



INSIDER CURRENCIES

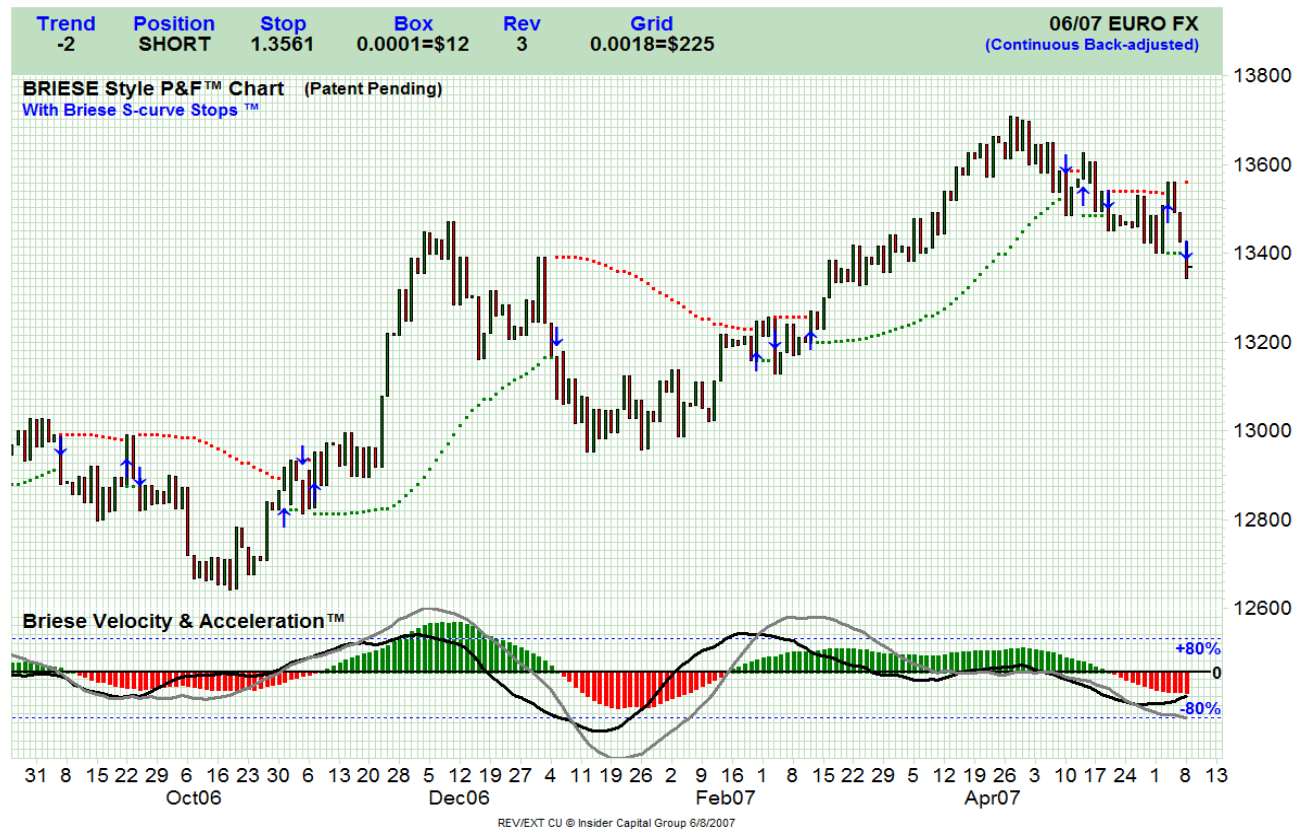
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Dear Currency Trader,

Whether you trade Futures or FOREX, you do not need to be tied to the screen all day.



One year ago I introduced a new style of point and figure, immodestly named “Briese Style Point & Figure™.” I planned from the beginning to add a daily currency issue, but I wanted to include a couple of improvements over the standard point and figure methodology. For one thing, I was not comfortable with the amount of open profit left unprotected by the standard 45 degree p&f trend lines. You will notice that my new, aptly named, trailing stop loss forms an “S” curve that effectively gives an entry more room to get moving at the beginning of a trend but neatly accelerates to protect open profits as the trend matures. You will also see a lot of double-S's, that ride out small corrections. This stop-loss technology is unique, and could only be implemented on these patent pending charts.

