

CME – In a Low Interest Rate World, Is the Carry Trade Dead?

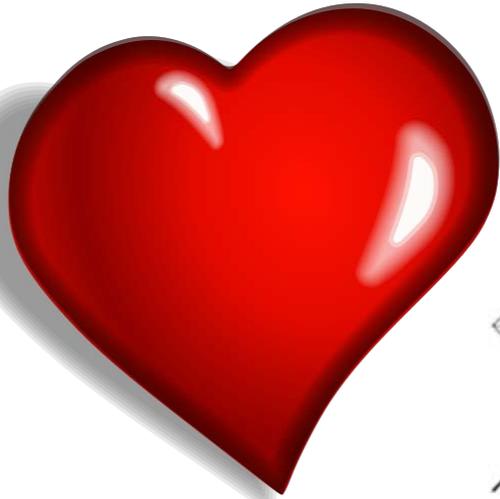


Timothy Morge, CTA and President
Blackthorne Capital, Inc.

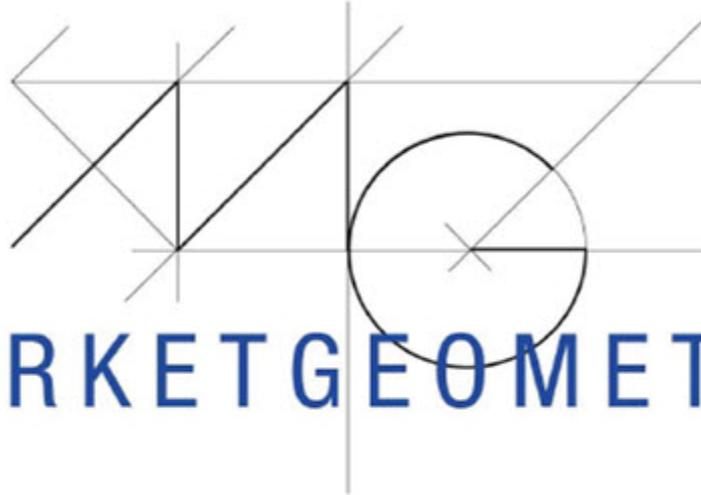
Internet Presentation Sponsored by Interactive Brokers February 14, 2013

www.marketgeometry.com

www.medianline.com



Happy Valentine's Day!



MARKETGEOMETRY™

"Master your tools, master yourself."

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Results

Past performance does not guarantee future results.

This is one persons experience, your experience may differ.

Results are not guaranteed, individual experiences may vary.

Market Volatility

In volatile market conditions, substantial losses may occur.

In volatile market conditions, orders may not be filled as placed.

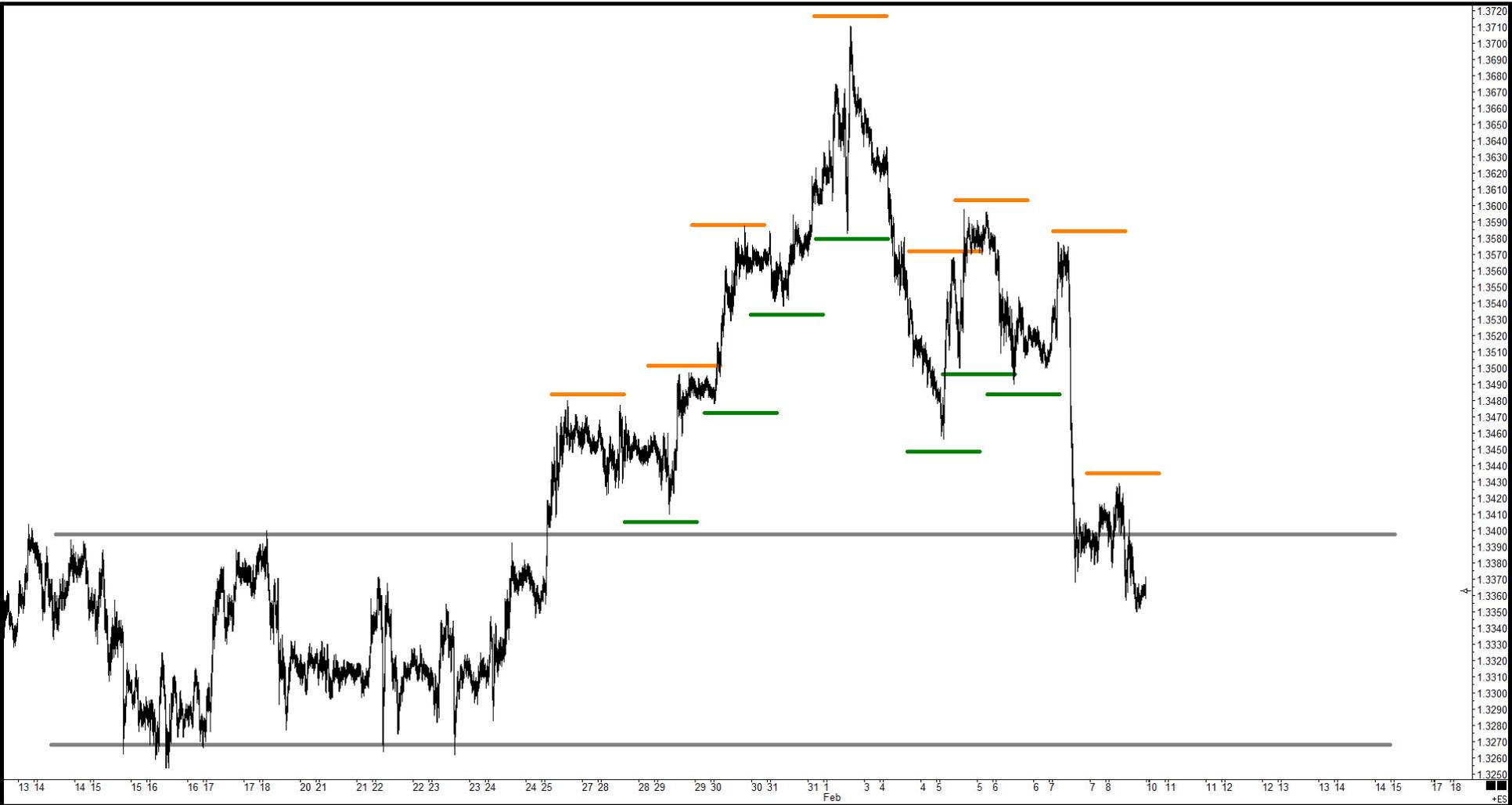
Leverage

The leveraged nature of FX trading and Futures trading means that any market movement will have an equally proportional effect on your deposited funds. This may work against you as well as for you. The possibility exists that you could sustain a total loss of initial margin funds and be required to deposit additional funds to maintain your position. If you fail to meet any margin call within the time prescribed, your position will be liquidated and you will be responsible for any resulting losses.

There are traders that use Fundamental data to define their trading ideas and there are traders that base their trading decisions on Technical Analysis.

I have been a successful trader for a vey long time. I am going to show you how I use my own Technical Analysis tools to 'Frame' my trades, no matter what Fundamental issues have changed in the world.

Let's look at the Euro FX / US Dollar pair. It is the largest currency pair traded in the world.

