

Rules of Engagement

The EURGBP 2011 Walk Forward study was conceived as a development platform for a sustainable trading model built on Drummond Geometry.

EURGBP was chosen for its relatively low volatility as well as for its general lack of correlation with USD Index (DX) or to global equity sentiment (ES).

The Rules of Engagement for this study are as follows:

- The Drummond Focus Time Period (FTP) = Weekly ... thus active trading is based off the EOD chart, which is updated daily.
- Margin Risk is defined as 2% of notional value
- Risk Equity is defined as 2x Margin Risk (i.e. 4% of notional value)
- Minimum notional position value = EUR 100,000
- Maximum notional position value = EUR 300,000
(Unless Cost Stopped ... but never more than EUR 300,000 max)
- Thus max Risk Equity on notional EUR 300,000 position = EUR 12,000
- A monthly Trade Log will record a variety of metrics for each position, first when opened + then when closed.
- Trade entry / exit only by Day Limit Order or, at trader discretion, on the current day Close price.
- A discretionary Trade Exit level (so-called "Soft Target") is posted on each EOD chart.

(e.g. "Target: 52 @ 0.8368")

This level is an intra-day price target but is not a Limit Order.

- A mandatory Trade Exit (so-called "Hard Target") is followed by "#" on the EOD chart.

(e.g. "Target: pld @ 0.8560 #")

This level constitutes a Limit Order to cover at the posted price.

- Each Closed Trade chart will be posted + Snagit-marked for outcome as well as trade insights.
- An End-of-Week ("EOW") Review will be Snagit-captured + posted each weekend to evaluate actual outcome vs. week-ago anticipation.
- A "Weekly Preview" for the oncoming week will be Snagit-captured + posted each weekend after all 3 Time Period charts have been updated. (Titled "Weekend Narrative" until Sat-25-June)
- The Trade Log will be summed-up at the close of each month together with statistics to include return on maximum (EUR 12,000) potential Risk Equity for the month, irrespective of the fact that average Risk Equity will obviously have been less than the maximum possible.
- Maximum Risk Equity will remain constant for the entire study period to enable valid month-to-month performance comparisons.

Risk Management

Soft Stop Concept

The concept of the "Soft Stop" evolved from:

- Needing "breathing room" on freshly-opened positions
- Avoiding gratuitous stop losses in thin markets
- DG Lesson theory holding that "the flow is the stop"
... i.e. correctly assessing flow acts as stop loss protection

The Soft Stop is updated daily in the "Strategy for Current Day" box atop each Daily chart ... (e.g. "Risk: W11 @ 0.8635")

The operational concept here is that if a Soft Stop is breached on a Daily Closing basis, this invites immediate remedial action. The trader might elect to cover the position at a small loss or to stay with the trade if convinced that flow will return in favor of the open position.

Hard Stop Rule ... "911 Risk"

There are 3 trading concepts embedded in the "Hard Stop"

1. Formal expression of "risk embraced" ... i.e. how much money is actually being risked.
2. Disaster avoidance.
3. Preventing loss of trading days to defensive sieges.

The Hard Stop is posted in red on Daily charts and labeled as "911 Risk." The 911 Risk is also represented on the Daily chart by a thick fuchsia bar positioned above or below the corresponding Soft Stop level. 911 Risk = Stop-Loss Limit order placed on an "If Done" basis with the Entry Limit Order.

Psychology of Stops Methodology

Aside from the obvious practical advantages (capital preservation + avoidance of defensive sieges) that accrue from having a well-defined Stop Loss policy, there may also be important psychological advantages.

Financial asset trading, by its nature, requires embracing risk. Nonetheless, risk has to be managed in a way that also keeps the trader's mind at ease.

The 2-stage system (Soft Stop + 911 Risk) provides for disaster avoidance without depriving the trader of considerable flexibility to fix losing positions, either by taking advantage of shifting market flow or covering at smaller loss around the Soft Stop or even by reversing advantageously.

The psychological objective here is keep the trader's mind open to inviting risk while ensuring that neither an analytical error nor an unanticipated news event translates into a trading disaster that materially damages trader confidence along with account equity.

The Hard Stop ("911 Risk") is a Stop-Loss Limit Order typically placed at a level well behind DG-defined Nearby Support or Nearby Resistance. Once placed, 911 Risk may be moved only closer to market, never away, while the related trade is still open.

Chart Markup Legend

Support + Resistance levels always drawn on Daily chart are:

Projected Weekly DG envelope + Weekly 11s are drawn as horizontal lines on Daily chart

- Weekly pld = blue
- Weekly 11s = black
- Weekly etop + ebot = purple

Support + Resistance levels sometimes drawn on Daily chart are:

Projected Weekly DG levels considered relevant in current context as drawn on Daily chart as required

- Weekly 61s = sky blue
- Weekly 65s = yellow
- Weekly 59s = brown

Projected HTP DG levels considered relevant in current context include:

- Various Monthly levels aside from preset Monthly envelope
- Key Quarterly levels

Note: HTP levels are depicted with thicker lines ... always labeled

Anticipated Weekly Hi + Lo depicted on Weekly + Daily charts:

Anticipated FTP Hi + Lo levels are posted atop the Weekly chart each weekend and also drawn with red and green boxes, respectively, to the right side of the current daily chart.

Monthly Nearbys are drawn atop Daily chart:

The green-bordered boxes atop the Daily chart are the current Monthly Nearby Support and Nearby Resistance.

Annual Results

2011 Month	# Trades Closed	EUR Profit (Loss)	Average Per Trade
January	09	18,390	2,043
February	11	10,220	929
March	07	14,260	2,037
April	08	13,915	1,739
May	09	21,260	2,362
June	11	17,050	1,550
July	07	18,725	2,675
August	07	22,930	3,275
September	09	23,590	2,621
October	07	11,120	1,589
November	06	17,220	2,870
December	05	14,930	2,986
Totals for Year	96	EUR 203,610	2,121