ZANZiBAR™ Trading on the Euro FX

by Trading Educators, Inc.

Version 1.0

Build 03

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Introduction

The trading method you are about to learn has been perfoming extremely well since we began testing it.

At Trading Educators we believe in simple methods. We don't believe in extended periods of backtesting because markets change over time. We believe in watching the markets, and trading what we see. The reality of trading is in what is happening now, not what happened months and years ago.

Our market tests look at what is happening currently. However, there is more you need to know.

When we introduce a trading method to our subscribers we do so with full disclosure as to the way the method is currently working. You are sadly mistaken if you think that any of our methods are mechanical trading systems. They most definitely are not, which is why we give you all the details of the method so that you can use it intelligently.

At the time of its release, the method is making money. Please realize that the method may stop making money at any time after its release — BUT realize also that after awhile the method usually begins working again. Methods fluctuate in their money-making capabilities. To gain the best results, you must stick with the method for a year, not just a few days or weeks. Every method has flat periods and losing periods. The money is made during the winning periods, which are designed to be longer and stronger than the flat periods, and definitely longer and stronger than the losing periods. This truth is borne out by the equity curves you will see as you review the method and the samples. If we present you with a method that makes only $10,000 (less than $1,000/month) over a one year period trading a single contract, just think of what the method will do for you if you were to trade it with a ten-lot. Is $100,000/year so bad?

As the economy changes, so does the market. As government policies change, so does the market. As the interaction between nations changes, so does the market.

Markets are made up of those who participate in them. For a variety of reasons, participants come and go. The players are in a constant state of flux. That is what makes markets dynamic, and that is why mechanical trading systems seldom work over long periods of time, and it is why we present you with rational methods.

This e-book presents a simple method for trading CME euro fx futures. We do not know how long the method will work before it goes flat or begins to lose. Therefore, you must monitor the method every trading day, and if, in your opinion, you should discontinue using it, then do so at once. However, this method, without variations, has been working since January 2005. We continue testing the method, and we will let you know if there are any changes.

All the best to you in your trading,

Joe Ross

What You Can Expect

Below is the equity curve for this method, from January 2005 through February 2006. As you can see, there are times when the method produces fantastic results, and there are times when the method produces solid results; there are also times when the method is flat or losing. The method produced over $6,700 trading only one contract, with a maximum closed-out drawdown of $488. The longest time period in which the method stayed flat was 23 days!
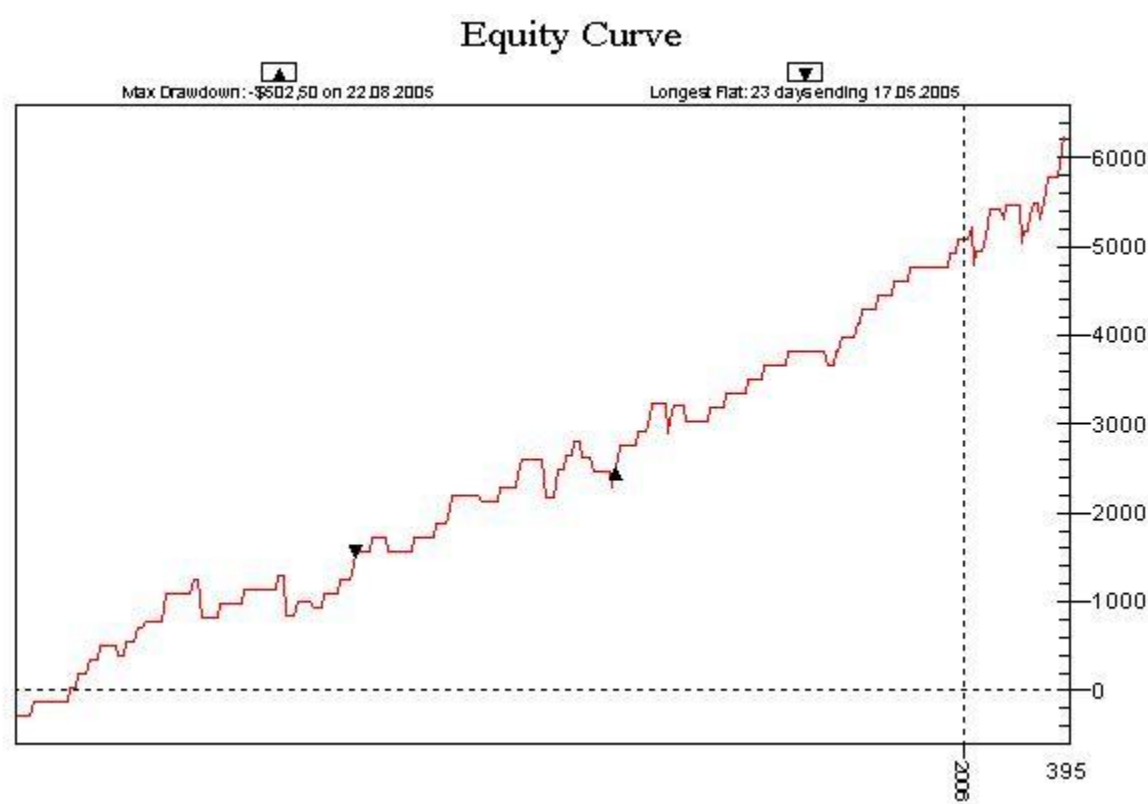

