

LIVE @ TAG

W O R K B O O K



LIVE @ TAG

Barbara

Workshop

Full-Conference

Staying Out of Trouble Trading Currencies with Channels

The FX market is riddled with technical analysts, and every type of analysis is actively used all the time. Elliott Wave and Gann are particularly popular, but also standard statistical techniques, patterns and candlesticks are used. The FX market is the largest (volume) and liquid market. It is a 24-hour market, thus a model of how equity trading will look in a short time. This market is relatively unique in having government intervention and is sometimes correlated with other markets such as equities and gold. Barbara, as an indicator junkie, will show you what methods she uses and why the Average True Range Channels help her stay out of trouble. She will also discuss the dilemma of trading multiple time frames and why there is often more profits in trading the correction than the trend.

Biography



Barbara Rockefeller is an economist and technician specializing in foreign exchange, stock indices and the occasional stock. She writes a daily column, "Technically Speaking," at www.worldlyinvestor.com and another column for www.japan-investor.com. In addition, she publishes a morning currency briefing for institutional investors and an afternoon futures trading report. Her company, Rockefeller Asset

Management, is a registered CTA. Barbara is the author of *How to Invest Internationally*, published in Japan in Japanese in 1999 and the author of *24/7-Trading Around the Clock, Around the World*, due from Wiley in October 2000.

Rockefeller

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The secret of success lies not in buying at the lowest possible price and selling at the absolute top. It is the avoidance of large losses.

Robert D. Edwards and John Magee, *Technical Analysis of Stock Trends* (1948).

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Assumptions

The less you are in the market, the less risk you take.

The less often you trade, the more you save on commissions and other charges.

The probability of a winning trade is increased when the trend signal is confirmed by other models.

The number of models you can use together peaks at about six to eight.

Look at three timeframes on every trade.

- Currencies are highly trended, sometimes for months and even years.

Euro Futures
Jan 4, 1999-August 14, 2000
Linear Regression



- Very long-term perspective often gains more than active trading. Sell and hold short = 26.3% gain vs. 17.32% using two moving averages. **Rule 1: Keep long-term perspective.**

Euro Futures
Jan 4, 1999-August 14, 2000
Two Moving Average Crossover (12/21)



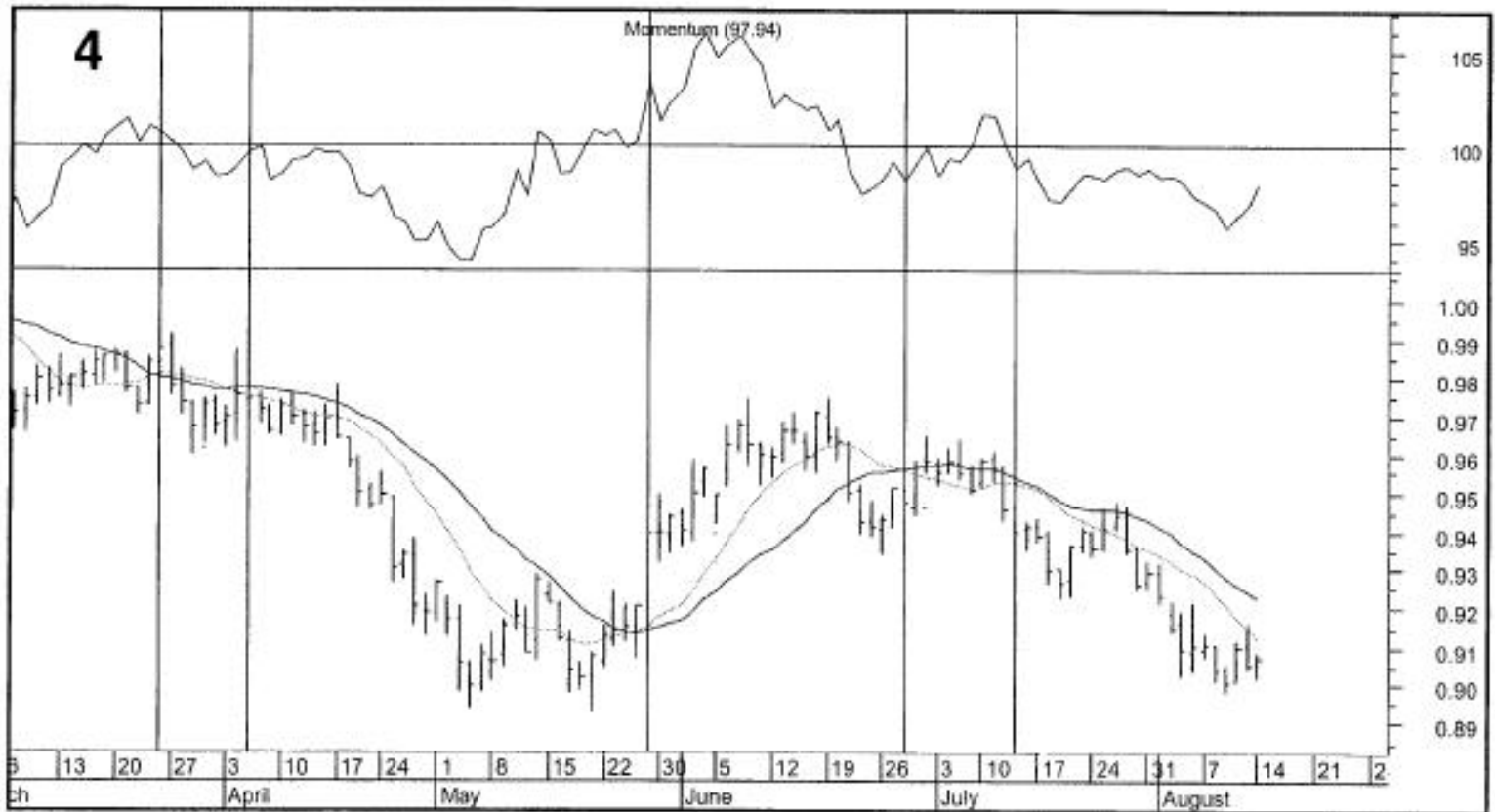
- BUT interrim losses can be big, e.g., May 19 low 0.8930 to June 8 high, 0.9744 = 814 points = \$10,175 on **one** contract. **Rule 2: Be prepared for corrections.**

Euro Futures



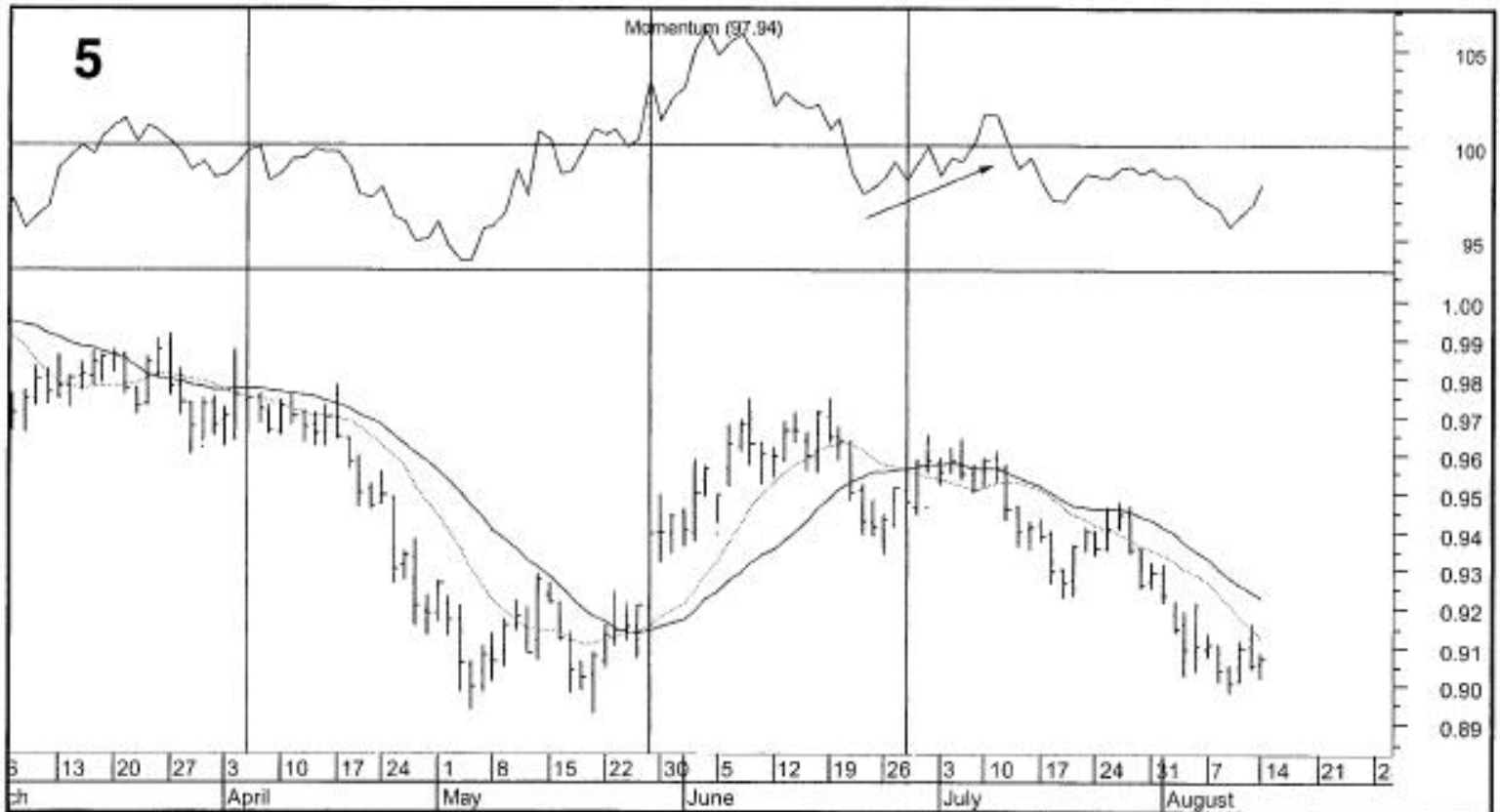
- Look at a second technique. Momentum by itself has a hypothetical perfect-hindsight 43.3% gain over entire life of euro. Trade only when both moving average crossover and momentum agree. Reduces number of trades by one-third. **Rule 3: Use the confirmation approach.**

