Lan Turner's Bulls 'n Bears Trading System Tips, Tricks & Technical Analysis p. 4

www.PitNews.com

PitNews.com
FUTURES, FOREX, & STOCKS Magazine

Editor in Chief:
Lan H. Turner

Managing Editor:
Heather Rich
hrich@pitnews.com

Assistant Designer:
Marlene Sampson

Controller:
Joseph Chambers

Webmaster:
Jacob Anawalt

Website:
www.PitNews.com

Email:
magazine@pitnews.com

In this issue......

Balance of Payments Accounting & Forex Trading
by Dr. Scott Brown

Options Basics
by Kent Kofoed

Keller's Tips & Tricks
by Jeff Keller

You may have heard about the balance of payments in the news media because it's a popular economic and political subject around the world.

The balance of payments is important for Forex traders to understand!

First, the balance of payments gives you x-ray glasses to perceive demand and supply for a country's currency. If the United States imports more than it exports, this means that the supply is higher than demand for dollars in the foreign exchange market - as long as the other side of the trading pair isn't importing heavily as well from some other major partner.

The U.S. dollar would be under pressure to depreciate against other currencies!

On the other hand, if the United States exports more than it imports demand for dollars should be higher than supply. This should push the value of the dollar up making it more likely to appreciate.

That tells you that the U.S. dollar should be under pressure to appreciate against major trading partners!

A country's balance-of-payments can tell you how strong it is as a world trading partner. If a country has major balance-of-payment problems, it tells you it isn't expanding exports to the outside world. Exports create more domestic jobs and decrease unemployment in a country.

Imports do the opposite!

It's easy to spot which countries might be tempted into politics that restrict imports - and make it hard for investors to get money out of the country - in order to improve the balance-of-payment situation.

This is why you expect a currency with an increasing balance of payments deficit to depreciate - drop - in value.

On the other hand, a country with an increasing balance-of-payment surplus is more likely to increase in value. This offers sales opportunities for foreign

enter-prises. As such trade partners are far less likely to impose foreign exchange restrictions.

This is why you expect a country with an increasing balance of payments (BOP) surplus to have an appreciating currency - an increase in value. Here monetary fundamentals give upward-pressure to the currency with the BOP surplus.

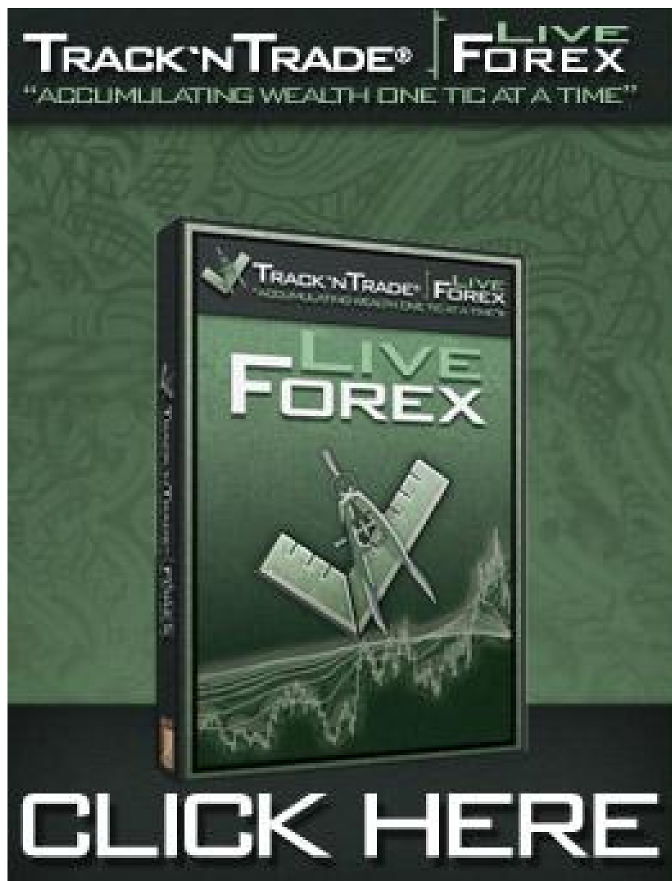
China has been strongly criticized for artificially deflating its currency despite balance of payment surpluses. Such currency management is the reason that I don't see the Chinese Yuan as a 9th major currency in the next decade or two and perhaps not in this century.