I have had a few complaints about whipsawing between trends using point and figure. The above chart was chosen to clearly illustrate that the new trailing stop technology does not do away with in-and-out trading that happens during periods of flat trends or trend changes. My research showed that these trades were part of the bargain for catching the lion's share of every trending move. I also found that giving these trades more leeway did not improve total hypothetical profits over time. So I broke another trend-trading rule and actually tightened the initial stop loss, lowering the initial trade risk!

The result is that the average initial trade risk, based on 15 years of historical testing, is \$1275 per contract (or standard forex lot size of 100,000). Tightening stops turned out to be just the start of our break with conventional trend trading. In currency markets, these innovations produced a 57% performance increase over the standard point & figure method we have been using for the past year.

This method breaks another long-standing rule of trend traders: it is very active. The new method produces 3.7 times the number of trades signaled by the traditional method. This number raised an alarm for me that the broker may make more than the trader on this method. Not so. To compare apples to apples, I deducted \$75 per trade for slippage and commission. Net of these trading costs the new method still produced a hypothetical 50% performance increase. This performance increase is mostly the result of the new S-stop locking in open profits more aggressively than the old 45° point and figure trendlines. This stop-loss protection is important in a 24-hour market, and should make it easier for most traders to stay aboard a trend to its full potential (while getting a full night's sleep).

15 YEAR HYPOTHETICAL* TEST RESULTS

	Hypothetical Profits		No. of trades	Profit per trade	Ave. Initial Risk	Profitable Trades	Loss Trades	Percent Wins	Average Profit	Average Loss	Months Tested	Trades /Month
	Old P&F	New										
DOLLAR INDEX	\$31,400	\$64,590	138	\$468	\$1,147	52	86	37.7%	2,812	-\$949	191	0.7
EURO FX	\$100,287	\$134,775	170	\$793	\$2,044	55	115	32.4%	6,031	-\$1,713	197	0.9
EUR/USD	\$62,320	\$76,850	156	\$493	\$1,504	60	96	38.5%	3,237	-\$1,223	140	1.1
JAPANESE YEN	\$90,387	\$97,113	136	\$714	\$1,626	39	97	28.7%	5,997	-\$1,410	191	0.7
USD/JPY	\$89,899	\$122,272	279	\$438	\$1,765	100	179	35.8%	3,731	-\$1,401	193	1.4
EUR/JPY	\$19,221	-\$26,210	80	-\$328	\$2,084	15	65	18.8%	6,154	-\$1,823	104	0.8
BRITISH POUND	\$14,837	\$64,650	208	\$311	\$1,206	68	140	32.7%	2,879	-\$937	197	1.1
GBP/USD	\$35,710	\$73,280	254	\$289	\$1,807	77	177	30.3%	4,246	-\$1,433	193	1.3
EUR/GBP	\$1,006	\$13,331	183	\$73	\$994	73	110	39.9%	1,304	-\$744	104	1.8
SWISS FRANC	\$51,762	\$70,700	162	\$436	\$1,524	53	109	32.7%	3,817	-\$1,207	197	0.8
USD/CHF	\$31,124	\$69,904	162	\$432	\$1,748	51	111	31.5%	4,549	-\$1,460	193	0.8
EUR/CHF	-\$4,704	-\$41,483	130	-\$319	\$796	24	106	18.5%	1,224	-\$669	104	1.2
CANADA \$	\$22,560	\$7,240	266	\$27	\$715	90	176	33.8%	1,166	-\$555	191	1.4
USD/CAD	\$33,074	\$24,340	134	\$182	\$1,072	40	94	29.9%	2,796	-\$931	193	0.7
EUR/CAD	\$29,449	\$18,713	62	\$302	\$1,778	16	46	25.8%	5,503	-\$1,507	104	0.6
AUSSIE \$	\$25,150	\$21,700	218	\$100	\$973	60	158	27.5%	2,284	-\$730	197	1.1
AUD/USD	\$33,940	\$40,640	277	\$147	\$943	89	188	32.1%	1,904	-\$685	193	1.4
AUD/JPY	\$62,482	\$72,340	122	\$593	\$1,567	35	87	28.7%	5,569	-\$1,409	193	0.6
IMM KIWI \$	\$46,920	\$42,480	79	\$538	\$1,052	24	55	30.4%	3,742	-\$860	125	0.6
NZD/USD	\$45,420	\$45,320	211	\$215	\$890	81	130	38.4%	1,664	-\$688	193	1.1
AUD/NZD	\$13,238	\$11,589	100	\$116	\$686	39	61	39.0%	1,138	-\$538	99	1.0
So African Rand	\$50,420	\$121,365	86	\$1,411	\$1,593	42	44	48.8%	4,049	-\$1,106	125	0.7
USD/ZAR	\$13,568	\$126,718	168	\$754	\$1,240	70	98	41.7%	3,145	-\$953	193	0.9
GOLD	\$89,175	\$57,410	270	\$213	\$640	102	168	37.8%	1,308	-\$452	191	1.4
Mexican Peso	-\$23,671	\$37,615	231	\$163	\$710	85	146	36.8%	1,364	-\$537	150	1.5
AUD/GBP	-\$13,838	\$60,642	281	\$216	\$908	102	179	36.3%	1,784	-\$678	193	1.5
EUR/AUD	-\$47,852	\$11,638	182	\$64	\$1,381	67	115	36.8%	2,031	-\$1,082	104	1.7
	\$903,284	\$1,419,523	4745	\$299	\$1,274	1609	3136	33.9%	3,164	-\$1,025	165	1.1