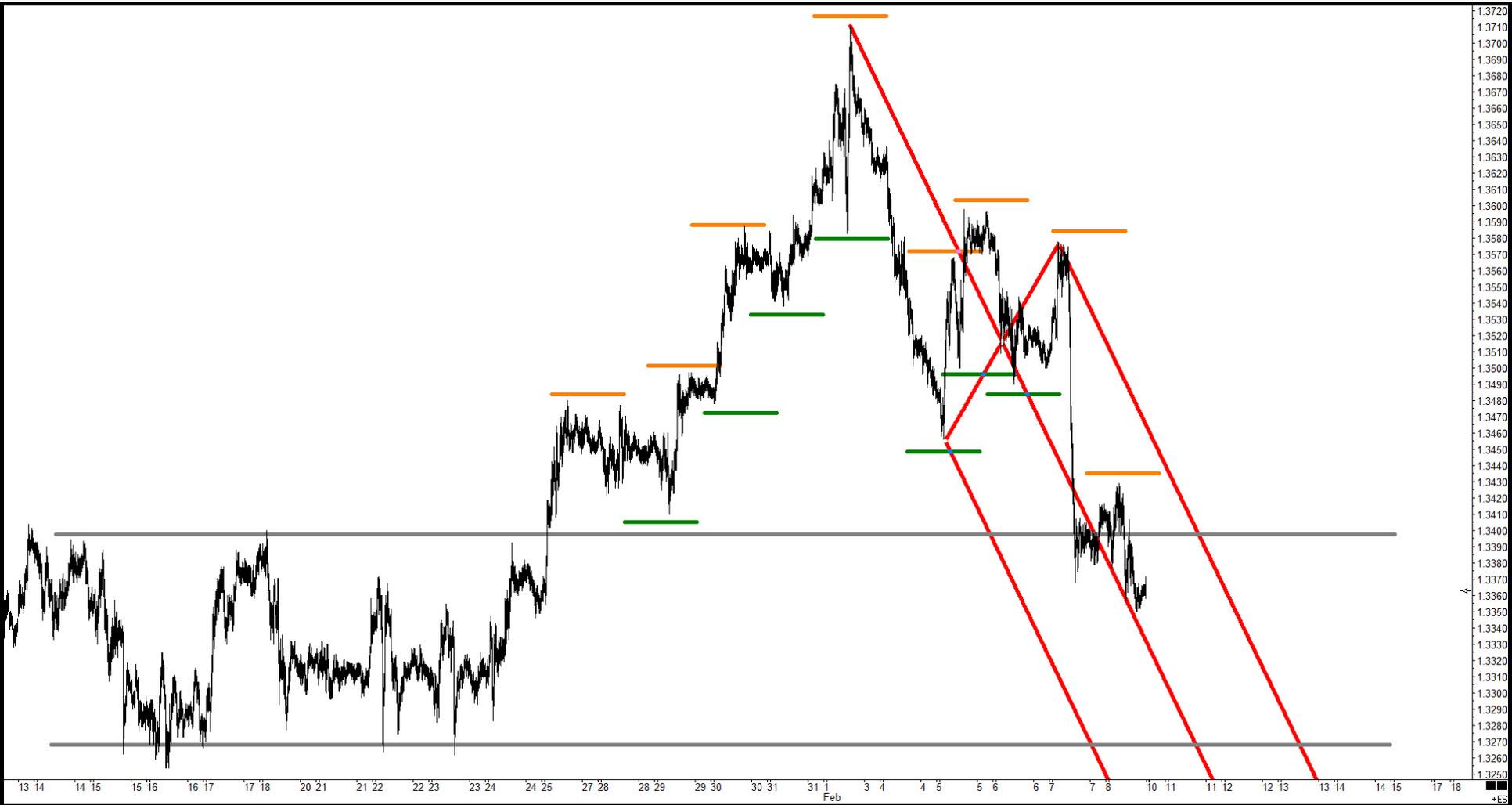


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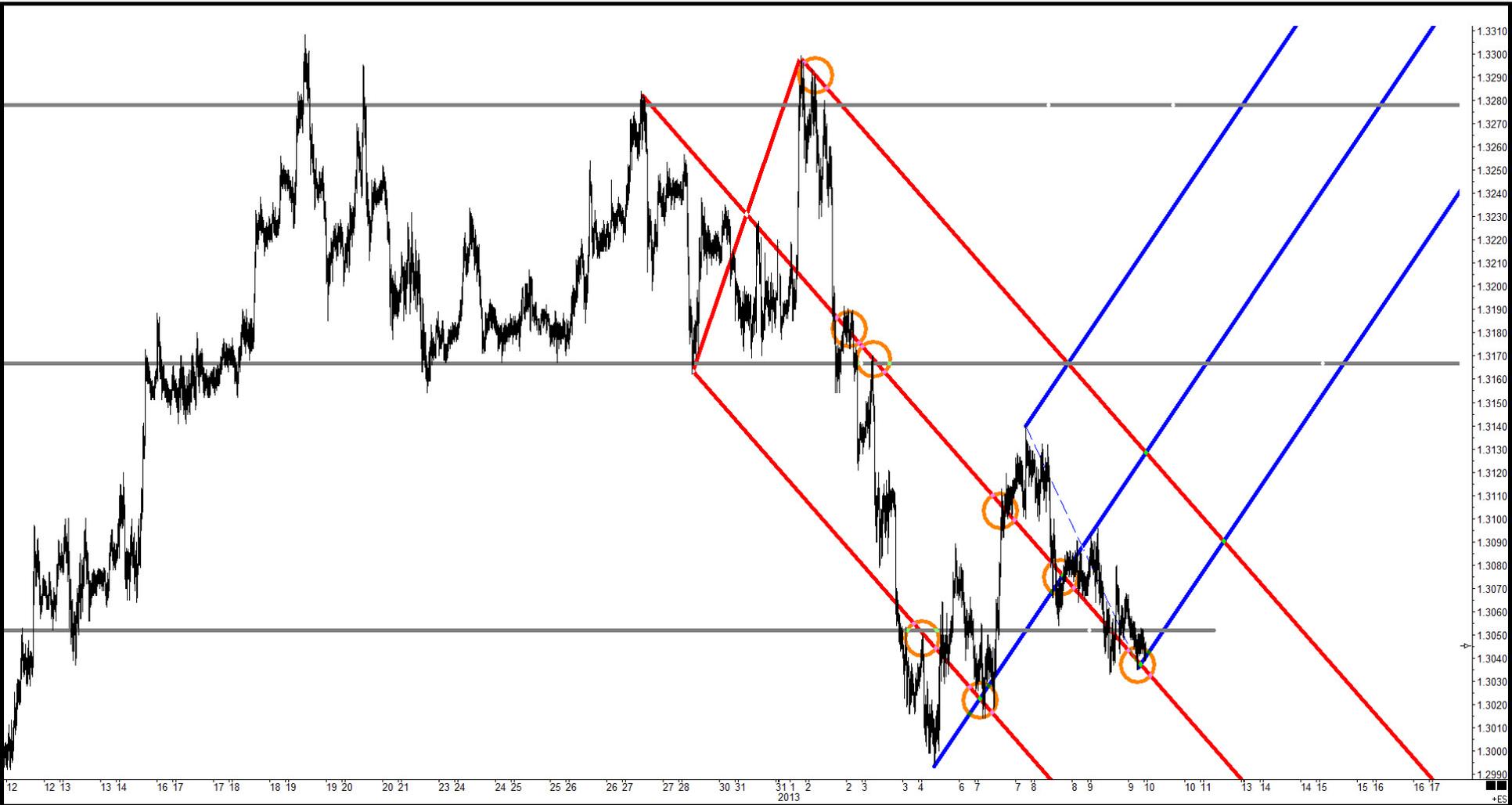
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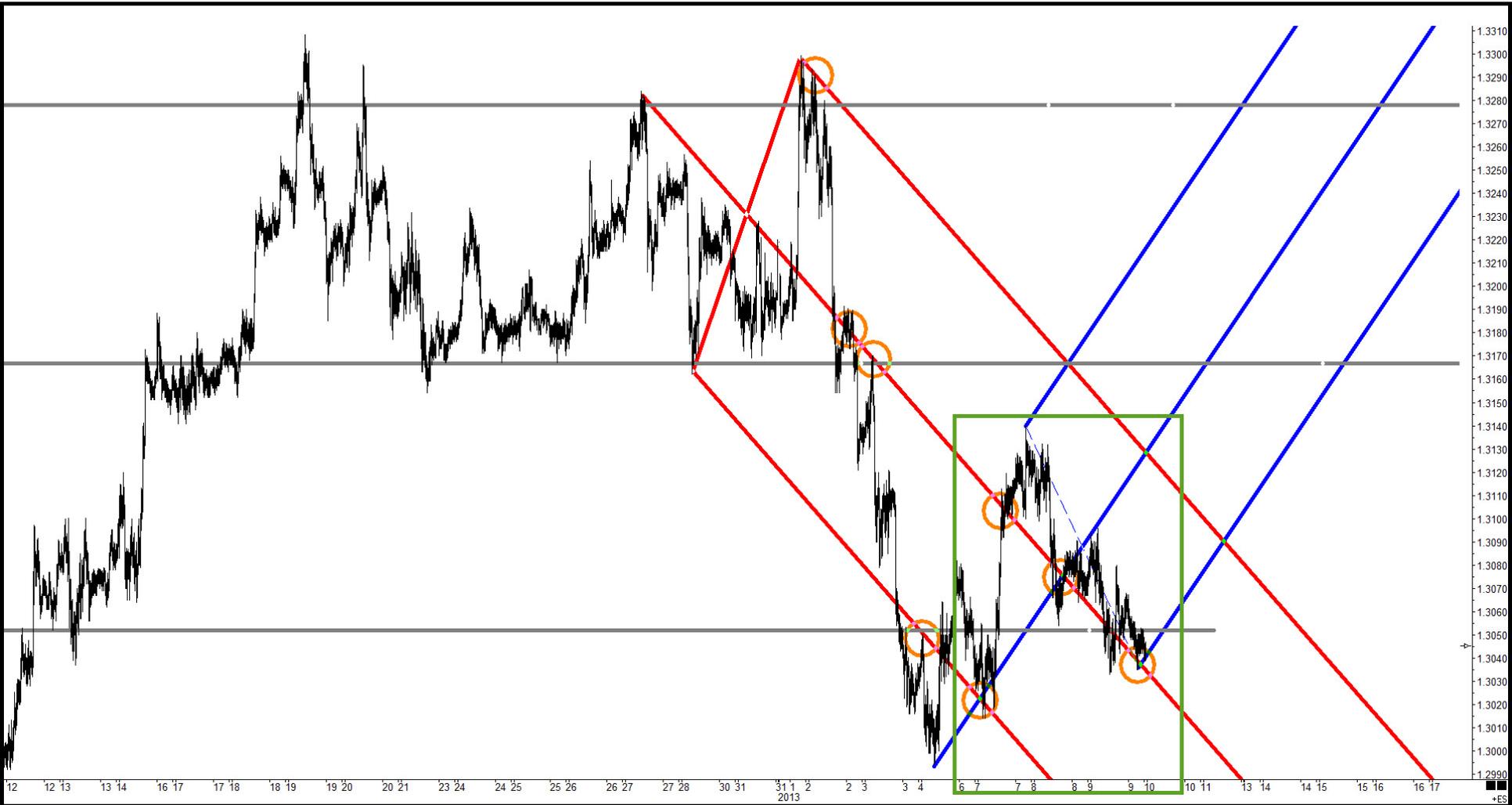
Many traders that have studied my methods look at the market with this much data on their screen or chart. And I have certainly shown charts with this much data in the past; at times it was to show potential support or resistance areas in the Market Structure.

But like everything in life, as you learn and progress, the way you use your tools change. Unless I am looking at longer-term portfolio style trades that may last for months, I use much less data.

I no longer pay attention to the Fundamentals of the markets because with the advent of the internet, the same information is available to everyone. I don't feel I have an edge when using Fundamentals, so I have removed them from consideration when I trade.

I have always believed that everything you need to know is contained in Price; recently I have been emphasizing that concept more and more in my teaching. I find that the charts I use when trading and the charts I use when teaching contain much less data than what most traders rely upon. I believe that you really only need the current price action and the last important Swing.

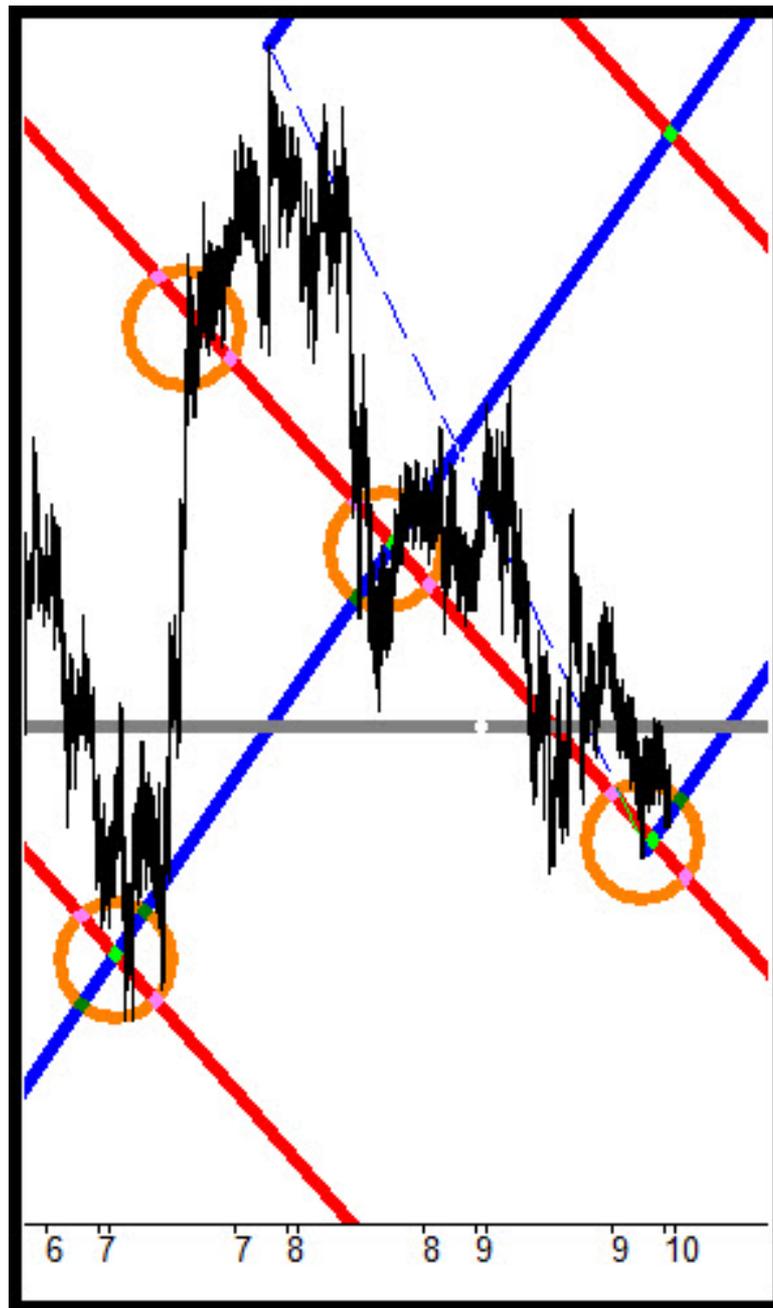
Let's try it again with much less data!



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Occam's razor (also written as **Ockham's razor**, [Latin](#) *lex parsimoniae*) is a principle of parsimony, economy, or succinctness used in logic and problem-solving. It states that among competing hypotheses, the one that makes the fewest assumptions should be selected.

I find that if I evaluate the market using less data and relying on fewer assumptions [Lines], my trades are cleaner, are much easier to evaluate and are consistently more profitable.



