Trading System: BatFink Daily Range (A)
Investment Market: Forex

Daily-Range trading technique used to capitalise on high daily range price moving pairs

Name:
Batfink

System trade time:
Hourly Charts

Title:
Super Hero Pips Chaser

System:
Only ever a trade signal away on the MT4 hotline. Batfink is always ready for his next trade.

Whether it's chasing down pips for profit or defending positions with trades like wings of steel Batfink is always at the ready.

Catchphrase:
"My Trades are like Sheilds of Steel"

Introduction

Day trading foreign currency (Forex) is challenging pursuit, emotionally and strategically. This system endeavours to provide a disciplined, mechanical way of Intraday trading the forex market.

The **BatFink Daily Range Strategy** (BF) was originally designed to be currency-specific to the GBP/USD but was also found to be suitable for other pairs with a high daily range. However to date the best results for this system have come from trading the GBP/USD.

The purpose of this document is to supply a detailed explanation of the **BF** Daily Range strategy. It is meant to specify details of the manually tested results (In PIPS) giving insight to future profit potential and System Rules, Indicators and Chart Setups required.

Four pairs were chosen to test against this system, GBP/USD, CHY/USD, JPY/USD and EUR/USD with, GBP/USD generating the best results. These pairs were used to test this system based on the larger than average daily range for trading. *This system has not been tested on additional pairs*.

Back tested results do not supply a guarantee of future results and Traders should understand the Forex market and trade at their own risk.

This Document Specifies:

1.   System Descriptions

The **BF** is a simple and disciplined approach to buying and shorting the Forex currency market. Essentially traders will trade pairs based on the daily range of market. There are no certainties in the Forex market however daily price range is fairly constant and this system attempts to capture profits based on this high probability.

The **BF** system primarily operates by placing trades at a set number of Pips from close of day and continually throughout the day. The system was tested by placing 1 trade from entry points and adjusting stops throughout the day at certain levels. You can expect to see the highest volatility for this trading system from the European session to 18:00 GMT.

It is important to understand that the **BF** system was designed to purposely exclude indicators and rely on, pure daily range activity and previous day's price action. Indicators provided are fro visual usage and do not rely on any mathematical equations. For this reason it does not require any Leading or Lagging indicators however the use of moving averages can be used to help the trader identify trends and possibly trade in this direction only. Overlays are used to help visualise entry points, stop losses and target levels.

This system is not a Holy Grail to Forex trading and you will expect to see some losses to gain the overall profits. The average largest drawdown seen within the 6 months tested was 150 pips with the EUR/USD taking the largest drawdown and consecutive losses. Please take this into consideration when trading this system and make sure your account can cover the drawdown that may be required.

This system should be traded in a demonstration environment for a suggested period of 3 months before attempting to trade live. This will give the trader a full understanding of the system, insight to market movement within a daily range, currency pair's, daily characteristics and provide time for you to access any additional filtering.

As a footnote: You may be inclined to adjust this system with indicators etc I will leave this up to the individual trader. I would however recommend that any adjustments or filtering that may improve this system would come from adjusting profit positions, stop losses, applying filters to stay out of choppy days, highs and lows or trading with trend only.

However much tempted, any indicators apart from MAs would not serve any purpose in this system and will only add confusion to the trader and complicate relatively simple trading system. However I will leave this to the discretion of the trader.

2.   Profit Potential

Manual back tests have been performed using this system from May 2006 to October 2006 (6 months). The system is mechanically based and the performance shown is purely from mechanical rules based trading.

The system is very time intensive and requires plenty of screen time. Or though straddling two orders originally from 00:00 GMT most of the time will serve to enter you into the market whilst you may be sleeping, You will need to monitor your trades and re-entries from (7:00 GMT) open to New York (NY) close (22:00 GMT). This should be consideration prior to trading this system and whether or not it fits your trading style.

All the currency pairs entered trades from same point and profit targets were adjusted for the GBP only. To gain the results shown every trade that qualified within the rules were taken.

The system was traded based on re-setting stops at target levels, 55, and 70 and setting 4th target at 100 (GBP 110) pips above or below close of day price to take profit.

Scenarios:

There are three alternate scenarios listed in total tested results of this document that you can choose from with the third scenario by far proving the most profitable.

The System was traded ignoring any trades that did not fit the rules of the system detailed in the rules section.

