

Alchemy! Forex Fantasy and Fun

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Fantasy

The fantasy of alchemy, venal mans' oldest dream was to turn lead, a common and cheap metal in the renaissance and middle ages, into Gold, the riches of Empires and Kings. The idea of taking something cheap and plentiful and applying chemistry to transform it into an endless source of wealth has universal appeal. Alchemists were learned and knowledgeable in their science and were retained by princes and rulers in their quest for the magic of transformation. Many dedicated their lives to the study and practice of Alchemy. All died disappointed and poor.



The fantasy of taking dross and making it into untold riches, lives on in many aspects of modern life, particularly in financial markets. Promoters of new ventures promise marvellous returns of capital gains and sometimes dividends if you will but buy shares in their latest ventures. Stock exchanges assiduously engineer market indices that are designed to always rise over the long term, a simple feat achieved by constantly replacing failed companies with the hot newcomer. In its wider sense, alchemy, as the process of taking a common substance and turning it into a substance of great value is alive and well today. Indeed it is the basis of many great businesses. Turning cheap and plentiful wood chip into high quality, expensive paper is alchemy; capturing a flow of water and turning it into hydro electric power is alchemy, as are many more sophisticated applications. Alchemy is alive and well!

Forex traders too are would be alchemists. They dream of taking charts, squiggly lines of multiple complex indicators and being “successful”. By that they really mean “Can I make money at this caper?” For the banal, the subliminal question is actually “Can I make a lot of money at this caper?”

The answer to that question is YES, I can make you into an alchemist. But probably not in the way you think.

Forex is *the* premiere trading market for money accumulation. It is the only genuine 24 hour market, it is easily accessible, the major trading platforms have the required liquidity and depth, and the innovation of forex trading platforms means that traders can now access their trade execution and risk control strategies without the intervention of a broker, thus reducing another layer of cost.

So to those of you earnestly seeking financial independence, a boost to your income or a strategy for retirement, all subsets of that human dream “freedom”; making money, perhaps substantial money, by trading forex is the best recommendation I can give you. Those, marketing forex platforms (it’s a profit driven industry sport), love to present their imaginary traders in two different forms. One is the cool young dude sitting by his swimming pool with a high spec laptop using a mobile connection to execute his forex trades, meanwhile sipping his Pina Colada while being eyed by a bevy of beautiful, doe eyed young ladies expectantly waiting the master’s next brilliant gambit to keep the lovely lolly rolling in.

“Lolly”, the Australian vernacular for “money” is a necessary precursor to high end laptops, swimming pools, luxury yachts and doe eyed beauties, so if this is your fantasy, pay close attention

as I show you how the lolly machine works. The other stereotype beloved of advertising agencies features alternately, a severe, gruff voiced man in a tie and shirtsleeves or an equally severe, but vastly more attractive young lady, replete in a black power suit and glasses. In both these scenarios, after delivering their sales pitch they turn to an array of trading screens that would confuse a high caliber jet pilot! The fantasy crowd imagine themselves buying into super trends that flow and go endlessly. Their brief visit to their trading room is only to move their stops or count the lolly.

So that's the sales pitch. The reality is quite different!

Reality

You don't need high end laptops or glamorous surroundings to make money trading forex. What you need is a mathematical edge that delivers consistent profits. I cover and analyse 38 separate markets for my website clients daily; I cover another 19 markets for institutional clients; I write 45 articles each year for major financial publications on Gold, S&P, Forex and US and Asian indices; I run private tutorials for traders from around the world; I run an active trading website and make a trading video about every 10 days. And I do it all from a battered and much used Asus laptop that is at least 7 years old. So you don't need expensive equipment to be a good trader. What you need is dedication and perseverance and an ability to read. If you will read I can show you how.