Euro Futures
Two Moving Average Crossover + Momentum (11 days)



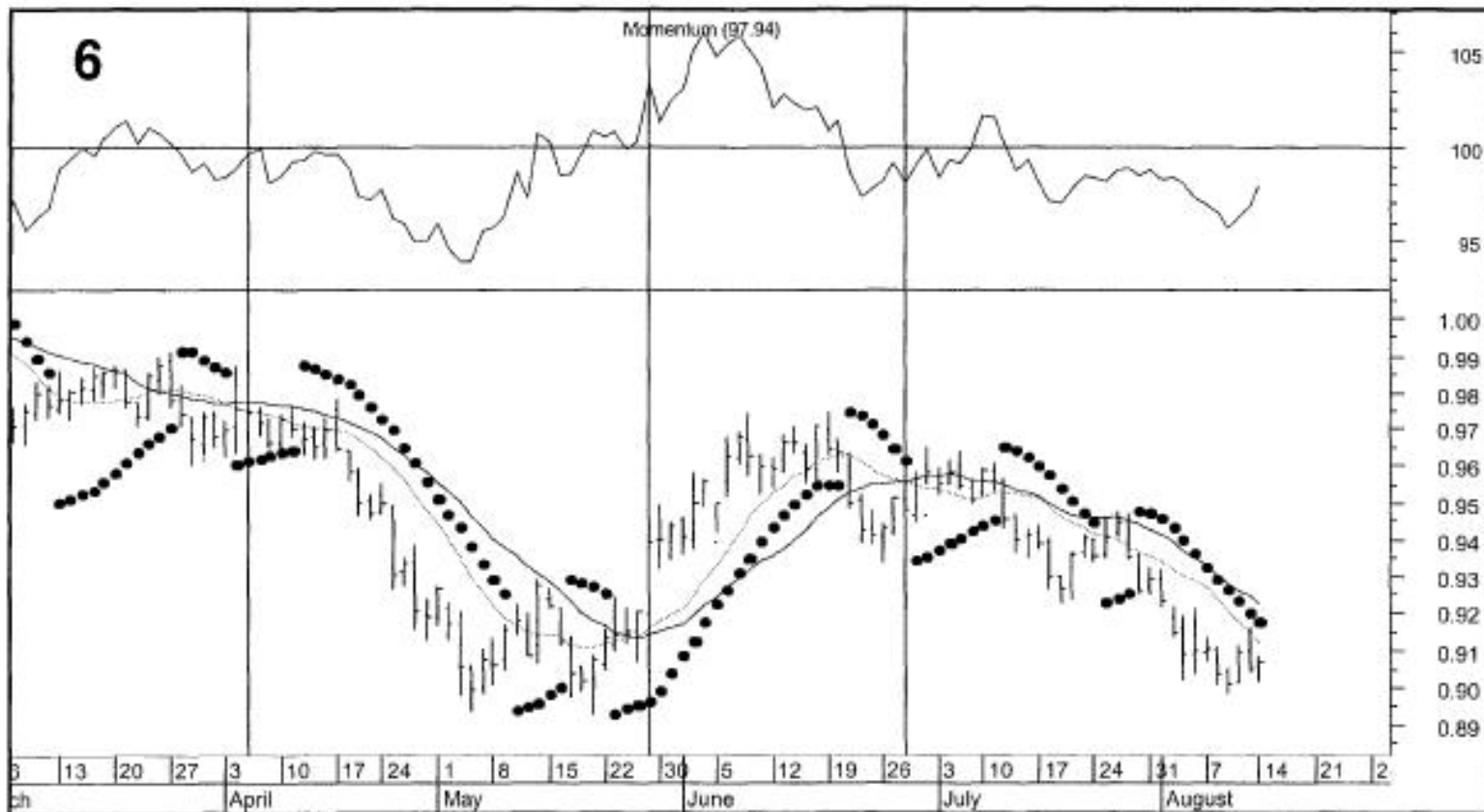
- Very short-term whipsaws still occur, reducing profits substantially (10-20%). **Rule 4: Don't reverse on the first day of a new signal. Rule 4a. Don't anticipate trend in the indicator.**

Euro Futures
Two Moving Average Crossover + Momentum



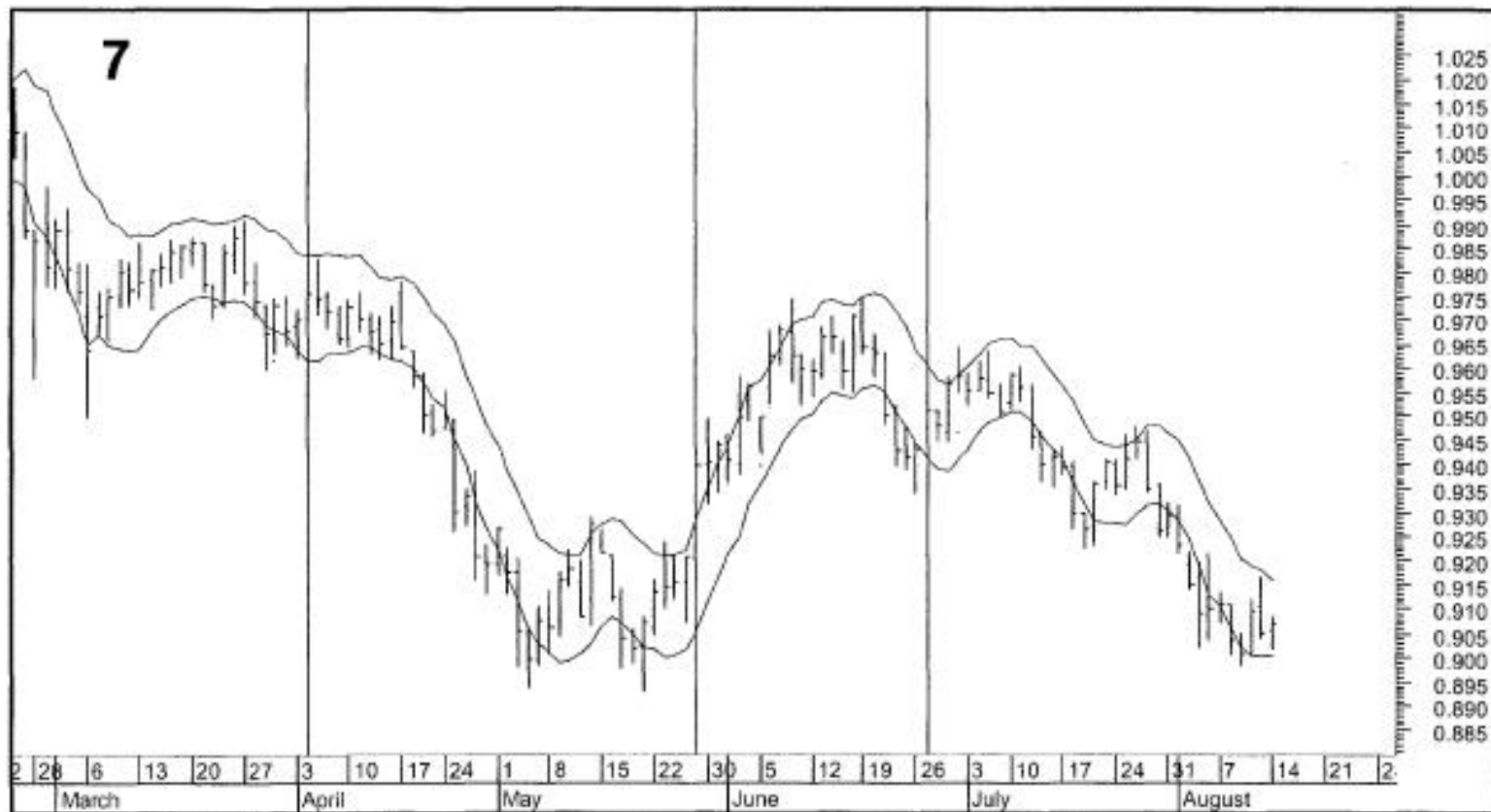
- Add a second confirmation criterion that uses a slightly different statistical technique—parabolic SAR. Another 5-10% of incorrect signals are eliminated. **Rule 5: You can never have too much confirmation.**

Euro Futures
Two Moving Average Crossover, Momentum + Parabolic SAR



- Breakout from Average True Range Channel is another confirmation. Warning: a breakout is often (over 70% of the time) followed by a breakout in the other direction. This is the second chance to get in on the trade but you need to know direction. **Rule 6: Don't invest too much in breakouts.**

