C-Trader

Welcome and thank you for purchasing the C-Trader method. As you will learn, this is an exciting method that can be traded without ever having to look at a price chart again. Since you have already purchased the method, no need for me to sell you on the concept again. If you would like to resell this information, we pay 50% of the purchase price. We would create your own personal link that you could paste in emails or on the internet that would track your sales. Let's get right into the method.

C Trader stands for Carry-Trader. Now before you write this off as just another carry trade method that will blow up when the carry trade eventually blows up (and it will!) make sure you read everything. There are many methods out there that are attempting to exploit this phenomenon. Freedom Rocks is the most popular method out there for the retail forex trader, yet when the carry trade started to unwind at the end of February, even the most conservative accounts with that method lost nearly 50%. Had the carry trade continued to unwind for another few days, even those accounts would have been wiped out. Anyone on higher leverage with that method was completely wiped out. What we have done is create a completely unique strategy that will help minimize the risk to the unwinding of the carry trade, while maintaining an ideal position of collecting interest every single day.

For those not familiar with what the carry trade is, it's when you borrow currency in a lower cost currency, and use the proceeds to buy a higher yielding currency. The best known carry trades use the Yen and Swiss Franc pairs. People borrow yen and pay the .5% interest, and then use the money to buy US Dollars for example that pay over 5%. The difference after dealer cost is what you make. So for this example, a simple carry trade would be to buy the USDJPY currency pair. If you bought $10,000 worth of this pair, you would make $1.35 in interest per day or $492.75 per year. That is a return of 4.9275% in interest, assuming you used no leverage. If you had only $5,000 in the account (meaning you used 2 to 1 leverage) and bought $10,000 worth of this pair, your return would double. You would still make $492.75 for the year, but on $5,000 invested, your return would become 9.855% per year, just in interest.

This sounds all fine and dandy until you realize that the price of the USDJPY exchange rate will fluctuate wildly throughout the year. If you bought the pair at 119.00, and at the end of the year it sat at 117.00, the loss of principle from the 2-point drop would be nearly $2000. Once you factor in the interest you earn, you are still at a substantial loss! So if the direction of price were such a big factor, how is it that we can never look at a price chart and still be able to trade these currencies?

The basis of this entire method is grounded in the fact that: **WE HAVE NO IDEA WHERE THE PRICE OF ANY CURRENCY IS GOING TO GO IN THE SHORT TERM!** And guess what? Neither do you or anyone else! All the chart study in the world will not tell you where the price is going in the future. Charts only show where price has been in the past. Every indicator that has been created by man only calculates where price has been in the past. So over long periods of time, every technical indicator is actually useless.

The only indicator we know will continue to work in the future is human emotion. Fear and Greed. They have existed for centuries, and we are 100% certain they will continue to exist in the future. So knowing this fact, we have enough knowledge to create the foundation of our CTrader method. If humans will continue to be greedy in the future,

then we can bet our money on the fact that over time, they will put their money where it's treated best. Money won't automatically flow the highest paying, most risky investment in the world. Safety of funds is a part of the equation. If return were the only factor, then you would see money pouring into the South Africa, where markets are run by crooks, and the country is torn in lawlessness. So we don't just dump money into whatever country is paying the most, we take into consideration the safety of funds as well.
In the forex market, this is the carry trade amongst the largest civilized countries. No need to put money at risk in some banana republic third world country. In international markets, it's been US securities for decades. Even though emerging countries are growing faster than the US at the moment and giving investors larger returns, money still flows to the US at a record pace. While not giving the best return, it is a solid return with not much political risk. For those of you who are completely scared of the carry trade method, we have a secondary method that is closer to currency neutral later in this document that helps hedge the currency exchange rate risk.

Now that the foundation has been set as to why we use the carry trade as the basis for this method, let's look at how we implement it.

The first thing we did when we began to study this idea was to look at the carry trade swap rate. We found what we were looking for by going to:

http://www.interbankfx.com/swap_rates.php

On the right hand side you will see a list of currency pairs and the amount of money you will either pay or earn buy either buying or selling that pair. Positive numbers are harbors for investor dollars as they are greedy and chase the best return on their money. Armed with this information we began to build our list with the intention to not be too overly leveraged in one direction on any one pair. We started with a demo $100,000 account with the intention of using 2:1 leverage as the basis (meaning $200,000 worth of currency) spread across 10 different pairs. After completing the list, we added 3 more pairs as a hedge against some currency risk. Let me show you the core list. This core list left alone at this leverage should earn interest of about 6.5-7.5% per year. That is much better than US Government bonds or cash savings accounts.

Buy EURJPY Buy AUDJPY
Sell EURUSD Sell EURAUD
Buy USDCHF Buy NZDUSD
Sell EURGBP Buy USDCAD
Buy GBPCHF Buy EURCHF

Based on that core list, we realized that we were short the JPY against two pairs, and that is the pair we are most afraid of when the carry trade unwinds. We are also short the CHF against 3 pairs. We are willing though to be more short the CHF than the JPY because Switzerland is very small compared to Japan in the scale of the world economy. So to help offset some of our risk in the JPY, we sold a CHFJPY pair. The other two hedges we make are against the USD and the AUD. We sell the AUDUSD and buy the GBPUSD. These three hedges are only going to slightly soften the blow of the unwinding of the carry trade.

