

COT Wkly Strategy version 2.0

by John Tsai 04-24-06

The purpose of this eBook is to present a new way of approaching to the Currency market by using COT weekly data to make the trading decision for the coming week. This system might not be the perfect one to fit into your trading style, but it is worth to know another way to bank 300+ pips/month into your pocket by only spends less than 30 mins a week in front of screen.

The concept is very simple. "where money is, where money goes!"

This eBook will discuss from three categories. ; There are Basic Knowledge, Trading Setup, and Historical Test.

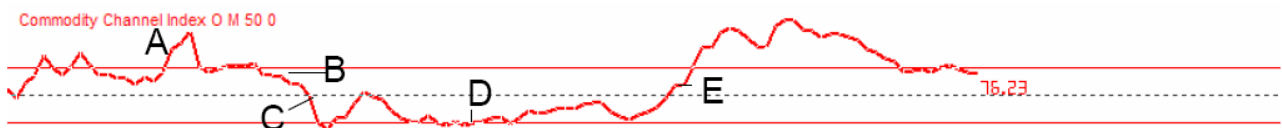
Basic Knowledge

COT Report

1. The COT report issue every Tuesday, but it comes out at every Friday.
2. The site of COT report comes from: <http://www.cftc.gov/files/dea/cotarchives/>
3. Under either Current COT Report or Historical COT Report, we will use the report from "Chicago Mercantile Exchange" section, and the report will include both futures and options – Long Form.
4. COT price direction is always opposite from the Market price direction.

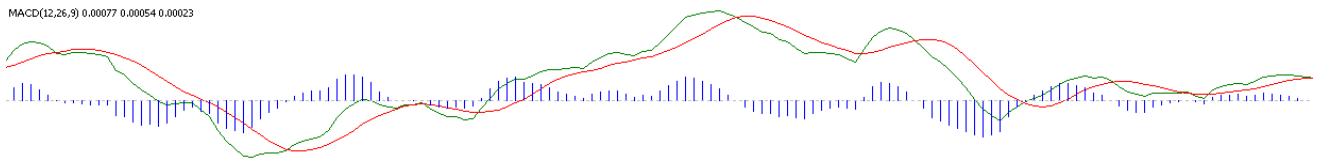
Indicators

1. CCI 50



- A. If CCI 50 above 100 line, the trend is up.
 - B. If CCI 50 cross down or rejecting from 100, the trend tentative in short zone till the 0 line cross.
 - C. If CCI 50 cross down 0 line, the trend is down.
 - D. If CCI 50 support by 100 line, the trend tentative going long.
 - E. If CCI 50 cross up 0 line, the trend is up.
- (If CCI 50 in D and cross down 100 line, this means we will expect down trend continue till it cross back from 100 line and toward 0 line.)

2. MACD12,26,9



- A. The MACD setup is default as 12,26,9.
- B. If the green line is at top of red, the trend is up.
- C. If the green line is at bottom of red, the trend is down.

By combining CCI 50 and MACD, we can easily confirm the info we identify from COT report about trend direction. These indicators are my favorite trend indicators that will help us the confirm process and eliminating the risk of loss trade.

3. Fibonacci Setting



- We only use 78.6, 127.2, and 161.8
- Our Stop Loss can be one of 78.6, 127.2, or 161.8, but the best one is 78.6.
- Our Target Price always set at 127.2

Trading Setup

Qualification of setup

1. COT Report

- You can find the info of British Pound I post below at this link:

<http://www.cftc.gov/files/dea/cotarchives/2006/options/deacmelof050906.htm>

BRITISH POUND STERLING - CHICAGO MERCANTILE EXCHANGE Code-096742
 Commitments of Traders with Delta-adjusted Options and Futures Combined, May 9, 2006

Total		Reportable Positions								Nonreportable Positions	
Open	Interest	Long	Non-Commercial	Short	Spreading	Long	Short	Long	Short	Long	Short
(CONTRACTS OF 62,500 POUNDS STERLING)											
All	110,887	40,159	14,863	2,573	34,589	71,509	77,321	88,946	33,566	21,942	
Old	110,887	40,159	14,863	2,573	34,589	71,509	77,321	88,946	33,566	21,942	
Other	0	0	0	0	0	0	0	0	0	0	
Changes in Commitments from: May 2, 2006											
	13,609	6,279	-1,134	-848	694	11,516	6,126	9,534	7,483	4,074	

- This is an example at British Pound Sterling at May 9, 2006. There are more currency pairs in the report beside this. Even other future report beside currencies. In this case, we only focus on currencies.
- One of the qualification is "Open Interest" must be >10,000
 (****Always look for positive amount****)(****where money is, where money goes!****)
 This amount indicates the strength of the trend it is going to happen. In this British Pound report, the total amount is 13,609. It qualifies the amount we are looking for.
- In the "Non-Commercial" column, Non-Commercial Trader added 6,279 contracts into Long position. This means more future trader place long trade into the market. As the result, the trend will go opposite direction from the market. ; So the Sunday trading will be looking for the short setup when we analysis the market.
- The amount that add into the long position, 6,279, and I prefers >1,000 contracts is better. If the size is <1,000, we can consider the total amount, 40,159 compare to 14,863. At this case, the most of open position still in the Long direction as the report shown.

