Therefore, the more pips a market has enthused, the bigger the change in price and, if you're on the right side in the sense of direction it moves, the greater profit in your trading account.

Determining the value of a PIP

Your risk is unswervingly related to your pip-value, and therefore it is very vital to be on top of how to compute the value of a pip; the good news is that this is very simple.

The monetary worth of each pip will be contingent on three factors:

- The currency pair being traded
- The size of the trade
- The exchange rate

Best Trades (Pips)

Now that you have a clear picture of what a pip is, we need to understand what a good or best trade would look like. It has already been established that the greater amount of pips you gather the more money you can make in forex trade. No specific number can recognize the BEST PIP value. Defining an X amount of pips to be collected every day can have detrimental effects. Although it is not a bad idea to set goals, having aims that are unrealistic can be a glaring problem when it comes to trading.

Unrealistic Expectations

The problem with setting an aim of X amount of pips each day is that the market fluctuates every day and no strategy will be that steady.

Every individual must accept the fact that they will have losing trades; lose days, even weeks and months. So if they are trying to achieve this type of common goal that means that they are setting themselves up for failure before they even place their first trade.

Another issue that this type of goal creates is that it boosts trading more during times when the strategy is not effective and less in times when the strategy is more effective. Think about it. If you place a couple of quick trades in the before noon and hit the "pip goal," then you might be missing out on further profitable trades that might occur during the ultimate perfect market conditions. This way you will limit what the strategy can earn when it is working well.

If for instance the first couple of trades are losing trades, then you will need to place more trades to dig yourself out of a hole before hitting the profit target for the day. The problem is, if market circumstances are not right for the strategy, then the person will be forced to continue trading (and place more trades) that could result in bigger losses.

Rather than concentrating on earning a precise number of pips per day, you need to make an effort on what we can control and what's more important.

CHAPTER 7

Win-to-Loss Ratio

The win/loss ratio is a ratio of the total number of winning trades to the number of losing trades. It does not take into consideration how much was lost or gained simply if they were winners or losers.

The monetary worth of each pip will be contingent on three factors:

Formula:

Win/Loss Ratio = Winning Trades: Losing Trades

This ratio is used in computing the risk/reward ratio. It is not very beneficial on its own because it does not take into consideration the fiscal value won or lost in every trade. For example, a win/loss ratio of 2:1, implies that the trader has two times as many winning trades than losing. This sound perfect for now, however, if the losing trades have dollar losses three-times as big as the dollar gains of the winning trades, the dealer has a losing strategy.

The win/loss ratio is an important metric in measuring performance, although it is not always a reliable index of success. A win/loss ratio comes to perform if the trader's risk-reward ratio is 1:1, in which case the quantity of pips sought as profit is equal to the number of pips risked. It also comes to respond well when the trader sticks to adequate risk exposure levels for all trades. This ratio will not be valued for traders who cut their proceeds and let losses run, in which case even a small level of loss will be sufficient to eradicate any profits made from the far bigger number of trades. It will also not be valuable in evaluating trades where the risk-reward ratio is 1:2 and above, in which case a cautious trader can lose more trades than winning them and still come out on top.

What use is the win/loss ratio?

Traders are recommended to run their winning and cut their losing trades, so the win/loss ratio is a clear reflection of how well they have accomplished that aim. The number of losing trades anticipated from a system consistently surpasses the number of winning trades because the majority of the market entry signals created by the system will prove to be 'incorrect'.

Traders know that it is crucial to allow their 'small number' of winning trades every chance to generate the maximum profit - while getting rid of their losing trades as soon as they go past their 'risk limit'. The more operative this strategy is, of course, the larger the win/loss ratio will be.

The win/loss ratio is also employed in combination with the win probability % to decide what is recognized as the 'positive expectation' of a system. The win probability is merely the % probability that a trade will be a winner.

Average wins and losses

Average wins can be defined as the number of pips or money gained in a trade whereas average loss is described as the number of pips or money lost in a particular trade. Additionally, to the win-to-loss ratio, an individual must ensure that the average value of their winning trades is bigger than the average value of their losing ones. Say you as a trader want to do a back testing entailed of 200 trades. If for example, 150 of those are losing trades and only 50 are winning trades, noticeably the win-to-loss ratio is 1:3. However, that on its own is not sufficient to conclude if a system is good or bad. Recognize that, if the average of an individual's wins were, for instance, $2000 and the average of the losses were $500, they would still be coming out on top ((50×2000)-(150×500)=$25,000).

