SFT Simple Strategy

Version by Radim Frycka

Private Asset Management

- **What is it based on ?**
  Old School Simple Technical Analysis based on EMA (Exponential Moving Average) with use of Stochastic oscilator and RSI(Relative Strange index) as an Entry and alternative Exit signal . And dynamic Stop Loss and Profit Target based on percentage of ADR (Average Daily Range) .

- **Why do i trade simple strategy ?**
  Complex strategies can easily draw in traders since it is somewhat logical that the more information we factor into a system, the more reliable it will be. Yet, the market does not always reward logic and when it does , it may not do it in the trader's timeframe. Remember, the market can be wrong a lot longer than the trader can afford to be right !!

- **What Should You know about this systém ?**
  As this is a short term trading system on lower Time Frames, it will expect trader to be extremelly disciplined and focused . Every mistake You make will and could be expensive ! Learn the system, test it, believe in it and trade it live after You are 100% positive ,that this is what You are looking for. We are individuals and each have taste for different things , including trading style . If You like it , than don't forget to backtest ..backtest..backtest !!!!!

- **Why do i share this system ?**
  There is no real reason i guess. Maybe because it is christmas time . But mainly i have been searching for grail before , as many others and lost patience and money by testing different things and paying subscription fees and other crap . I find out, that trading is mostly in You as a person and every systém works if You také it by the right end of it. I want to help traders realize, that trading needs to be taken as disciplined business.

- **Who am I ?**
  I am a trader who has been unsuccesfull before as most begginers are. I have had a hard time to get to the profits and few wiped out accounts before it started to turn in to profits few years ago. Since that, i have made a long way and keeping on profitable trading each year .

Basics

- Trading time and Highest probability of profitable trades based on past statistics:
  Monday through Friday
  London Open   3am – 5:30 am EST (Eastern Time)
  US Open 8 am – 10:30 am EST (Eastern Time)
- Time Frame – **5 minutes Charts**
- Traded Currency Pairs : **EUR/USD – best performer**
  USD/JPY
  GBP/USD – best performer
  USD/CHF

- Avoid Trading during Banks Holidays
- Avoid Trading during Christmas Time – mostly for low volume , tight range and unexpected spikes , which happens quite often during these times . As Bank traders gets on Holidays and many Black Box companies and Funds keeping prices in range .
- Avoid Trading 10Minutes pre and 30minutes past major economical news release – Stay off trading at times of unexpected news release if You can and if such occur , close all Your opened positions and stay off until market subside .
- Avoid Trading if ADR (Average Daily Range) of currency pair is under 100 . That means volatility of traded pair is too low to achieve profitable trade in desired time . And possibly staying in tight range .

Indicators

- **EMA – Exponential Moving Average**
  Basically Moving average shows traders sentiment .
  Higher MA number = longer term trade and position holding in that trend (simply said).
  EMA is a type of moving average that is similar to a simple moving average, except that more weight is given to the latest data .

  Set Up 1 : EMA period 5 (green line in the chart)
  Set Up 2 : EMA period 10 (red line in the chart)

  Since we are trading strategy on smaller Time Frame with tighter SL/TP we are using faster Moving Average to avoid false signals(price movement back) which could occur with slower MA on such TF .

- **Stochastic Oscillator**
  The theory behind this indicator is that in an upward-trending market, prices tend to close near their high, and during a downward-trending market, prices tend to close near their low. Transaction signals occur when the %K crosses through a three-period moving average called the "%D" .
  Stochastic is the only indicator i decide to optimize a little . Even tho it does not seems to be a major issue, i did change k% period from 14 to 15 to adapt to sensitive markets of last year. It has been tested and proven .
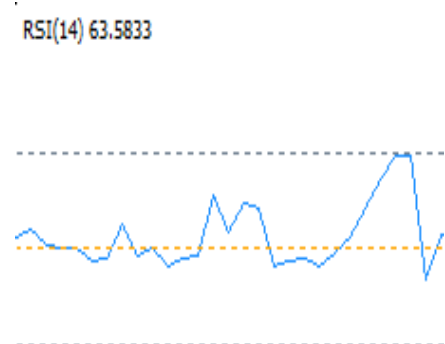
  Set Up : 15 , 3, 3 Simple
  Levels :   80 overbought
              20 undersold

