

# Rules, consistency, discipline... and profits



Caspar Marney, of Marney Capital Ltd and former global head of technical analysis at SBC Warburg, discloses research – published here for the first time – which shows how predictable behaviour of the world's currency markets can be exploited

**F**In October 1998, on live television, I was fortunate enough to predict a historic move in the Japanese Yen. It was of even greater magnitude than the British pound's devaluation on 'Black Wednesday' in 1992. However, capturing that type of move is not something you can rely on to make money consistently in the markets. To trade profitably, on a consistent basis, you need an edge.

While many people argue that markets are 'random walks', there

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are factors which are very predictable. For instance, one predictable factor of markets which trade on an exchange, such as the London Stock Exchange, is when they open and close. It is also well known that over time, the open and close of an exchange is when the highest volume and greatest moves tend to occur.

The world's currency markets do not trade on any one exchange. Instead, they are traded around the

globe, between various banks and brokers, and on electronic trading platforms. Despite having no central exchange, they too follow a regular, predictable cycle every day, as each major trading centre opens and closes.

The first graph shows the average hourly volumes traded, for the major currency pairs, on the EBS (Electronic Broking Service) trading platform. As the largest single source of foreign -exchange transactions, it provides an excellent representative sample of the market as a whole.

The graph illustrates how volume increases as the three largest trading centres – continental Europe, London and then the United States – begin trading, peaking during the few hours between 1pm and 4pm in the London afternoon, when all three centres are active. This holds true even for major currencies which are

not natively active during that time, such as the New Zealand dollar, Australian dollar and Japanese yen.

Such a huge wave of trading volume hitting the market, at the same time each day, is a very predictable and, therefore, exploitable phenomenon which I have used profitably for a number of years.

The fact that volume confirms a trend is a well-established principle of trading. Therefore, we might expect any move, during that wave of high volume, to be of particular significance and we can see this is the case by applying a simple trading strategy.

Taking 10pm, when volumes are lowest, as the start of the day: buy if the market makes a new high or sell if it makes a new low during the London afternoon.

Currencies are traded in pairs, as one is always exchanged for another,

such as the British pound and the US dollar. For illustrative purposes, the following example uses just three currency pairs, though there are more than 20 actively traded pairs which can be exploited with this strategy.

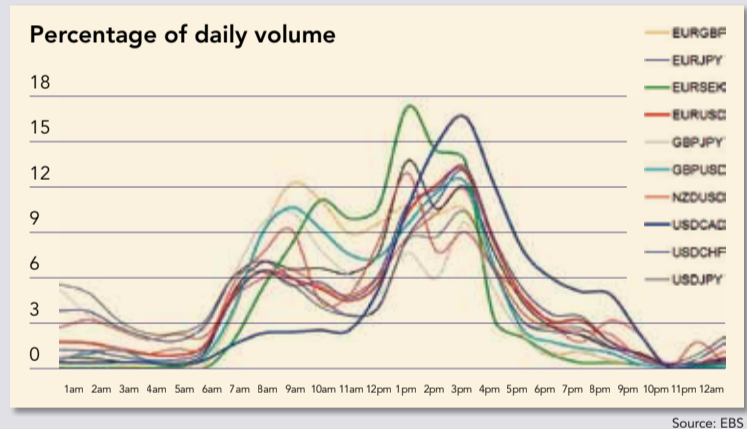
Even using only three currency pairs, a basic simulation of this strategy produced the results shown in the second graph, over the past ten years, with a £100,000 portfolio.

This illustrates just one of several predictable characteristics of the world's currency markets which can be profitably exploited.

Obvious though it may seem, I have never seen a similar strategy published, or used before, in more than 15 years' trading for some of the world's leading investment banks and financial institutions.

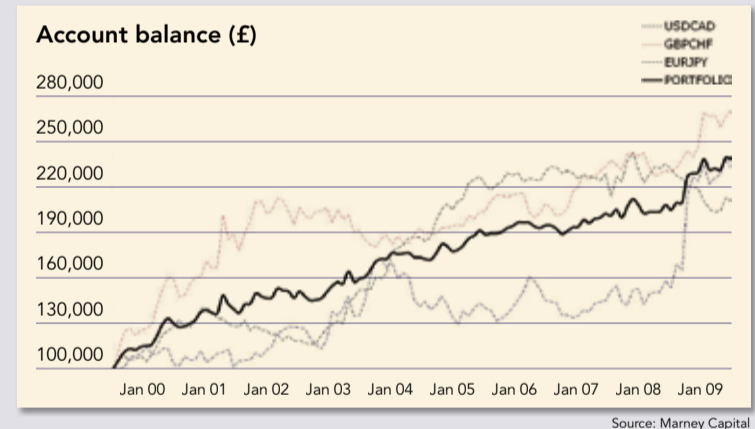
## FOREX: ALL DAY AND ALL NIGHT...

Analysis of the average hourly EBS volumes of 12 currency pairs, traded during 24 hours, over a three-month period.



## A DECADE OF STEADY GAINS

Based on Caspar Marney's research, the graph shows the results of applying a simple trading strategy, over the past ten years, with a £100,00 investment.



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