Euro Futures
Breakout from Average True Range Channel



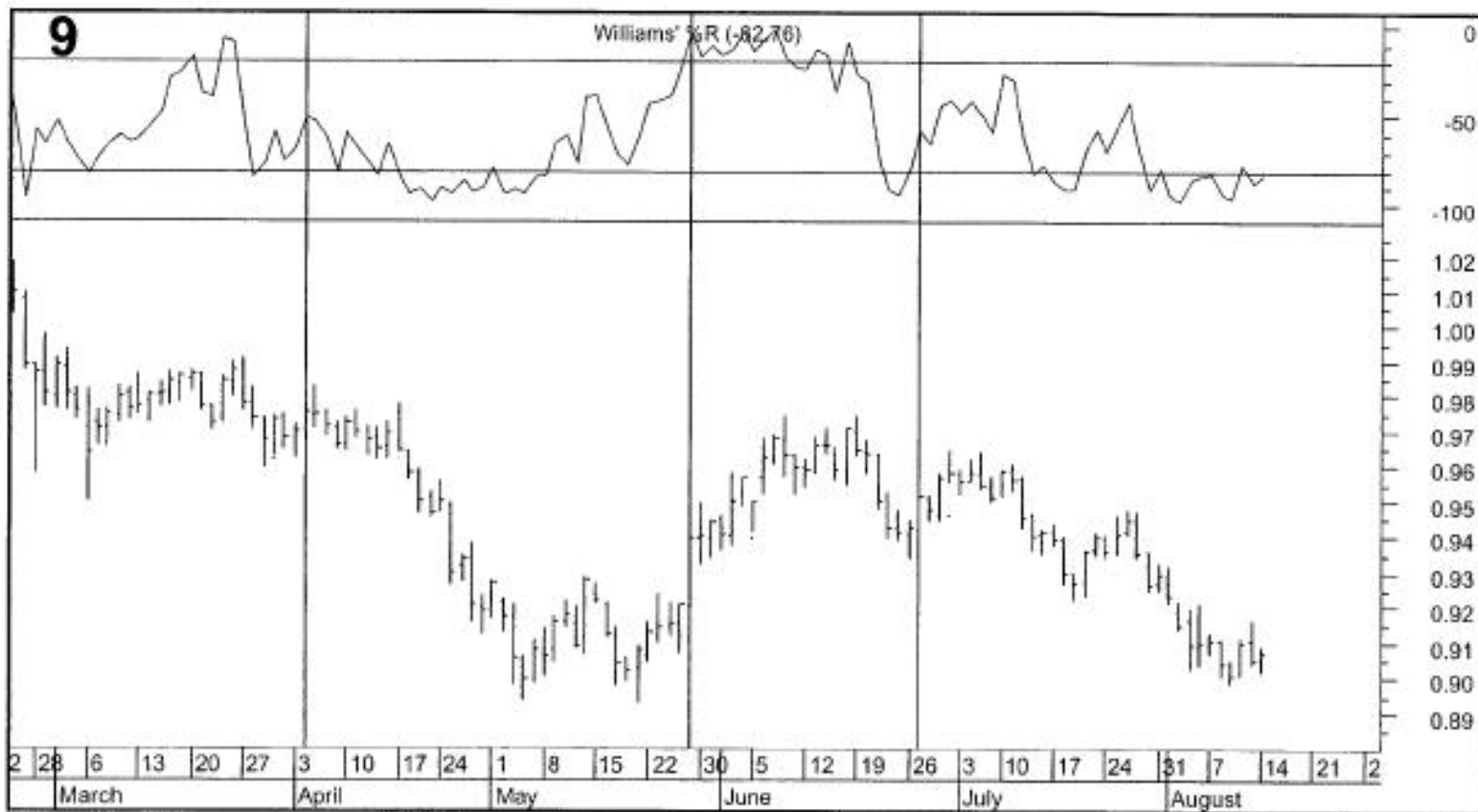
- Prices look like waves within the standard error channel. Prefer prices below linear regression when short and vice versa. **Rule 7: Statistics don't lie but your eye can perform wishful thinking.**

Euro Futures
Linear regression and Standard Error Channel



- Short-term trading indicators like stochastic oscillator and Williams %R (same idea) are of limited but not zero usefulness. **Rule 8: Overbought/oversold concept is valid.**

Euro Futures
Williams %R



- Patterns are sometimes important. *Rule 9: Check everything you can even if your knowledge is limited; keep learning new techniques.*

Euro Futures
Patterns



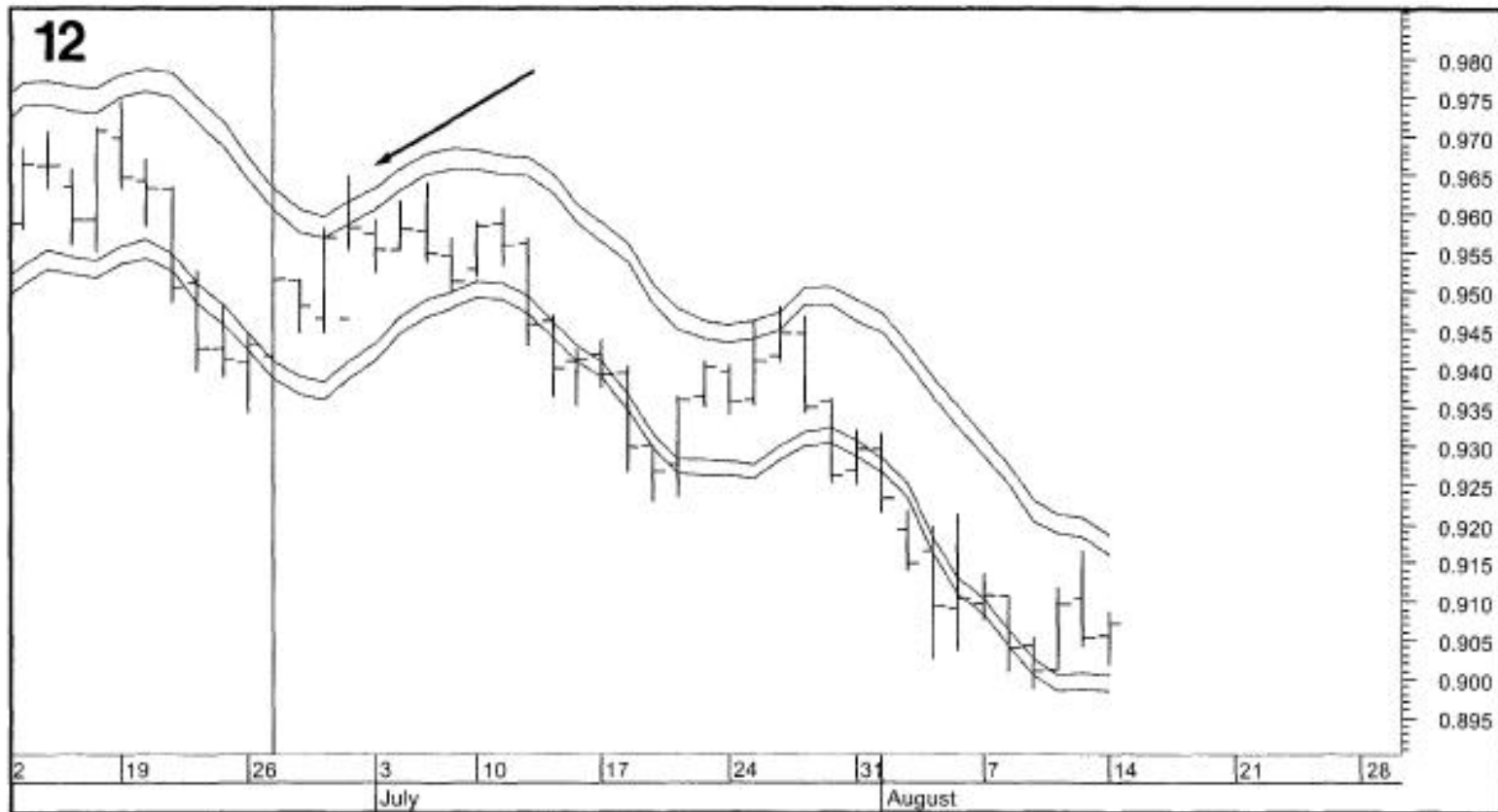
- Know what the rest of the market is looking at, even if you do not agree. *Rule 10: Don't try to tell the market what to do.*

Euro Futures
Fibonacci Retracement



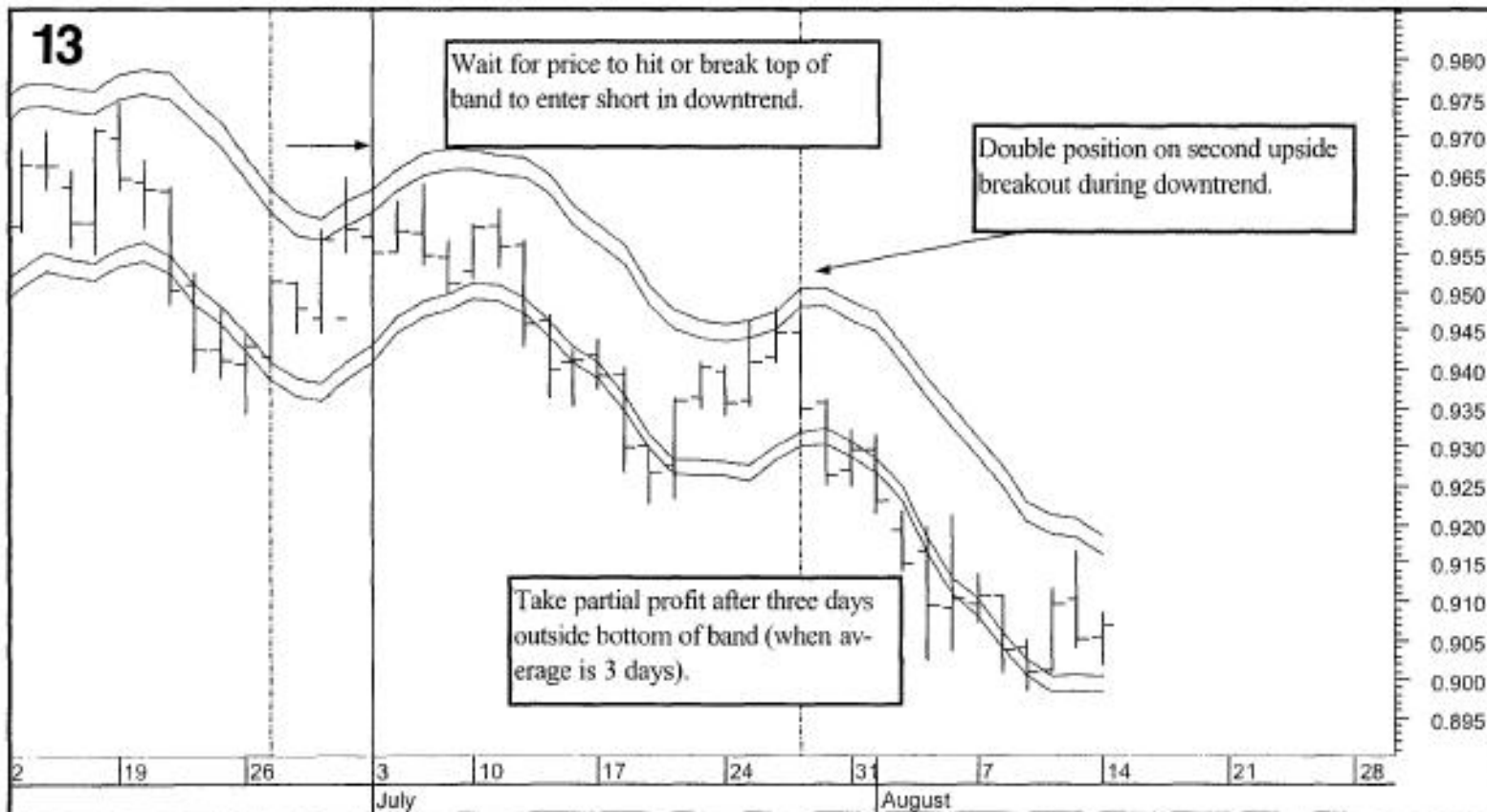
- Average true range band +/- some percentage provides a good stop most of the time.
- Rule 11: Always trade with a stop-loss.**