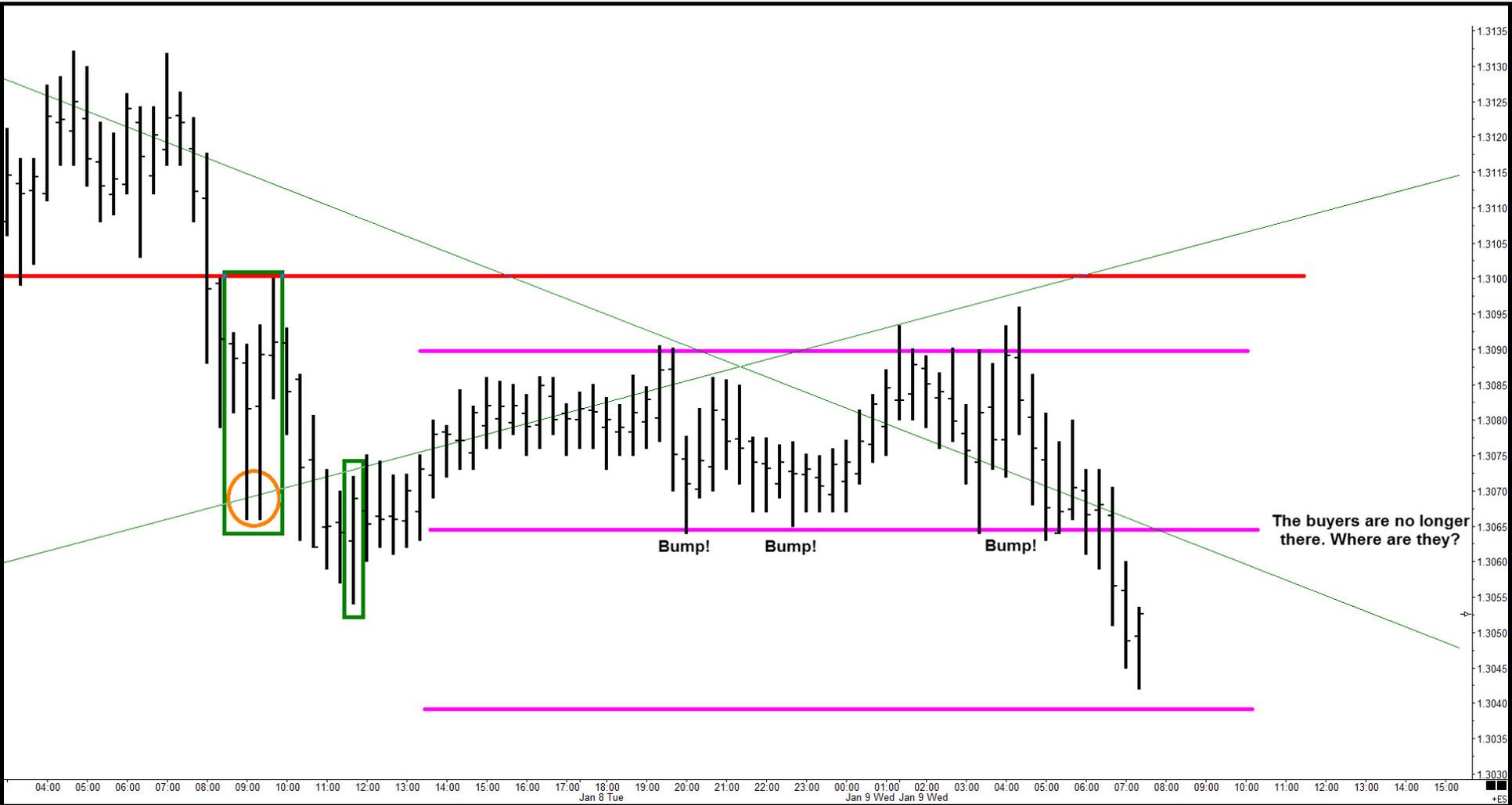
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I find that if I evaluate the market using less data and relying on fewer assumptions [Lines], my trades are cleaner, are much easier to evaluate and are consistently more profitable.

Do I need this much data? Do I need to rely on assumptions from bars far enough back in this time frame that the larger players of this time frame are no longer using them on their charts?

Always remember: I am looking for an edge! Can I identify where the significant buyers and sellers from this time frame are at in this market? Where are their orders?

Let's try again. Observe, make conclusions, prepare; simplify, simplify, simplify! Then act!



The buyers are no longer there. Where are they?

Bump!

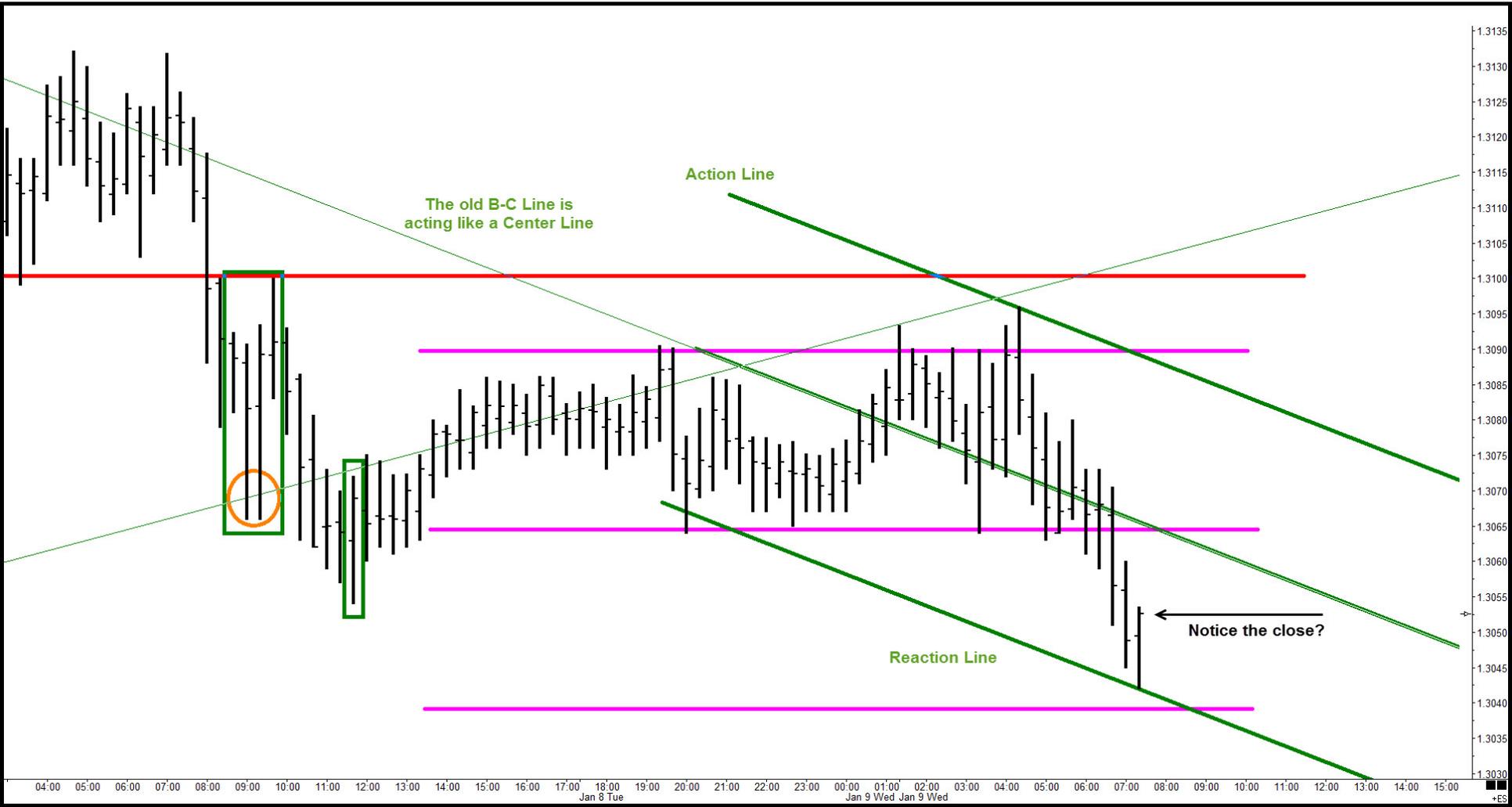
Bump!

Bump!

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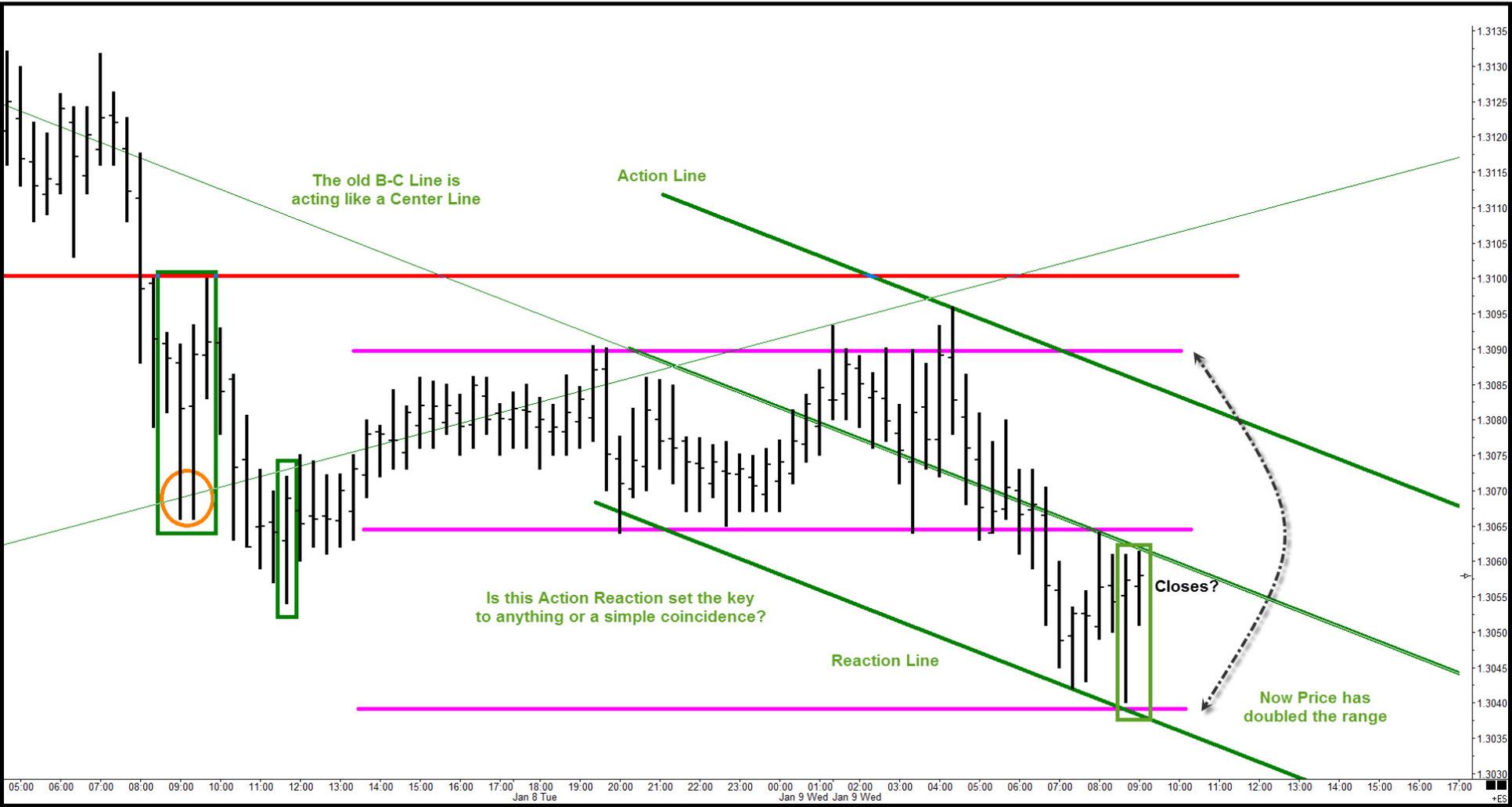
The old B-C Line is acting like a Center Line

Action Line

Reaction Line

Notice the close?

