OPENING RANGE BREAKOUT (ORB- Advanced)

Weekly volatility breakout strategy.

On Monday morning check the London opening price, 08.00 GMT.

The difference between this weekly ORB Basic and this ORB Advanced version is that the buy/sell distance is not fixed but adjusted by weekly volatility.

The distance to buy or sell from Monday's opening price is wider when the markets are volatile and closer when the markets are calmer.

Rules:

- Calculate the previous weekly range (high – low)
- Take the European opening price, London 08.00 GMT
- Calculate value for entry points; = Range x 0.35
- Buy/Sell orders, Add/subtract from Monday's opening price

Buy/Sell points:
Example: last week range 100 pips and European opening EUR/USD 1.2000
Buy point is 1.2000 + 0.0035 (Range 100 x 0.35) = 1.2035
Sell point is 1.2000 - 0.0035 (Range 100 x 0.35) = 1.1965
When one is hit, cancel the other.

Stop loss levels:
- Calculate the previous weekly range (high – low)
- Calculate value for stop loss levels, (Range 100 x 0.15) = 0.0015 pips
- Total pips at risk is Range x 0.5 (0.35 + 0.15) = 50 pips.

Stops:

Example.
When Long your stop loss is 1.2000 minus range x 0.15 = 1.1985
When Short your stop loss is 1.2000 plus range x 0.15 = 1.2015

Remember your total pips at risk is 0,5 x range or as in the above example 50 pips.

You are now done for the week.

If not stopped out during the week, close your trade at Friday's close.
Several variations are possible here as well.
If Friday at the close your position are still in profit consider to hold the position until stopped out next week.

Maintain weekly charts of the major Forex pairs and try out different multipliers.
Lager multipliers reduces the number of trades you get, but also the effective position size because the total risk to your stop increases !
Larger entry parameters increase the win rate.