CHAPTER 8

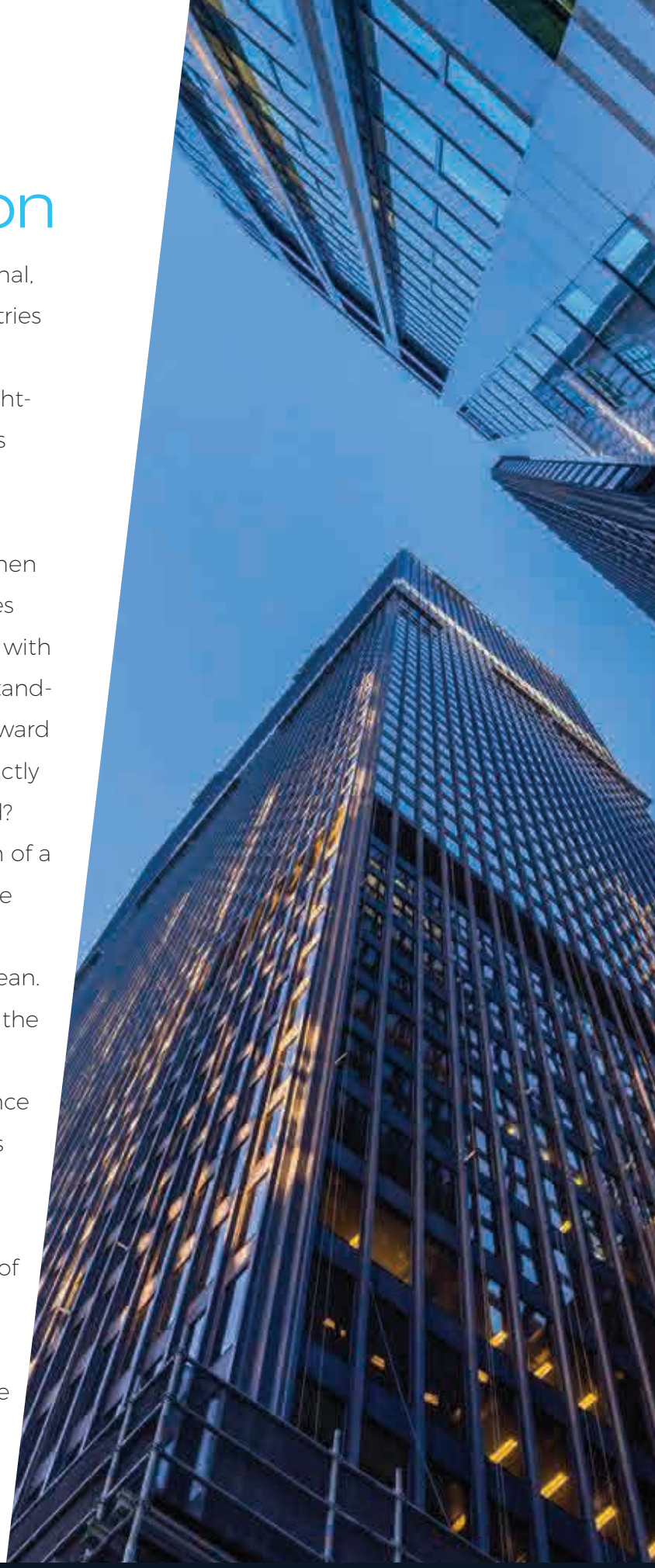
Standard Deviation

Standard deviation is a measure of risk, this rational, easy to comprehend and will aid you to time entries better and describe targets for trades, as well as identifying significant trend reversals. It is a straight-forward and potent concept, and all forex traders must know how it works and how they can take advantage of it.

The real problem that traders must overcome when trading forex is incapacitating volatile price moves that can hinder them, and they stop too soon or with losses - if an individual learns how to deal with standard deviation, they will go in with superior risk reward and get clogged out less frequently. So what exactly is the standard deviation and how is it measured?

Standard deviation is a method of the dispersion of a set of figures from its mean. It is computed as the square root of variance by defining the variation between every data point comparative to the mean. If the data points are far from the mean, there is the greater deviation in the data set. In other words, standard deviation measures the historical variance (average of the squared deviations) of the returns from the mean return over the selected period.

In finance, a standard deviation is a statistical measurement; when applied to the annual rate of return of an investment, it pours light on the historical volatility of that venture. The higher the standard deviation of the security, the greater the variance amid the mean and each price, representing a greater price range.