Spread has not been factored into this system and I will leave this up to the individual trader's discretion to handle how they would like. I would recommend that no spread cost be added to the 1st profit as this could lead to critical misses of the first target position. However adding to 2nd, 3rd and 4th target should not see many of these targets missed.

All trades current orders and pending orders were closed at 22:00 GMT time.
This system can trade many setups that conform to the rules throughout the day. The profits were based on all these setups being traded.

Note:
It is important to note that the results were collected by target levels being reached and registered results only as this was manually tested. Results in forward testing would improved as placing trailing stops at target levels means that instead of target levels being registered additional PIPS would be added.

E.g. Target level 2 was reached at 30 Pips above entry line and a 30 Pip trailing stop was added. Price then proceeded to 42 Pips above entry line before retracing to entry line. This means that in testing a 0 would be registered and in forward trading 12 Pips would be registered (result of 30 Pips trailing stop). This would add considerable Pips to results.

3.   Trade Results

Total Tested Results

Below are the results in % of target positions reached, original stop loss and three separate scenario results (In PIPS). These results are from May 2006 – October 2006.

Below in total PIPS are three scenario totals.

Scenario 1 totals: Once first target hit move stop loss to 10 pips below entry line, close trade when 30 pips above entry line is hit (70 pips above or below day close price)

Scenario 2 totals: Once first target is reached move stop loss to 10 pips below entry line, once 2nd target is reached move stop loss to breakeven, close trade at 3rd target level.

Scenario 3 totals: Once first target is reached move stop loss to 10 pips below entry line, once 2nd target is reached move stop loss to trailing stop 30 pips, close trade at 4th target level.

Pairs	Profit 1 - 15	Profit 2 - 30	Profit 3 - 45	Profit 4 - 60	Stop L - 30
GBP/USD	75%	52%	36%	25%	25%
CHF/USD	79%	50%	36%	24%	25%
JPY/USD	74%	49%	29%	18%	25%
EUR/USD	72%	40%	24%	18%	28%
Trade taken if a profit point would be reached					
GBP/USD	169	116	81	57	55
CHF/USD	117	75	53	36	32
JPY/USD	96	64	38	23	34
EUR/USD	108	60	36	27	34
Total trades all pairs tested					
GBP/USD	224				
CHF/USD	149				
JPY/USD	149				
EUR/USD	151				
Total Pips					
	GPB	CHY	JPY	EUR	
Sceanrio 1	1300	870	580	30	
Scenario 2	1465	1005	370	-150	
Scenario 3	2170	1035	265	-15	
Combined totals					
Pips Scenario 1	2780				
Pips Scenario 2	2690				
Pips Scenario 3	3455				
Trades total	673				

3 separate scenarios based on trailig stops. The first scenario sets a stop loss (SL) at - 10 pips onces it reaches first target point and sets second target point to breakeven. Second scenario sets SL to - 10 at target 1, breakeven at target 2 and + 15 pips on target 3. The third scenario sets SL to - 10 at target 1, breakeven at target 2, + 15 pips on

Trade target results

The figures listed below are the number of trades that hit a target position prior to reversing back. For example if price reached the 4th target position then a trade result was registered against that target position only, not! the proceeding 3 target levels.

GBP

GBP/USD target results.

Trade Month	P - 15	P - 30	P - 45	P - 60	CL - 30	NT
May	7	10	5	15	14	0
June	15	7	3	10	9	1
July	11	4	4	10	7	0
August	13	6	3	7	10	1
September	2	4	5	8	5	1
October	5	4	4	7	10	1
	53	35	24	57	55	4

USD/CHF

USD/CHF target results

Trade Month	P - 15	P - 30	P - 45	P - 60	CL - 30	NT
May	7	4	4	11	5	2
June	7	4	5	6	6	0
July	7	4	2	5	7	2
August	10	4	1	6	7	1
September	7	2	5	2	4	1
October	4	4	0	6	3	6
	42	22	17	36	32	12

USD/JPY

USD/JPY target results

Trade Month	P - 15	P - 30	P - 45	P - 60	CL - 30	NT
May	10	7	5	8	9	1
June	4	3	3	6	4	5
July	8	5	0	5	4	2
August	4	6	1	2	7	1
September	2	1	6	0	8	4
October	4	4	0	2	2	10
	32	26	15	23	34	23

EUR/USD

EUR/USD target results

Trade Month	P - 15	P - 30	P - 45	P - 60	CL - 30	NT
May	14	7	2	11	11	1
June	11	2	3	6	6	2
July	6	2	2	3	9	3
August	7	6	0	4	9	1
September	6	3	2	1	7	3
October	4	4	0	2	1	10
	48	24	9	27	43	20

4.   System Rules

Prior to reading and understanding this section, which contains System Rules and Trade Setups I would recommend that you go straight to the Indicator section and place these on your charts first (Link to Indicators)

The system rules were followed strictly in the gathering of tested results. It is up to the individual if they wish to change any of these rules although it would be my recommendation to trade to the rule for period of three months prior to adjusting or customizing any of these.

