

Your Guide To Forex Trading Systems



<http://www.NewForexReview.com>

Choosing A Forex Trading System – Part 1

There are many different kind kinds of Forex trading systems.

Of course, the most important Forex trading system is the one that is right for you.

As you search the web for Forex trading systems suitable to you there will be many seemingly appealing offers many promising to be so much better than the rest.

It can be difficult to compare some Forex trading systems due to the lack of performance information. You want to have enough information available to you for you to be able to make an intelligent decision. You need this valuable information prior to committing to purchase or lease a Forex trading system and before committing to the money necessary to properly fund a trading account.

Here are a few quick tips to help you hack your way through the jungle of available Forex trading systems:

1) Ignore the testimonials.

Your first job is to ignore the typically glowing testimonials telling you how great a certain Forex trading system is. Remember that these are most likely not typical results obtained with the trading system.

Now I'm not suggesting that you ignore all testimonials about all products. I'm simply suggesting that when it comes to testimonials about money making strategies that we all need to be more objective.

Don't forget that a testimonial about a vacuum cleaner is a lot different that a testimonial about t trading system. For one thing everyone knows how a vacuum cleaner works and what it is supposed to do. Not everyone knows what a Forex trading system is and how it is supposed to work.

Not looking at the testimonials will allow you to be more objective in your evaluation.

Also keep in mind that it is highly unlikely that you will buy your own private island based the few great trades you see in the testimonials.

Choosing A Forex Trading System – Part 2

In the first part of our series – Choosing A Forex Trading System – Part1 we covered a few quick tips to get you a few steps closer to choosing the Forex trading system that’s right for you.

In Part2 we will take a look at a few other do’s and don’ts for choosing a Forex trading system. With that in mind here is “don’t” number 1.

1) Don’t be overly impressed by a high percentage of winning trades

Often times you will see Forex trading systems advertising a high winning trade percentage. The ad might contain information a line like the following:
“Over 90% Winning Trades”

You might look at that and say, “Wow, with numbers like that I’ll be rich in no time!”

Before you stop reading the ad to call your local real estate broker about buying that private island just realize that this one figure does not tell the whole story.

The fact is that most successful traders the world over have made their money with far smaller percentages of winners than many of the trading systems you will see advertised.

I would suspect that the reason the high winning percentages are advertised is to attract as many customers as possible. Many buyers believe that the closer the winning percentage is to 100% the closer the trading system is to being a “sure thing”. In the trading world there is no such thing and you would be well advised to run as fast as you can away from anyone who tells you otherwise.

Here’s a quick illustration of a losing trading system with a high percentage of winning trades:

Trading System A Performance

Number of trades = 1000

% of Winning trades = 92%

% of Losing trades = 8%

Average Winning trade = \$180

Average Losing Trade = -\$2100

That's just a quick illustration of how a Forex trading system can have a high percentage of winners and still lose money. We'll go into even more depth in the next part of our series as we continue to explore choosing a Forex trading system.



Choosing A Forex Trading System – Part 3

OK, in our last installment I showed you how a sample of a Forex trading system with a high percentage of winning trades could still be a losing system overall.

The whole point of the exercise was to get you to take a closer look at the performance results of trading systems that you are interested in pursuing. Now that you know that it is possible to lose money trading a system with over 90% winners, you'll be able to look at the next advertisement for a Forex trading system much more objectively.

Let's take another look at our example:

Trading System A Performance

Number of trades = 1000

% of Winning trades = 92%

% of Losing trades = 8%

Average Winning trade = \$180

Average Losing Trade = -\$2100

A few quick calculations tells us that this trading system had Total Net Profit of -\$2,400

The Total Net Profit is an important factor in any trading system although it doesn't tell the full story.

Here's how the Total Net Profit is calculated:

Total Net Profit = Gross Profit – Gross Loss

In our example above these figures would be:

$\$165,600 - \$168,000 = -\$2,400$

As stated above the Total Net Profit for this trading system is negative. This is important to note. As you can see, if the only information you originally had access to was the percentage of winning trades you would have started to trade a losing trading system. Now with a little more information such as the Total Net Profit we are clearly able to see that all the glitters is not gold.

Please note that it is unlikely that anyone would be openly advertising the fact that even though their trading system has a high percentage of winning trades that it is a losing system.

In the next part of our series we're going to take the performance data we currently have at our disposal and generate a very important number to know in evaluating any trading system.



Choosing A Forex Trading System – Part 4

In the last part of our series we explored a few key performance measures to help us in choosing a Forex trading system.

