

Trading Strategy (Test Stage)

Traded instrument: USD/TRY

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

Strategy: 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.

Time of daily entry orders set-up: between 7am (start of Frankfurt session) and 8am (start of London session).

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 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.

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

Overriding of triggered entries: if trades have not hit either stop-loss or profit target by the time the next-day orders are set up, the trades will be closed manually; ideally all trades will be closed by 10pm, although see 'Roll-over'

paragraph 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.

MODIFIED PLAN, beginning 19th May 2017 (three months after beginning of strategy).

The modifications to the strategy will be as follows:

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);

paragraph (ci) of 'Risk controls' should now read “the profit target will be **twice** this figure”.

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