
SUBSCRIBER'S GUIDE

Insider Futures (IF) and *Insider Currencies (IC)* were originally designed at the request of our *Bullish Review* subscribers who wanted a reliable mechanical method of implementing trading ideas generated by large trader positions reported in the Commodity Futures Trading Commission (CFTC) weekly *Commitments of Traders* report.

IF was introduced on June 2006, followed by *IC*, one year later. They are published daily (Monday through Saturday), using the prior day's published price data. Both models were based on the oldest mechanical trading method in the world, Point and Figure (P&F).

STOP LOSS

Insider Futures used the standard P&F 45 trend line stop loss, but a faster trailing stop (based on Well's Wilder's Parabolic method detailed in his seminal 1980 book, New Concepts In Technical Trading) was designed for *Insider Currencies*. All other aspects and rules of P&F were retained (with one exception noted below). After six years of comparison, it became obvious that the new trailing stop produced significantly better trading results and *IF* was switched to this Hyper-Point stop in 2014. Both *Futures* and *Currencies* now use the identical mechanical trading model.

RULE CHANGE

There is one key rule change employed, which greatly simplifies the operation of P&F. Box sizes of from 1 to n price ticks are employed by P&F to smooth out price movement. This box size, which can vary by market, is the minimum price movement recorded (traditionally by X for rising, and O for falling prices).

At the end of a trading day, if prices exceed the column by at least one box, that column is extended the required number of boxes. IF NOT and this is the pertinent rule a reversal is possible (from an up (X) to a down (O) or vice versa), if prices reversed by a certain number of boxes (usually 3). If you have followed thus far, you see that you cannot determine whether a reversal has been made until the daily close rules out an extension of the current column.

If a reversal cannot be posted until the end of the trading day, then in-the-market stop losses cannot be employed a potentially calamitous trading strategy. You can employ tick data for constructing P&F charts, as floor traders have traditionally used, but this is not really practical for most traders in a 24-hour market.

So the rule change is this: a reversal takes priority over a column extension. Thus, any price movement through the stop-loss triggers an immediate exit. This is a reversal system that is nearly always in the market, long or short. But it is possible for the stop loss on the open position and the entry level for the new reversal trade to be at different levels. (In addition to the stop loss, P&F has a second entry requirement that requires a new low for a short entry, or a new high for a long entry. This is fully explained in the 2002 Master Trader seminar video available on respective subscriber's web pages.)

The result of this change is a very easy to operate trading model, where all orders are on on stops, which can be placed in the market Good 'Till Canceled (GTC), merely replacing them with a new order each morning as dictated by the new *IF-IC* trailing stop-loss and/or reversal entry levels. In addition, even the stop-loss on the reversal trade can be placed ahead of time as a contingent (If Filled) order. You really do not need to monitor markets day and night.

All of the information needed for IF-IC operation is in the page 1 table. To begin trading, you use the Next (Reversal) Trade columns, which shows the direction (long or short), entry stop price, initial stop loss, and resultant initial risk for the next trade. If the direction of the trade and the initial risk are agreeable, you simply place the entry as a GTC stop, using an If Filled contingent order for the stop loss (where allowed). If contingent orders are not available, you or your broker will need to enter the stop loss as soon as the entry is executed.

PAGE 1 TABLE KEY

Data thru: Thursday, April 17, 2014

Insider Capital Group

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HYPOTHETICAL POSITION TABLE												Confirm Delivery & Close			
PAGE 2 NEW	Trend		CURRENT OPEN POSITION					NEXT (Reversal) TRADE				Delivery	04/17/14	Hypothetical	
	Futures Contract	Weekly	RTS	L/S	Date	Entry	Stop	Risk	L/S	Entry	*Stop	Initial Risk	Mo/ YEAR	Close	Profit/Loss
	DOLLAR INDEX	Down	0	Short	Apr 10, 14	79.540	80.360	\$455	Long	80.360	79.640	\$720	06/14	79.910	-\$365
	EURO	Up	-1	Long	Apr 9, 14	1.3825	1.3737	\$1,000	Short	1.3737	1.3865	\$1,600	06/14	1.3817	-\$1 00

Weekly trend and Relative Trend Strength (RTS) are for reference only and do not affect trade entries or exits.
NEW = trade executed previous day.