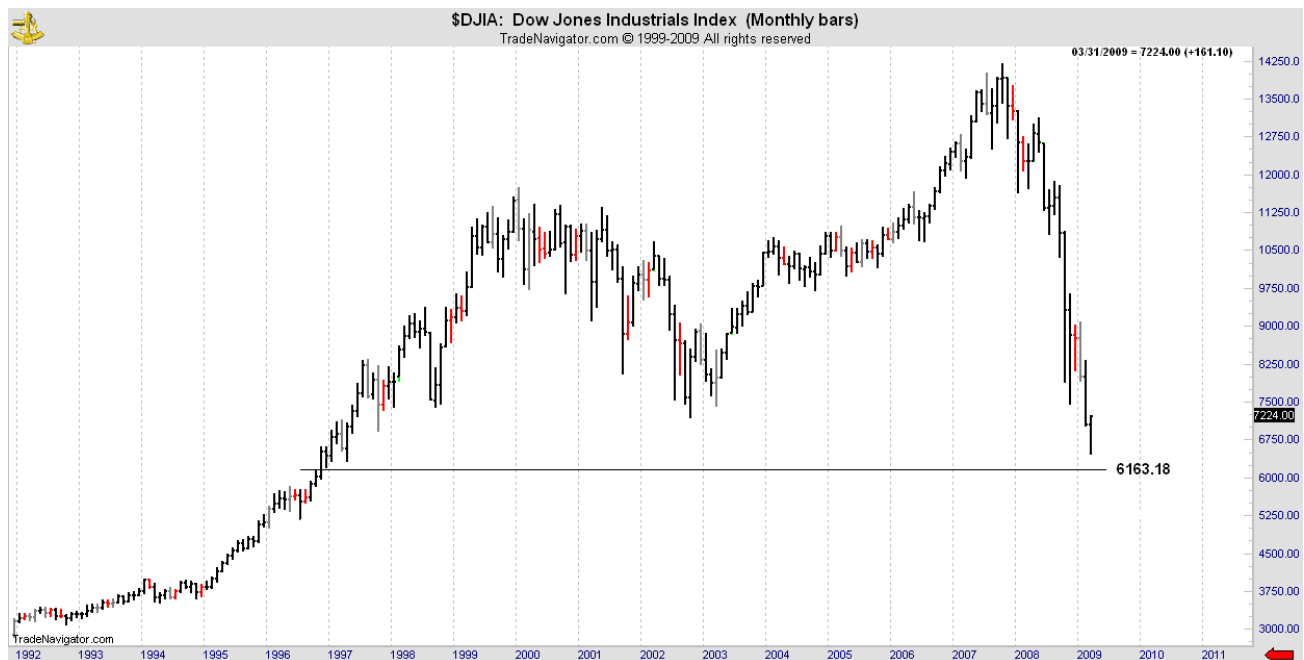
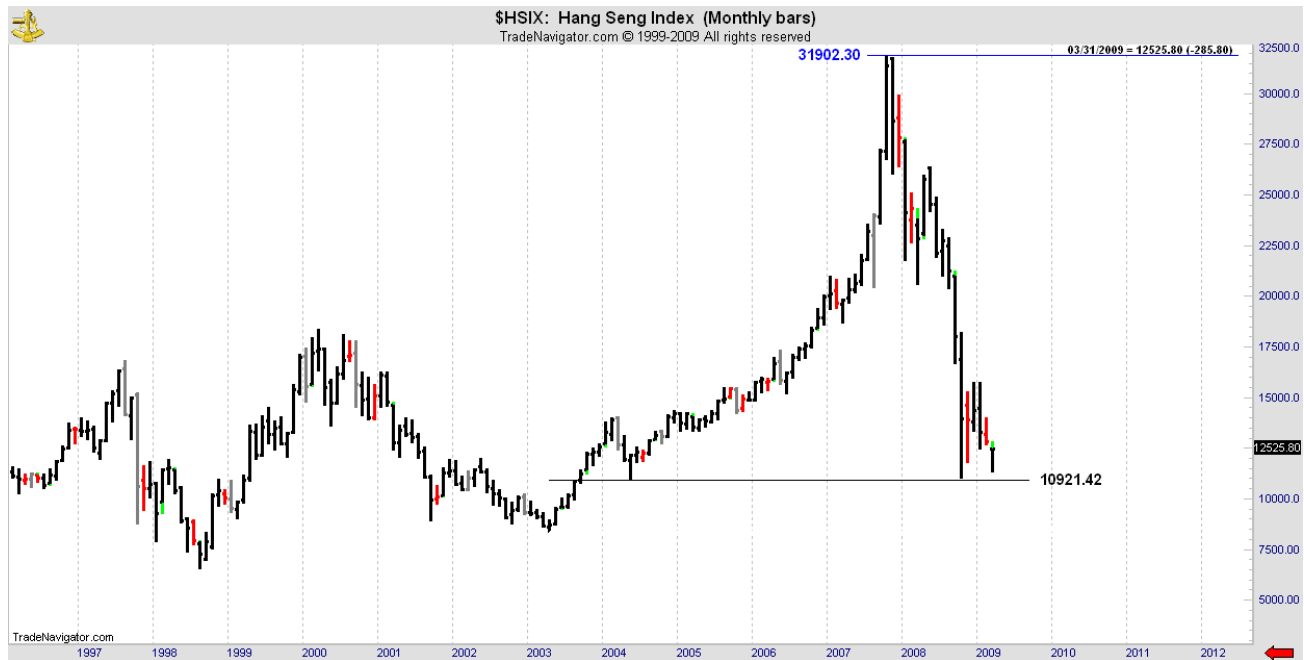
What I am going to show you is, to my knowledge, the best forex trading program in the world. Not only have I never seen a comparable program but I have never heard anyone claim to be able to match this performance in a verifiable way.