- f. The point of knowing the contract size is that you want to see where are people put their money into the market instead of taking out (negative) or leave no change (>10,000).

For example, if the contract size shown in negative, we will not consider the trend direction will have accurate result. Because.... where money is, where money goes.

- g. If you want to see more historical data in 2006 for more back test, simply change the number at the end of the link into any other Tuesday.

<http://www.cftc.gov/files/dea/cotarchives/2006/options/deacmelof050906.htm>

For Example: Changing 050906 to 053006

Open the Position



Picture 1



1. In the **Picture 1**, the vertical line locate at 2006-05-15 00:00 GMT where the position will be open. This is the GBP/USD 4 hour chart.
2. We will draw the Fibonacci Ratio from the **LATEST** swing high to swing low, then from the swing low to **MOST RECENT** swing high.

By doing this, we will have two sets of Fibonacci Ratio place at the price in 4 hour chart.

3. Before we enter the market, we have to confirm the market direction by using MACD and CCI.

In this case, the MACD showing that green line is below red line which is down trend.

CCI cross below 100 line which also confirm the weakness of the trend is going down.

If those confirmations can be found in 4 hour chart will be super. Otherwise, we want to see them at hourly chart once we decide to open the position.

By doing this, we can eliminate the risk which the market might retest previous high and take our trade out.

At this point, we identified GBP/USD is in short mode, and we will set our stop loss at 19033, Fib 127.2, and our target price at 18835, Fib 127.2.

4. There is one most important step. It is to identify our risk and profit ratio.

According to our setup, our stop loss will cost us 80 pips, and our profit will bring us 118 pips.

The Risk : Profit Ratio = Profit / Risk = 1 : 1.47.

The risk and profit ratio have to keep above 1 : >1 in order to have the reasonable return.

Otherwise, I will not consider the setup is good.

Tips

1. The perfect setup of stop loss is Fibonacci 78.6 ratio. If there is no 78.6 available for stop loss setup, try to set the stop loss to the extension or try to find the higher/lower swing low which can give you reasonable risk and profit ratio setup.
2. Do not risk more than 2~3% from your total capital as money management suggestion. **(***very important***)**
This is open to personal acceptance. If risk and profit ratio is less than 1 : 1, please reconsider if you can accept the loss once it not in the right direction.
(For example: risk : profit = 200 : 50 = 4 : 1)

Historical Test

Most Recent Manuel Back Test

1. First, I will like to post my first hand information of Manuel Back Test from Jan-Mar 2006.

cot date			risk	profit	result	ratio
2006						
0103	EUR	S	29	94	94	1 : 3.24
0110	JAP	S	58	78	78	1 : 1.34
0117	N/A					
0124	EUR	S	116	126	126	1 : 1.09
0131	CAN	S	15	93	93	1 : 6.20
0131	JAP	L	66	57	57	1 : 0.86
0131	AUD	S	76	58	58	1 : 0.76
0207	N/A					
0214	CHF	L	62	20	20	1 : 0.32
0221	EUR	L	69	96	96	1 : 1.39
0228	CAN	S	46	38	38	1 : 0.83
0228	CHF	L	no setup			
0307	JAP	L	38	123	123	1 : 3.24
0307	EUR	L	108	209	209	1 : 1.94
0314	N/A					
0321	EUR	S	82	153	153	1 : 1.87
0321	AUD	L	MACD did not confirm direction			
0328	N/A					

From this report, If we only take the ratio more then 1 : >1 and calculate the profit average return, there are total 972 pips within three months. The average return per month is 324 pips/month.

2. Couple notes

- A. **N/A** means there is no positive contract size that more the 10,000 in the report.
- B. **No setup** means either no setup or risk : profit ratio is not reasonable.
- C. **MACD did not confirm direction** is very obviously the trend is going to retest the previous high or low.

3. Update Announcement

- A. Back test will keep updating over and over by retesting the new qualification, and setup.
- B. The recent info is not the final test, but it gives you the brief of the result.
- C. I will keep doing the back test till the recent COT data. If there is someone can help me out, I will appreciate it.