Use above column to manage current open position.
Stop loss is placed in the market Good 'Til Canceled (GTC), adjusted daily per current table.

Use this column to plan next trade. (If you wait for **NEW label, you have missed the trade.) ALL ORDERS ARE PLACED IN THE MARKET IN ADVANCE.**

Contract month & latest closing price. If you are trading another contract, adjust stop loss and reversal entry orders to difference in closing prices between this contract and the contract you are trading.

This is a reversal system so the next trade will be opposite the current open position (left).

NOTE: All prices and profits are hypothetical. Your fill may vary depending on market conditions.

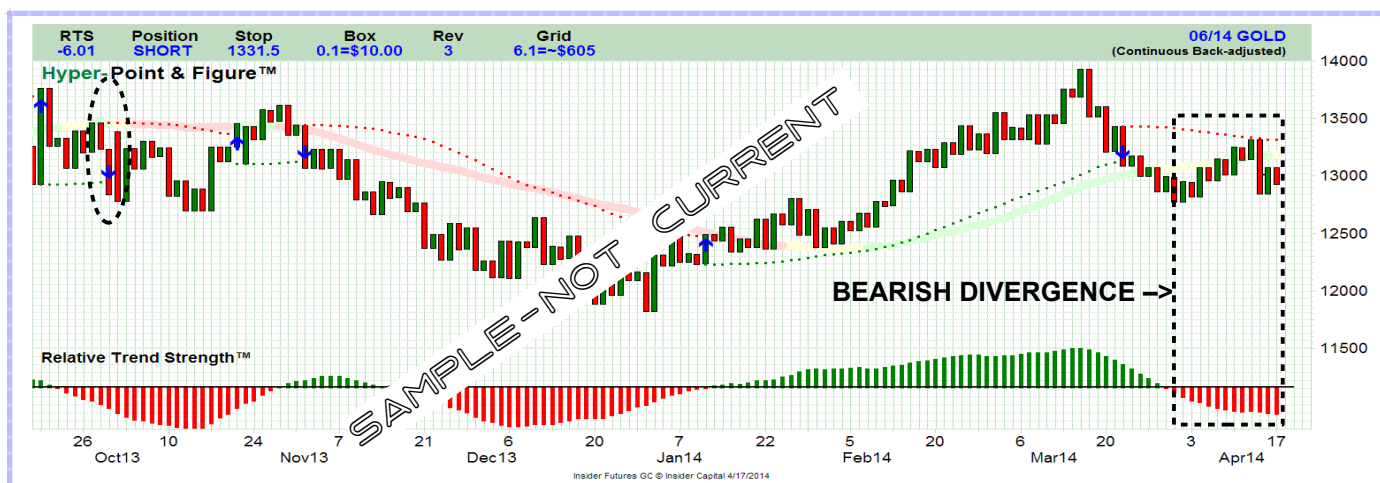
Entry is on stop, placed ahead of time in the market GTC.

***Stop** loss is contingent order to be placed in the market GTC once the entry stop is filled.

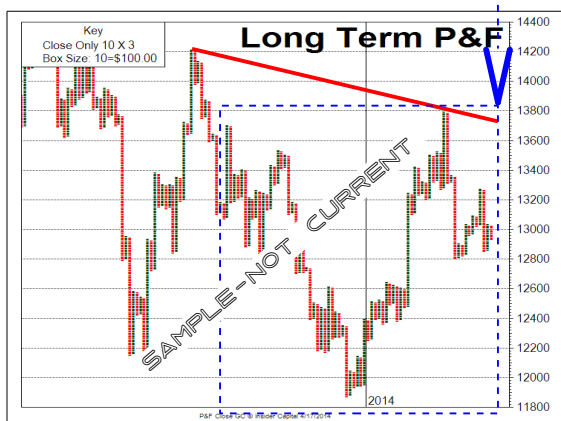
Initial Risk is the anticipated risk from Entry to Stop on the new position.

Once the new position is entered, it moves to the Current Open Position columns (to the left) and the new reversal trade will appear in this column.