Armed with these 13 pairs, we go ahead and place those orders at the same time. Within minutes, our core position is established. We implement those positions with 2 mini lots or $20,000 lot size per position for each $100k in the account. If you have a $10,000 account, then you will want to use .02 or $2,000 lot size per position. If you have a $1,000 account, then $100 lot sizes are your starting amount.

If the prices you enter in are the exact same 1-year from now, you will earn about 6.5-7.5% per year on your money. But as we know- the prices of the currencies will change. As long as the overall basket of currencies are increasing, then you leave everything alone! **You NEVER look at an individual currency and it's performance.** When I started the live test of this method on 4/05/2007, I bought the USDCAD at 1.1593. The current price of the currency as of this writing is 530 pips negative against me! How in the world can I hold on to a trade that is going 500 + pips against me? Because I view the trade as only a part of the overall trade basket! While the USDCAD is 530 pips in the red, I have a number of pairs that are 300-500 pips in my favor. As long as money continues to flow to where it is treated best, over time this basket in theory should continue to climb. Every so often though, it goes down. What do we do then?

Some of you may be familiar with the martingale betting method. This method calls for you to double up on your next bet after a losing trade. It was invented for the casinos. The idea is that after a string of losers, eventually you are bound to win, and that one win will make up all the loss you had experienced in the string of losers, plus give you a small profit. This is great as long as you have all the money in the world. There are a lot of forex methods out there based on this theory. Tests have shown they do awesome for a period of time before eventually blowing up once a currency moves hard and fast in the wrong direction. Let me give an example of what these methods are based on.

Let's say you buy the USDCHF and you have a 25 pip profit target. If the price gets to your target, you take your profit and buy it again. You do this forever until the price goes eventually goes against you 25 pips. If that is the case, then you keep your original buy lot and then buy 2 additional lots. If the price moves another 25 pips in the wrong direction, you keep the first 3 lots you owned and buy another 4 lots. You keep doing this until eventually the market makes a 25 pip retrace and then you close all the trades out. The only problem with this is if you ever get into a situation that I am now in the USDCAD. That market has dropped almost 500 pips without seeing so much as a 50-pip retracement. Had I been doubling up every 50 pips, I'd be at my 10th martingale progression which would mean that in that pair alone I would be long almost 200 standard lots!!!!!! Can you say…….. account blow up?

Yet when the USDCAD nightmare I am experiencing is viewed as a part, it is not that big of a deal. And when viewed as a basket of currencies, the martingale is not nearly as dangerous! Instead of running the martingale betting method on each pair individually, **I run it on the whole basket**. These are the rules for the betting portion of this method.
I start with $100,000 and put on my initial position of the 13 currencies. (You can create any basket you want! Just make sure you are comfortable with the currency risk of any given single currency like the yen of franc)

Once my initial position is established: **I WILL NEVER EXIT IT!** My core position will stay on and earn the swap interest. The trading activity and gains will only occur on the lot increases.

If the overall core basket of trades makes my equity drop $1000, I will double the basket on ***every*** pair**, no matter if it is winning or losing**! While the normal martingale methods only double after losers, we will double on both winners and losers! So if the USDCAD is down 100 pips and the EURJPY is up 50 pips….. we would still double up on BOTH positions. So on a $100,000 account, I put on .20 lots each of the 13 pairs I have picked. If my account goes up to $101,500, I do nothing. If from $101,500 it drops down to $100,500 – then I would put on a .40 lot trade on every single one of the 13 pairs. I always exit the extra additional lots once I have made my $1000 loss back up PLUS an additional $1000 gain. So in this example if my account went back up to $102,500, then I would exit the .40 lots ONLY! I would leave the .20 lots on. If the account goes from $102,500 to $105,000, then I do nothing. If from $105,000 it drops down to $104,000, then I will again add a .40 lot to every single pair in the basket, no matter what the price is. Now if the account continues to drop…… I will not double up again until the account has dropped $1,000 **FOR EACH UNIT!** A unit is the size of your core position. So if I have a .20 lot on and a .40 on each currency, then the next increase does not occur until the account has dropped another $3,000! This is VERY IMPORTANT! In the example above, I would not add .80 lots until the account had dropped down to $101,000 from $104,000. This will continue until the basket rebounds and you can lock in a profit. NOW, we must also keep an eye on the carry trade unwinding. This is how we keep a pulse on human fear. We can see based on the interest rates which currencies will capture investor greed, now we must keep an eye for signs of investors become fearful. If the carry trade begins to unwind, don't be afraid to take smaller profits on the added on units.

The main way I keep an eye on the carry trade is to go to:

http://www2.barchart.com/mktcom.asp?code=BSTK&section=currencies

I look at the futures priced for the Japanese Yen and the Swiss Franc. If both of those currencies are up while the other major currencies like the Euro, British Pound, Australian dollar are down, then that is a sign that the currency trade is unwinding that day. If that is the case, then I will go into conservative mode and may not double up my lot size until the basket of currencies has dropped $3-$5000. So let's use an example of what this look like.