1. **Trade Entry Signal:** Trade entry signals are given when the price reaches 40 pips above for a buy signal or 40 pips below for a sell signal.

2. **Trade Position Size and Amount:** I would recommend no more than 3% of your account size.

3. **Setting Stops:** The original stop for entering a trade is set at the daily close price + 10 PIPS.

4. **Taking Profits:** Profits are set to trailing stop at each profit target except target 1 which is set to Stop Loss B. (details in the Indicators and Setup section of this document).

   a. Profit level 1 - 55 pips – or + from daily close (re-set to stop loss B)

   b. Profit level 2 - 70 pips – or + from daily close (re-set to Profit level 1 – 55)

   c. Profit level 3 - 85 pips – or + from daily close (re-set to Profit level 2 – 70)

   d. Profit level 4 - 100 pips – or + from daily close (re-set to Profit level 3 – 85)

   (Spread costs can be added to profit targets 2nd, 3rd and 4th. I will leave this to the discretion of the trader. Spread cost should not be added to the 1st profit)

5. **Chart Time:** All entries are based on 1 hour time frame.

6. **Intraday Trading:** All trades that break entry Line 1 and 2 are taken throughout the day. Except when they are returning in the same direction as the closed trade in which there are additional rules for re-entry.

   (Please see re-entry trade and additional rules for re-entry trade)

5.   Trade Entry Setup

Entry Setup

1. The BatFink [Homeline] indicator sets up a line at 00:00GMT close of day price. We call this the Home Line (HL)

2. There are two stop loss indicators setup with BatFink [Stoploss A] (SLA) and BatFink [Stoploss B] (SLB). The SLA sets 1 line 10 pips above and below the HL line (30 pips above and below L1 and L2)

3. The BatFink [Line 1 and 2] indicator sets two entry lines for trade entries 40 PIPS from HL. We call these Line 1 (L1) and Line 2 (L2).

4. The BatFink [Target] indicators set up our 4 target lines

5. The BatFink [Signal] indicator sets up our target signals

   ### Summary

   - HL – 00:00 GMT
   - SLA – 10 PIPS above HL
   - SLA – 10 PIPS above HL
   - L1 – 40 PIPS above HL
   - L2 – 40 PIPS below HL

   -

   - T1 and S1 – 55 PIPS above HL
   - T2 and S2 – 70 PIPS above HL
   - T3 and S3 – 85 PIPS above HL
   - T4 and S4 – 100 PIPS above HL
   - T4 and S4 – 110 PIPS above HL GBP only

6. Enter trade at L1 for buy and L2 for sell.

7. Set take profit at target 4

8. Set original Stoploss at SLA

9. Monitor trade and when 1st target is reached re-set stoploss to SLB.

10. Monitor trade and when 2nd target is reached set to 30 pips trailing stop

Re-Entry of Trades throughout the day

Example 1:
This example gives some visual idea of a trade re-entry that may happen throughout the day. There are no additional rules for this entry and trade is taken when price reaches L1 or L2.

The First trade gets stopped out after breaking through L2 and retracing back to HL. It then breaks through L1 and proceeds to Target 3.

Trade re-entry
throughout day

Trade 1 entered
and closed out

This example happens less than the second example and if it completes the stoploss cycle from trade one it may indicate a choppy day in the market.

Re-Entry additional Rules

Example 2:

The re-entry of trades can be taken in the same direction as closed trades, on the same or proceeding bars if, price falls below 1A or 2A and then bounces back through L1 or L2.

Example:

- Trade taken when L1 is reached

- Target 1 is reached

- Price drops back to L1

- Price then continues through SLB

- Price on next candle breaks L1 again trade is entered.

- Trade would not be entered if price did not fall back below SLB before re-break L1 again)

This example is the most common re-entry and fills approx 70% of all re-entries.