Equity Curve

Max Drawdown: -$487,50 on 22.08.2005   Longest Flat: 23 days ending 17.06.2005
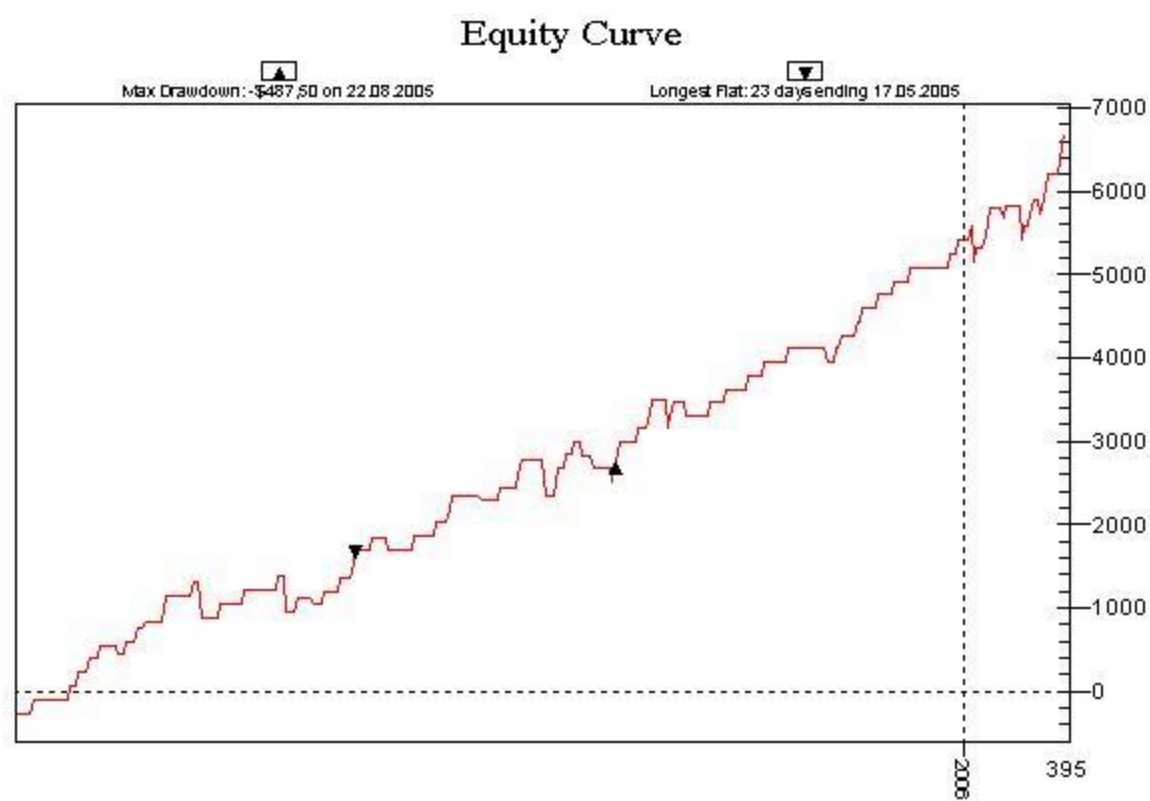
Here are some characteristics:

Summary - All Trades

Overall

Total Net Profit:	$6.700	Profit Factor ($Wins/$Losses):	**2,52**
Total Trades:	87	Winning Percentage:	**79,3%**
Average Trade:	$77	Payout Ratio (Avg Win/Loss):	**0,66**
Avg # of Bars in Trade:	1,29	Z-Score (W/L Predictability):	1,3
Avg # of Trades per Year:	80,0	Percent in the Market:	1,3%
Max Closed-out Drawdown:	-$488	Max Intraday Drawdown:	-$838
Account Size Required:	$4.078	Return Pct:	**164,3%**
Open Equity:	$0	Kelly Ratio:	0,4782
Current Streak:	6 Wins	Optimal f:	0,60

Winning Trades / Losing Trades

Winning Trades		Losing Trades	
Total Winners:	69	Total Losers:	18
Gross Profit:	$11.113	Gross Loss:	-$4.413
Average Win:	$161	Average Loss:	-$245
Largest Win:	$163	Largest Loss:	-$425
Largest Drawdown in Win:	-$400	Largest Peak in Loss:	$125
Avg Drawdown in Win:	-$59	Avg Peak in Loss:	$41
Avg Run Up in Win:	$162	Avg Run Up in Loss:	$41
Avg Run Down in Win:	-$59	Avg Run Down in Loss:	-$325
Most Consec Wins:	10	Most Consec Losses:	3
Avg # of Consec Wins:	4,06	Avg # of Consec Losses:	1,13
Avg # of Bars in Wins:	,72	Avg # of Bars in Losses:	3,44

- We recommend trading capital of $2,000 plus margin for each contract traded. Please check with your broker about the margin requirements. Tell him/her you will not hold the contracts overnight. This is strictly a day trading method.
- You can expect a win-loss ratio of more than 75%. The win-loss ratio in the testing period was 79%.
- The largest possible loss is $425 + commission per contract.
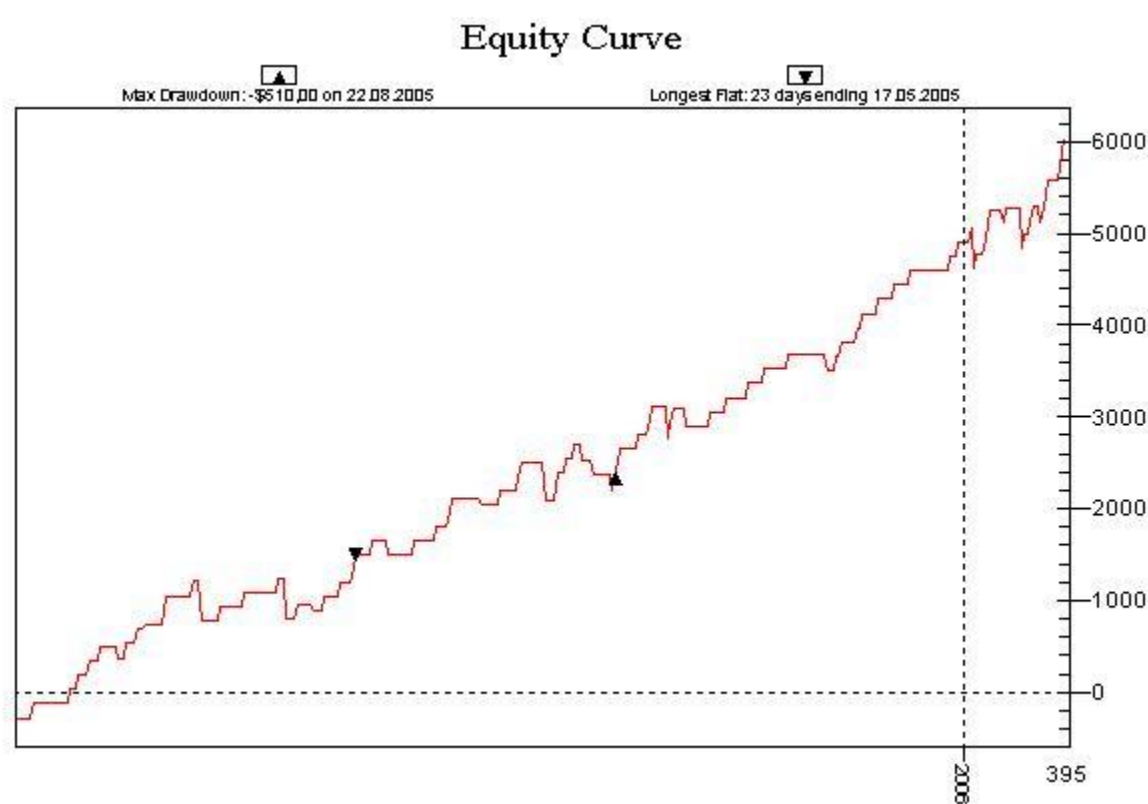- The maximum drawdown in the testing period was $488, which includes losing more than one