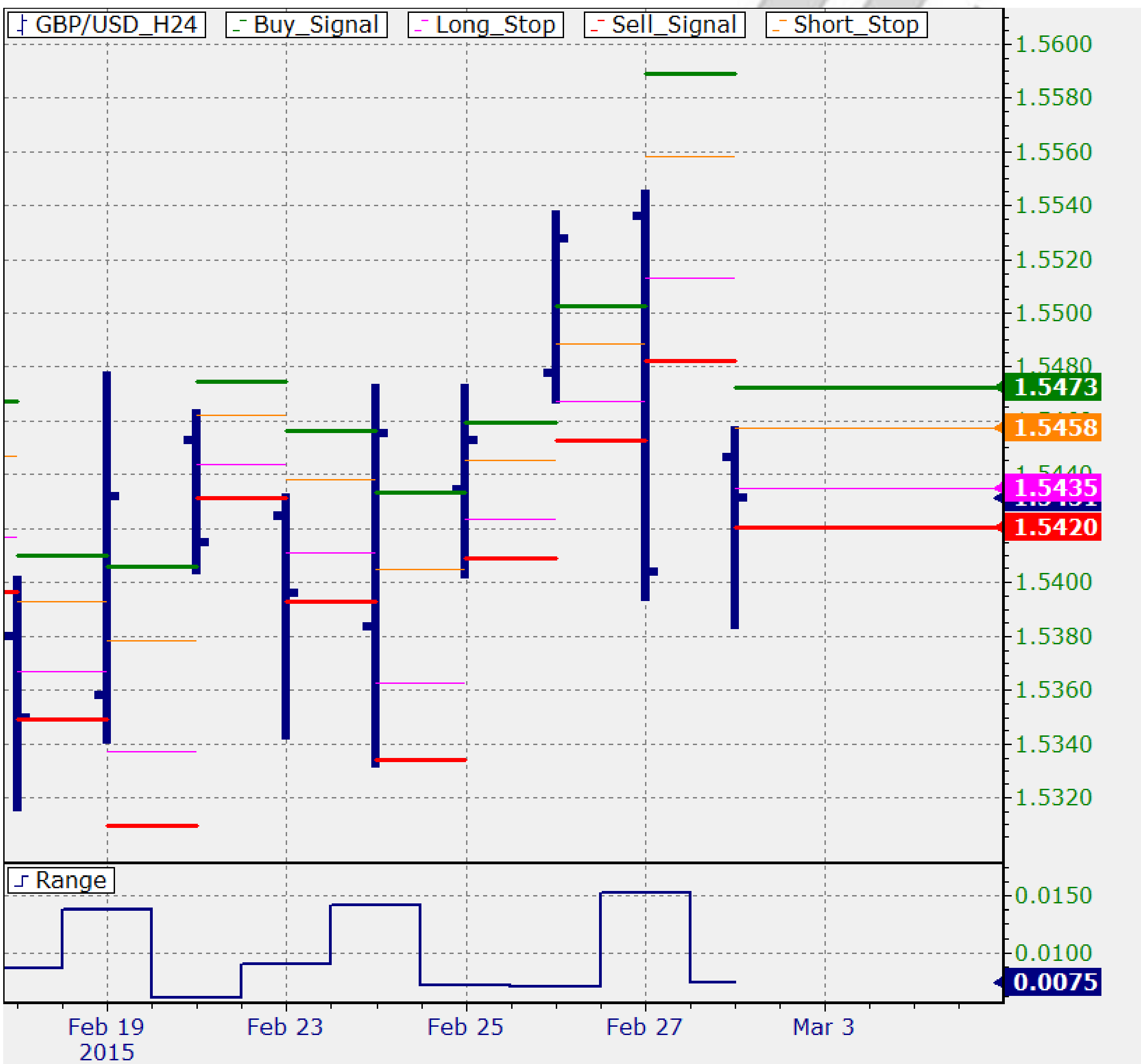

Chart created with NeoTicker © 1998-2011 TickQuest Inc.

Risk Disclaimer:
All trading involves risk. Leveraged trading has large potential rewards, but also large potential risk. Be aware and accept this risk before trading. Never trade with money you cannot afford to lose. All information is for educational purposes only and is not intended to provide financial advice. Your actual trading may result in losses as no trading system is guaranteed. You accept full responsibilities for your actions, trades, profit or loss.

BREAKOUT (Always in the Market)

This breakout system is always in the market using a fixed number of pips/points from the European opening price or previous day's closing price, to buy or sell.

However in a 24 hour Forex market you can use the close at fixed time, to buy or sell. For example New York close at 21.00 hours GMT.

Breakout traders are not concerned with any long term forecast or analysis, only the immediate price action.

Volatility breakout systems are based on the premise that if the market moves a certain percentage from a previous price level, the odds favor some continuation of the move. This continuation might only last one day, or go just a little bit beyond the original entry price, but this is still enough of a profit to play for.

With a breakout system, a trade is always taken in the direction that the market is moving at the time. It is usually entered via a buy or sell stop. The bit of continuation that we are playing for is based on the principle that momentum tends to precede price.

There is also another principle of price behavior that is at work to create trading opportunities. That is, the market tends to alternate between a period of equilibrium (balance between the supply and demand forces) and a state of disequilibrium. This imbalance between supply and demand causes "range expansion", (the market seeking a new level), and this is what causes us to enter a trade.

There are several ways to create short-term volatility breakout systems. Different types of systems based on range expansion test out quite similarly. Therefore, whichever method you use should be a matter for your own personal preference.
In designing a system, one can choose to place an entry stop off either the opening price or the previous day's closing price. This entry stop can be a function of the previous day's range or a percentage of the previous 2 to10-day range, etc.
Exits can be the reverse of the entry signal. Most volatility breakout systems function best when a very wide stop is used.

For example:

- Take the average range of the last 2-10 trading days
- Multiply that range by, normally, 65%
- Buy on the opening plus your choice, X-day range x 65%
- We are now only interested to sell
- Next day opening subtract X-day range x 65%
- This is your stop as well as your news short signal
- v.v. for if you are short on the first trade

Pros and Cons of Trading a Breakout System:

Like most systems, volatility breakout systems will clean up in volatile or runaway markets but tend to thrash when conditions get choppy or volume dries up.
They are "durable" and "robust", though they tend to deteriorate when too large of an order is placed.

The best breakouts won't give you retracements to enter on. You are either on board or you are not. Usually it is best to have a buy/sell stop already resting in the marketplace. Sometimes a market doesn't stop at all after hitting your initial entry level. These often turn into the best trades. They can also turn into the most aggravating whipsaws, if the market the very next day gaps lower and forces you to reverse.
If your trade gets stopped out and a new signal is given in the opposite direction, this reversing trade usually more than makes up for the first loss.
Whipsaws are a drag but they are also inevitable when trading a breakout system. Many, times you have bought the highs and sold the lows. It takes a great deal of "confidence in the numbers" to trade this type of system. System testing should always be done for a minimum number of years, preferably 3-10. Be sure to then examine out of sample data to see how the system performed.

On balance, a volatility breakout system can be traded on most all markets. However, a market might be very profitable one year and yet perform mediocre at best the next.
A portfolio of around 10 markets seems to work the best. The problem with trying to trade too many markets at once is that it can become quite difficult to keep up with the activity level if your parameters are fairly sensitive. Many times in systems development, people overlook what one person can realistically manage.
As a general rule of thumb, the greater the percentage factor used, the greater the percentage of winning trades will be. However, the overall system may be less profitable because fewer trades are taken.

Controllable Risk:
The amount of risk which can be predetermined and defined by a money management stop. Preference is a combination of a fixed dollar amount and a function of average true range.

Uncontrollable Risk:
Overnight exposure (close to open risk). You cannot exit a position when the market is not trading. Thus, you are subject to adverse gaps, which can be exaggerated by news or events.