Here's our example:

Let's take another look at our example:

Trading System A Performance

Number of trades = 1000
% of Winning trades = 92%
% of Losing trades = 8%
Average Winning trade = \$180
Average Losing Trade = -\$2100
Total Net Profit = -\$2,400
Gross Profit = 165,600
Gross Loss = -\$168,000

I promised you at the end of the last series that we were going to “generate a very important number in evaluating any trading system”. Well now I'll make good on that promise. This very important measurement is called the Profit Factor

The calculation of the profit factor is quick and easy:

$$\text{Gross Profit} = \$165,600 / \text{Gross Loss} = -\$168,000 = 0.9857$$

Unfortunately for this trading system the profit factor is not attractive. A profit factor of 1 means that the trading system just breaks even. Any profit factor below 1 indicates a losing trading system. In other words our example trading system would not be worth trading.

Can you tell me how good a trading system would be based on the following simple calculation:

$$\text{Gross Profit} = \$1,000,000 / \text{Gross Loss} = -\$1,000,000 = 1$$

So how good would that trading system be? After all it is showing a million dollar gross profit. If you answered that a trading system with a profit factor of 1 would not be appealing you would be correct.

Even though the million dollar trading system has tremendous profits it also has tremendous losses. Basically this is a break-even trading system. If you ask “What’s the point of trading a break-even trading system?” the answer would be “none. There is no point in trading a system that breaks even. The money in your mattress can break even without any of the risks associated.

We want a trading system with a profit factor great than 1 because that would indicate that we have positive net profit. Some people refer to a trading system with a positive net profit as a system with a positive mathematical expectation. Either way you put it the Profit Factor is a valuable measure for any trading system.

You don’t want to miss the next part in this series. Next up is some information that you positively must know before putting your hard-earned money and time into any Forex trading system.



Choosing A Forex Trading System – Part 5

No discussion of trading system evaluation would be complete without a discussion of drawdown. We must always look at the maximum drawdown of any trading system as it is very, very important.

The maximum drawdown of trading system is defined as the greatest peak-to-valley drawdown in a trading system's equity. Let's say for example that we have a trading system that reaches a particular equity peak of \$100,000. Let's further say that two weeks later, the trading system equity is at \$80,000. In this example, let's say that the \$80,000 equity happens to be an equity valley. In that case, the peak-to-valley drawdown would be \$100,000-\$80,000 equals \$20,000. This means that the maximum drawdown is \$20,000.

So why is the maximum drawdown such an important measurement in our evaluation of a trading system? It's because the maximum drawdown gives us a measure of the survivability of the trading system. A simple measure, but a measure nonetheless. Basically, when we look at the maximum drawdown we can say that this maximum drawdown can happen again at any time throughout the life of the trading system. This is particularly important when it comes to evaluating starting account size.

As an example, let's say that you started to trade the system using an account funded with \$10,000. Right off the bat, you can see that this would not be prudent, because as we can see from our maximum drawdown figure if we went into a drawdown immediately after starting our account our account balance would logically be wiped out.

We can see from this quick illustration that we definitely need to fund our account with more money than enough to cover the maximum trading system drawdown. It makes perfect sense to have a buffer of some sort as well.

I would exercise caution, if you are looking a trading system and the recommended account size is the exact same size as the maximum drawdown.

The maximum drawdown is an essential measure that gives us a better idea of what to expect when trading a particular system. A comparison of risk versus reward is an absolute essential in successful trading.

Choosing A Forex Trading System – Part 6

In our last installment we discussed the super-important performance measure called maximum drawdown. Today I have another measure whose importance may not be immediately obvious to you. That measure is the actual length of time over which the trading system's results were achieved. Some of you may identify this as the length of the trading system's track record.

Why is this so important? The main reason that this is so important is that the shorter the track record of the trading system is the less significant the track record may be. A trading system with a short track record may be only cherry picking and displaying the best possible period of trading. Don't be impressed by some wording like "made 10% return this month"...so what. In my personal best month of trading I made hundreds of times more than the above example of 10%...again, so what. In trading, as in life, there are many things that are a flash in the pan...trading systems, get-rich-quick traders, etc.

Fortunately, you and I realize that success in trading is a marathon and not a sprint as so many would love for it to be. Your trading system needs to be one that at least displays the ability to weather the long-term storm. As we all know past performance is no guarantee of future returns. A longer track record may give you more insight into your trading system's chances of survival than one without as much data.

You should plan to have a long and profitable relationship with your trading system. Like any relationship that you plan for the long term it makes good sense to have as much history on your potential partner as humanly possible.

So shy away from those trading systems that seem to selectively share only one or two months of hypothetical performance. Remember, even a broken clock is right twice a day.

Be sure to check the next page for some Forex trading resources.

To Your Forex Trading Success!

Robert Strakkenn

Forex Trading Resources

Here are some Forex trading systems we've located. For more information click on any of the links or graphics below:

[Forex Killer](#)



[Forex Assassin](#)



[Forex Tracer](#)



[Forex Autopilot](#)



[Forex Mentor](#)