  Stoch(14,3,3) 88.3295 92.6372
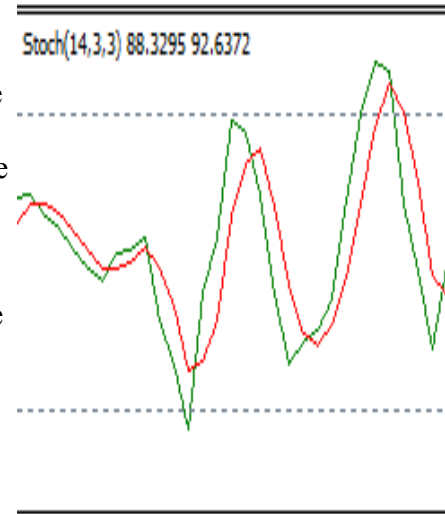
- **RSI – Relative Strenght Index**
  A technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset .

  Set Up : 14
  Levels : 70 (overbought)
              30 (undersold)
              50 (signal level)

  RSI(14) 63.5833

- **ADR – Average Daily Range**
  Daily move in pips over period of time per currency pair. In our case it is 14 days .
  This indicator i use to determine my Stop Loss and Profit Target level per each trade i make.
  My basic set up of SL is 10% of ADR . PT 15% of ADR . Based on past trading activity i recommend to keep this setting unchanged as we are keeping off major economic news and most expected volatility of the market .
  If ADR is under 100 per given currency pair, i do not trade it !!!

Enter the position

- Enter the position with MARKET order on opening of new bar !
- Enter the position only if all signals are true !

- **LONG**

   EMA 5 crossing EMA 10 upwards at the open of new bar
   RSI heading upwards and is over level 50 or crossing at the open of new bar
       and is under level 70
   STOCHASTIC heading upwards and is over level 20 and under level 80

- **SHORT**

  EMA 5 crossing EMA 10 downwards at the open of new bar
  RSI heading downwards and is under level 50 or crossing at the open of new bar
     and is over level 20
  STOCHASTIC heading upwards and is over level 20 and under level 80

Exit the position

- **Stop Loss**
  Based on percentage of ADR . In my case 10% of Average Daily Range

- **Profit Target**
  Based on percentage of ADR . In my case 15% of Average Daily Range

- **Trailing Stop**
  Set Trailing based on Your Brokers availability to 12 points .If Your Broker will not allow it, than stick with the lowest setting possible over 12points

- **Break Even**
  After 10pips move in Your profit direction move SL to BE

- **Alternative Profit Target**
  If You decide to maximize Your profit by taking Your Profit Target off the charts, move Stop Loss after every 10 pips price move in Your profit direction . Do not use Trailing Stop as it moves every highest high of the current price .
  By moving SL You could ,but it is not guaranteed, to maximize Your profit .
  Simply said, You never know when the big move is comming . If the move goes in Your favor fast , use it.

- **Alternative Exit**
  When EMA crosses back to the opposite of Your signal after closing of the bar and stays after opening of new bar .

Money/Risk Management

- 2% rule – Do not risk more than 2% equity on position with this strategy
  This strategy can have periods of loosing as any other. If You risk **no** more than 2% , than You will hardly ever gets to the ugly Drawdown . Stay with this rule as this strategy is quite agressive trading wise . Expect up to 3 trades per traded currency pair per session . Trade with low position size based on risk management rule and keep trading for ever with constant long term profit !