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The old B-C Line is acting like a Center Line

Action Line

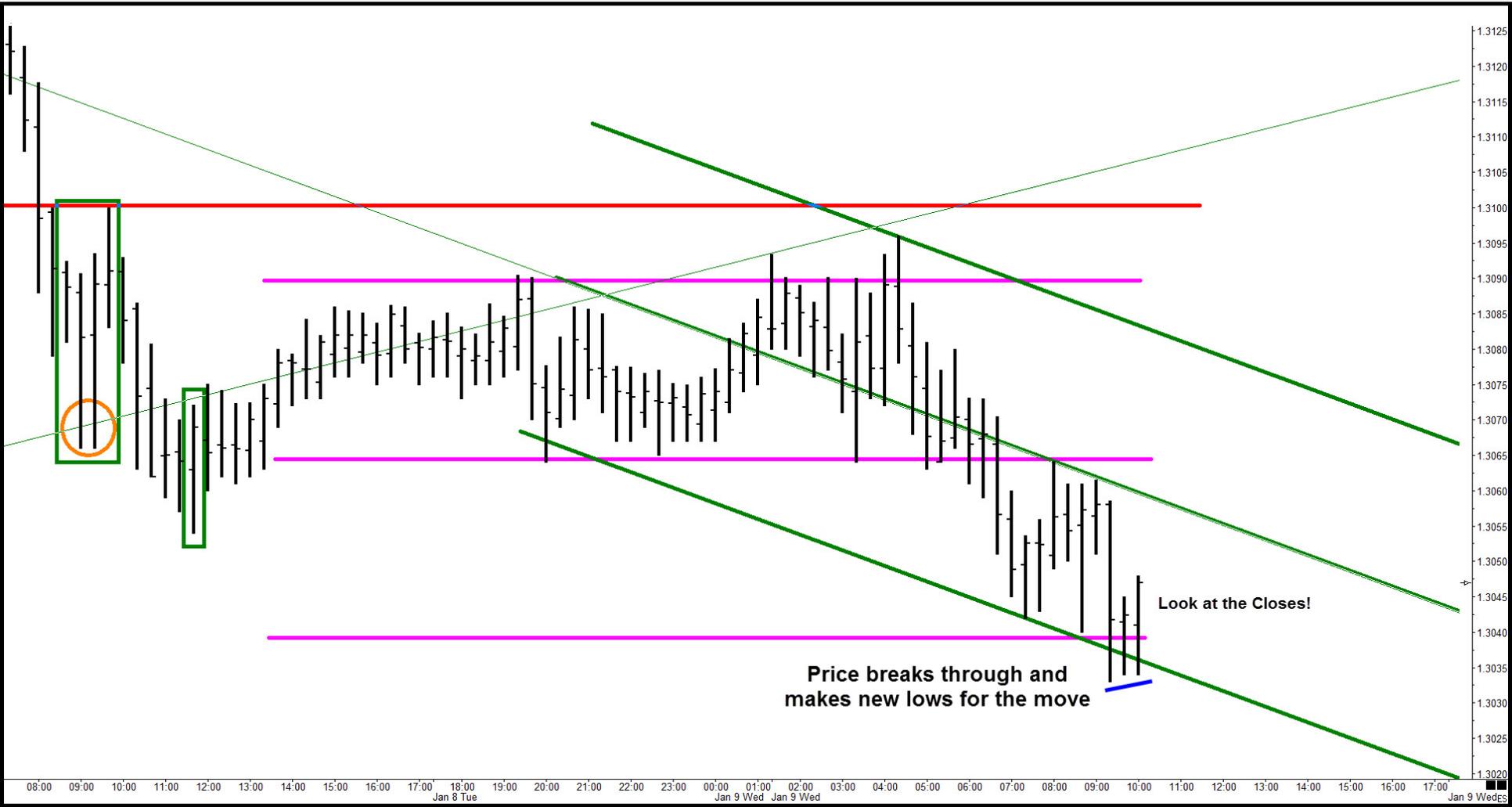
Is this Action Reaction set the key to anything or a simple coincidence?

Reaction Line

Closes?

Now Price has doubled the range

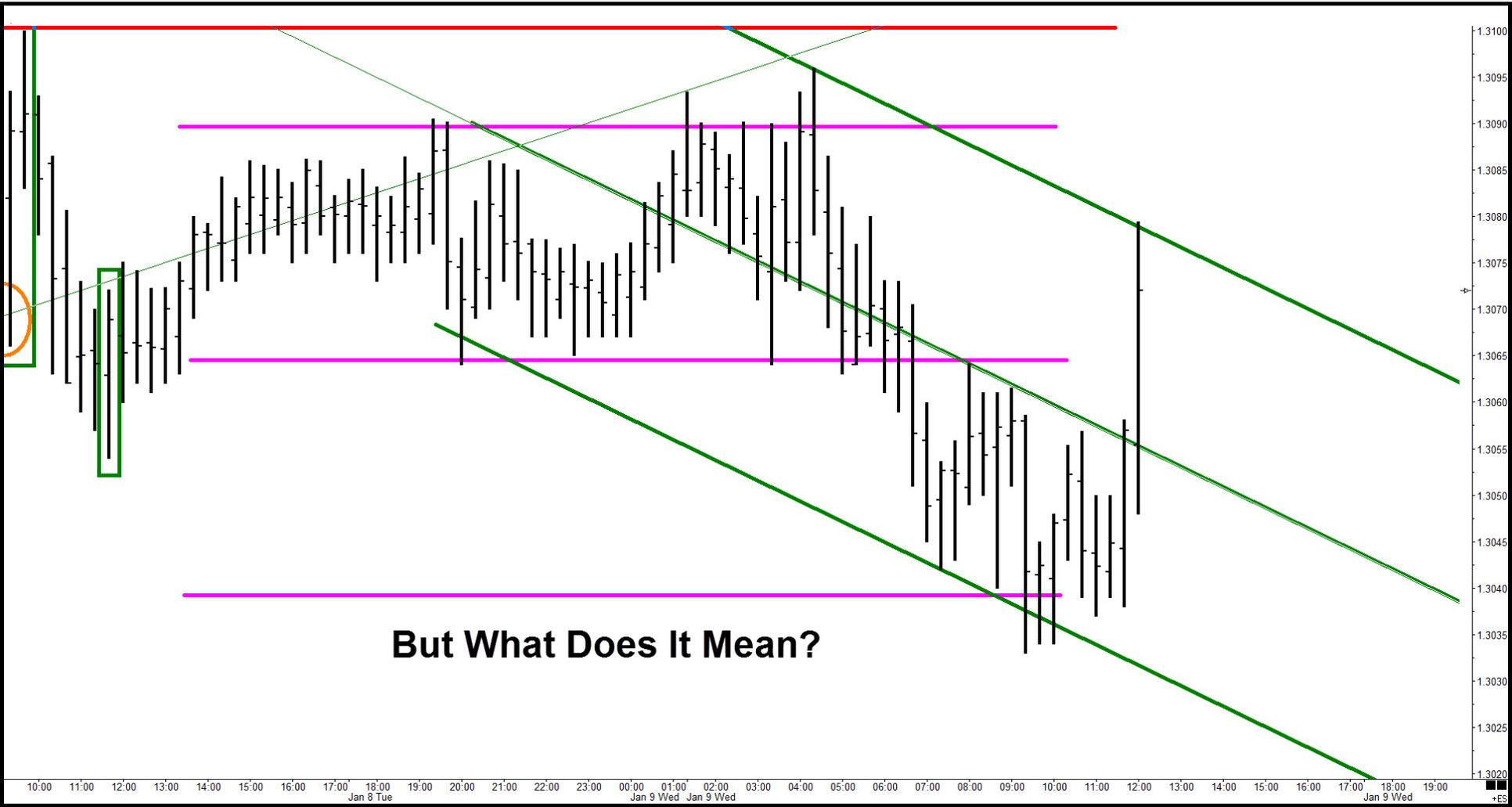
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Look at the Closes!

Price breaks through and makes new lows for the move

Reality Check! What do we know? Are there any *Facts*?



But What Does It Mean?

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I admit this is a cheap trick! But if you wish to know the answer, you must travel the road I travel, the road Amos and Dr. Andrews travelled, and of course, the road Sir Isaac Newton Travelled. Are you prepared to declare yourselves...

Like my mentors before me, [including Sir Isaac Newton], I am an Alchemist! We must travel this obscure road if we are to find 'Facts' out of simple observations!