The Logic

The currency pairs listed will tend to have a lower trade volume outside the European NY sessions apart from possibly the JPY. The GBP will have higher volume within the European session due to the deals worked through the UK and European dealers. You will also find that JPY will have a lot of movement from the Tokyo open sessions so may need to be monitored if you choose to trade these pairs.

The 40 pip entry from close of day was tested to capture momentum moves instead of just market noise. As the average market moves for most of these pairs lies between 100-140 the 4th target of 100 PIPS or 110 for GBP above or below open was set to compensate for any false moves in one direction throughout the day. This allows the currency pairs 40 - 60 pips movement in one direction and still have the daily range to reach the 4th target in the opposite direction if reversed.

The 00:00 GMT time for the indicator levels were used instead of London Open to consider all pairs based in the ASIA region as well. I also use a strategy that's works of the London open but has a smaller entry Lines 1 and 2 and incorporates multiple lots.

The 55 PIPS, first target from HL was set as this seems to catch a lot of trade's even false moves. The 55 first target and the reset of stop loss limits loosing position and loses incurred. The average hit rate for the first target amount on all pairs was approx 75%.

Setting 70 PIPS from HL as the second target has no real logic behind it except that in testing an additional 15 pips seemed to catch a lot of moves. In testing the 2nd target was reached approx 50% of the time and the 3rd target 34% of the time. So if the 2nd target is reached the trade is in your favour to move to 3rd and even 4 targets.

The improving of results would seem to be finding the a mix between collecting profits at this 2nd level and not being stopped out before continuation to the 3rd and 4th targets. Just by setting a stop loss to 10 pips above trade entry lines on this target being reached could improve results.

The 3rd target was reached approx 34% of the time amongst all pairs. Most of the time once the 3rd target was hit the 4th target was also reached. It's seems that the once the market hits this level it has enough momentum to reach the 4th target. If inclined to add to positions throughout the day reaching of the 3rd target level would see a high probability of the 4th target being reached also.

The MA periods and settings are just the ones I favour and do not really play any purpose in mechanically trading this system and the tested results in this document.