The Danielcode lolly making machine, achieves its extraordinary results that build a high powered equity curve (every trader's ambition) by a combination of two ancient mechanisms. One that has been known to all traders since the earliest times of merchants and kings. The other, equally ancient has lain dormant under our noses for 25 centuries. The first of these miracles is the power of compounding. This is the basic tenet of wealth accumulation. Many of you will have heard of this concept but I set out a simple table below that illustrates it dramatically.

Month	A/C Balance	Assumed return	Net/month	Acc
M1	50,000	11%	\$5,500	
M2	55,500	11%	\$6,105	11%
M3	61,605	11%	\$6,777	23%
M4	68,382	11%	\$7,522	37%
M5	75,904	11%	\$8,349	52%
M6	84,253	11%	\$9,268	69%
M7	93,521	11%	\$10,287	87%
M8	103,808	11%	\$11,419	108%
M9	115,227	11%	\$12,675	130%
M10	127,902	11%	\$14,069	156%
M11	141,971	11%	\$15,617	184%
M12	157,588	11%	\$17,335	215%
M13	174,923	11%	\$19,241	250%
M14	194,164	11%	\$21,358	288%
M15	215,522	11%	\$23,707	331%
M16	239,229	11%	\$26,315	378%
M17	265,545	11%	\$29,210	431%
M18	294,755	11%	\$32,423	490%
	327,178	11%	\$35,990	554%

Here, you can see the astonishing power of compounding, by which the profits from each month or period are sequentially added to capital, so that the earnings or profit from the static rate are “compounded” over time. The power of compounding is so persuasive that it is often used by purveyors of trading systems to boost their alleged returns. I caution you that such an approach is more charlatan than alchemist and you should always test your trading system in a level stake environment. Compounding will turbo charge your equity returns, but the regular attainment of a stable monthly return is paramount and this is where most fail.