For instance, an unpredictable forex contract has a higher standard deviation, whereas the deviation of a blue-chip stock is typically rather low.

In the monetary service industry, a standard deviation is one of the important fundamental risk measures that portfolio managers, analysts, wealth management consultants and monetarist planners utilize. A large dispersion specifies how much the yield on the fund is differing from the predicted normal returns. Because it is easy to comprehend, this statistic is often conveyed to the end users and investors on a consistent basis.

When should Standard Deviation be used?

Standard deviation is a particularly valuable tool identify suitable trading strategies and as it aids measuring the market volatility if the investment. As it narrates to investing, for instance, an index fund can be anticipated to have a lower standard deviation versus its standard index, as the trader's objective is to imitate the index. An aggressive trading strategy on the contrary, can be projected to have a greater standard deviation, as their portfolio executives make impulsive bets to produce higher-than-average proceeds.

A lower standard deviation is not essentially desirable. It is all contingent on the kind of investments one is making, and one's readiness to undertake risk. When dealing with the extent of deviation in their portfolios, traders must take into account both their forbearance for volatility and their general investment goals. More aggressive traders might be contented with an investment strategy that opts for trades with higher-than-average instability, whereas more traditional investors may not.

Also, the standard deviation indicator is possibly the greatest gauge accessible to traders regarding dependability. In markets with consistent trends, with modest volatility where the price action is focused on the center of the range, the STD pointer is a useful measurement.

Conclusion

One of the most important things to take away from this guide is that statistics in trading is a tool to manage risk. The Forex market is a widely accessible marketplace that allows people from all over the world to trade currencies and profit for it. Sounds astonishing? It mustn't. In this globally integrated world, the FX market is spreading quickly, where everyone understands the benefits that can be derived through this. However, you must be aware that it is not as easy as some of the forex investors display it to be. Forex industry is far more unpredictable than you can imagine.

Foreign exchange trading is when an individual attempts to create a profit by guessing the value of one currency in contrast to another. Foreign currencies can be transacted because the worth of a currency will vary, or its exchange rate price will change when compared with other currencies. This is a marketplace, where you can buy and sell various currencies and take the gain home.

BUT … It is essential that you must learn the language of trading before you jump into it. To effectively trade, an individual will need to have a good familiarity of foreign exchange, power, volatility and the circumstances of each country whose currency they are planning to trade in. You will also need to forecast how these situations affect the comparative value of those currencies. This is tremendously difficult as so many factors come into play, comprising of politics, economics and market confidence, and these are unanticipated random events.

It is crucial to understand in the forex industry is that you will not be successful if you are impulsive and cannot control the emotions. The psychological and human aspect needs to be monitored if you want to gain from forex.

Another fundamental rule of the game is to know about the currencies and the economic conditions of different countries. This is imperative because the economic conditions of a specific country determine the value of their currency against yours. Forex is always dealt in pairs; this is why understanding the value in comparison is a pre-requisite. Nevertheless, the human mind's capacity is only limited and cannot retain and calculate so much at one time.

For this purpose, various statistical metrics can help an individual make decisions. These trading performance measures are incredibly valuable when it comes to making an informed choice of the kind of trade one must invest in. There are several stats that can be employed in the forex industry and the most important ones are mentioned in this book.

Statistical analysis is one of the significant components out of three major elements in the forex market. If you want to become a proficient forex trader, then there is no other substitute other than becoming skilled in the art of statistical analysis. At the very beginning, it may seem hard to comprehend different features of the trading platform and diverse techniques of assessing the market. However, if you are willing to commit to learning forex trading, then it will ultimately become evident to you over the course of time. Most of the qualified traders who are trading the financial instrument with a significant level of success have a very strong basis in the statistical analysis area.

These statistical measures will help you identify the patterns and foresee absolute returns from a particular trade. So why not use all the help you can get and avoid risking your money with less risk of losing your money. It is significant for you to remember that in this field you will lose money but HOW MUCH; that depends on you entirely. If you act smartly and utilize these metrics efficiently, then chances are that you will protect yourself from the major risk of losing that big chunk.

What's the point of investing your money, if you can't get anything out of it? This is why you must use our tradingstats.com that can facilitate you with calculating these stats and also interpreting them. Although you can calculate these methods manually as explained above, when our system can do it for, then why bother? Besides tradingstats.com is a lot quicker and is extremely beneficial in a market place where the trader needs to make swift decisions and act upon them. In these circumstances, you should use tradingstats.com that is there for you as your right hand.