time before the next win.
- It produced only 3 consecutive losses, but 10 consecutive wins.

The following examples show the same equity curve using different commission amounts.

**Below is the Equity Curve including a round turn commission of $5 per contract:**

Equity Curve

Max Drawdown: -$502,50 on 22.08.2005   Longest Flat: 23 days ending 17.05.2005

```
6000
5000
4000
3000
2000
1000
0
                                                    2006    395
```

Here is the Equity curve with a round turn commission of $7.50 per contract:

Equity Curve

Max Drawdown: -$510,00 on 22.08.2005   Longest Flat: 23 days ending 17.05.2005

```
6000
5000
4000
3000
2000
1000
0
                                                    2006    395
```

Finally, the Equity Curve using a round turn commission of $10 per contract:

Equity Curve

Max Drawdown: -$517.50 on 22.08.2005   Longest Flat: 23 days ending 17.05.2005
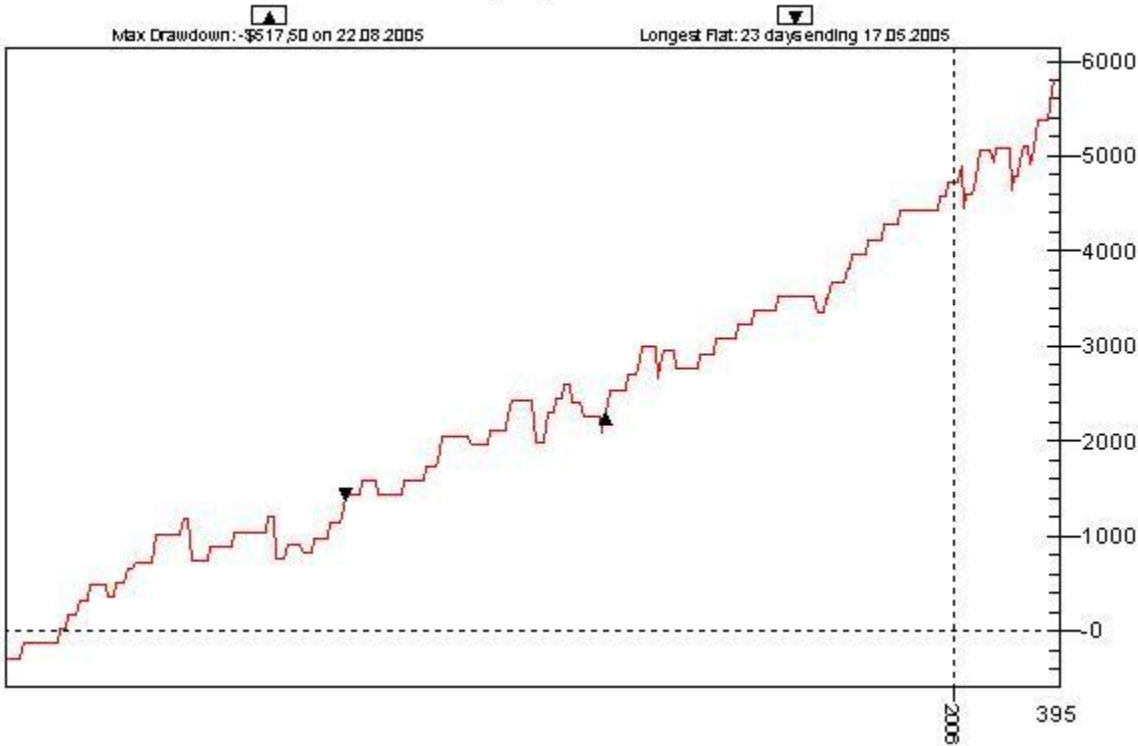
Note: If you need a broker who will let you trade the method for under $9 all the way down to $4.75 (based on volume), please contact us at broker_referral@tradingeducators.com