Hence you can completely ignore the Chinese Yuan as a serious currency.

Finally, the balance-of-payments gives you an idea of how competitive a country is in international trade. If a country has trade deficits year after year it's a signal that domestic industries lack international competitiveness.

The Current Account

Your main focus as a Forex trader is on the current



account. The current account is one of the two primary components of the balance of payments, the other is the capital account. It is the sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid).

Current Account = Balance of Trade + Overseas Investment Income + Foreign Aid

The current account is divided into four categories: merchandise trade, services, factor income, and unilateral transfers. Merchandise trade is exports and imports of real assets. That's goods, like oil, wheat, clothes, automobiles, computers, and so on. Since U.S. merchandise exports were $2,591.2 billion in 2008 while imports were $3,144.8 billion. The United States had a deficit on the current account trade balance also known as a trade deficit.

But don't get confused when the talking heads say there's a trade balance deficit such that the USD must depreciate. Don't just focus on the deficit itself. Pay close attention to the trend of (1) the current account and (2) the merchandise trade balance.

Even here the trend is your friend!

The current account trend is a great indicator of a future trend change of the major pairs; EUR/USD, GBP/USD, USD/JPY. Since it includes services and merchandise it reacts faster to changes in trade because it's far easier to move services overseas than physical goods.

The current account adjusts for changes in invisible trade. It changes trend before the balance on merchandise shifts trend. This is very useful. Notice in the chart below how you would have noticed a trend change in the current account BEFORE the change in trend in the balance on merchandise trade.

Dr. Scott Brown holds a PhD in Finance, he teaches doctoral seminars at the university level, and is an Oxford Club professor. Find Dr. Brown on the web at: www.ScottBrownPHD.com

Options Basics

By Kent Kofoed

If you are relatively new to the markets (i.e., markets such as the stock, bond, futures, foreign exchange, etc.), or if you are a seasoned trader, it would be a pretty safe bet to assume that you have at least heard of options before and have a slight understanding of what they are; however, even though most people know a little bit about options, the majority of people do not typically understand what options really are, let alone have an understanding of the benefits that options can provide when they are used correctly.

What is an option?

An "option" is a "derivative" and, similar to a futures contract (which is also a "derivative"), the value of an options contract is "derived" from the price (measure) of the underlying asset (instrument), irrespective of what that underlying asset (instrument) is. However, as opposed to a futures contract, an options contract gives the buyer of the contract the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date. With a futures contract, on the other hand, the buyer of the contract (the long) is obligated to purchase the underlying (i.e., take delivery of the underlying), after the contract expires, and the seller of the contract (the short) is obligated to deliver the underlying, which also occurs after contract expiration. In other words, a futures contract is a "bilateral" contract, which is where both sides of the contract have an obligation to the other side of the contract, whereas an options contract is a "unilateral" contract, which is where only one side of the contract has an obligation to the other side.

The different types of options contracts: Options contracts are typically written on stocks, bonds, futures, or currencies; however, options contracts can be written on basically anything and there are even options contracts on things as abstract as weather or catastrophe's (known as weather derivatives and catastrophe options, respectively), which is why the underlying was referred to as an asset or an instrument in the previous paragraph. The asset on which the typical options contract is based is called the "underlying asset" (or simply "underlying") of the contract and is one of the main factors that, and one of the main determinants of, both the value and the price of the options contract (there will be more, on the other factors, later in this article).

Since we now know that both the value and the price of an options contract is based on the market price of the underlying asset, the next two issues are both related to what an options contract does. An options contract, as mentioned previously, gives the buyer of the contract the right, but not the obligation, to buy or sell an underlying asset, at a specific price, on or before a specific date. When the buyer of the option has the right to buy the underlying, this type of option is referred to as a "call" option (i.e., the buyer is able to "call away" the underlying, from the seller of the option, at the price specified in the contract), while an option that gives the buyer the right to sell the underlying is referred to as a "put" option (i.e., the buyer is able to "put to" the seller of the option the underlying asset, at the price specified in the contract). A good way to remember this relationship is with the mnemonic "call up, put down." The second issue deals with when the buyer of the option is allowed to buy or sell the underlying asset. A "European" option is only exercisable on the expiration of the contract; whereas, an "American" option can be exercised anytime during the life of the contract (just as a quick side note, "American" and "European" are simply the names that have been given to these two different types of options contracts and the difference between these options contract is

related to the underlying characteristics of each contract, not the geographic location of where the contract is physically traded).