Euro Futures
ATR Double Channel



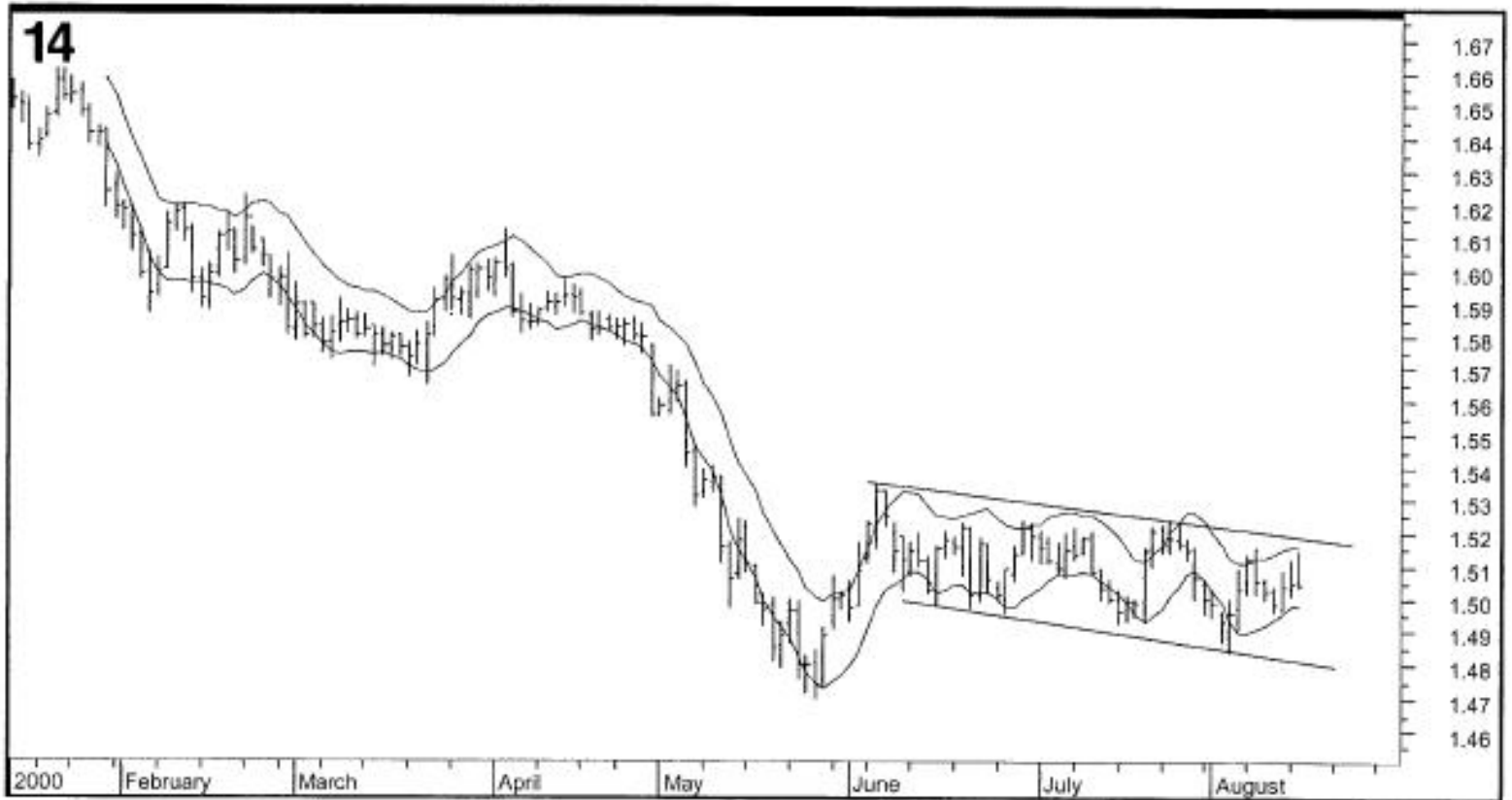
- Refine the trade to improve entry and profitability. *Rule 12: ATR channel is useful to refine the trade.*

Euro Futures



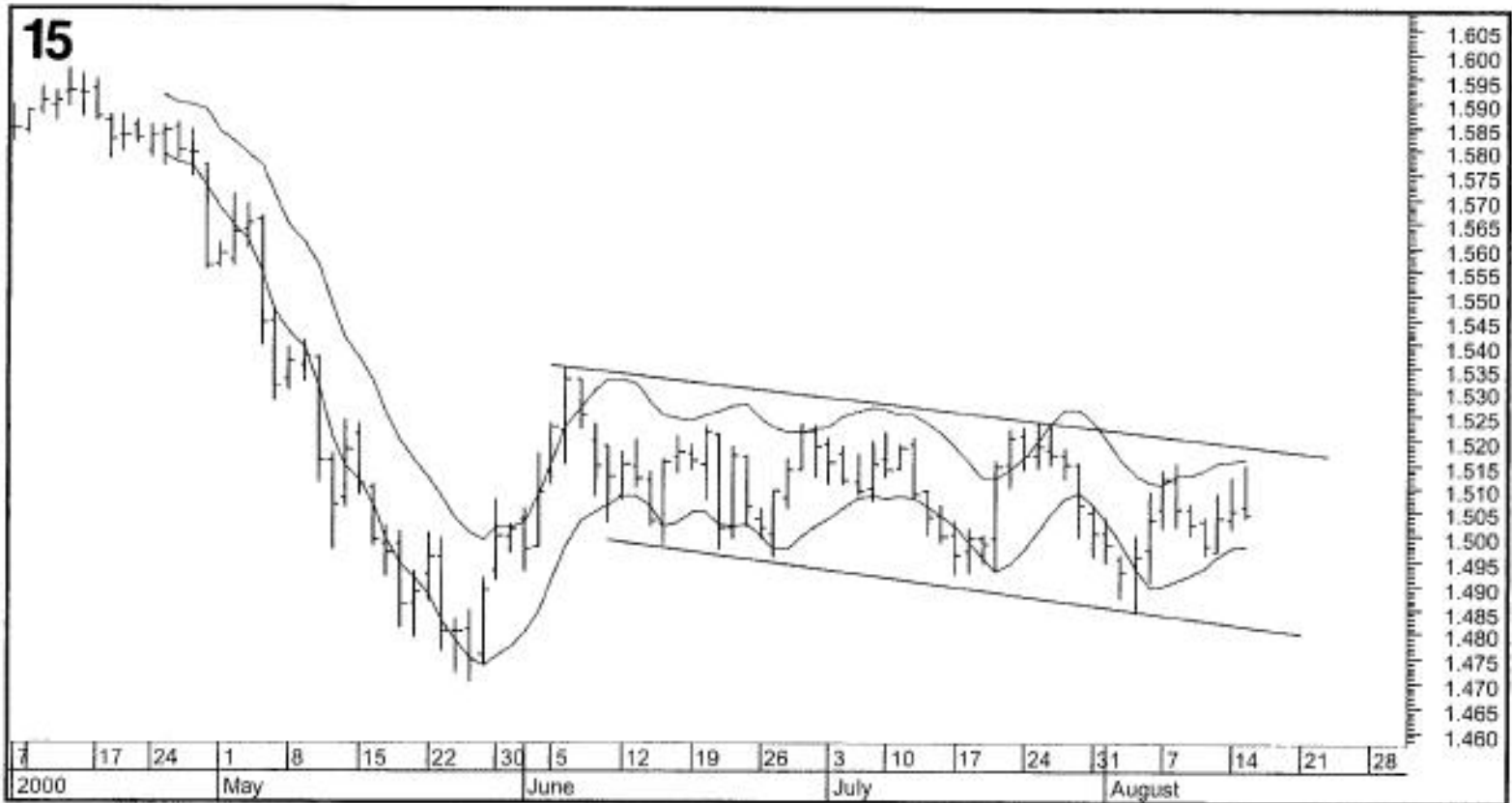
- This is a short signal on which you can lose your shirt because of short-term volatility.