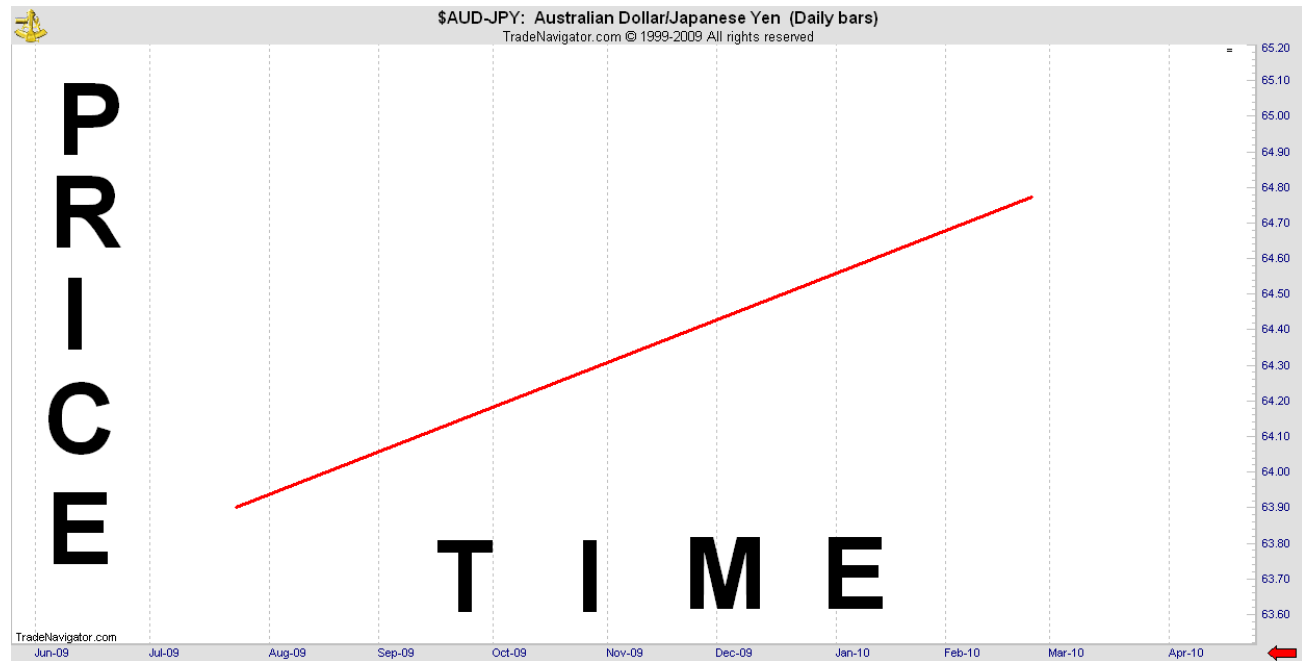
The second and more important requirement for attaining alchemist status is to be able to generate substantial returns on a frequent basis over long periods of time. Banks, hedge funds, mutual funds and stock pickers have amply demonstrated that they are not alchemists. Whether you invest in the East or the West, the following Hang Seng and Dow Jones monthly charts of the indices, make it clear that for most, your financial advisers have performed a quite different magical trick. They have made large parts of your savings and investments vanish!



Learn this lesson well. Safety lies in your own knowledge. Learn to trade forex and keep your money in your own hands.

The Danielcode

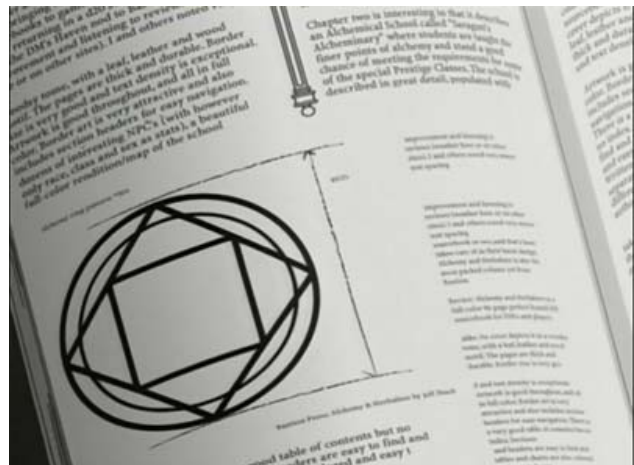
The Danielcode is a sequential mathematical progression, derived from the numbers recorded in the Book of Daniel. Any financial chart will have at least two axis, time and price, and hence any price point at any given time involves both time and price. All of these price points lie along what WD Gann called the 4th dimension which put more simply is an angle.