 **57% Increase over the standard p&f rules!**

WARNING AND DISCLAIMER

***These results are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under-or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown.**

*(In searching the internet for the latest wording requirements for the above CFTC-mandated warning, I ran across the test results for Aberration—one of the most heavily marketed futures trading systems—which has been listed among the “top 10 trading systems of all time.” This may not be a fair comparison because their hypothetical results are from 1980 (11 more years) and are based on 57 markets (more than twice as many as our results include). Nonetheless, if I deduct \$75 per trade for slippage and commission, as they do, our hypothetical test results total \$1,063,647 in 27 markets over 14 years versus Aberration's \$1,381,681 in 57 markets over 20 years. According to my calculator, our hypothetical results average a net \$2,867 per market per year, versus Aberration's \$1,222. Is this an aberration? Could our hypothetical results be more than 2 times better than one of the top 10 trading systems of all time? You do the math.
P.S. They charge \$1995 for Aberration. www.trade-system.com)*

But I digress. As I was saying, the new method's “S-curve” stops are hell on markets that do not trend, but kind to the moves that count. This results in a lot of small losses. I think you will agree that *as a rule*, a trading method that produces only 34% winners is not expected to be profitable overall. This method breaks that stereotype by producing an average winner three times the size of the average loser. You can tolerate a lot of strike-outs when you are hitting home runs like this. (See the list of historical best trades a little later in this letter.)

Only the future will prove the robustness of these results; hypothetical results may not be indicative of future real time results. There are a number of ways system designers try to improve robustness: walk-forward testing, using a reasonably low number of parameters, and judicious optimization, etc. I am more of a tinkerer than a quant. I start with a trading theory that seems reasonable based on observations and experience (rather than simply data mining by brute computer force). Both approaches yield happy accidents, but at least I understand why mine should work.