If I start off with $100,000 and the account immediately drops to $99,000 – I will double up. When I wake up the next morning, I check the balance on my account and it shows that it has dropped another $3000 to $96,000. Under normal conditions, this is the time I would go ahead and add a .80 to all pairs in the basket. Before I do that though, I check the futures prices and notice that the Yen and Franc are up big while the other major currencies are down big. This filter tells me to be cautious as the carry trade may be coming undone, so I don't do anything. Instead I leave it alone and the balance continues to drop to $81,000 or $5,000 per unit (3 units on) additional. At that moment I go ahead and put on the .80 lot. This scenario would mean that markets around the world are probably blowing up like in February when the Dow dropped 500 points in 1 day. There will be times when the carry trade unwinds a bit for a day and then resumes the next and you will have missed out on doubling up to gain profit. But the first rule of trading is to avoid losing money as much as you can. The profits will take care of themselves if you stick to discipline. There is always another $1,000 dollar retrace coming that will allow you to take advantage of the drop. This method will be boring and require patience. There may be weeks that you don't do anything except stay in your core positions and collect interest at the rate of 7% a year. On average I would think you will see a chance to increase about one time every 1.5 weeks.

Another option to help protect against the carry trade unwinding is to just do a level increase instead of doubling up. If the basket drops $1,000 per unit, then you would add another .20 lot instead of a .40 lot. When the account drops $1,000 per unit again (and you are now at 2 units) then you would add another .20 unit instead of .80 on the third increase. This will help slow down the multiplying effect of piling on losses of the martingale betting method while in the middle of a carry trade collapse.
The fun part about this is when you double up at the predetermined levels, you will get to collect interest on the added units as well! If the core position earns 7% per year in interest, then the first double will pay interest at an annualized 14% a year. The second add on will earn interest at the annual rate of 28% per year! So far in the 5 weeks of live trading, the combined interest of all units traded, both bought and sold, is averaging about 13% per year. So this makes sitting through the inevitable pull back in the carry trade palatable. Every day, your cost basis on the basket overall is going to decrease a few pips because of the interest earned.

The second way to trade this method would be to become more currency neutral. By this I mean that for each currency you are long, you would want to at least be short the same currency against a different pair. This idea also pays interest, although not as much. But over time is should be less volatile when the carry trade begins to unwind. This method has been tested just as long as the first method, and the returns are still exciting. It has seen a 3.4% increase while method one has seen a 5.2% increase. This is what the second basket would look like in units:

Buy 1 AUDUSD Buy 1 GBPCHF
Sell 1 AUDJPY Buy 1 GBPJPY
Buy 1 EURCHF Sell 2 GBPUSD
Sell 1 EURUSD Sell 2 USDCHF

You can see that each currency pair is represented by an equal amount of buys and sells. Granted, it is not a perfect hedge as they are priced differently against different pairs, but it is much closer to market neutral than the first idea. As an example, let’s say the UK were to come out with terrible news and the GBP starts to drop very hard. We would lose a lot of money being long the GBPCHF and the GBPJPY. Our losses though would be offset a bit by being short 2 GBPUSD. If the US were to come out with news that says we are growing faster than China….. then the US dollar would rally hard. We would lose a lot of money being short 2 USDCHF and being long the AUDUSD, but the hurt would be softened by our positions of being short 2 units of the GBPUSD and short 1 EURUSD. The method for increasing the units are the exact same. Units can be a little larger to compensate for the extra risk protection, but the bottom line is that you would increase units at the same intervals as above, and take them off at the predetermined profit level. This may be a bit confusing until you have done it a little while, but as you can see, we never even mentioned looking at a chart! Let me explain what a typical day looks like trading this method.

I wake up and open my charts and check my equity balance. I compare that to last nights equity balance. If the balance has dropped $1000 per unit, I then check the futures prices to see if the yen and franc are showing signs the carry trade is unwinding. If not, I then put on my additional units and turn my charts off! Before I go to bed, I open my charts and check the equity balance. If the equity has dropped another $1000 per unit, I will again check the overnight futures and trade or not trade depending on what is happening with those prices. If my account has gone back up to cover the original $1000 per unit loss I saw from the morning, and I have added an additional $1000 net (not per unit) gain or more, then I take off all the additional units over and above my core position, which I never take off.

That’s it!! It really is that easy.

It doesn’t matter if the account drops more than $1000 per unit while you are asleep or if it gains more than $1000 while you are not looking. I only care what the balance looks like in the morning and at night. I could probably be a little more efficient if I monitored it daily, but that is a waste of time first of all. This thing doesn’t move much. Secondly, there are times not looking at it will work better AND worse! There are times you will wake up and the account will have dropped $1500 per unit instead of $1000. That means that you get to add additional units at $500 better than you would have had you monitored it. It works worse if while during your sleep it hit -$1,000 per unit, but then by the time you awoke it had moved back in your favor, meaning you didn’t get a chance to add on and take advantage of this increase. Again I say, no big deal! There will be another time soon where you will get to add. Just be patient and collect your interest.