The participants of an options contract:

The participants of an options contract (excluding the exchange on which the option is traded) include both the buyer of the contract (either a put or a call) and the seller of the contract (also either a put or a call). Since an options contract is a unilateral contract (i.e., only one side of the contract has an obligation) the buyer of the options contract must pay the seller of the options contract a "premium" in order to compensate the seller for agreeing to take on the future obligation specified in the contract (i.e., either purchasing or selling the asset at the price that was specified when the contract was originated).

Important terms of an options contract:

There are many different terms that describe the various aspects of an options contract; however, some of the most important terms include strike price, expiration date, intrinsic value, in-the-money, out-of-the-money, exercise, and option premium. The "strike price" of the option is the price at which the underlying asset is bought or sold, which can occur on the "expiration date" of the contract (which is the date that the contract expires), as is the case with European options, or anytime up to the contract expiration date, as is the case with American options. The "intrinsic value" of an options contract is the value that can be realized if the option is "exercised" (i.e., the underlying asset is either sold to or purchased from the seller of the contract) at any given moment in time. Relatedly, an option that is "in-the-money" has positive intrinsic value while an option that is "out-of-the-money" has no intrinsic value (intrinsic value cannot be negative since the contract is a unilateral contract). Lastly, the "option premium" is the amount of money that is paid to the seller of the option and is equal to the current market "price" of the option.

Lan Turner's Bulls 'n Bears System
Trading Tips, Tricks & Technical Analysis

Determinants of the price of an option:

As mentioned previously, the current market price of the underlying is one of the determinants of the price of an options contract. In addition to the current market price of the underlying asset, the strike price specified in the contract, the time remaining until expiration and the expected future volatility of the underlying asset each impact the price of the options contract.

For call options, a low strike price (i.e., the price that the buyer of the option contract has to pay in order to purchase the underlying asset) increases the price (or premium) that the buyer of the options contract pays to the seller of the options contract. This is due to the fact that the right to purchase an underlying asset at a lower price will always be worth more than the right to purchase that same exact underlying asset at a higher price. For put options, on the other hand, a low strike price (i.e., the price that the buyer of the option receives when the underlying asset is sold, or "put," to the seller of the options contract) decreases the price of the contract, and this due to the fact that the right to sell an asset at a lower price will always be worth less than the right to sell an asset for a higher price.

The last two factors, the time that is left until expiration and the expected future volatility of the underlying, impact the price of both call options and put options in the same way (and in the same direction). The greater the time until expiration, the higher the price of call (put) option, and this is due to the fact that the underlying asset has more time to become "in-the-money" (or "further" in-the-money). The greater the expected volatility of the underlying asset (i.e., the expected rate of change in the price of the asset), the higher the price of call (put) options, and this is due to the fact that greater volatility increases the probability of the underlying asset being in-the-money (or "further" in-the-money) at the time of expiration. Lastly, since an option contract is a unilateral contract (as mentioned multiple times before), it does not matter how far out-of-the-money the underlying asset goes because the holder of the option (i.e., the buyer of the option) will simply choose not to exercise the option and this is why both increased volatility (to the downside for a call and to the upside for a put) and a greater amount of time (which can allow for a further move in the wrong direction) both increase the price of an option and do not decrease the price of an option. If the expected "downside" volatility increases at a greater rate than the expected "upside" volatility, however, this can have a negative impact on the price of a call option (vice versa for a put option), but that is definitely a much more advanced topic and does not really fit into this article.

Why trade options?