CHART KEY



Standard P&F charts (below left, with approximate start-of-year lines added for reference) have the time element removed. This removes market noise. Alternating columns of X's or O's are started when prices have reversed by (typically) 3 box sizes. In the P&F chart above I have added the time element back in on the Y axis, so that familiar time-series indicators such as our Relative Trend Strength (RTS) can be calculated. This is done without adding the noise back in. Please view the 2.5-hour seminar video on our website for a full explanation of Point and Figure.



The red price bars are the equivalent of O or down P&F columns; green are X or up columns. These will typically alternate daily because reversals take precedence over extending the ongoing column.

Consecutive bars of the same color (red bars circled above), this would combine into one O column on a point and figure chart. They indicate a multi-day price spike.

The green and red dotted lines mark the current stop loss on open trades. The red/green/yellow stripe behind the price bars is our major trend indicator, with readings of down, up, or sideways, respectfully. As you might imagine, trades in the same direction as the major trend tend to outperform.

The Relative Trend Strength chart is used to confirm the major trend, compare its strength, and watch for divergences that warn of a trend change, such as the area marked by the black rectangle on the chart above. Here, you see RTS moving in a negative direction while prices move up. RTS is revealing an underlying trend weakness that often precedes surprise price reversals, such as the last bar's downturn at the stop loss. The chart on page 12 uses the same algorithm, allowing easy trend strength comparison between markets.

The inset chart (shown at left above) is a standard Point & Figure chart based on the closing price only. The box size used is ten times the size of our daily charts. This has the effect of creating a long-term P&F reference chart. The price action outlined in blue represents the time frame depicted on the top chart, but this relationship will vary widely because the width on the left chart is determined by price reversals, not time.

The long-term chart is provided to keep you apprised of the big picture, and might be a factor in your trade selection by giving you an idea of the current move potential with reference to the long-term trend and distance to long-term resistance/support. My analysis of this chart would suggest that the long-term trend is down (marked with red lines), and a downward price potential of at least 1200.0 (just above the 2013 low). If a long-term bearish view is confirmed by other indicators such as the COT I might take only short entry signals, moving flat when IF-IC signals a reversal to long (see next page).

GAMING THE SYSTEM

There is little doubt that you will game the system whether intentionally or by error. The trading system has been developed with simplicity and ease-of-operation as primary design considerations. This is intended to alleviate execution errors as far as possible. (The developer's belief is that ultimate profitability is based in large part on simplicity of execution.) But this does not mean that the operator-trader need be relegated to a passive role, simply placing orders according to the rules. This section will detail some of the areas where gaming might be used to improve the results of the system.

MARKET SELECTION

There are 27 markets included in each newsletter (with gold carried in both reports, as a concession to the hard-money crowd), for a total of 53 markets. Nobody trades all 53. IC contains both futures and FOREX, which causes duplication of the major Dollar pairs. (*Insider Currencies* will show slightly different signals for IMM Euro futures and EUR/USD, but trading both together is essentially trading two of the same thing.) There are also markets in both letters that may at times be too thinly traded (too large a spread) for reasonable risk / reward.

Eliminating duplicates and ill-advised market conditions still leaves several dozen market possibilities, so you likely still need to select a number of markets that you have the capability (time, experience, and capital) to trade. With today's technology, an accomplished full-time trader can easily manage a dozen or more open positions. New traders might need to skinny their list to one or two markets. So, how do you decide?

A key consideration might be risk. On our subscriber's page, you can download a summary by symbol, or a complete trade-by-trade listing, showing hypothetical historical initial risk. You can manipulate the spreadsheet any way you like, including changing the order from date to market / date order and take a look at the range of initial risk for various markets. You may find markets that have typically offered a smaller initial risk, where you might reasonably expect to be able to afford to take almost every system trade.

The initial risk from entry to initial stop loss is provided in the Next (Reversal) Trade columns. This is only approximate, and does not account for potential slippage or other trading costs, such as commission. I traded the major FOREX pairs taking all of *Insider Currencies'* signals for three years without ever encountering as much as one pip of slippage and paid no commission.