Action Line

Center Line

Reaction Line

Action Line

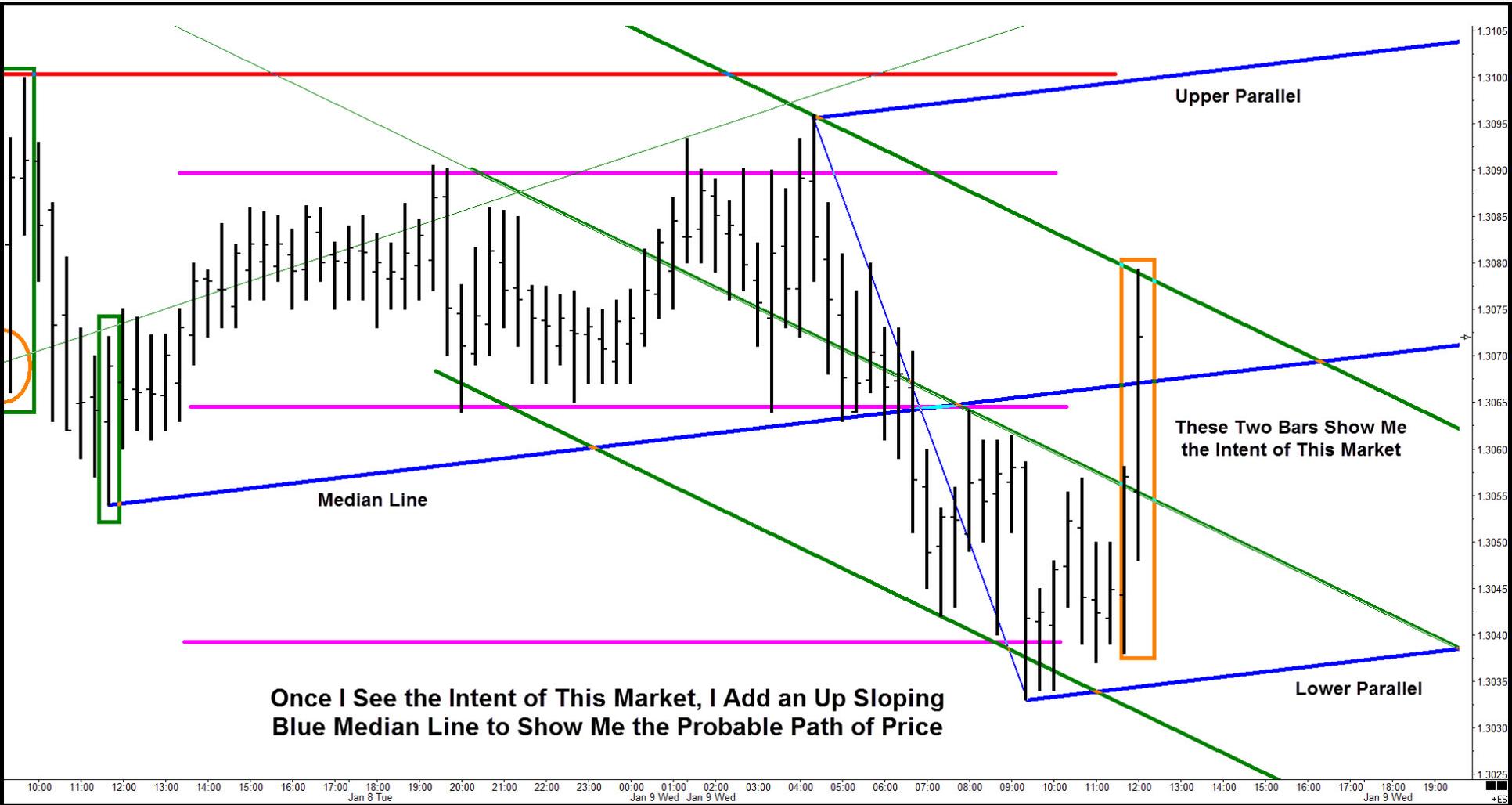
Center Line

Reaction Line

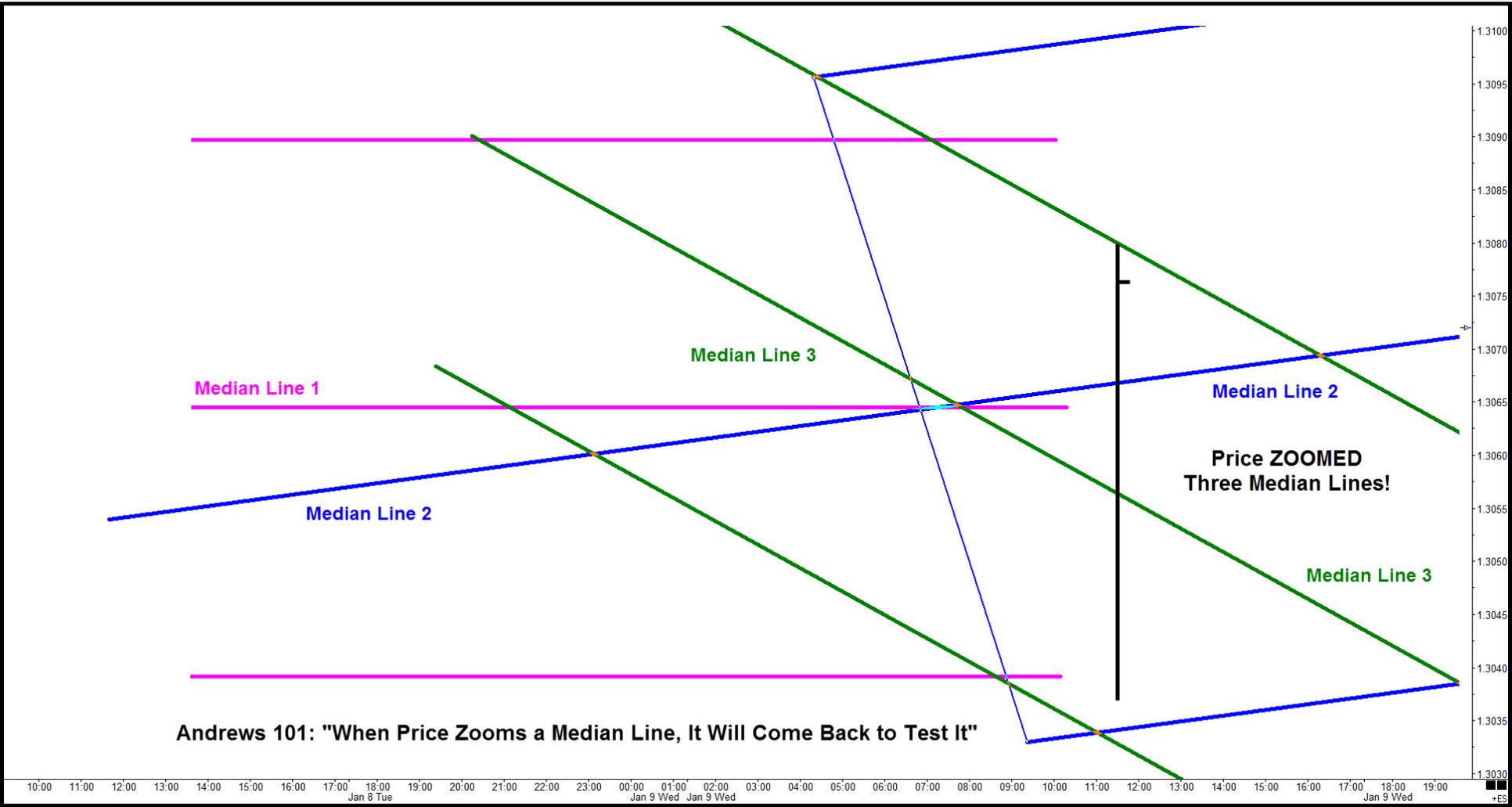
"As Above, So Below!"

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Price Doubled the Range of the Horizontal Range – Most Every Trader May Be Able to See that! But Price Also Doubled the Range of the Sloped Range. Only Alchemist Traders Are Able to See That!



If you are still following my logic, at this point, you notice that price closed at the highs of the last two wide range bars. The first thought that comes into your mind is, 'If this really is the start of an up trend, Price will never come back to an area that will give me a quality entry.'



Andrews 101: "When Price Zooms a Median Line, It Will Come Back to Test It"

Price ZOOMED
Three Median Lines!

Median Line 1

Median Line 3

Median Line 2

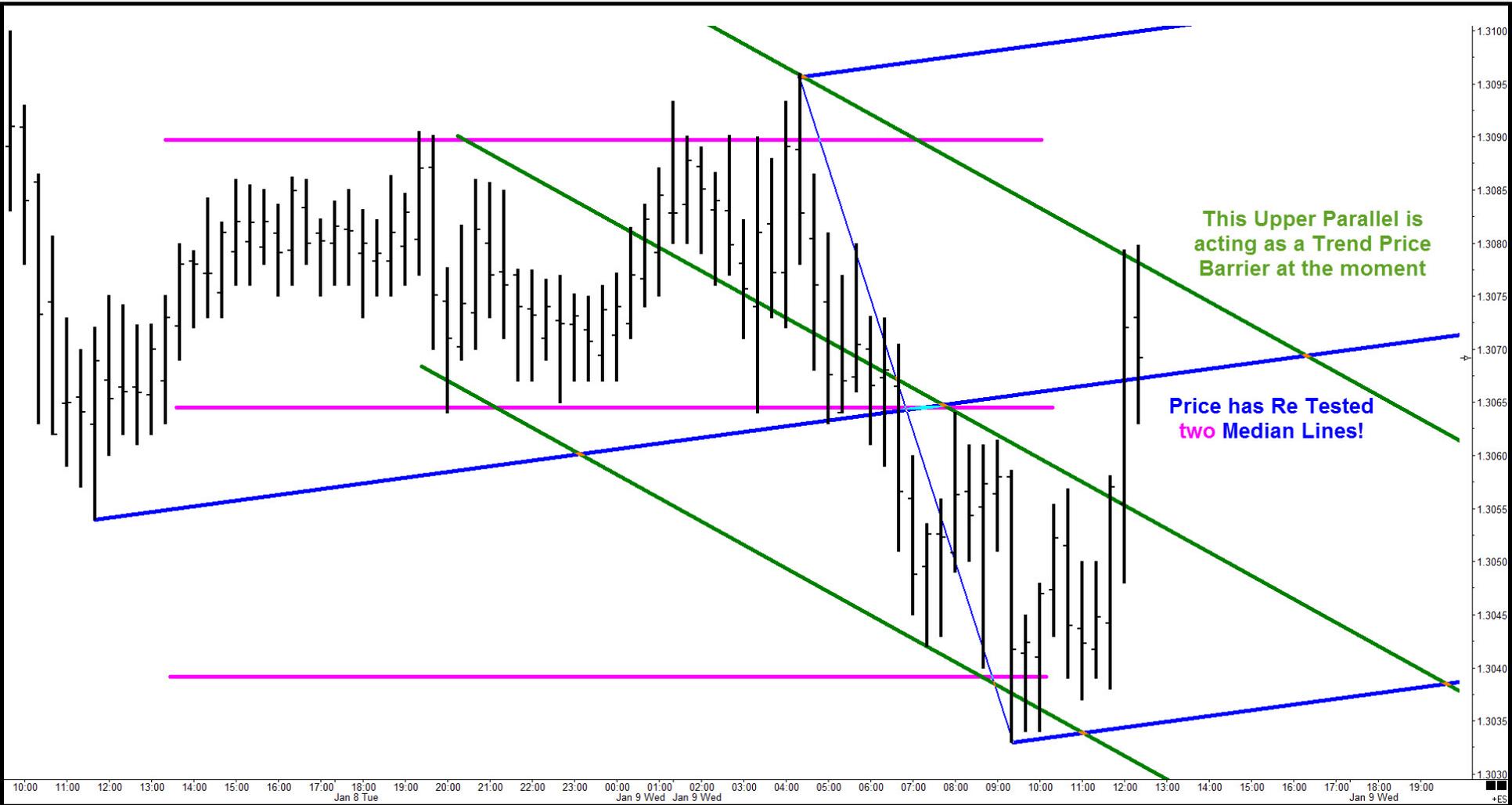
Median Line 3

Median Line 2

I have been doing this for many years, and running the statistical analysis on it over and over. And as Dr. Andrews claimed in the 1930's, Price WILL come back to re test a Zoomed Median Line or Its Parallel 80 percent of the time.

In this situation, the sirens of the markets are singing to all of us: "Quick! Price is going up! Chase it! Chase! Chase it before it gets away!"

But trust me: Chasing Price action is one of the fastest ways to lose lots money!



This Upper Parallel is acting as a Trend Price Barrier at the moment

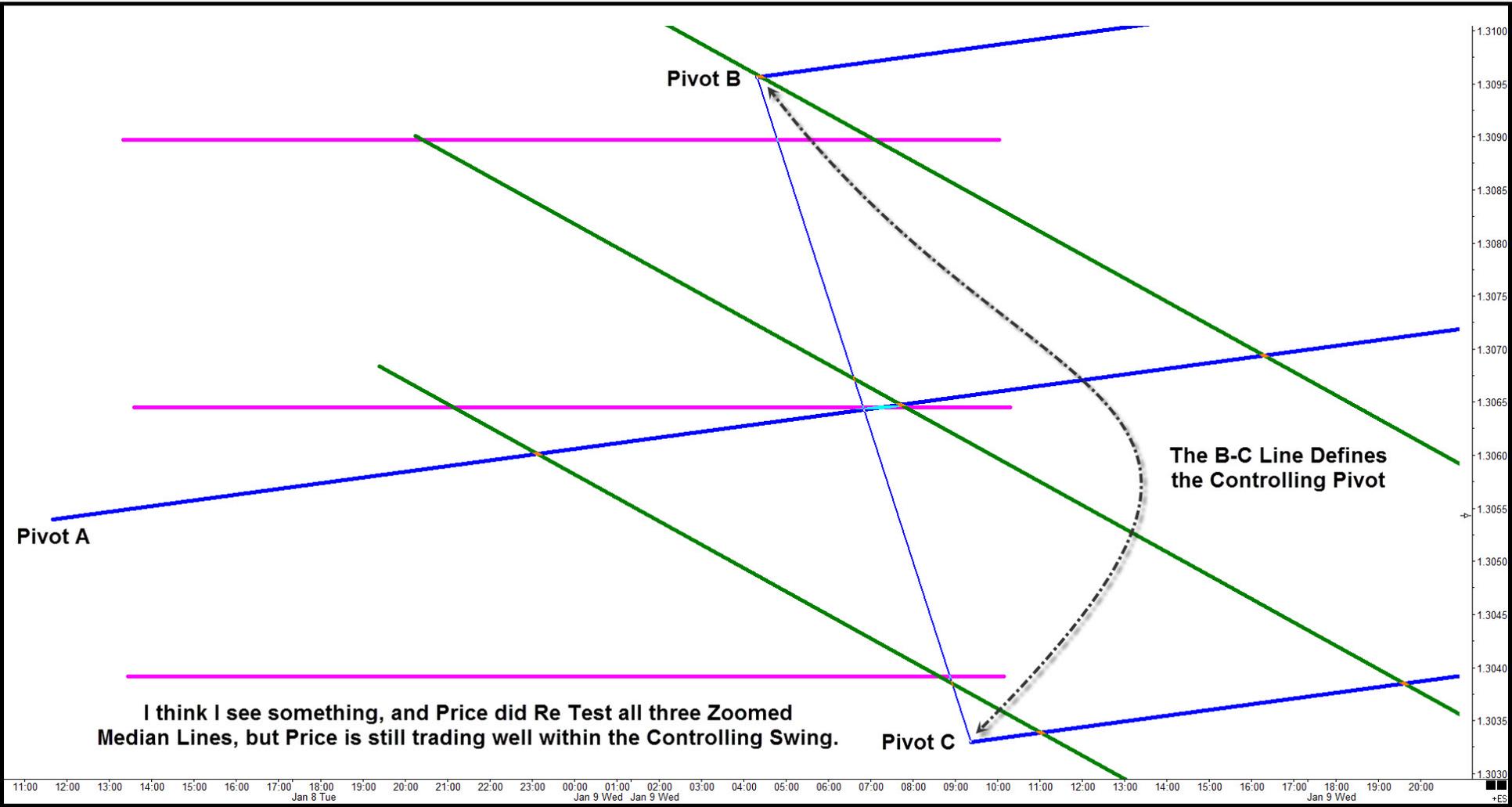
Price has Re Tested two Median Lines!

I have an idea for a trade, but just like I did not chase Price, there is a time for everything. I will wait a few more bars before finalizing my trading plans. I need to buy a few bars.

All Three Zoomed Median Lines have been Re Tested.

