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Trading Techniques

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Automated trading gives most traders their best chance for success in forex, but it's not the only element of a successful trading record. Traders must know how to apply automated trading techniques and be willing to manually manipulate trades when possible. Combining these two methods – mechanization and discretion – is the path to profitable trading.

ANALYSIS
- Learn about different ways to use automated trading.
- Analyze systems to gauge their suitability for automated trading.

ACTION
- Build engines to see how they execute in an automated environment.
- Experiment with manual manipulation of trades with automated tools.
- Take your results live and succeed.

RELATED MATERIAL
Test-drive FX Engines for free online at www.fxengines.com to see the power of system building, system testing, and system automation.

ABOUT THIS REPORT
The Forex Report is a periodic publication that investigates advanced strategies for superior trading performance in the foreign exchange markets. These reports utilize advanced statistical and econometric modeling techniques to create new insight into the trading strategy of the average trader. This Core Concept Brief, Trading Techniques, is intended for traders with all levels of forex trading experience and technical analysis understanding.

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FX ENGINES

ANALYSIS

The Holy Grail of trading – does it exist? Yes, and its name is Hard Work!
All of the debates surrounding the value of hard work vs. automation miss
one main point – automation *is* hard work! Automated trading is not an
end in itself, but a tool that immeasurably helps traders cope with the
unique demands of the forex market. Once you've made the choice to
pursue automated trading, you'll find a wealth of new trading techniques
at your disposal.

THE MANY USES OF AUTOMATED TRADING

The first impression of most traders is that automated trading creates a
system where a "robot" takes over and makes all of the trading decisions,
then executes them. Another version has the trader crafting the strategy
and leaving the actual execution – the part that requires the physical
presence – to the automation platform. FX Engines is such a system.

Some trading systems are excellent candidates for complete automation.
They have simple rules but may require off-hours trading, frequent
trading, or some other element that is ideally suited for automation.

Beyond those systems are more advanced and discretion-driven systems.
These kinds of systems require trader intervention at some point.
Advanced automated systems like FX Engines allow for this kind of
nuanced interaction, but some traders are simply more comfortable
knowing their hands are on the wheel. These traders often believe that
discretion, or the "art" of trading, is the key element, and since a machine
cannot possibly employ the level of nuance a human can, they discount
automated trading altogether. Yet there is something in automation for all
traders, beginning with the basic trading techniques of automated
platforms like FX Engines:

Entry Type	Exit Type	Best Use
Automated	Automated	Simple, mechanized systems
Automated	Manual	Mechanized entry with discretionary exit
Manual	Automated	Discretionary entry with mechanized exits
Manual	Manual	Discretionary entry and exit

With FX Engines, all of these options are available, with more on the way.
A trader can manually enter an engine but walk away – knowing that the

engine's exit signals will take over and direct the trade to its conclusion. The same is true for automated entry – perhaps while during the night – with manual exit at the point in time determined to be the best exit.

NOT ALL SYSTEMS ARE MADE FOR COMPLETE AUTOMATION

A skilled trader can make money using any toolkit, and in some cases systems will simply be outside the realm of complete automation. Some examples of these systems include:

❑ *Event Driven Systems.* Since events are spontaneous, manual entry is required for these systems. Still, an automated system can assist event traders by providing complete control after entry has occurred, all the way to the exit of the trade.

❑ *Non-Quantitative Systems.* Though technically driven systems have grown in prominence, many traders reply upon fundamental indicators that do not readily lend themselves to automation. In some cases these systems can employ automated entry or exit, and for some the advanced intra-trade tools like FX Engines' Contextual Exits allow for extremely fine, automated control of trades.

❑ *Highly Discretionary Systems.* Some traders work off pure feel of the markets, or use little-known chart patterns to dictate their trading choices. In these cases some form of automation will give these traders an edge they did not have access to previously.

What's the best way to know if a system is suitable for automation? Historical testing. Traders can create engines and test them historically, then let the results speak for themselves. Some engines will show dramatic results with no intervention. Other engines may show excellent results but be dominated by "giveback" – a hint that perhaps some manual tweaking is required. A quick look at the actual trades in the historical test report will allow the trader to determine what happened and how they could have possibly intervened to improve the results.

Once engines with a comfortable set of parameters are in place, live testing can begin. Remember, FX Engines' test trades are identical to its live trades, so demo trading with complete automation or with some manual manipulation will replicate live trading conditions. Once tests have successfully met targets, real trading puts the trader in a position to have automated trading techniques like these positively affect the bottom line.

ACTION

Using automation in combination with discretion as a complementary trading tool is a new idea. Explore it by building mechanized and discretionary engines that take advantage of different trading techniques and optimize the return on your trading efforts.

1 - BUILD

Build your engines and test them. Take a close look at the results and see what they tell you. Is the engine best suited to total automation? If not, take a look at the results and see where you may have intervened, then factor those changes into your results.

2 - EXPERIMENT

If you find systems that are a perfect fit for automation, great. Set them to test against our live feed and leave them alone. For the engines you suspect might need manual manipulation, set them to test and be sure to follow them when they enter the market. Use FORCE EXIT when you feel that the exit system in place in the engine will pull back too far below your optimal exit point.

3 - BEGIN

Fund your account and get going! Once you've tested with FX Engines you'll have the confidence to trade in a real account. Start with a mini account if you need to, and prove to yourself that this is an automated platform *that works*. As your success increases, so will your trades, and your profits.

RELATED MATERIAL

For other advanced studies on the forex market, go to www.fxengines.com/reports and see our other Core Concepts, Data Briefs, Case Studies, and Reports.

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THE FOREX REPORT

Analyzing statistical, econometric, and behavioral trends in the foreign exchange markets for insight into the optimal use of the FX Engines automated trading platform.

The information contained in this report is represented without warranty or any statement of its veracity. The contents of this report are intended to stimulate thinking on issues related to trading forex. This report does not suggest any particular action that could be utilized in live trading for profit or loss.

I can put it no better than Hoffer, who deferred to Montaigne:

"All I say is by way of discourse, and nothing by way of advice. I should not speak so boldly if it were my due to be believed."