My Personal Trade of the Week *with Live Account*

1. 04-17-2007 EUR/USD

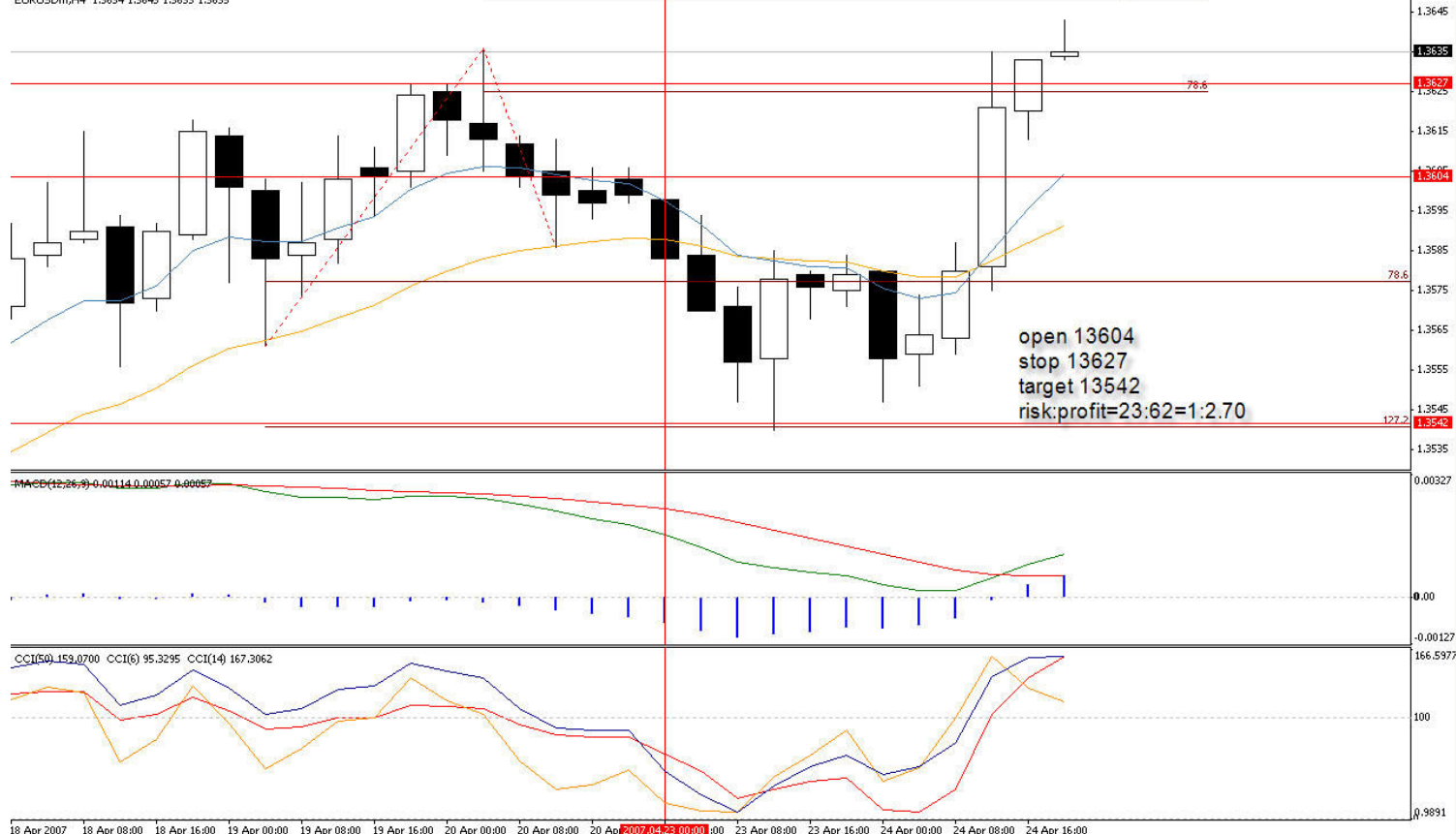
EURO FX - CHICAGO MERCANTILE EXCHANGE

Code-099741

Commitments of Traders with Delta-adjusted Options and Futures Combined, April 17, 2007

: Total :		Reportable Positions								: Nonreportable Positions	
: Open :		Non-Commercial			Commercial			Total		: Nonreportable Positions	
: Interest :	Long	: Short	: Spreading:	Long	: Short	: Long	: Short	: Long	: Short	: Long	: Short
(CONTRACTS OF EUR 125,000)											
All :	251,975:	124,603	19,110	24,262	33,358	166,421	182,223	209,794:	69,752	42,181	
Old :	251,975:	124,603	19,110	24,262	33,358	166,421	182,223	209,794:	69,752	42,181	
Other:	0:	0	0	0	0	0	0	0:	0	0	
Changes in Commitments from: April 10, 2007											
:	13,078:	281	-1,643	6,727	2,802	7,247	9,811	12,331:	3,267	747	

EURUSDm,JH4 1.3634 1.3643 1.3633 1.3635



2. In this trade, two things

- Non-Commercial in Long only added 281 contracts this week. Therefore I compare total amount of 124,603 and 19,110 to analysis as Short opportunity in market.
 - In the Chart, the EMA and other two line of CCI will add into the next version once I figure out the way to represent as a part of system. Those lines still in the testing process.
-TO BE CONTINUE

Declaration

If any of those contains violates the copyright, please let me know immediately.

All the trading contains risk of loss. The COT Wkly Strategy doesn't guarantee the result. Please trade responsible.

If you have any feedback, improvement, and further back test result, please feel free to post on the forum or email direct to me at hungchih@hotmail.com with subject of "COT Wkly Strategy".