Am I ready to enter orders now?

Are YOU ready to enter orders now?



Pivot B

Pivot A

Pivot C

The B-C Line Defines the Controlling Pivot

I think I see something, and Price did Re Test all three Zoomed Median Lines, but Price is still trading well within the Controlling Swing.

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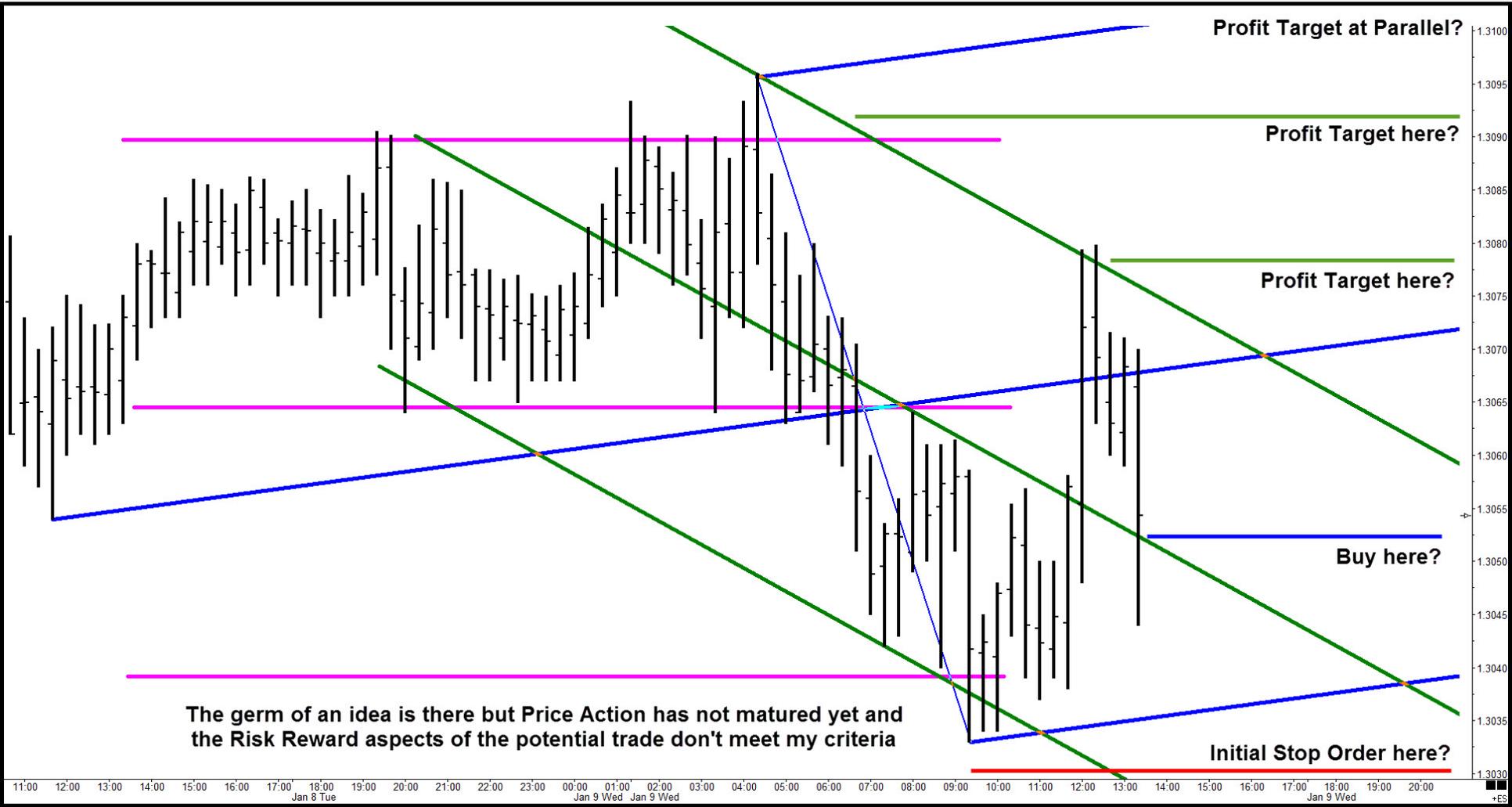
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If I think I see something, what could I be missing?

Can you help me out? It's on the tip of my tongue!



The germ of an idea is there but Price Action has not matured yet and the Risk Reward aspects of the potential trade don't meet my criteria

Profit Target at Parallel?

Profit Target here?

Profit Target here?

Buy here?

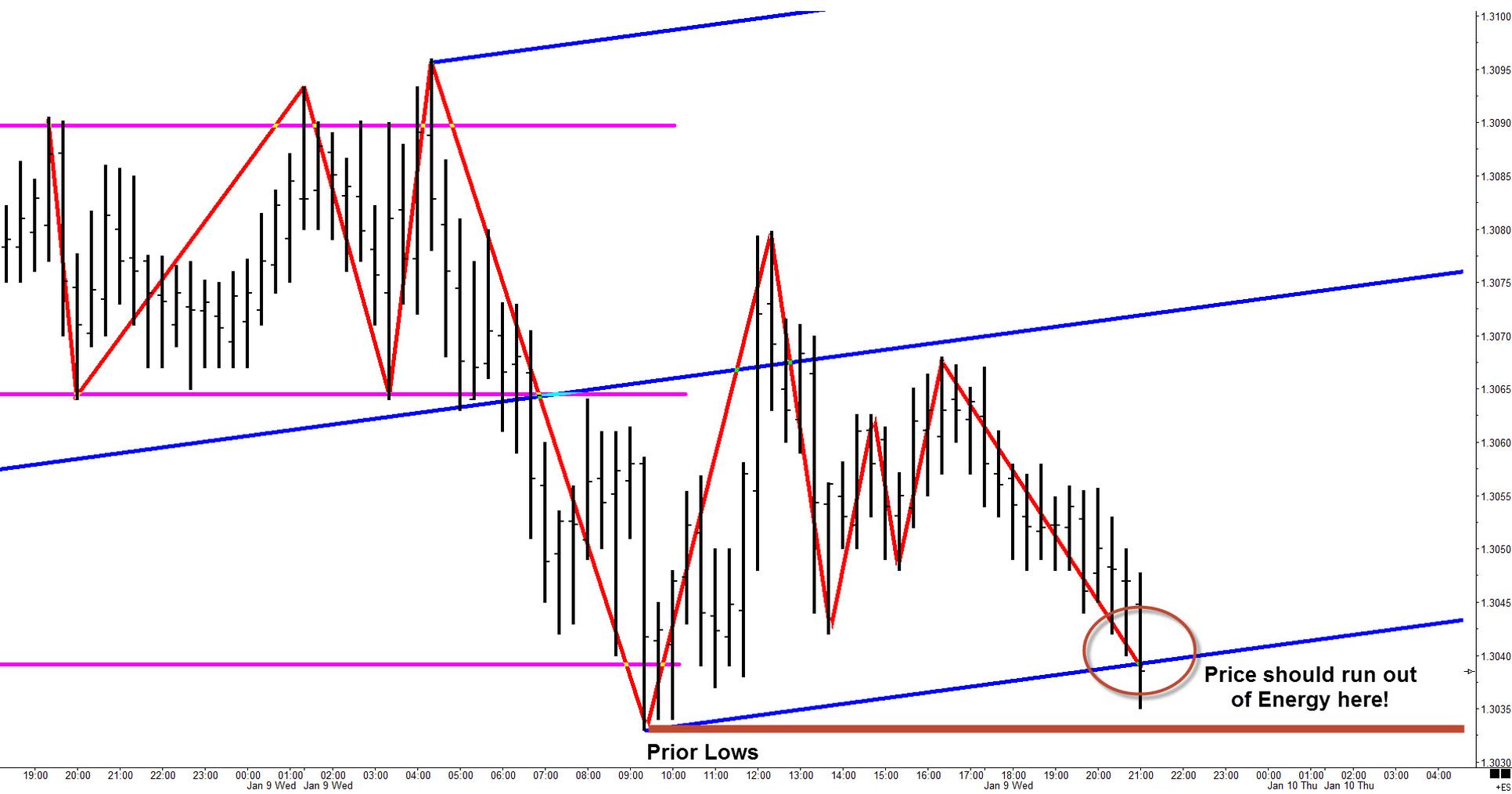
Initial Stop Order here?

Price has traded within the Controlling Swing that formed the B-C Line segment of the blue up sloping Median Line and within the large upward swing that featured the two wide range bars.

Alright, I tried to explain it with words and I tried to connect the swings with red lines – and neither helped me clarify the problem. Let me try something simple.

Can you see Price has settled in to a side ways drift?

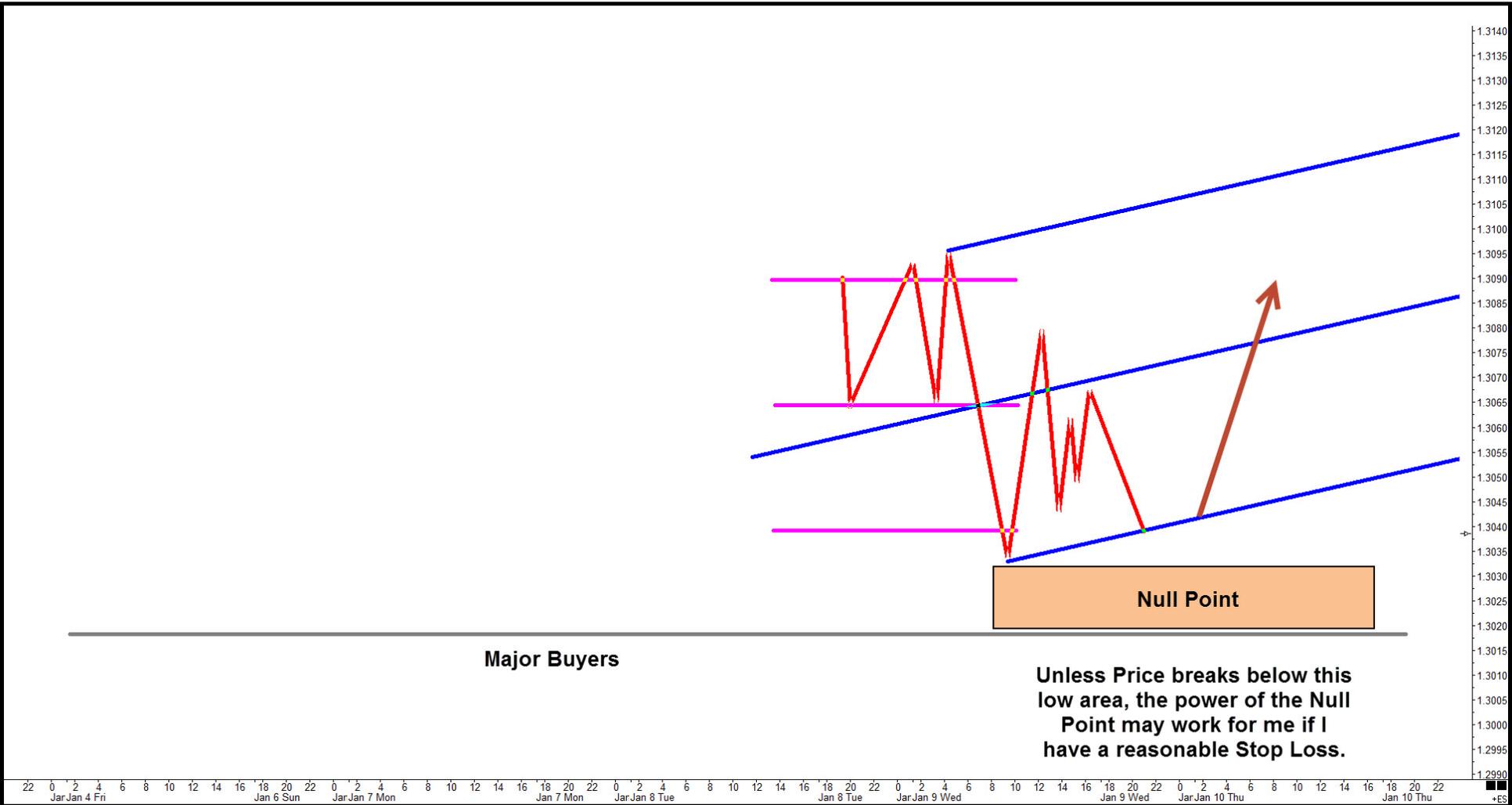
What Price action would make you interested in trading in this market?