Trading Rules

There are only a few easy-to-understand trading rules:

➡ Market and Trading Hours

We are trading the **Euro FX Futures** in the electronic market. We **enter** the trade only between **8:00 am and 11:00 am** U.S. Central Time, and we exit the trade not later than 4:00 pm U.S. Central Time. We do NOT hold any position overnight! On the charts shown, the price bars are time-stamped at the end of an hour. Note: with some software, price bars are time-stamped at the beginning of the hour.

➡ Timeframe

We are using a 60-minute chart. The bar should start every full hour.

➡ Trigger Bar

The 60-minute bar we use for the entry signal is called "**Trigger Bar**". We have three conditions for the Trigger Bar:

First condition: We are looking only at bars between **7:00 am and 10:00 am** U.S. Central Time. To be more precise, we are looking at the following bars: First bar from 7:00 am till 8:00 am, second bar from 8:00 am till 9:00 am, and the third bar from 9:00 am till 10:00 am U.S. Central Time.

Second condition: The bar has to be an **Inside Bar**. An Inside Bar is a bar that did not trade either higher or lower than the preceding bar. (Note: the bar can have an equal high and/or low.)

Third condition: The difference between the high and the low is **at most 26 ticks**!

Only if **ALL** these conditions are fulfilled do we call the bar a "**Trigger Bar**".

➡ Entry Signal

Long Signal: Buy one tick above the high of the Trigger Bar using a Stop Order - but not before 8:00 am and not later than 11:00 am, U.S. Central Time.

Short Signal: Sell one tick below the low of the Trigger Bar using a Stop Order - but not before 8:00 am and not later than 11:00 am, U.S. Central Time.

If filled long, cancel the sell order. If filled short, cancel the buy order.

Do NOT enter any positions after 11:00 am U.S. Central Time. Cancel your orders if not filled!

Do not reverse any position! Take no more than one trade per day!

➡ Exit Signal

If you are long: Place a sell limit order 13 ticks above your entry. Place a sell stop market order 34 ticks below your entry to limit your risk. If your profit objective is filled, cancel your protective stop.

If you are short: Place a buy limit order 13 ticks below your entry. Place a buy stop market order 34 ticks above your entry to limit your risk. If your profit objective is filled, cancel your protective stop.

Whenever your target gets hit but your limit order doesn't get filled, move your stop at least to break even or take some money from the table. Try to experiment with when and how to move your stop closer.

Note: We do NOT hold any position overnight! We exit the trade not later than 4:00 pm U.S. Central Time.

➡ No pyramiding!

You enter a new position only when you are flat. No pyramiding!

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Examples

In the following examples we show the orders that should have been placed in the electronic Euro FX, according to our rules.

Tuesday, February 14, 2006

The chart below shows the overnight action in the electronic market of the Euro FX. The current bar is the Bar from 7:00 am - 8:00 am U.S. Central Time. The bar is not an inside bar, and therefore we do not place any orders.
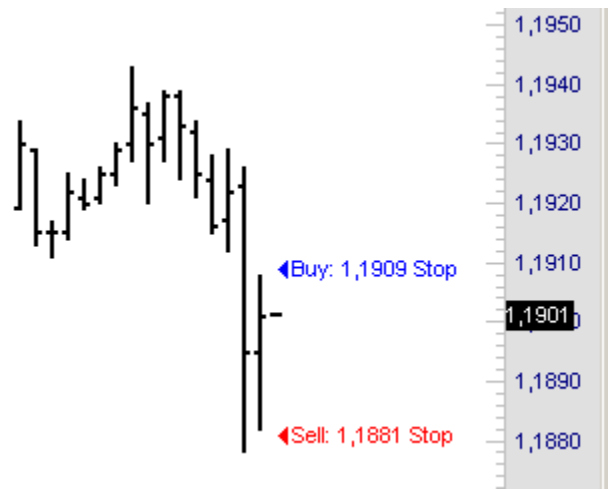