- Here is example getting back to the base level of equity after serious loosing

Loss in percentage	Capital in percentage needed to get back to the HWM (base of the equity)
25,00%	33,00%
50,00%	100,00%
75,00%	400,00%
90,00%	1000,00%

- Rule of the 4 consecutive loosers
  If we experience 4 consecutive losses in one session , we are ending the session and getting of the charts until the next session – NO EXCEPTION.
  Get through the each trade to find out possible mistakes , if any :o)

Position sizing

- For this strategy and few others i use Fixed Fractional Risk or You can use 2% rule (2% of equity as position size) . Both are straight and simple.
- For example use this simple calculation form .

Position Size = (A x R% / SL)
A = Account Size
R = risk per position in %
SL = amount of $ (or equivalent)   risking per position

Systém profitability

- I do have statistics of trading with this systém on Live account from May 2008 to November 2010 with average monthly profits of 6.3 % while trading both sessions and 4 major pairs with holidays , days off, sick days and similar taking into account. I am not going to share any Live numbers as You can Backtest them manually Your self and by this understand and learn the systém better .

  Year 2008 69%
  Year 2009 71%
  Year 2010 46%

- Win to Loss ratio over the period 54:46 (54% winners , 46% loosers)

Risk to Reward ratio

- Since i have been using dynamic SL/TP based on % of ADR and my setting is 10 and 15%, than obvious RRR would be 1:1.5 . But since there has been larger profits from time to time by using moving SL without TP , my RRR gets to 1:1.7 . Ideal RRR would be around 1:2 , but You have to understand, that we do trade fast on small TF !!

Expectancy

- Calculations of expectancy in currency per strategy . Expectancy calculates profit or loss from each position taken over period of time . My expectancy based on my trading history is **78.6 $** per position (both lost and profitable) while i am trading full lots now. Expectancy at first should be taken from Backtest and Demo trading for at least 3 months each to come up with reliable numbers !
- Simply said, if You have positive expectancy over longer period of the time, Your systém is reliable a You can trust it . You need to believe in Your systém to use it LIVE !!
- How to calculate Expectancy ? Here is a simple form . I advise to read some of Van K. Tharp stuff to better understand importance of Expectancy in trading

Expectancy = (A x B) – (C x D) : 100
A = Number of profitable trades in %
B = Average winner in $
C = Number of loosing trades in %
D = Average looser in $

Drawdown

- Maximal Drawdown (manual trading) – **13.7%**
  Means, that if You started trading Your account with this strategy in last 3 years, You could loose 13.7 % in max before it begin to getting back . Since there is no assurance of such a loosing period ,You have to always expect bigger DD after the maximum DD .
  You can get to trading while strategy is loosing or vice versa. For that reason each of You could have different Balance and Equity at the end of the Year . Which is obvious .

- Maximum number of consecutive loosing trades : 9
  In more than one session , since we keep on 4 consecutive loosers rule !!

Daily Routine

Although it might not be suited for everyone, i do keep on daily routine !

- Before the market opens :

Check overnight charts and activity
Check the trend of last 24H
Calculate Stop Loss and Profit Target for day per each pair
Calculate position size based on the position sizing rules
Make Trading Log ready
Check Hardware ,Software and updates
Go through Your trading plan (each and every day)

- During the session :

Stay focused on trading and platform only !
Write down every trade (manually to the trading log)
Stay disciplined and follow the rules

- After the session

Go through the trades and evaluate Your success
Input Your trades to the statistical software or excel at the end of every trading day
Prepare for next session
Do some sports , physical activity
Learn to relax
If You have traded exactly as Your plan tells You (loss or profit doesnt matter) , Reward Your self

Backtest with Expert Advisor based on this strategy

- Pair EURUSD
- Year 2010
- As You can see from the test ,EURUSD had more loosers ,than winners in 2010 and still profit . Thats where You need to understand the importancy of using right money and risk management !
- Since i trade manually only , i use EA for tests on different Tfs , pairs and with different settings. EA BT cannot duplicate manuall BT in this exact strategy . Please consider numbers just as an example !
- As well consider difference between DEMO and LIVE tests and trading !