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Price is at a Null Point. What does that mean? All things are possible at a Null Point, but in this case, if Price does not make a new low, and if I can find a high probability trade entry with good Risk Reward, I may be able to find an entry that will allow me to catch the next wave higher.

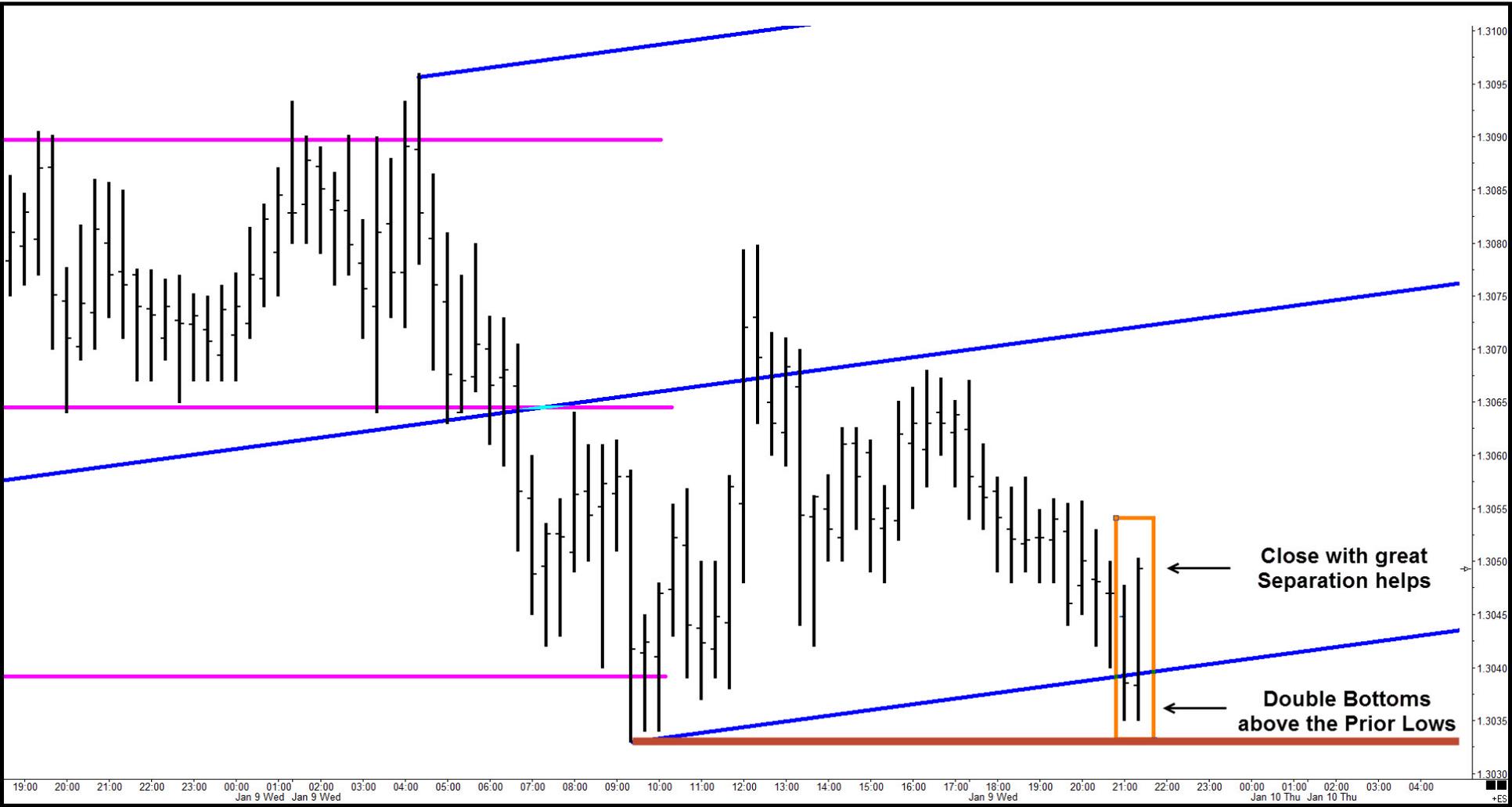


Major Buyers

Null Point

Unless Price breaks below this low area, the power of the Null Point may work for me if I have a reasonable Stop Loss.

Remember, Price does not have to do what I hope it will do. I can only Observe, Record, Draw Conclusions and if everything fits my plan, place orders into the market.



Close with great Separation helps

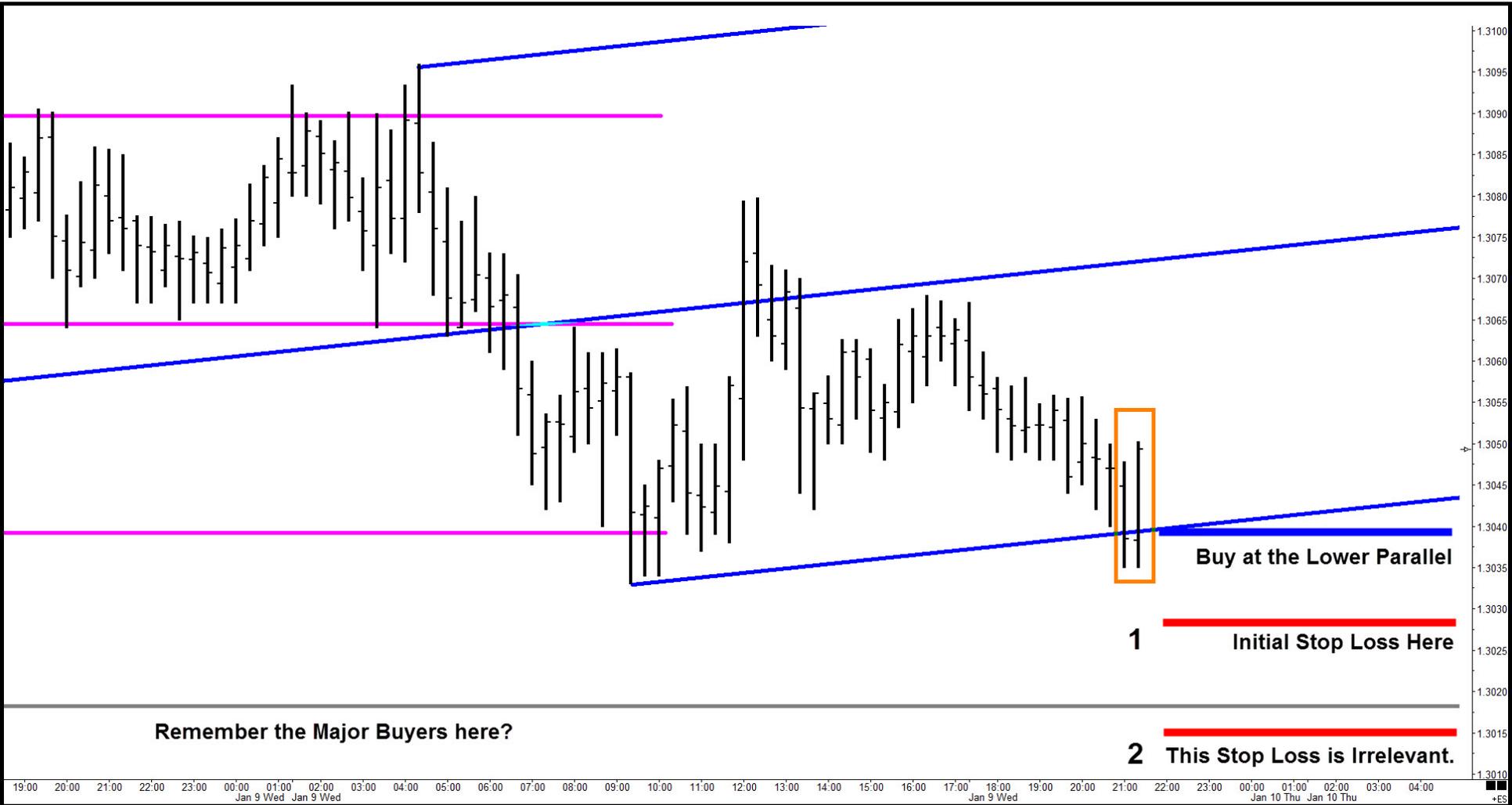
Double Bottoms above the Prior Lows

With that great close well above the Lower Parallel, I will put in Limit Buy Orders with Initial Stop Loss Orders seven pips below the prior lows.

Or will I? Which Stop Loss Order makes more sense here?

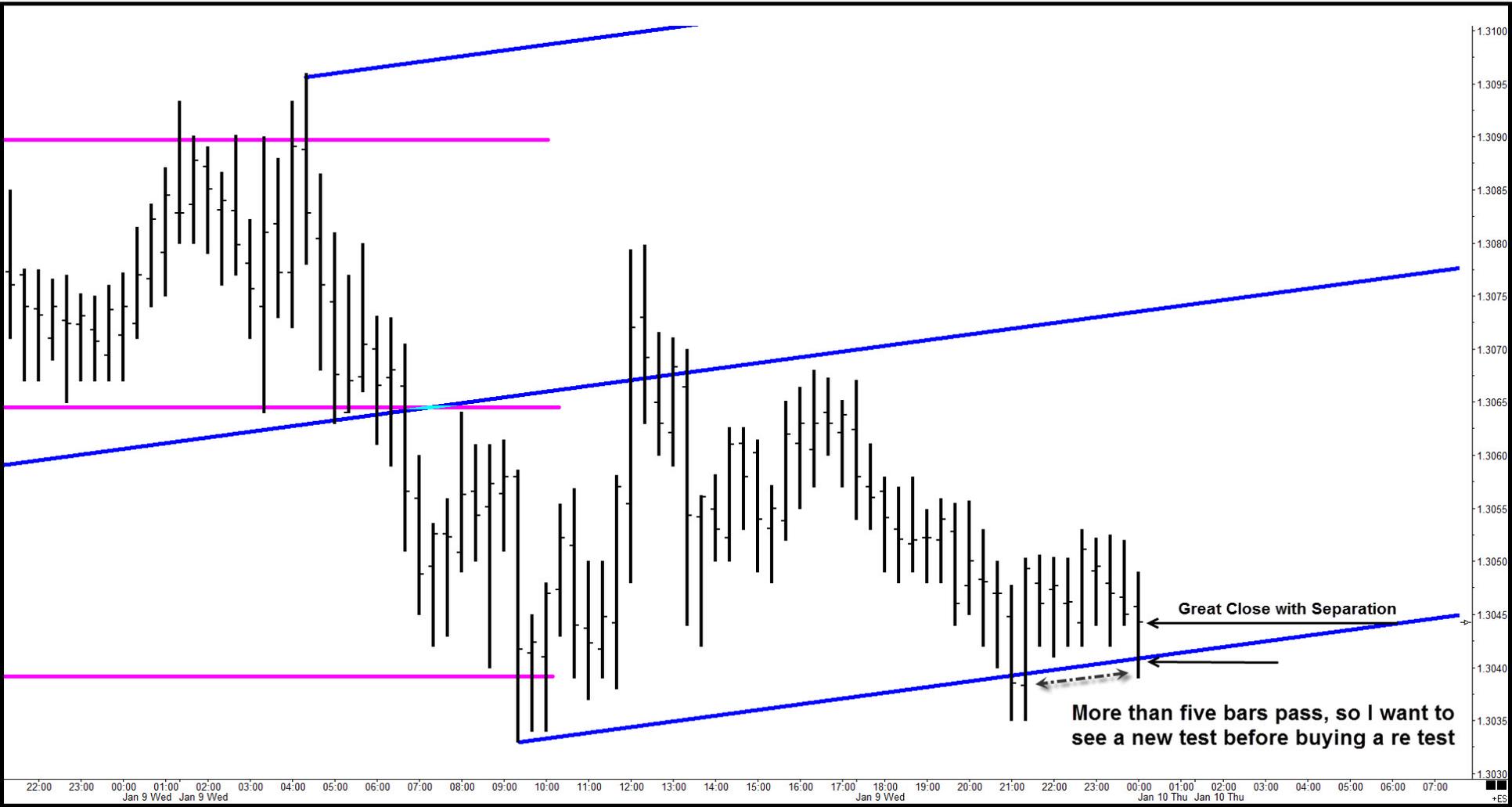
We are back to the argument of ‘scrunching in charts to see the key support or resistance’ that we talked about at the beginning. The current ‘C’ Pivot on the up sloping Median Line is a valid Swing Low – so why not put our stops right underneath that Swing Low? Yes, there were buyers quite some time ago about another 15 pips below the current ‘C’ Pivot. But how long is the ‘memory’ of these traders? Are they still there, fifteen pips below the ‘C’ Pivot or have they changed their orders?

