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## Profiles in Forex

### ■ QUICK STRATEGY

#### Taking advantage of 24-hour markets

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The foreign exchange market is open 24 hours a day and its daily volume is over \$3.2 trillion. Since the days of Brenton Woods, central banks, commercial banks, investment banks, professional money managers, corporate and asset manager hedgers, professional and non-professional speculators have all participated in trading the freely convertible foreign currency market, which is the largest market in the world. Players can use both the exchange-traded futures contracts and over-the-counter spot and forward contracts. The reasons for putting on and taking off foreign currency positions vary by both the market participant and what their specific objective may be. Both fundamental and technical analysis are used. The trading of currencies by money managers, including straight prop shops, has been evolving from a discretionary only approach to a discretionary and algorithm driven trading approach. Algorithms are formulas loaded into a computer that, in many ways are the high tech version and explanation of what the old school discretionary traders do. Both the discretionary and algorithm traders can make and lose money in today's trading environment. Whereas the discretionary trader needs to take breaks from the market, the trading algorithm can trade 24 hours, five days a week without a break. In addition to the endurance factor, algorithms tend to look for small changes in market price movement. This type of trading allows the models to potentially generate profits in non-macro trending markets. The short duration of the position hold also reduces the correlation to other things, a factor today's asset managers look for. Research by Dr. Harry Markowitz, the Nobel Prize economist and later Dr. David Litner, a Harvard professor, concluded that Modern Portfolio Theory tells investors to have a diversified investment portfolio. Furthermore, the portfolio should have on average, 20% in managed futures (or managed forex). The thought being that managed futures, have a low correlation to stocks and bonds and if incorporated into the portfolio, can reduce portfolio volatility and increase returns.

Astor Capital is a CTA that trades foreign currencies for its investors. Like many other systematic CTAs, the FX program uses a propriety library of trading algorithms on systematic trading basis.

These algorithms are periodically backtested among various currency pairings, looking for trading models that generate positive performance. After the various algorithmic trading models are chosen to be used in the upcoming trading, they are put into the live trading mode with the FCM to trade automatically 24 hours a day, all week long. There is of course a set of human eyes watching over the system to insure normal operations of the trading models. With the average length of a position being well under an hour, the managed FX program is materially different from an ETF that may be, for example, long U . S . dollars or short Japanese yen. The managed FX program may be both long yen and short yen at various points in a trading session.

Systematic managed forex programs appeal to those investors looking to be “long” low-correlated assets, including the FX market, but don’t want to or don’t know how to trade it on their own.

The computer based trading algorithms generate trade execution signals that, in part, include strategies based on short term momentum, medium term momentum, short term counter-trend and trend exhaustion, short term oscillator and reverse oscillator, short term mean reversion and short term correlative. We may have more than one trading model running on a given currency pair. As an example, we were quite active in USD/CAD, running models including short term momentum, short term counter-trend and short term mean reversion. As you can see from the 60-minute C\$ chart (below) there have been several opportunities on both sides of the markets. We also had activity in GBP/AU D using models including medium- term momentum. There were large momentum-based moves in the GBP/AUD in the last week of May.



Past performance is not necessarily indicative of future results. An investment in alternative investments, including Managed Forex is subject to a substantial risk of loss. The material contained herein is for informational purposes only and is not a solicitation for investing.