Prophecy has many layers and degrees. The simplest explanation of the numbers in Daniel 12, is that they provided a timing mechanism for the Hebrews. At another level, they enable the conversion of time to price and from the mathematical matrix that this alchemy provides we get precise market price numbers that markets know and recognise but that others do not see. As a by product we create short cycle “time turns” that when combined with the Danielcode price targets give us high probability market turning points, our T.03 turn indicator.

For those of you interested in knowledge, the real source of power, much more detailed explanations of the Danielcode price numbers and the T.03 turn signals are available at the Danielcode website www.thedanielcode.com , but I suspect that most of you are a mercenary lot (most people are), and would prefer that I cut to the chase and “show you the money”.

At the Danielcode we have every sort of forex trader ranging from the biggest brokerage firms and prop traders in the world, to new comers who have never seen a trading chart. All are catered for with an extensive Danielcode Trading Manual in written and video form and a T.03 Tutorial, also in written and video form.



Show me the Money

It is axiomatic that once you have a mathematical advantage in your trading, the more you trade, the more money you will make. The great advantage that forex has over other markets, apart from its global nature is that there are so many tradeable crosses. I cover 16 forex pairs at the Danielcode website and provide T.03 signals on a daily basis. Another 16 pairs are covered for institutional clients. So whereas we may generate 1 signal a week in Gold or S&P, we generate 3-4 forex trade entry signals every day, about half of which are elected.

From July to December 2008, we ran a real time forex model account at the Danielcode website, using the T.03 signals posted daily for members so we could harness the harsh light of credibility from our members who observed the posted entry signals. This was the result, and you can see every individual trade posted under the “Forex” tab at the DC website:

Danielcode T.03 Model Forex Account*

Updated:	2008-12-19
Account Starts:	2008-07-01
Capital:	\$50,000
Trades Fin YTD:	\$75,128
Return Fin YTD:	<u>+150.26%</u>
Average Win:	\$802
Average Loss:	\$873
Win %:	88%
Average Risk:	1-4%
Days YTD:	171

This result was obtained through the period of maximum market turmoil (September-October 2008), which for forex traders meant record volatility (what we love), and was obtained by professional traders trading 8 hour shifts around the clock so matching these results is beyond the logistic capacity of most private traders but these results show what is possible by the application of a consistent, objective trading method in forex.

You will observe from the model account at the DC website that there are very few large winning trades and even fewer large losers. In fact the average winning trade is remarkably similar to the average losing trade. The reason it builds the equity curve so quickly is precisely because the T.03 trade signals combined with the Danielcode preferred trading methods, eliminates those large drawdowns so characteristic of most trading models.

You will note also that we insist on conservative risk management with the average risk on entry being 2.2% and we have tabulated only the level stake result as I referred to above. Naturally, these results were recorded by a third party not connected to the Danielcode other than as a client.

Risk and Risks

In your progress to becoming a forex “super trader” there is the all important matter of risk in trading and some of the inbuilt risks in the forex system. Let me enumerate some of them:

- ✚ The greatest risk in forex trading is your risk on entry. For the model account we restricted that to a maximum of 4% of the starting bank. Institutions, who by their nature don't know how to trade (most bank prop traders are trading their client's order flows, which is a polite fiction for almost, but not quite, front running their clients) prefer a risk on entry of 1%. For newcomers, remember that trading like any other cerebral activity requires ability, learning and application, so trade small. You can see what results we can create on a 2% risk. You don't need to exceed this until you are very good. Even then, 4% is my maximum risk on entry.