Strategy Tester Report
SFT v1.02
AlpariUK-Demo (Build 225)

Symbol	EURUSD (Euro vs US Dollar)			
Period	5 Minutes (M5) 2010.01.04 00:00 - 2010.11.05 21:55 (2010.01.01 - 2010.11.08)			
Model	Every tick (the most precise method based on all available least timeframes)			

Parameters

Bars in test	42344	Ticks modelled	5484674	Modelling quality	90.00%
Mismatched charts errors	0			
Initial deposit	10000.00			
Total net profit	5711.04	Gross profit	18298.72	Gross loss	-12587.68
Profit factor	1.45	Expected payoff	35.04		
Absolute drawdown	645.79	Maximal drawdown	2031.63 (15.27%)	Relative drawdown	15.27% (2031.63)
Total trades	163	Short positions (won %)	29 (31.03%)	Long positions (won %)	134 (46.27%)
		Profit trades (% of total)	71 (43.56%)	Loss trades (% of total)	92 (56.44%)
		Largest profit trade	819.50	loss trade	-458.80
		Average profit trade	257.73	loss trade	-136.82
		Maximum consecutive wins (profit in money)	6 (1374.45)	consecutive losses (loss in money)	9 (-1453.00)
		Maximal consecutive profit (count of wins)	1455.54 (3)	consecutive loss (count of losses)	-1453.00 (9)
		Average consecutive wins	2	consecutive losses	2
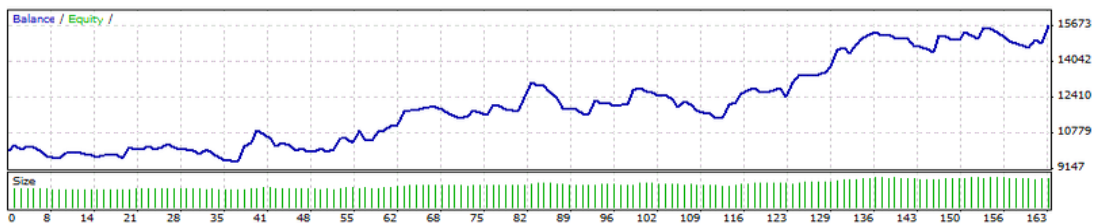
Few words at the end

- Trading and all its aspects are dependent on the individual preparation and mental readiness of each trader !
- You need to have individual trading plan ! No plan = No profits
- Stick to the rules You believe in and are proven in long term !
- Stop looking for holly grail . Pick strategy ,that suits You the most (for example by Time Frame , used Indicators , Calculations, that makes sense to You and so on) , test it and paper trade it. Make Your own rules based on Your own backtests and when You 100% sure and believ in it, than trade it LIVE !
- Traders are loosing because 1. They have no plan
  2. They have no experience with their systém
  3. They have no patience
  4. They change strategies way too often
- Expect to be loosing from time to time. There is no 100% winning systém in this world . If You believe in Your systém and use proper money and risk management , stick to Your rules even through loosing period. Thats the point of systematic trading .
- I do have .ZIP file with few handy materials to use with this strategy including BUY/SELL script with Money management and automatic SL/TP based on ADR per each pair . Script to move SL on Break Even . Chart indicators : ADR , Bar Clock (countdown to the next bar opening) , Chart Template , simple Trading Log , which i am willing to share !
- Work on Statistics of Your past trading activity to improve Yourself. I use statistical software for Forex based on excel ,and Market Systém Analyzer .

I Guess ,thats about it for now . You have a winning systém in front of You, but You might be just at the absolute beggining . Now You have to work hard to get the results.
Don't look for shortcuts, dont lie to Your self.
It is not going to be easy, but definitelly possible !

I wish everyone successful trading and consistent profits !!

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