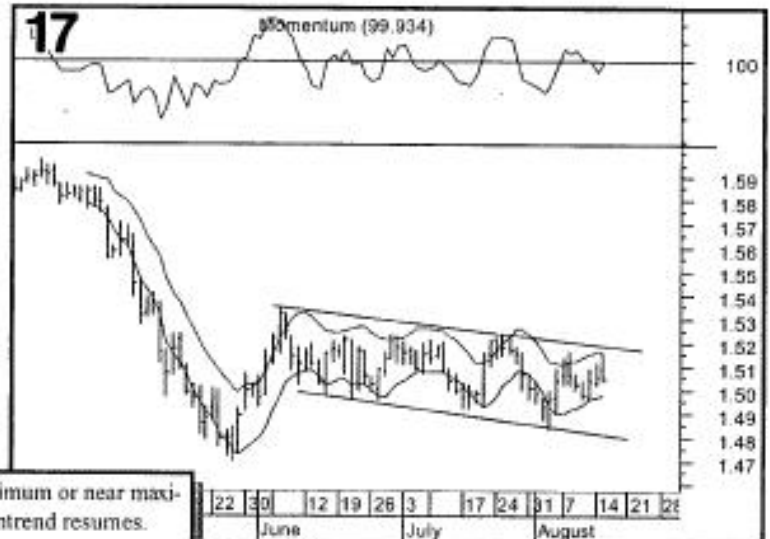
UK Pound Futures



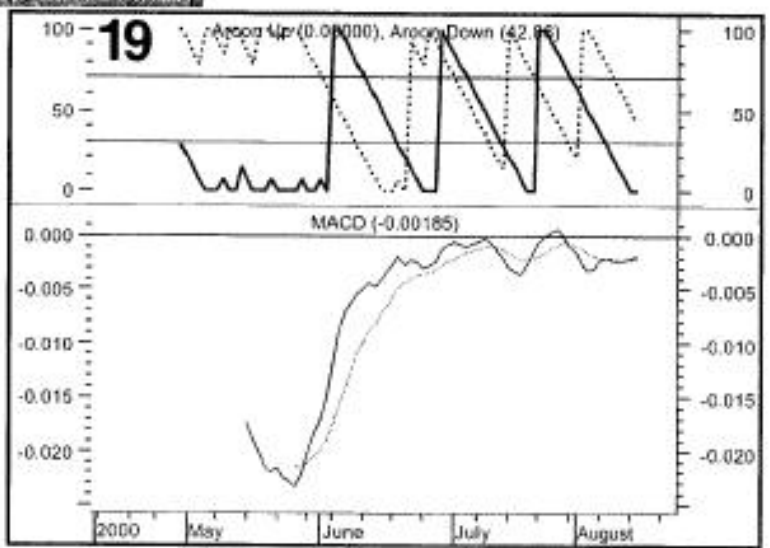
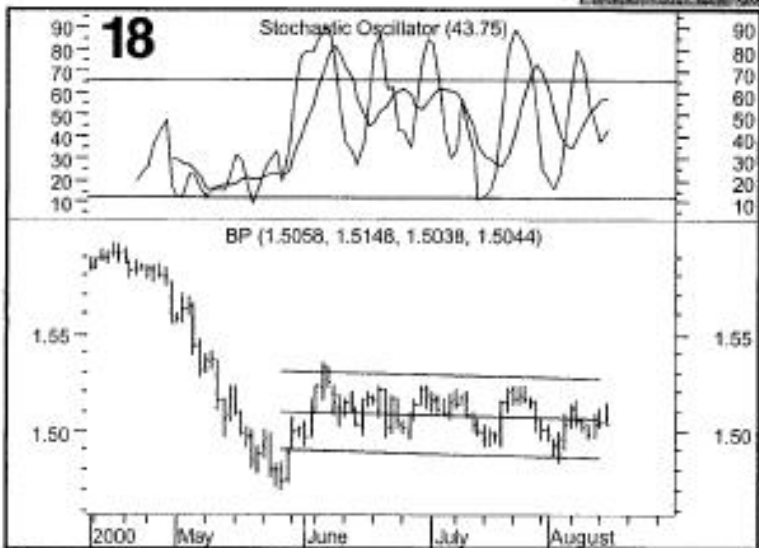
- Even the short-term timeframe is hard to trade.

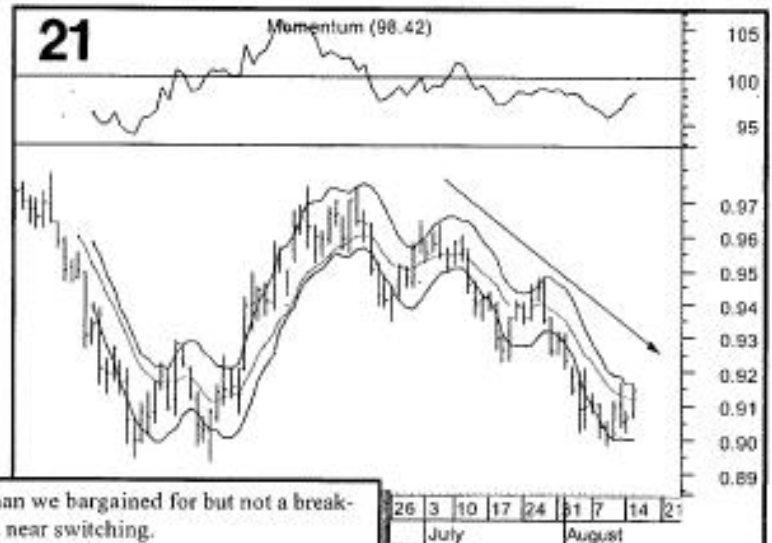
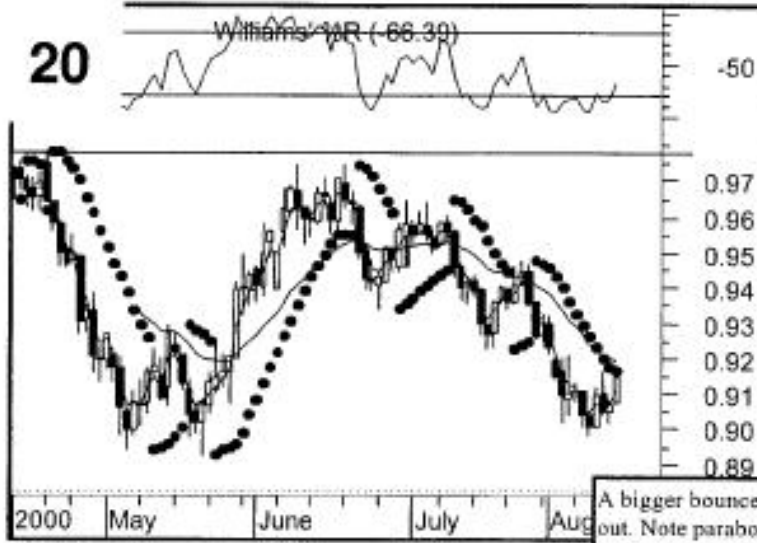
UK Pound Futures



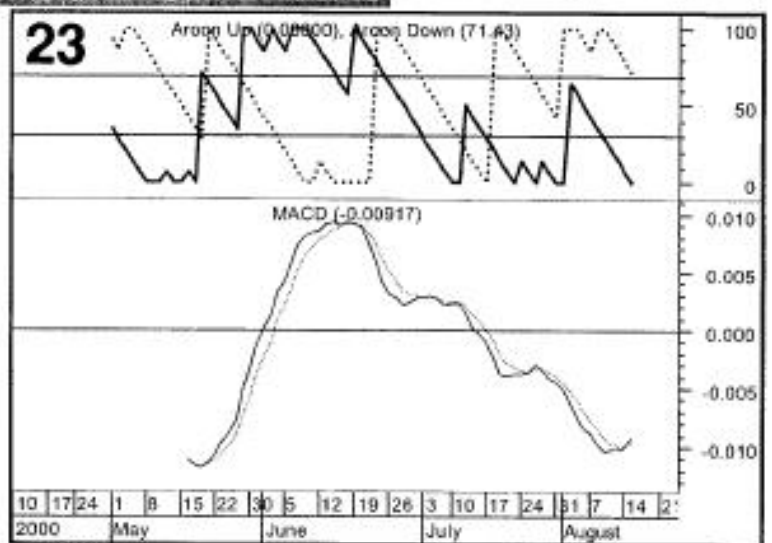


This "should" be maximum or near maximum rise before downtrend resumes.



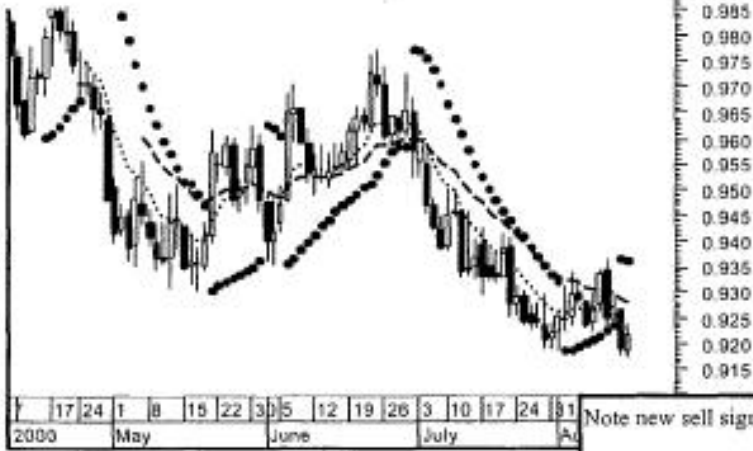


A bigger bounce than we bargained for but not a break-out. Note parabolic near switching.