- ✚ Stop loss management is the key to successful trading. Good stop loss management will make a good trading program better.
- ✚ Trading platforms generally make their money out of the quoted spread. For the major pairs, the spreads are often reasonable, but the biggest moves come in the secondary pairs so make sure your platform provider is competitive on the spread on all pairs.
- ✚ In speaking with the VP of my data provider last week, I complimented him on the depth and accuracy of their forex data, and asked why they didn't do more to promote forex to their clients. His answer was that "you can't trade forex because the banks keep running away from the spread". By this he meant that the forex trading platforms who rely on the quotes from the trading banks were habitually widening the spreads to a level where even the best trading strategy would be defeated. Before trading you should open a free practice account with your intended provider and monitor the spreads over a 48 hour period. If the spreads fluctuate by more than a handful of ticks, find another platform. The biggest advertisers are usually the worst offenders so look around. The latest twist on this pernicious practice is that some platforms are offering a fixed spread. To achieve this, which basically contradicts their own business model, most are simply taking the other side of the spread and adding a few ticks. This guarantees that you can't win, so make absolutely sure that your trading platform is competitive and consistent with all of its spreads.
- ✚ Make sure that your platform has proper "stop" protocols. Platforms vary widely on stop orders on entry, with "stop if bid" and "stop if offered" being put there to confuse you. Some also limit how close to the market you can place your defensive stop. Check around. There are better opportunities.
- ✚ It is unlikely that most traders will be able to monitor markets 24 hours a day and these are 24 hour markets. Get in the habit of moving your stop to break even as early as is reasonable and consider using a trailing stop to protect profits at all times.

Fun

Trading becomes fun when you are winning consistently and building a great equity curve for your family's safety. I hope that I have shown you in this article that becoming a financial alchemist is a rational and possible target. Today, the trading performance of institutions has been exposed as being so lamentable that regular trading profits have been labelled by non trading commentators as not only impossible, but indeed as a red flag for those undertaking due diligence. This is the modern equivalent of those who swore the world was flat before Christopher Columbus proved otherwise.

"It can't be done" highlights the awful ignorance of those who dominate the financial media. What they are really saying is "I can't do it, therefore no one can". We strive every day to prove them wrong.

Commentators on Mr Madoff's little party habitually aver that the consistency of his alleged returns as well as the fact that he retained a small time auditor should have been warning signs. They conveniently omit the fact that AIG, Citibank, Merrill Lynch, HBOS and a score of other spectacular insolvencies boasted of the biggest auditors in the game, but that didn't help the punters.

As for 11% returns, falsely claimed by Madoff on an annual basis, we at the Danielcode churn that out most months. In fact, in an effort to duplicate the trading patterns of sole traders who have the necessities of at least some sleep and family obligations, I have asked one of my senior traders to trade an account on his own, that is for just the periods of the day that a sole trader could reasonably commit to. This particular gentleman lives in Australia, so he is asleep when the US session gets

underway. Fully 72% of the Danielcode T.03 trade entries are elected during the Asian or European sessions so that gives our hemisphere a natural advantage. For the month of February this “sole trader” account returned 9% and is up 14% in the first half of March, so it seems reasonable to assert that the 11% monthly return can be realised even under these attenuated circumstances.

Note also the extremely high win % generated in the Danielcode model forex account. Attitudes to trading vary with each trader’s risk tolerance and emotional makeup. Because we have so many trade entry signals with the T.03s, both those generated for the website and those generated for my institutional clients, and because I understand the drivers of a powerful equity curve, I am never concerned with staying “in” a trade. I advise my students to consistently challenge the market to keep going or stop them out. That’s what makes the numbers. And it’s no fluke. One of my students Derek J of Perth, Western Australia recorder a 90.9% win rate in his personal account for February. Outstanding Derek!

Fun in forex arrives with regular profits and a very high strike rate. Take the results of the Danielcode model forex account traded from July to December last year, and convert those figures from the level stake methodology that I insist upon when evaluating trading methods, and slip the monthly results into the table above so that you can see the joys of compounding at work.

Now we are really having fun!

I invite you to visit the Danielcode website where there are articles and videos on the amazing T.03 signals and other trading methodologies, applicable not just to forex but to all commonly traded markets. Learn the Danielcode and start making that trading fantasy fun.

Psalm 25:4 Show me thy ways, O LORD; teach me thy paths.

Sydney, Australia, 15 March 2009

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John Needham is a Sydney Lawyer and Financial Commentator. He publishes The Danielcode Report and writes occasionally on other markets. He lives with his family in Australia and New Zealand.

"The fox knows many things, but the hedgehog knows one big thing. A Hedgehog Concept is not a goal, intention or strategy to be the best. It is an understanding of what you can be best at. The distinction is absolutely crucial".

Isaiah Berlin, The Hedgehog and the Fox