60 min. bar
from 7:00am – 8:00am
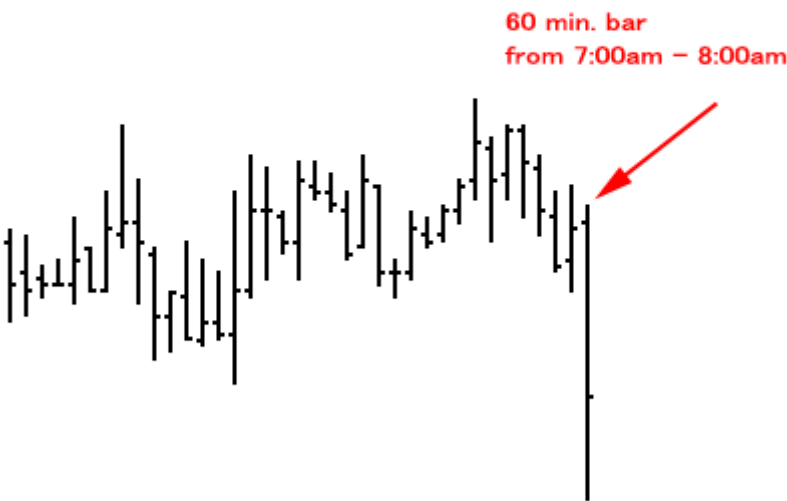
One hour later we look at the bar from 8:00 am - 9:00 am U.S. Central Time. The bar is an inside bar, and the difference between the high and the low is not more then 26 ticks.

60 min. bar
from 8:00am – 9:00am

All 3 entry conditions are fullfilled, and therefore the bar is a Trigger Bar.

The entry rule says: **Buy one tick above the Trigger Bar, and sell one tick below the Trigger Bar, using a Stop Order.**

➡ Buy 1 contract at 1.1909 stop and sell 1 contract at 1.1881 stop. Please note - we place both orders (sell and buy) at the same time because we do not know on which side we will get filled!

None of the orders got filled by 10:00 am U.S. Central Time, so we cancel both orders.

We look now at the bar from 9:00 am - 10:00 am U.S. Central Time. The bar is an inside bar, and the difference between the high and the low is not more then 26 ticks.

60 min. bar
from 9:00am – 10:00am

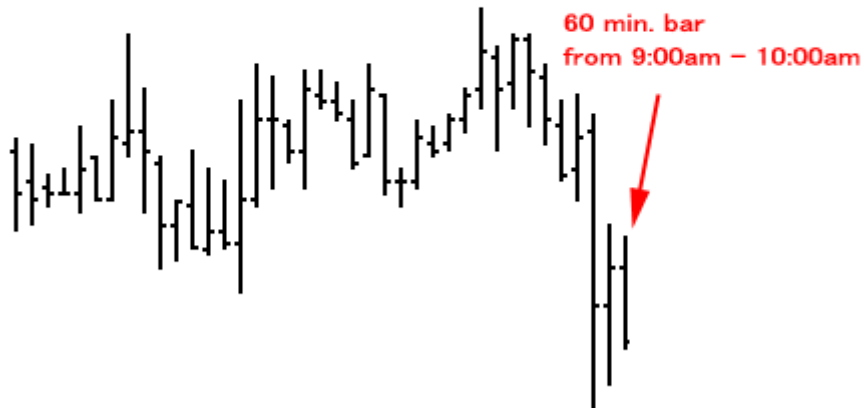All 3 entry conditions are fullfilled, and therefore the bar is a Trigger Bar.

The entry rule says: **Buy one tick above the Trigger Bar or sell one tick below the Trigger Bar using a Stop Order.**

➡ Buy 1 contract at 1.1907 stop and sell 1 contract at 1.1887 stop. Please note - we place both orders (sell and buy) at the same time because we do not know on which side we will get filled!

Later the order is executed, and **we are now long at 1.1907 with 1 contract**. Immediately after the fill of the buy order, we cancel the sell order!

Now we have to place the order for the target and for the protective stop.

Target = Entry + 13 ticks = 1.1907 + 13 = 1.1920.

Stop = Entry - 34 ticks = 1.1907 - 34 = 1.1873.

We place the following order:

➡ Sell 1 contract at 1.1920 limit and sell 1 contract at 1.1873 stop market.