I feel when trading charts based on 20 minute bars, the market remembers the last significant Swing and roughly two to four days of data. For this particular trade, the Null Point is right below my entry area. I feel it warrants a Stop Loss order five to seven pips below the ‘C’ Pivots [but at least a total of fifteen pips from the entry price]. I don’t think it warrants a stop 35 to 40 pips below the entry price.



Remember the Major Buyers here?

- 1 Initial Stop Loss Here
- 2 This Stop Loss is Irrelevant.



Great Close with Separation

More than five bars pass, so I want to see a new test before buying a re test

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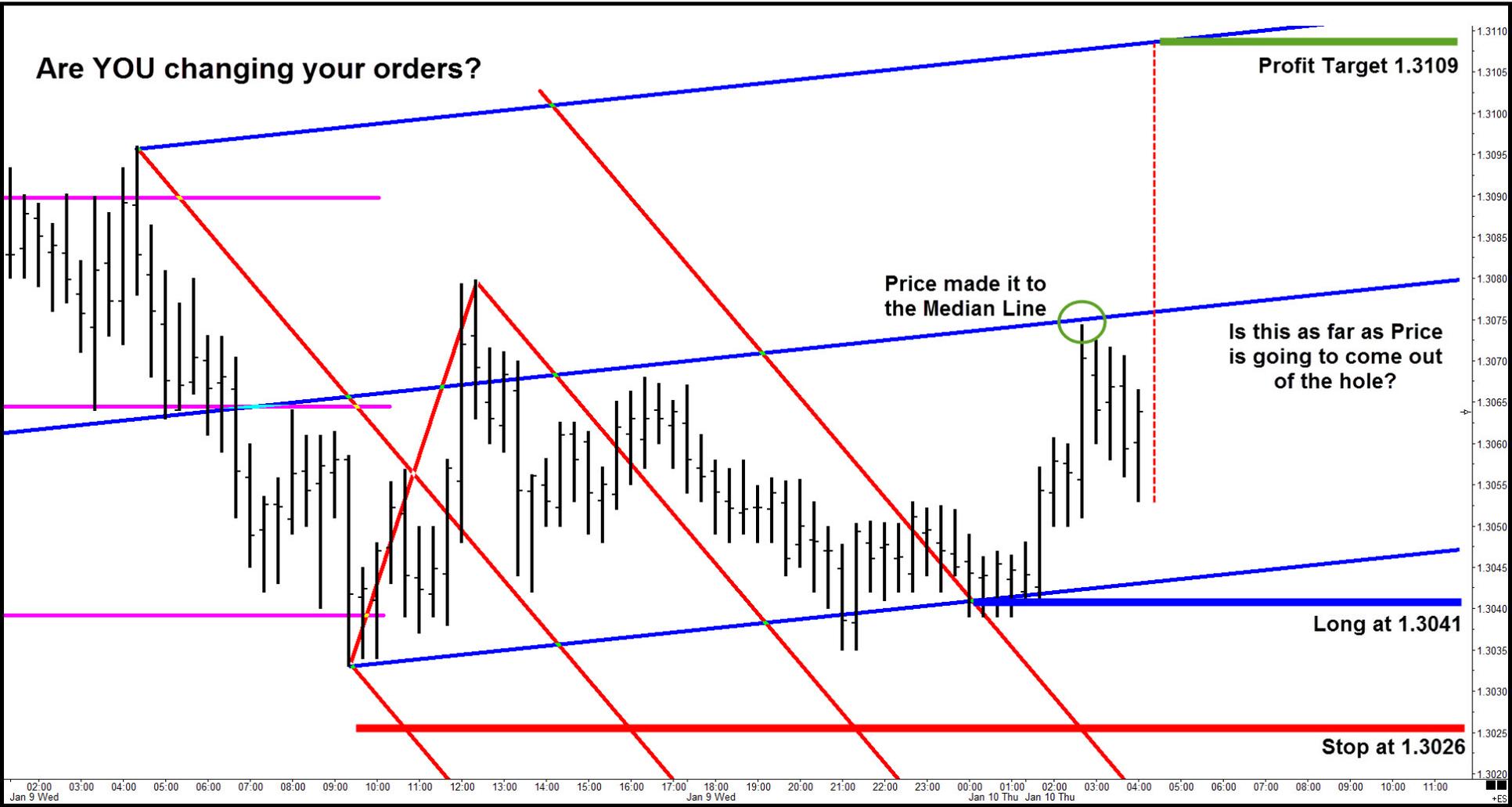
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OK, It's time for YOU to take some ownership of this trade!

Here's my choice: 'Blue to Blue'!

Are YOU changing your orders?



Price made it to the Median Line

Is this as far as Price is going to come out of the hole?

Long at 1.3041

Stop at 1.3026

Profit Target 1.3109

Andrews 101 says Price will make it to the Median Line 80 percent of the time. Price made it to the Median Line and turned lower. What are YOU doing with your Stop Loss Orders and or Profit Orders?

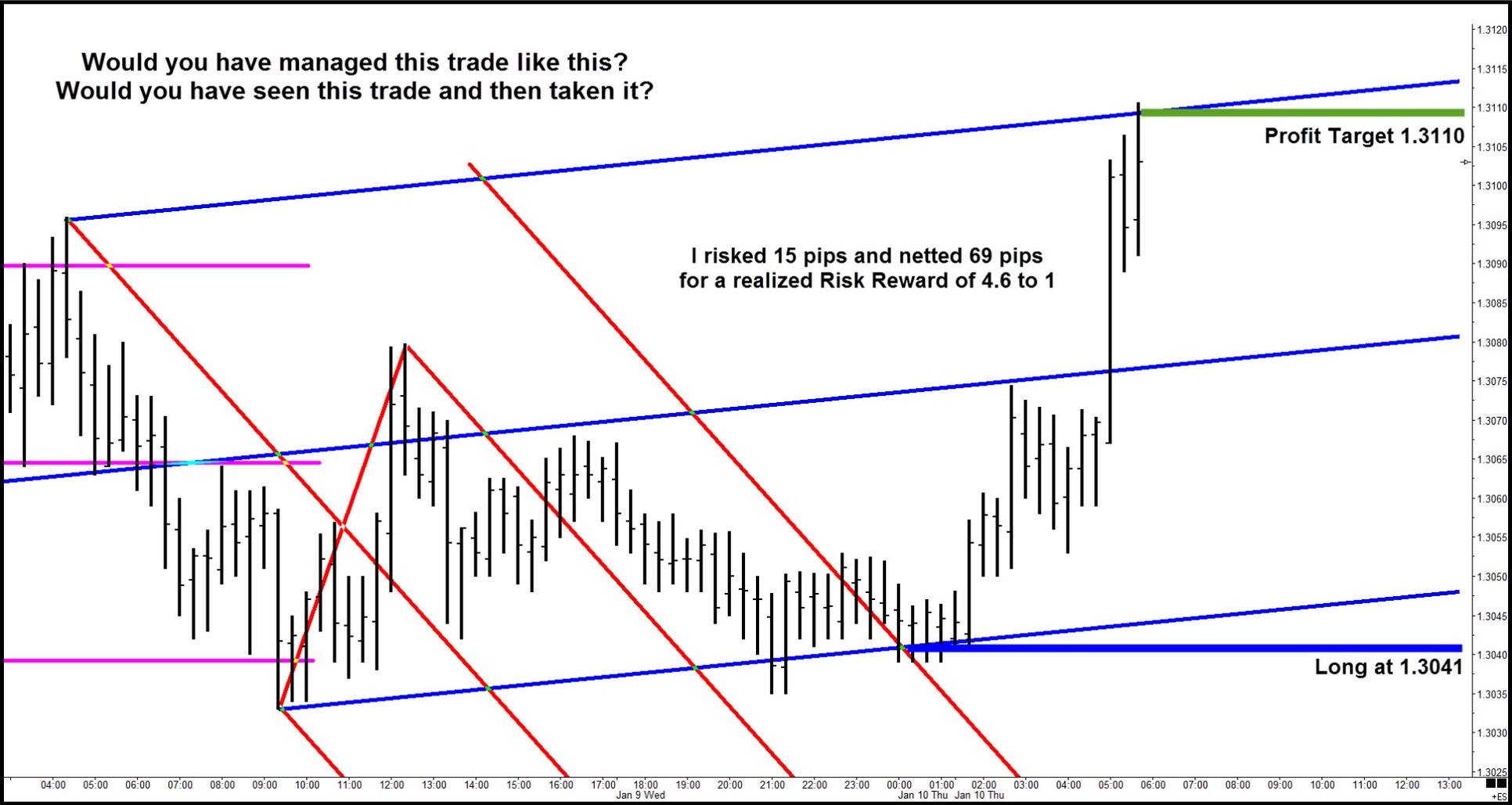
You are long, you have a nice profit...Where are YOUR Orders?



Price Zoomed above the up sloping Median Line with a Huge Wide Range Bar – and closed near its Highs. Andrews says Price will make it to the ‘next most likely line’ 80 percent of the time.

But you have a very nice profit in this trade. And there are no easy Stop Profit areas because Price has climbed vertically. You’ve had a tough week trading...What are you going to do with YOUR orders?

Would you have managed this trade like this?
Would you have seen this trade and then taken it?



I risked 15 pips and netted 69 pips
for a realized Risk Reward of 4.6 to 1

Profit Target 1.3110

Long at 1.3041

OK, you've seen my trade, based only on the recent Price action and the last Major Swing. Do you remember how we began this presentation?

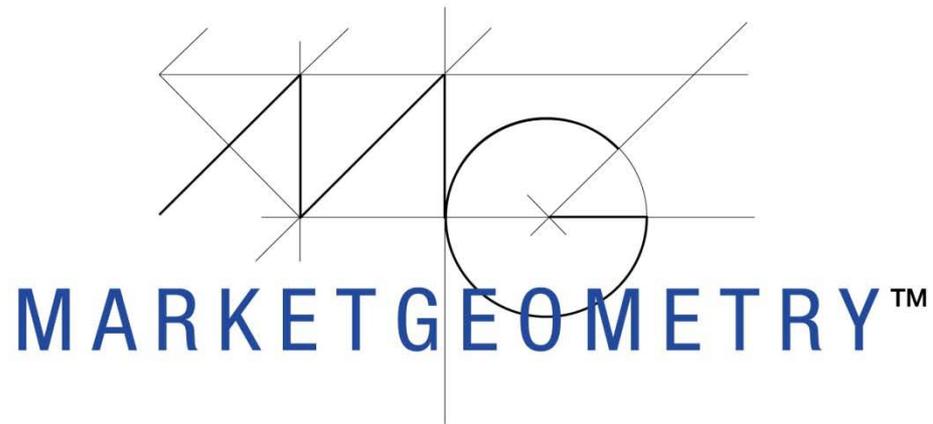


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Yes, it can be done with months of data on a 20 minute chart. I've done it, you've probably done it or tried to do it. But I would argue that it's much easier to 'Harvest Your Piece' when you pay attention to the relevant data, not all the data your vendor offers you.



Thank You for taking the time to attend this session. Questions?

“Master your tools, master yourself.”

®Timothy Morge