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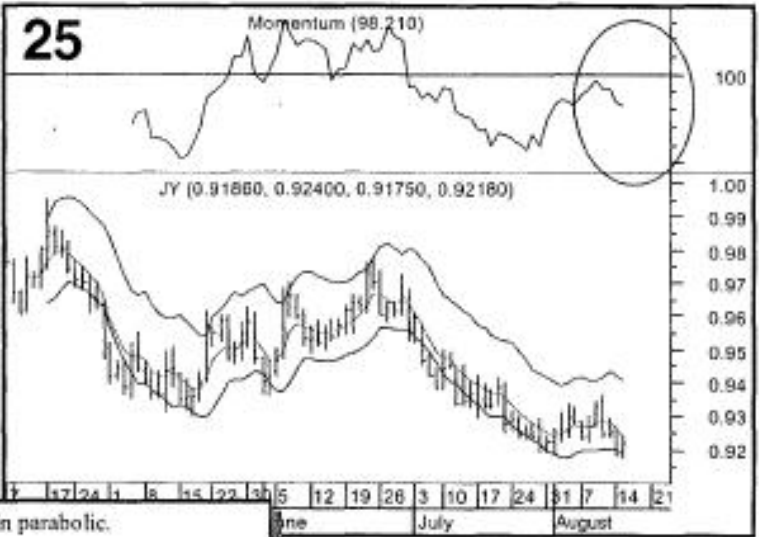
10, 0.92400, 0.91750, 0.92180), Parabolic SAR (0.93604)



Note new sell signal in parabolic.

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Momentum (98.210)



JY (0.91860, 0.92400, 0.91750, 0.92180)

26

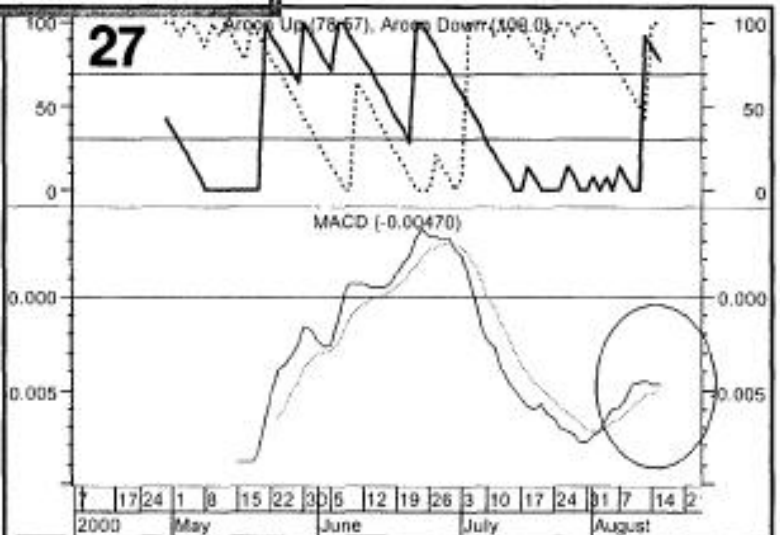
Stochastic Oscillator (16.40)



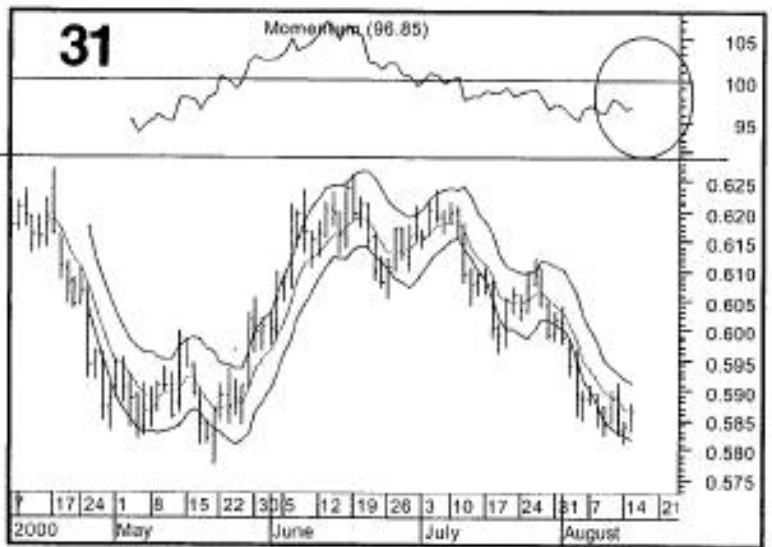
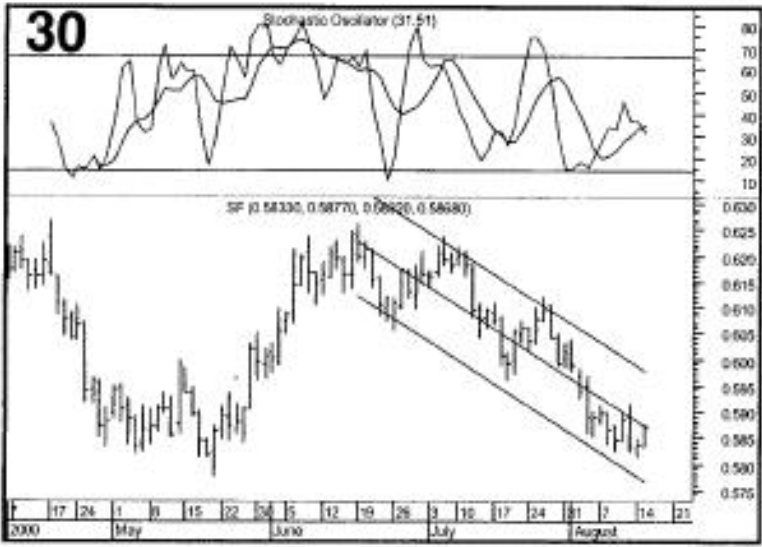
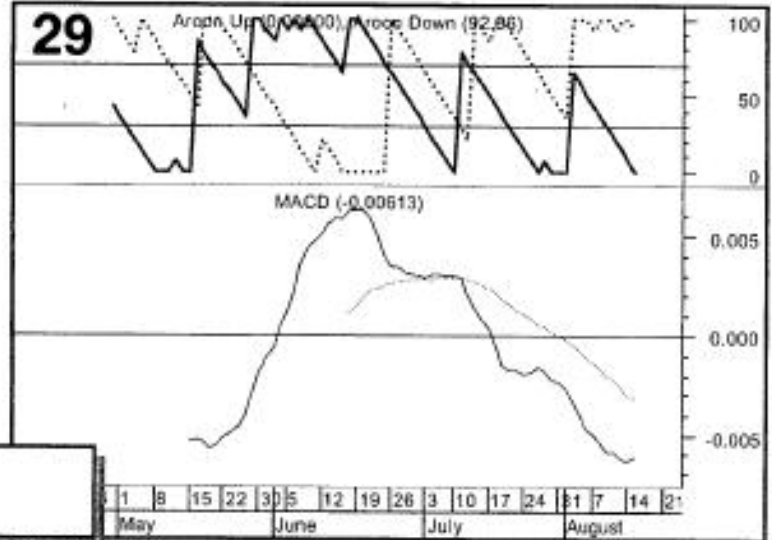
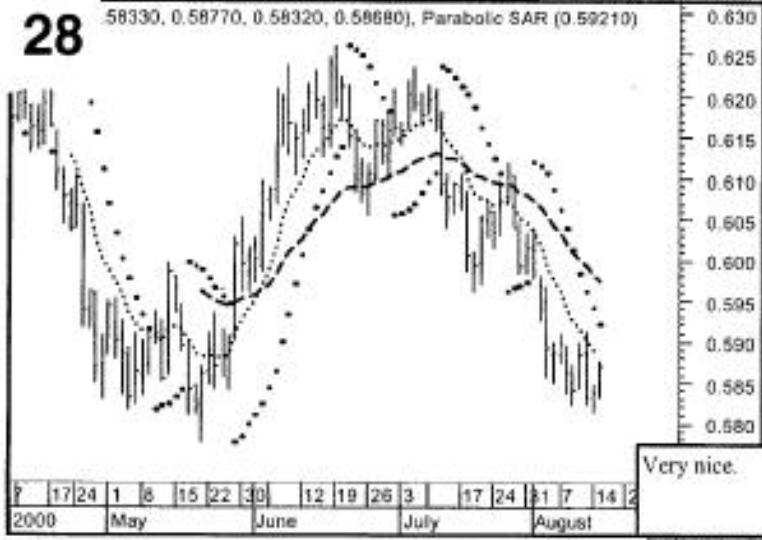
JY (0.91860, 0.92400, 0.91750, 0.92180)

27

Arrow Up (78.57), Arrow Down (108.03)