There are many reasons why investors choose to trade options; however, there are three reasons that are, in my opinion, some of the most beneficial reasons to trade options. These reasons only apply to the buyer of the options contract (the benefits to the seller of the options contract are inversely related) and they include the limited downside that the buyer of the option has, the leverage that is inherent in owning an options contract, and the ability to use options contracts for hedging purposes. Since the buyer of the option only pays the option premium (which is, in turn, the maximum amount that the buyer can lose) there is significantly less risk involved in this type of investment, when compared to an outright purchase of the underlying asset. Also, since the premium of an options contract is always less than the market price of the underlying asset, the buyer of options contract (when compared to the buyer of the underlying) has the ability to gain control of a much greater position in the underlying than the buyer would have otherwise been able to control (i.e., an options contract has built-in leverage). This greater amount of leverage can produce significantly greater returns for the perceptive trader and it can do so in a considerably shorter amount of time (again, when compared to an outright purchase of the underlying asset). Lastly, the ability to hedge other trades (positions) is another benefit that options can provide. When put options are combined with the underlying asset, the downside of the net trade (position) is limited without limiting the upside potential (that is, of course, other than by the amount of the premium that was paid in order to purchase the options contract). This "hedging" characteristic of options contracts gives investors the ability to "hedge" away any amount of risk, without requiring investors to reduce the size of the position in the underlying asset.

In summary, there are many different reasons to trade options and anyone who is interested in trading options should definitely spend the time that is needed in order to understand the various aspects of options trading. If used correctly, options provide many benefits, as well as the ability to generate enormous returns; however, if options are used incorrectly, those same benefits can quickly turn against both novice and seasoned traders.

Kent Kofoed is a research analyst with Gecko Software, & PitNews Magazine. You can find more details about Gecko Software, and their line of trading platforms on the web at:
www.GeckoSoftware.com

Keller's Tips and Tricks

Hello again traders, Jeff here at Gecko Software support. Today I want to go over the inner workings of the new Candlestick Auto-Recognition Plug-in.

The first thing to note when viewing the Candlestick preferences is that of the ten different patterns available, eight list two separate names. The first name is for the bullish pattern and the second is for the bearish pattern. An example would be the Hammer / Hanging Man (H/HM), where the Hammer is the bullish example and the Hanging Man is the bearish pattern. This same effect applies to all other double patterns within the Candlestick preferences.

The second most important setting to understand is that all candlestick patterns will be created using a bullish or bearish moving average(MA) trend. Candlesticks have historically looked for patterns that follow the overall trend of the market. If the market is trending downward, only bearish candlestick patterns will be noted. If the market is bullish, only long buy signals will be generated. Within the Candlestick Auto-Recognition Plug-in, overall trend is determined by two simple moving averages(14-28 period) within your Candlestick preferences. If you find that your buy/sell signals are not always accurate, attempt to fine-tune your moving averages first. If you find that your signals are consistently showing at the peaks or valleys of the market *and pointing the wrong direction, click to Invert Arrows. Selecting to Invert Arrows might turn a perfectly bad result into a fantastically great one.

Track 'n Trade's Candlestick Auto-Recognition Plug-in

Click Here

When it comes to minimum/maximum candle size, the Candlestick Auto-Recognition Plug-in does not play favorites! We have set the default settings of your plug-in to range all the way down to 1 tic and up to 500 tics. If the candlesticks create the pattern, we will highlight and show it to you. The only exception would be if you are working on larger weekly/monthly time frames where you may want to increase the maximum size above 500 tics. You don't want to miss out on potential patterns because of the size of the candlesticks being analyzed.

The Candlestick Auto-Recognition Plug-in works in the Autopilot! Not only that, but this new indicator is the ONLY indicator in Track 'n Trade that has an individual Q-Calc button for every setting in it's preferences. Our clients have only had their hands on this new plug-in for a week and I am already being shown fantastic systems.

Once you know the basics, and if you are as OCD as I am, you can simplify the plug-in to show a little less which to me equals a little more. In the Text section, turn on Abbreviate to show an abbreviation of the candlestick pattern name in your chart window. You can also deselect Highlight as well, but I find that I like this feature to see specifically which candlesticks made the signal. Everyone has their own style so start clicking and make the plug-in your own. Let us know if there is anything you need along the way and best of trades.

Jeff Keller has been with Gecko Software for almost five years, and is currently the Track 'n Trade Technical Support Manager. You can find Gecko Software online at: www.GeckoSoftware.com. Jeff makes himself available for calls and consultation during regular business hours, call Jeff at: 1-800-862-7193 Ext 3.

PitNews.com Magazine E-Store

Welcome to the PitNews.com Estore.
Below are products featured from the online store, click on them to learn more.