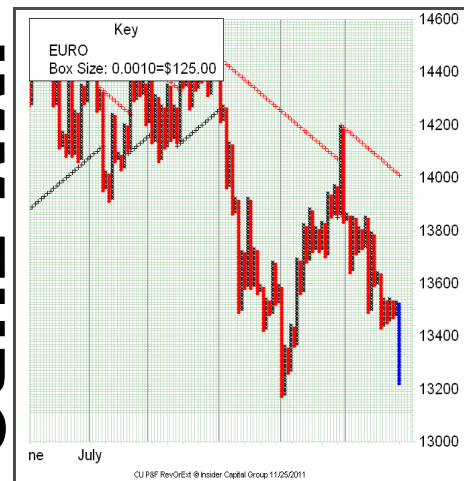
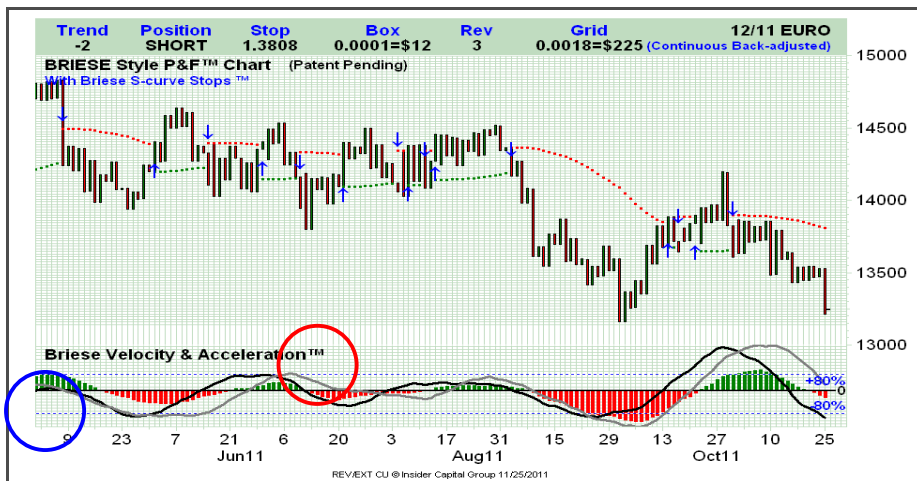
In the process of optimizing the box size for each market (as I did a year ago for the *Insider Futures*) I was happy to discover that most markets were profitable over a wide range of box sizes. You do not want to be dependent on a narrow sweet spot. Only two markets tested unprofitable at all box sizes—which I could have removed from the results, but did not. The old point & figure method turned up 4 unprofitable markets. I happened to notice, though, that a box size of 1 pip or 1 point showed very good results for every profitable market.

How could this be? You can't use a 1 tick box size—that's a point and figure rule that has never been broken—why, it practically guarantees a reversal from X to O columns and back on a daily basis. It also produces more trades than larger box sizes do, while producing *less* profit than the optimum box size, in most markets. But it does produce outstanding results in every profitable market without curve-fitting. To me, this one attribute—not needing to optimize a parameter—became the overriding consideration in box sizing. This is not because this will guarantee future robustness—hypothetical results may not be indicative of future real time results—but because my experience suggests that the less a system is curve-fit to historical conditions, the better the likelihood of it continuing to work in future (unknown) conditions. This is just a hunch, but given that rare opportunity not to optimize, I chose to break the rule and use a 1 tick box size for all markets. (I will be interested to see how this holds up in testing the new method on markets carried in *Insider Futures*.)

These charts trade just like the old ones. The signal to cover a short position is price penetrating a down trailing stop-loss by 1 box. The signal to go long may occur at the same point, or later, and is simply movement above the prior green (X) bar by 1 box. Likewise, longs are closed on penetration of an upward trailing stop. The short signal occurs when a red (O) bar falls below the previous red bar.

You don't need to keep track of these levels; they are provided to you in the nightly E-mail. You then enter stop and reversal orders for the next day. Page 1 is a table showing current positions, stop-loss and reversal points, along with the theoretical open profit and open risk based on previous chart signals. Keep in mind that your profit will vary from theoretical based on your actual entry. Also the theoretical open risk is based on the distance from the theoretical entry to the system stop loss. Your actual risk will vary based on your entry and the potential for slippage in exiting your position.

Currency	Trend Rating	Trend Direction		Current Entry			Reversal	Stop Loss	Risk	Delivery Mo/Yr	05/26/07 Price	Hypothetical Profit/-Loss
		Weekly	Daily	Position	Date	Price						
EURO FX	-1	DOWN	UP	SHORT	05/02/07	1.3614	1.3578	1.3578	\$1,450	06/07	1.3462	\$1,900



EURO FX: The O column added 82 p&f boxes on an opening gap to 1.3361. The day's boxes ranged from 1.3426 to a low of 1.3344, with a close of 1.3366, down 0.0071. The weekly trend is an unchanged down, with a minus current Market Rating at -2 but momentum is rising--bullish. A new SHORT trade was signaled today at 1.3361, with a STOP at 1.3561.