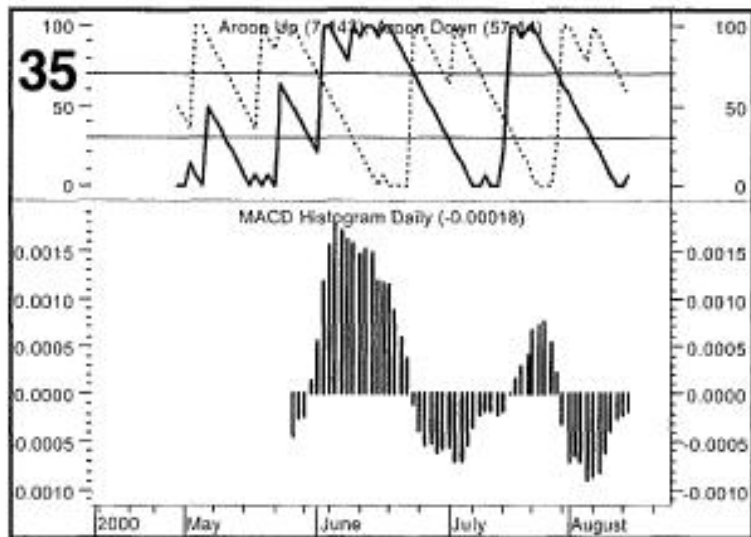
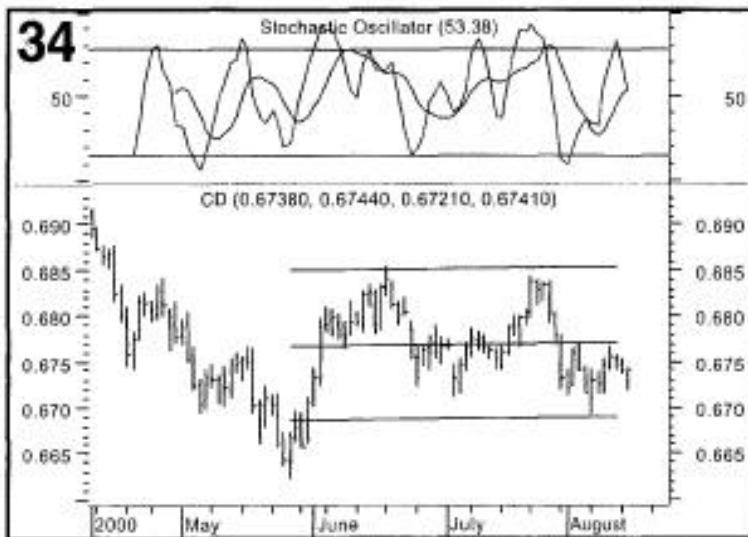
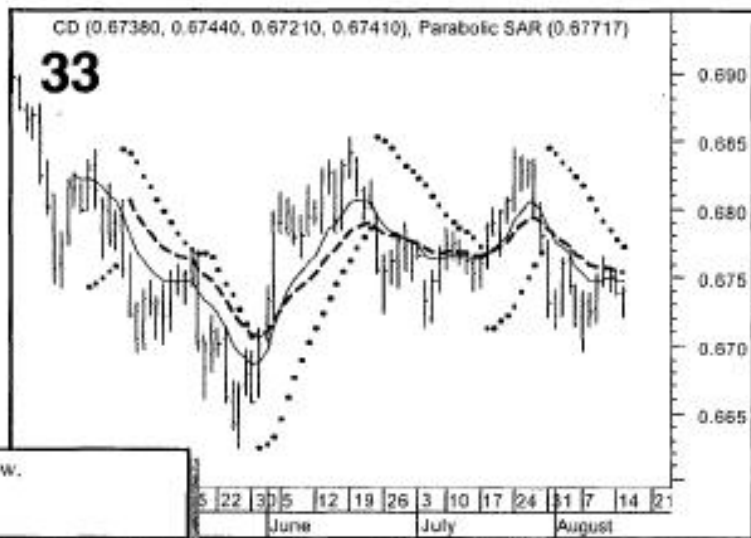
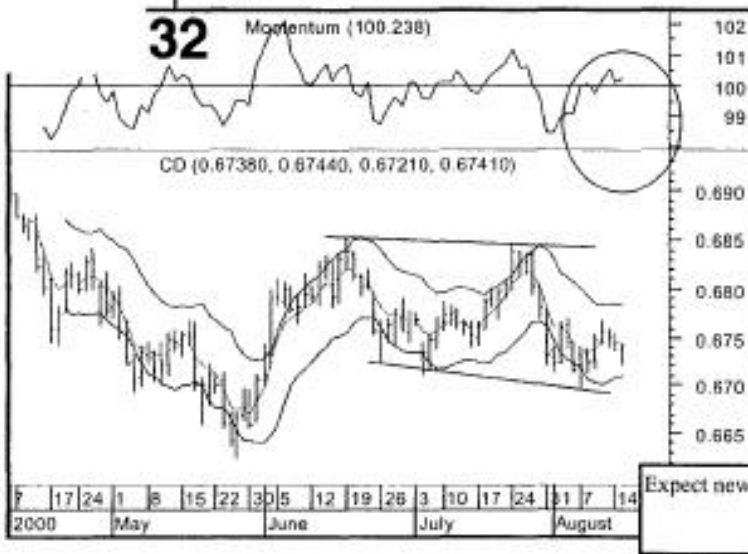


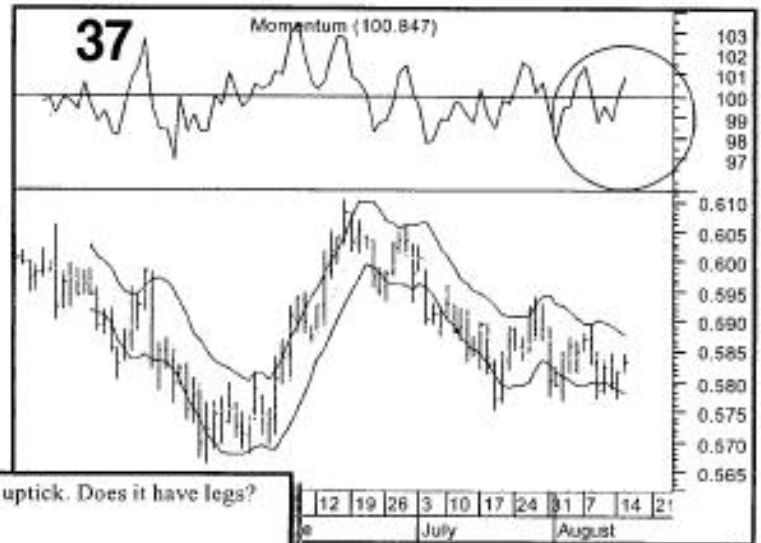
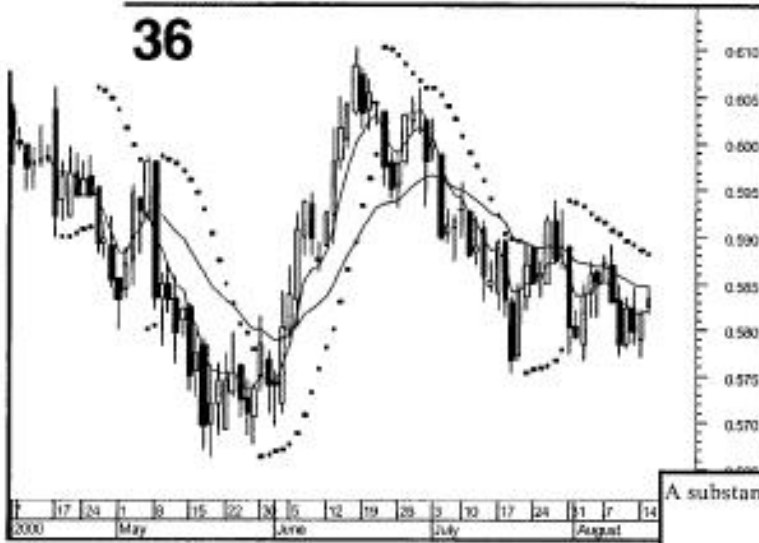
MACD (-0.00470)



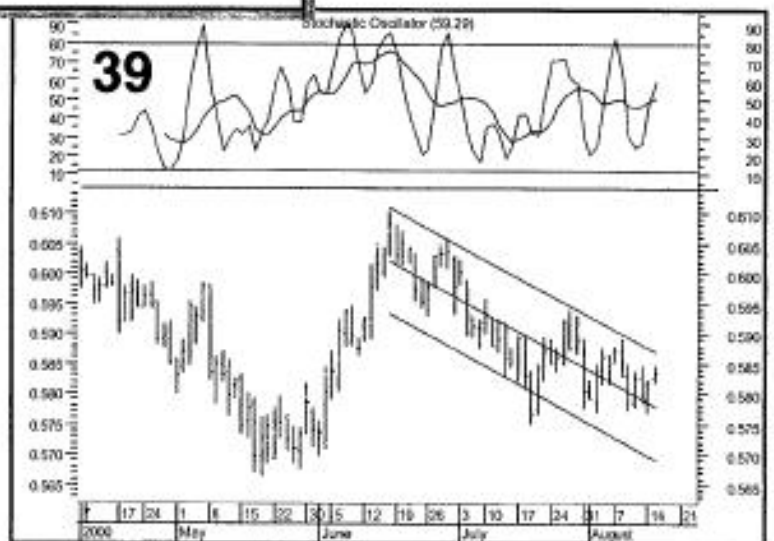
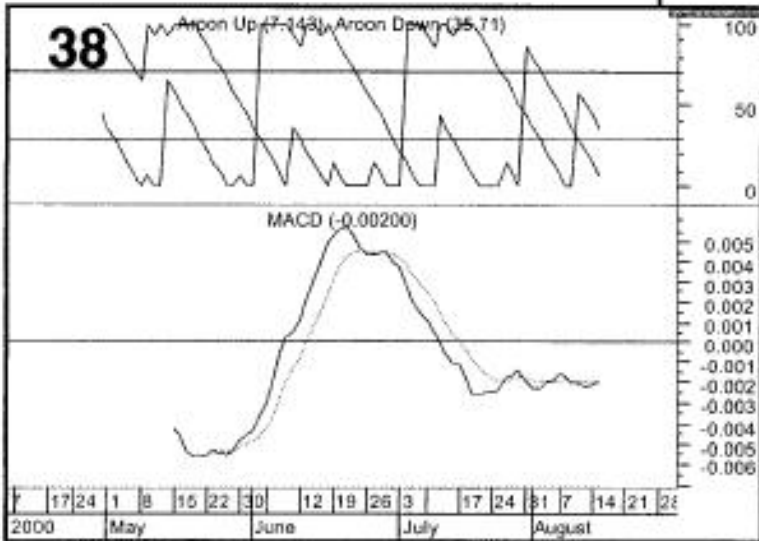
Rockefeller Asset Management
August 15, 2000

CANADIAN DOLLAR





A substantial uptick. Does it have legs?