Ah, you say, *There may not have been a commission as such, but your broker was making money on the spread.* Not out of my profits. This system is designed to use only stop orders for all entries and exits. I always got my price, so I wasn't losing the spread. Perhaps the other guy was. My one area of expense was sometimes paying more interest to carry short positions than I gained on the long side. This is standard in FOREX if you are not daytrading, but may well work to your advantage.

As mentioned at the top, *Bullish Review* subscribers can use this weekly market letter as a screening tool to select *IC-IF* markets to trade. This approach counts for many types of market screening techniques cycles, Elliott Wave, astro-trading, and, especially, fundamental analysis and intuition where market timing can be non-specific and/or hugely variable. With *IF-IC*, you are trading with a defined risk and with at least the short-term trend in your favor.

TAKING EVERY TRADE

But Steve, the number one rule of every system trading book I know is: you have to take every trade. I am so glad that none of these books was available when I learned to trade. Let me come right out and say it. Nobody takes every trade. Through procrastination, apprehension, laziness, incompetence, illness, vacations, hunches, and a dozen other excuses, traders don't take every trade.

Of course, among the other dozen are some pretty good reasons: intellect, experience, market research, risk, inter-market analysis, trend, cash management, unusual conditions, intuition, and pure exhaustion. Okay, there might be several dozen reasons, but nobody takes every trade. Trading selectively can be a very good thing, if you reasons are sound and methodical.

TRADING AGAINST THE TREND

Think it is a bad idea? You would be wrong. Maybe in a few markets, but overall, you miss too many good entries signaled just before your trend indicator turns. In fact, you could increase your profits overall by ONLY TRADING AGAINST THE MAJOR TREND. You are not likely to read this in a trading book. For a market by market track record, download the Current Testing Summary spreadsheet on the Subscriber's page. The column to the right of the profit column (Dollars) is labeled TrendAdd. This is the dollar amount that would be added to (-subtracted from) the Dollars column by skipping trades that are not in agreement with the major trend. If the figure is minus, you are better off taking only those trades signaled when the trend is either flat or in the opposite direction of the trade signal.

STOP PLACEMENT

Play it by the book? There is nothing wrong with this. The stops are technically based in a mechanical manner. But often you will see something on the chart that stop placement algorithm does not take into account usually a nearby support or resistance level an old low or high, an important moving average, or other indicator. Why not make these work for you if it does not involve an inordinate amount of risk? If long, this would mean placing a lower stop to make prices go through a visible chart support level before you get taken out. If short, you would be placing the stop level higher than the system stop. Never place a stop nearer the current price.

TRADING A PORTFOLIO ON A BUDGET

Trading a portfolio may offer the potential to smooth your equity curve, assuming non-correlation in returns. But if you are going to trade like a professional, you usually need to be highly capitalized. Trading FOREX with OANDA, however, this is not the case.

IMM currency contracts are sized in \$125,000 units. We base our FOREX risk and profit calculations on the standard 100,000 FOREX unit. IF-IC average initial risk has historically run around \$1,700. A professional might risk a maximum of 0.5% on any one position. $\$1,700 / .005 = \$340,000$ account size required to trade one futures contract or standard FOREX unit. IMM also offers mini contracts, but these are very thinly traded. Most brokers also offer a mini unit of 10,000; but that still means \$34,000 to trade a single market.

One thing I like about OANDA is that you can trade in any unit you desire, from 1 to 3 million, with no size penalty, just using their web or mobile platform. Do the math: $\$1,700 / 100,000 \text{ unit} = \0.17 average initial risk / $.005 = \underline{\$34 \text{ minimum capital required per unit}}$. And OANDA does not have a minimum margin requirement to open an account. New traders always pay tuition. Why pay more than you need too?

Okay, you need additional capital to carry losing trades, interest, equity draw-downs, mistakes, etc., but it is entirely reasonable for a beginning trader to learn to trade on a shoestring. And with OANDA, you cannot lose more than you put up for margin. (*Ask me about 1974 silver futures sometime.*)

**Any results shown are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under-or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to those being shown.*

***CFTC RULE 4.41 HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER-OR-OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN.**