We calculate our point and figure charts a little differently than the standard. Traditionally, if the existing bar can be extended by at least 1 box, there is no reversal on that day. This precludes the use of in-the-market stops for exits and entries. Therefore, our method looks first for a potential reversal. If no reversal occurs—a rarity using 1 pip box sizes—we look to extend in the same direction as yesterday's bar. A reversal occurs from a green (X) bar if prices fall 3 boxes below the current green high. A red (O) bar is reversed by a price rise of 3 boxes from the current red low. The right hand chart is a standard format point & figure chart using a nominal normal box size. This is for reference only and displays traditional 45 degree trend lines. The chart on the left is always used for trading signals.

The velocity and acceleration oscillators are intended as a trend guide. Vertical bars revolve around the zero line indicating up or down trends. The black (fast) acceleration line moving through the gray (slow) acceleration line is an advanced warning of a potential trend change. On the euro chart, the first penetration was a timely warning of an upturn (blue circle), but the next penetration warning of a trend downturn (red circle) was premature. These are not “ultimate” indicators, but they have been statistically smoothed to avoid lagging, and are the best I have seen for general trend identification.

A note on forex currency trading: You should not expect to trade every currency pair that we list. Some of these are illiquid, have exorbitant bid / ask spreads, and don't trend very well. We assume that you are experienced in the fundamentals (basics) of trading in the markets you choose to trade. This market letter is intended for experienced traders and we are not licensed to provide personalized

trading advice. The charts and signals presented are mechanically calculated from daily end-of-day price data that we believe to be reliable. But this cannot be guaranteed. While futures prices are the same for everyone, there is no single authoritative price source for forex. Prices vary depending on your liquidity or quote provider. A brief daily summary of the chart indicators and signals is provided for clarity only. This includes the daily price range and closing price that the signals are based on. These are provided so that you can verify that the prices are correct and reasonably close to your data source. You assume complete responsibility for your trading decisions and market actions, and this is as it should be. The 11-page update is E-mailed nightly, usually around 7:30 pm central US time.

COST: The personal subscription rate for *Insider Currencies Daily* is \$44 per month, or \$444 per year in advance (\$799 for 2 years). If you already subscribe to *Insider Futures Daily* at the regular rate, we offer individual private traders a 50% discount on the second subscription. Get *Insider Futures* and *Insider Currencies* daily together for \$66 per month, billed automatically to your credit card until you tell us differently. As an introductory special, we are offering an additional discount on a 1 or 2 year subscription.

The professional rate for each newsletter is \$88 per month or \$888 per year and is not discounted. Two year subscriptions are offered at the discounted price of \$1688.

PLEASE REMEMBER THAT SUBSCRIPTIONS ARE NOT REFUNDABLE, although you may put subscriptions on hold or transfer them as desired.

Also, *Insider Futures* and *Insider Currencies* were designed with *Bullish Review* subscribers in mind. The COT report covered by *Bullish Review* is an unequaled source of trading ideas, but it is not conducive to generating market timing signals. The *Insider* letters provide objective entry and exit timing signals that can be applied to trading ideas generated by *Bullish Review*. You never know where the next big trade may come from. Look at the list of maximum hypothetical profits generated by *Insider Currencies*.

SINGLE BEST TRADE*			
DOLLAR INDEX	\$11,920	EUR/CAD	\$10,386
EURO FX	\$25,775	AUSSIE \$	\$8,220
EUR/USD	\$12,590	AUD/USD	\$7,610
JAPANESE YEN	\$25,013	AUD/JPY	\$21,142
USD/JPY	\$24,165	IMM KIWI \$	\$9,750
EUR/JPY	\$16,739	NZD/USD	\$7,220
BRITISH POUND	\$22,106	AUD/NZD	\$4,365
GBP/USD	\$47,440	So African Rar	\$15,660
EUR/GBP	\$5,333	USD/ZAR	\$13,026
SWISS FRANC	\$19,163	GOLD	\$11,530
USD/CHF	\$16,284	Mexican Peso	\$11,265
EUR/CHF	\$5,458	AUD/GBP	\$10,175
CANADA \$	\$5,410	EUR/AUD	\$6,204
USD/CAD	\$13,885		

*These are hypothetical.