CURRENCY	SPOT	CURRENT POSITION	SIGNAL STRENGTH	OPEN DATE	OPEN RATE	POSITION PROFIT
YEN	109.50	SHORT YEN	WEAK	07/07/00	107.21	2.09%
UK	1.5087	SHORT UK	WEAK	08/02/00	1.4925	-1.09%
EUR/UK	0.6027	LONG EURO	WEAK	08/04/00	0.6058	-0.51%
UK/YEN	165.24	LONG UK	NEW*STRONG	08/15/00	165.24	0.00%
EURO	0.9097	SHORT EURO	WEAK	07/13/00	0.9377	2.99%
EURO/YEN	99.64	SHORT EURO	WEAK	08/03/00	98.70	-0.95%
EURO/SF	1.5573	LONG EURO	NEW*STRONG	08/15/00	1.5573	0.00%
SF	1.7115	SHORT SF	WEAK	08/01/00	1.6705	2.40%
C\$	1.4843	SHORT C\$	WEAK	08/01/00	1.4868	-0.17%
A\$	0.5838	SHORT A\$	WEAK	07/14/00	0.5852	0.24%

Position Profit (%) is calculated on the difference between Open Rate and Spot with adjustment for mode of quotation.

What's Happening This Morning: The dollar is practically unchanged against the yen in a narrow range of 109.30-109.70, while it has fallen considerably against the euro, which is holding over 9100 since 6 am this morning. Yesterday the dollar rallied to a 13-day high of 109.60 against the yen on the idea that the Japanese economy might be headed back into recession after the rate rise. As has been the case since 109.80 on July 28, however, it keeps running into a wall of exporter orders at 110 and, in addition, sentiment toward the dollar flopped a little as the euro and pound rose yesterday and are hanging on to gains this morning.

The euro hit a low of 8998 yesterday before rising over 9040 and then falling back to 9006, whereupon an unnamed European central bank was reported to provide support back up to near the 9048 high. Germany's IWWA institute said it expects eurozone GDP to reach 3.5% y/y this year and a "moderate" interest rate rise from the ECB. In New York hours, the euro firmed on news that Freddie Mac will issue €20 billion in euro-denominated debt, evenly divided by quarter and starting Sept 2. It's hard to see how this really benefits the euro/dollar in the end, since Freddie Mac needs to sell the euros to make its loans in dollars, although the Japanese might be interested and thus sell yen to get euros. Finally, the euro got some support from Citibank, which recommended long euro positions on expectations that the Fed will not move until the Nov. 15 FOMC and in the interim, the euro will benefit. We need to remember the European holiday today and the overall lack of liquidity worldwide in this deepest part of the summer holidays, and not draw too strong a conclusion about the euro's recovery based on Monday's action. In any case, there is more action in the crosses. One or two big names were seen buying euros for yen, and fresh data from Switzerland has influenced the €/SF. Producer prices were unchanged m/m and rose 1.0% y/y, after 1.2% y/y in June, while import prices were up 6.8% y/y compared with 7.1% y/y in June. The idea is that the ECB is feeling more inflation pressure than the SNB. Accordingly, the €/SF has shifted.

Japan: The Nikkei rose 144.38 points, or 0.9%, to 16,298.29,

hitting the highest closing level since July 26. BoJ Gov Hayami was conciliatory in the press conference following the release of the Aug monthly report. He said the BoJ is maintaining its easy stance and will continue to support economic recovery, and adds it will be necessary to watch the impact of the hike before considering further steps. "From now on, we won't need special conditions" to change policy, he said. He stressed that markets were stable after Friday's rate hike. The economy can absorb individual bankruptcies. There is no reason for the yen to weaken. He refused to comment on specific levels except to say the strong dollar is the main influence, and also refused to comment on the resignation rumors. The monthly report itself upgrades the picture of the economy only slightly, but the *Nihon Keizai Shimbun* claims to have obtained a draft copy of the report used at the Friday BoJ meeting, which is more upbeat. It says "A positive outlook for a self-sustainable recovery in personal income and consumption convinced the Bank of Japan to end its zero interest rate policy last week. ... the central bank forecasts a clear improvement in worker incomes and personal consumption. Incomes of salaried workers 'will increase in line with an expansion in production' and 'personal consumption will rise spurred by an improvement in the job and income situations'."

An interesting quarrel, perhaps, within the government emerged overnight. FinMin Miyazawa said he hasn't heard any talk about the early extra budget and plans to wait until the April-June GDP comes out Sept 10 to see if the economy needs further fiscal spending. This came after PM Mori said he conferred with Sakaya last Friday. Sakaya said a supplementary budget will be compiled "as soon as possible" and suggested the amount is "unlikely to be as much as one in the last fiscal year worth ¥8.1 trillion yen," because that one included money to deal with the financial system (no longer needed).

On another front, the unfunded pension liability problem is quietly being taken care of behind the scenes. Companies paid a record ¥1.01 trillion in fiscal 1999 in about 1,800 employee pension funds, according to the Ministry of Health

and Welfare, 25% more than in fiscal 1998. Payments are in two categories—¥ 806 billion to make up existing shortfalls and ¥209.1 billion where a shortage is expected because of crummy investment returns. Also quietly in the background is the cost of taking over 5 failed regional banks—¥2 trillion.

Citigroup is the latest to announce a samurai bond issuance, the biggest ever (\$1.42 billion). Samurai bond issuance for 2000 has already reached ¥1.34 trillion, more than double the record amount issuance in 1991, according to the Nikkei. This time they are not converting the money into dollars but rather hanging on to the yen to expand operations within Japan.

Europe: The Association of German Retailers (HDE) said annual real turnover will rise 2% this year, revised from 1.5%, as a result of yesterday's half-year 2.5% y/y increase from the Federal Statistics Office. The turnaround is sooner than expected and marks the end of "7 lean years". Retail job losses will be 20,000 after 30,000 jobs were lost last year from the 2.8 million workforce. German July wholesale prices are stronger than expected at 0.3% m/m and 5.8% y/y after 5.5% y/y in June. All of this German data points to an ECB rate increase in September, say observers. German FinMin Eichel said the usual about the

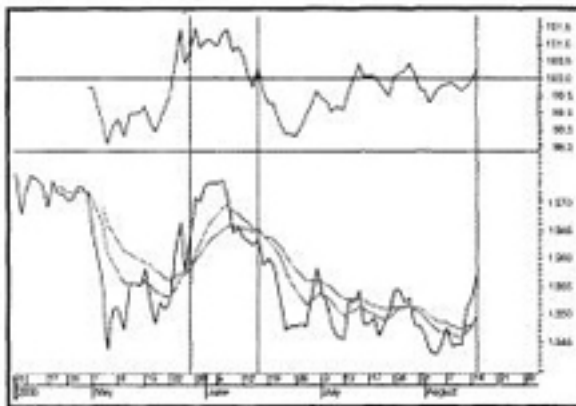
euro being too weak for the fundamentals.

Britain: Yesterday the pound rallied above resistance at 1.5102 on major short-covering triggered by German buying, and then fizzled. This morning it faded a bit more on release of July inflation data. The key underlying RPIX measure is up 2.2% y/y, unchanged from June and below the BoE MPC's 2.5% y/y target for the 16th month in a row. Service sector inflation dipped to 3.3% y/y from 3.5% y/y in June, taking it to the lowest level since June 1999. Tomorrow's average earnings are said to be more important for the interest rate outlook.

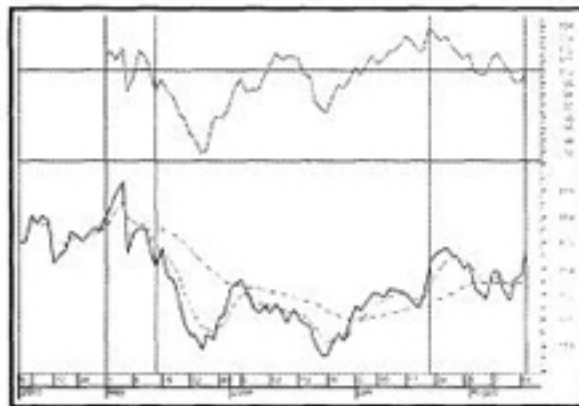
Australia: The A\$ surge upward to a high of 58.47 seems to be function of crossrate action in the A\$/NZ\$, on speculation New Zealand Telecom will acquire the 18.6% stake of Australia's AAPT it does not already own for around A\$444 million. Bridge reports a firmer euro is adding to the A\$ upside, with some traders noting their close correlation in recent weeks. Buy-stops are rumored above 58.50 and 58.65 (a 7-month resistance line). Commonwealth technical analysis this morning thinks that if the downside is broken around 57.70, we get levels in the 55-56 range.

TOP:Momentum BOTTOM:Moving Averages vs. Spot

EURO/SWISS FRANC



UK POUND/YEN



Outlook: Notice that the focus is off the US Goldilocks picture and on conditions elsewhere. We need to think about oil, though, which traditionally has less effect in the US than in Japan and Europe. Yesterday NYMEX crude oil futures hit a 26-day peak of \$31.90 on expectations that today's stockpile data from the American Petroleum Institute will continue to show a supply crunch and on news that Saudi Arabia's Sept. output increase will be lower than in Aug. if only slightly. Kansas City Fed pres Hoernig is named by Bridge as the main person expressing concern over the inflationary implications of higher energy costs.

The European bank technicians are doubtful that the euro move amounts to much. Commerzbank remains bearish and sees the euro recovery petering out at 9100-9145. Deutsche Bank sees

tough resistance at 9205-15 and 9295 with little possibility of a new uptrend. Barclays Capital sees any drift higher as a selling opportunity and thinks we will retest the 8845 low. Chase is a holdout for the recovery, seeing "an impulsive third wave" which will firm toward Friday's 9143 high, a break of which targets resistance at 9195 and then a trendline at 9310. In the bigger picture, gains above 9310 open up the 9700 June high. That number of 9310 resonates as about right. On the yen, the technicians universally see the dollar in the driver's seat unless support at 107.50-108.25 is broken. We are a little worried that the euro could get out of hand and also that the stronger yen scenario will come back—but again, a fresh emphasis on the US economy could reverse that in a nonce. We get US industrial production this morning, not usually a market-mover.

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Speaker Info:

Barbara Rockefeller
Strategic Currency Briefing

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