Slippage risk:
Fast market conditions or thin, volatile markets often cause a trader to get filled at prices much worse than expected.
In general, the numbers behind most systems are very dependent upon capturing a few good trades. You can't afford to miss the one good trade that can make your month.

Here are some tips for trading this or any other system:

Gain confidence by first trading a system on paper. Make sure you can successfully trade a system mechanically before attempting to add any discretion.
Track your actual performance against the mechanical system at the end of each day, rating your success by whether you can match the system's performance.
Monitor performance over an adequate sample, perhaps 100 trades or a set number of weeks. Do not let a down week or trade deter you.

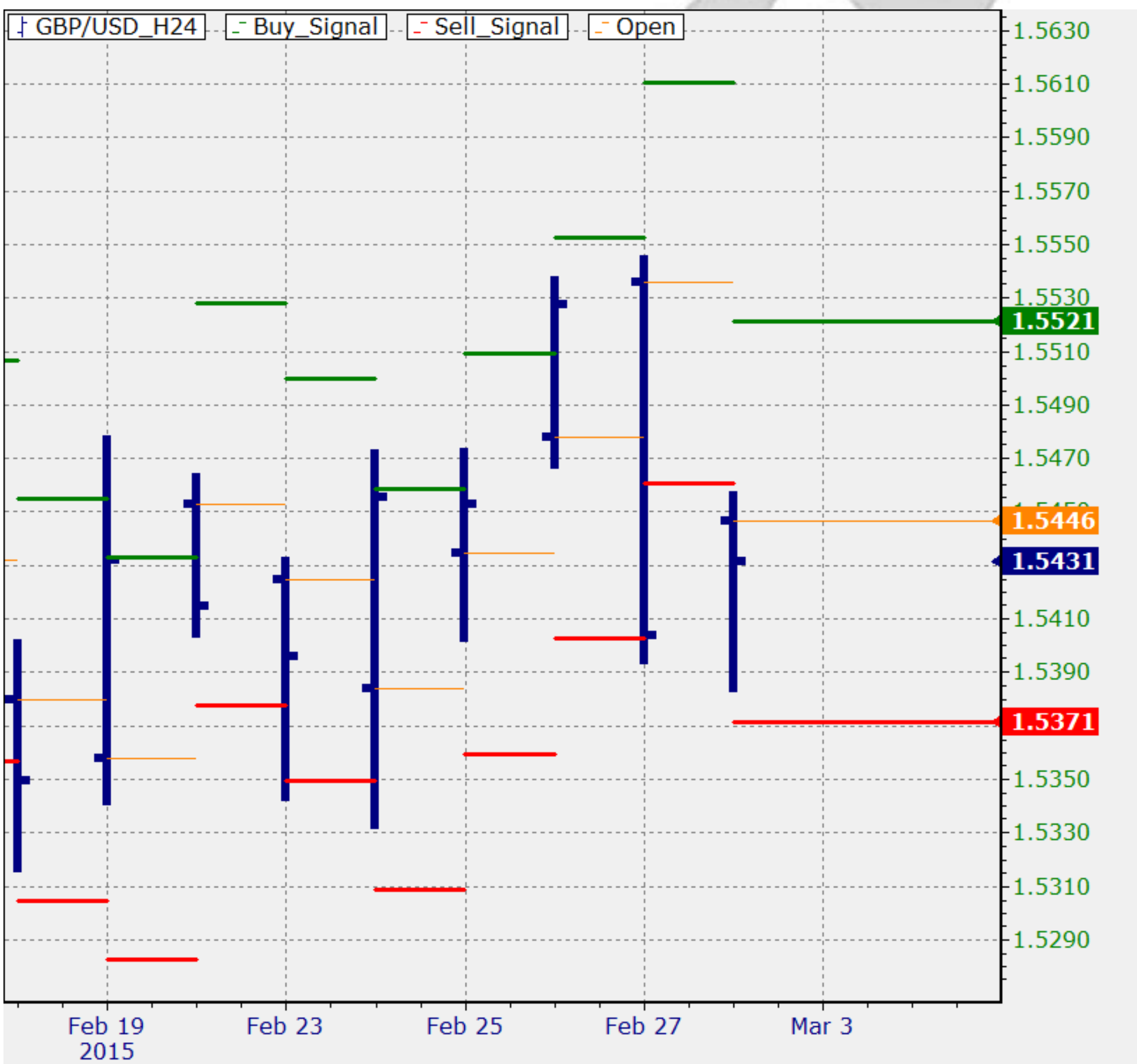

Chart created with NeoTicker © 1998-2011 TickQuest Inc.

Risk Disclaimer:
All trading involves risk. Leveraged trading has large potential rewards, but also large potential risk. Be aware and accept this risk before trading. Never trade with money you cannot afford to lose. All information is for educational purposes only and is not intended to provide financial advice. Your actual trading may result in losses as no trading system is guaranteed. You accept full responsibilities for your actions, trades, profit or loss.