6.   Trade examples

1st trade example is showing stop losses and profit taking. 2nd trade example is of re-entry of trade in same direction.
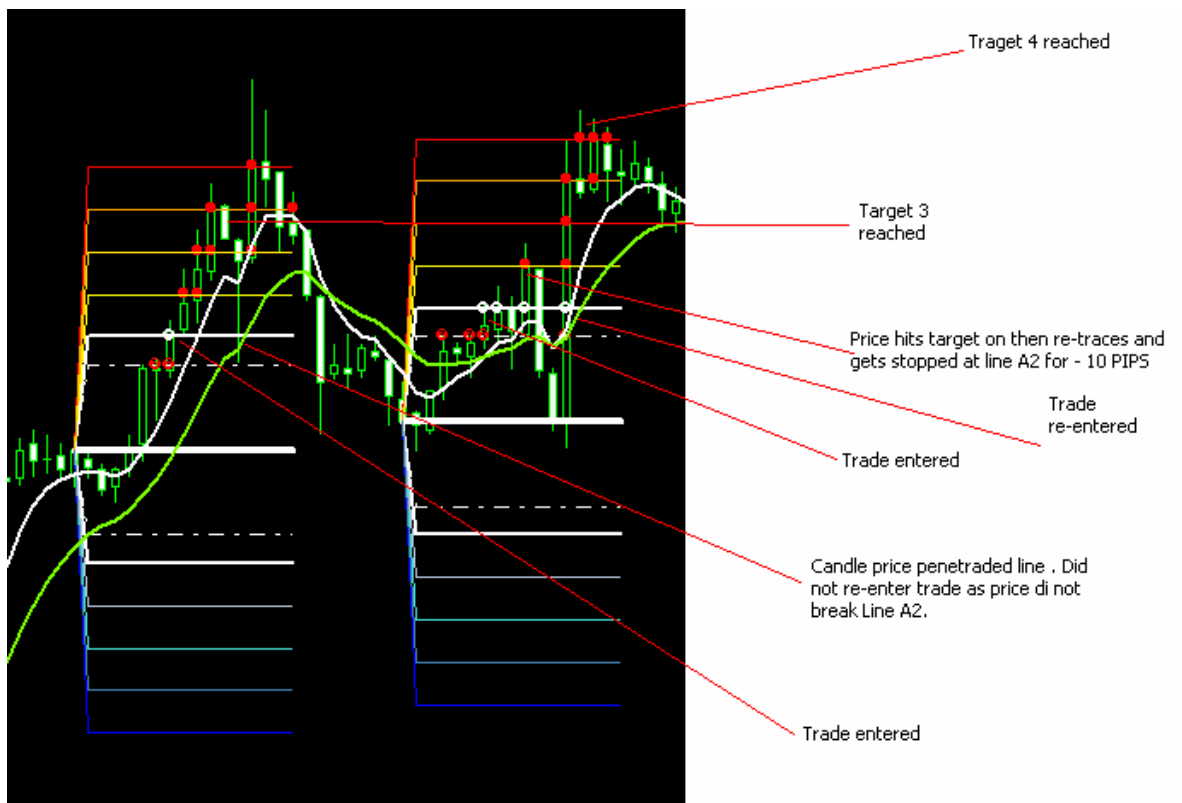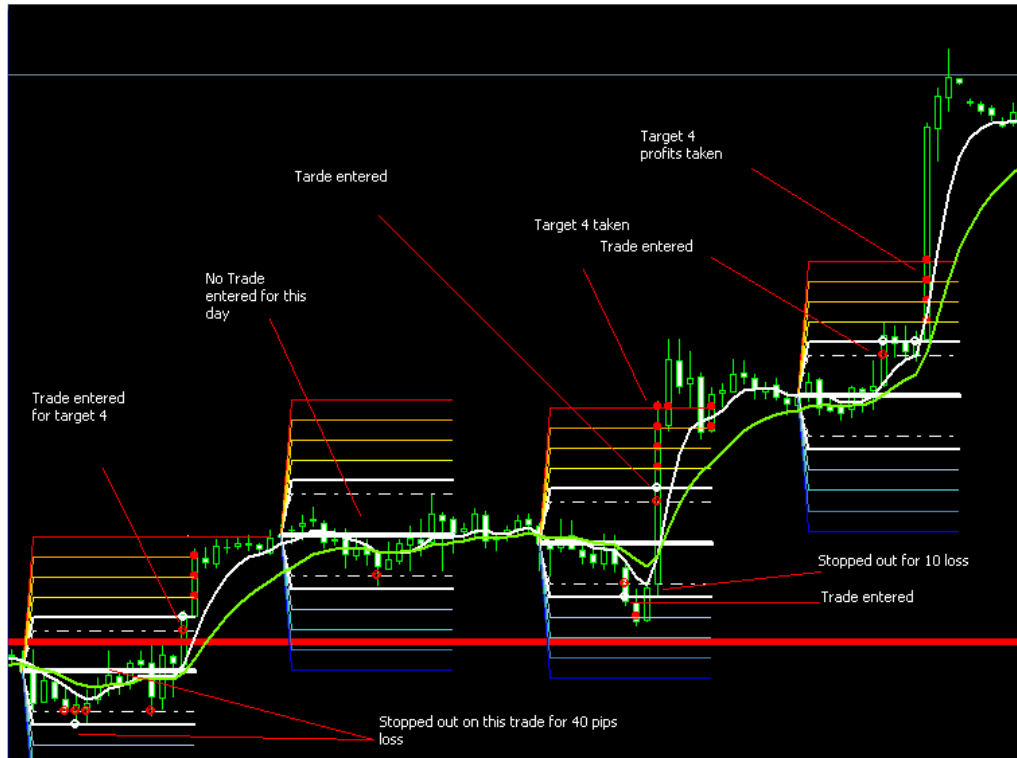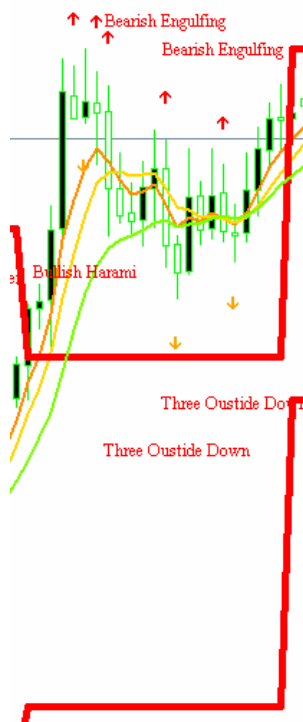
7. Indicators Required

1 hour Chart:

- **BF** Home Line
- **BF** Line 1 and 2
- **BF** Profit 1
- **BF** Profit 2
- **BF** Profit 3
- **BF** Profit 4
- **BF** Signal Line 1 and 2
- **BF** Signal 1
- **BF** Signal 2
- **BF** Signal 3
- **BF** Signal 4
- **BF** Clock
- **BF** Daily H/L
- **BF** Monthly H/L
- 5 Period EMA close
- 10 Period WMA close
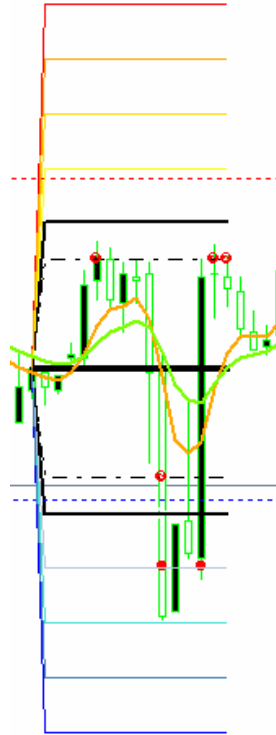
Daily Chart:

- Pattern Recognition
- **BF** Daily Range
- **BF** Monthly H/l
- 5 Period EMA close
- 10 WMA close

8.   Indicator Setup

I have attached different variations of indicators to make it a drag and drop exercise for traders to setup and test this system. Hopefully this takes out any complications for getting started. Some of these indicators have been sourced from elsewhere and modified for use with this system. I have named all indicators starting with BatFink for easy grouping purposes. Some of these indicators could be improved but as I am not a programmer and have to lean on my JAVA 101 the indicators are sufficient for use with the system.

1. Place BatFink [Home Line] indicator onto chart, set time to -5 and visualisation to 15m, 30m and 1hr charts. (adjust width to 3)

2. Place BatFink [Line 1 and 2] indicator onto chart, set time to -5 and visualisation to 15m, 30m and 1hr charts. (adjust width to 2)

3. Place BatFink [Target 1[, [Target 2], [Target 3] and [Target 4] indicator onto chart, set time to -5 and visualisation to 15m, 30m and 1hr charts.

4. Place BatFink signals [line 1 and 2] onto chart, set time to -5 and visualisation to 15m, 30m and 1hr charts.

5. Place BatFink signals [target 1], [target 2], [target 3] and [target 4] onto chart, set time to -5 and visualisation to 15m, 30m and 1hr charts. (Adjust width to 2)

6. Place Clock indicator onto chart.

7. Place BatFink daily High/Low indicator onto chart and visualise Daily, Hourly, 30m and 15min timeframes

8. Place BatFink monthly High/Low onto chart and visualise Weekly, Daily and Hourly, 30mn and 15mn timeframes.

9. Place Moving averages with periods listed in previous section and visualise on all time frames. (colors 10 WMA Blue, 5 EMA Orange, 400EMA green)

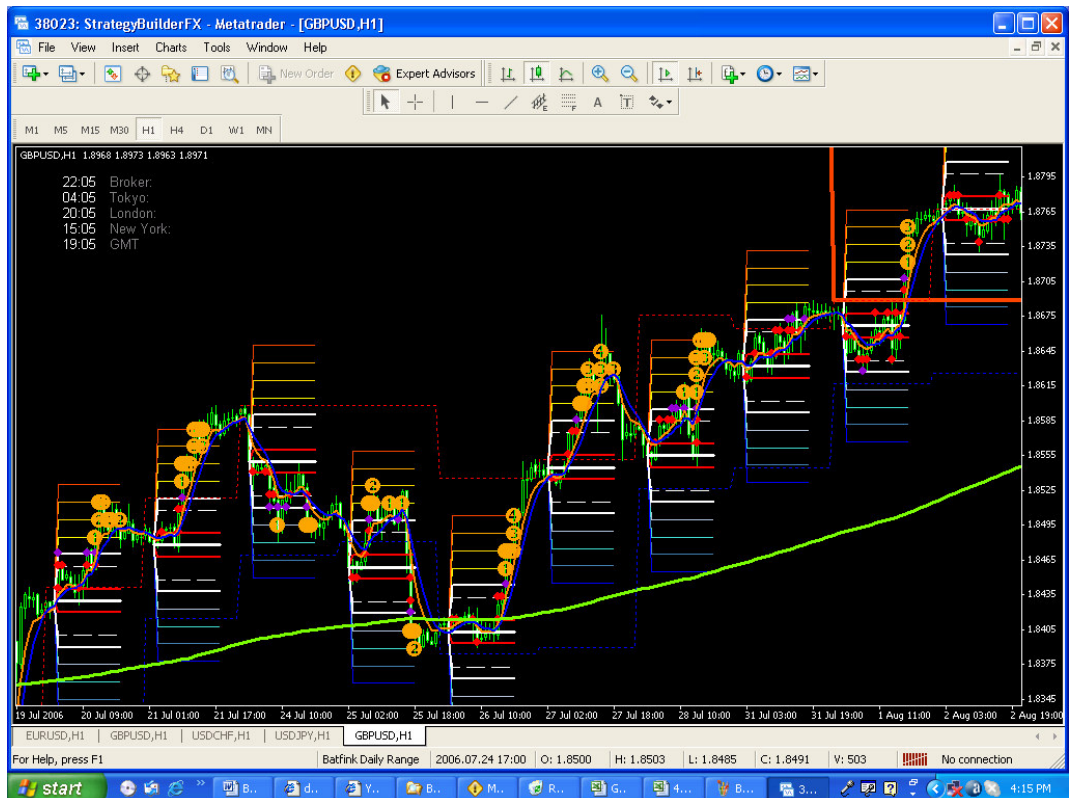10. Place BatFink Pattern recognition and visualise Daily, Weekly and Monthly charts