Charting Software

Track 'n Trade Forex Live

FREE 14 Day Trial
Price: $297
Data: Free (Active Traders)

Trade the currency market with the best tools and the easiest order placement available! Free data for active traders.

Learn More

Track 'n Trade Futures Live

FREE 14 Day Trial
Price: $297
Data: $39.95/month

This amazing charting software package gives you the ability to analyze commodity markets technically with various tools, unique market calculators, and customizable indicators.

Learn More

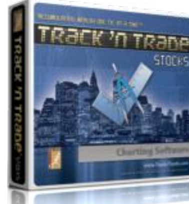
Track 'n Trade 5.0

Free 14 Day Trial
Price: $197
Data: $19.95/month
*Get Advanced Tools Plug-in FREE when you buy TNT 5.0

This amazing charting software package gives you the ability to analyze commodity markets technically with various tools, unique market calculators and customizable indicators.

Learn More

Charting Software



TNT High Finance

FREE 14 Day Trial
Price: $197
Data: $29.95/month

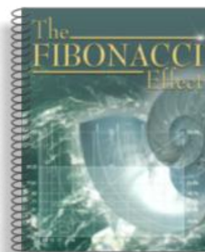
Track 'n Trade High Finance Stock Trading package allows a trader to monitor, track and chart the popular stock market, giving the trader intra day snapshots and price activity throughout the day.

Learn More

Trading Education

It seems that we spend 90% of our time studying and trying to figure out the best timing techniques for market entry, but we spend very little time actually learning the techniques of exiting the market. Getting into a market is easy, but getting out of the market, with a profit, is the true test of a traders skill.

Learn More



Learn how, and what to count, and how and what to measure, and how to read each new setup, and how to set up a trigger, then how to follow through with the final exit strategy. Stop watching your portfolio shrink, and start doing something about it? Learn what you can do, in the next 10 days, to protect your wealth!

Learn More

Accurately identify trends and market cycles with TradeMiner! Get above average market returns with significantly lower average risk by only taking the highest probability trades!

Learn More

E-Store

To sell an item in the PitNews.com estore contact us at 1.800.526.3019 or email info@pitnews.com

PitNews.com Magazine Classifieds

Welcome to the Classified Section of the PitNews.com Magazine. All listings below are "clickable".

FX Trading Platform

Track 'n Trade Forex Live

Company: Gecko Software
Website: www.TracknTrade.com
Market: Forex Trading
Phone: (800) 862.7193

Trade the currency market with the best tools and the easiest order placement available! Free data for active traders.

Click Here for a FREE 14 Day Trial
www.TracknTrade.com

Futures Software

Track 'n Trade Futures Live

Company: Gecko Software
Website: www.TracknTrade.com
Market: Futures
Phone: (800) 862.7193

This amazing charting software package gives you the ability to analyze commodity markets technically with various tools, unique market calculators, and customizable indicators.

Click Here for a FREE 14 Day Trial
www.TracknTrade.com

Educational Websites

PerosnalInvestorsHr.com
www.PersonalInvestorsHr.com
Phone: (800) 862.7193
Listen and learn from the best in the business!
Click Here

ThePitMaster.com
Phone: (800) 862.7193
Great site for beginning futures and options traders. Free education on option strategies and more!
Click Here

Educational Websites

GeckoSoftware.com
Phone: (800) 862.7193
Six time winner of Stocks & Commodities Readers Choice Award. Take a FREE Trial!
Click Here

ChartBook.com
Phone: (800) 862.7193
Free Forex Quotes and Charts online. Apply indicators easily, great charts, check it out!
Click Here

PitNews.com
Phone: (800) 862.7193
Get all your current Forex, Futures and Stocks news in one Place!
Click Here

CommitmentofTraders.com
Phone: (800) 862.7193
Learn to apply Commitment of Traders reports to your trading. Examples using Track 'n Trade.
Click Here

StockAnnual.com
Phone: (800) 862.7193
StockAnnual.com was designed to discover and exploit recurring historical market patterns.
Click Here

TheWall.PitNews.com
Phone: (800) 862.7193
Open forum for traders, visit today to share your trading ideas and post charts.
Click Here

WhyTradeFutures.com
Phone: (800) 862.7193
Learn why you would want to trade futures market. Compare the Futures market to the Stock market.
Click Here

Classifieds