9. Chart Setup

Below is how the chart setups should look for this system. The only two chart times required for this system are hourly and daily.

Hour Chart

- **BF** profit lines
- **BF** signals
- **BF** daily highs and lows
- **BF** monthly highs and lows
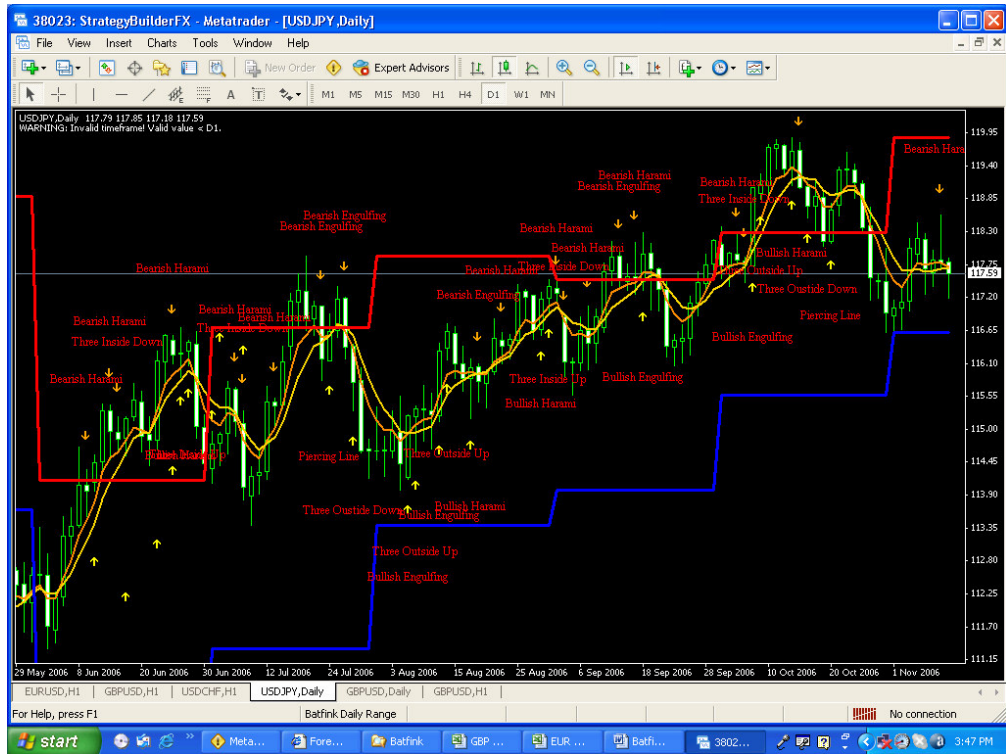- 5 EMA medium
- 10 WMA close
- Clock

This example includes all that is necessary on the one hour chart.

Daily Chart

The Daily chart example has been setup for anyone who would like to look at applying additional filtering from daily price action. This could be used to decrease losses.

- Pattern recognition

- **BF** Monthly highs and lows

- 5 EMA medium

- 10 WMA close

Red and Blue lines are Month, Highs and Lows.