

The Forex Gambit

A System Designed to Turn \$300.00
into Profit in Excess of \$1,000,000

By

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This system is designed to create massive wealth starting with the smallest stake possible.

In any casino in the world, all the games are tilted in favor of the house. To further insure that no gambler could be a big winner, the house institutes limits on how much the gambler can bet. Thus the house always wins.

Well, in FOREX the “house” allows us to bet a winning system, and allows us to essentially bet as much as we want. That’s a major mistake on the house’s part, and my system highlights that fact.

It is assumed that you already understand the mechanics of Forex trading, and are familiar with the currency markets in general, and already have access to charts and basic indicators. If you are deficient in one of these areas, a quick web search will yield all the information you need.

We’ll start of right away with the logic and the math, so you can verify for yourself all of the projections I made on the site where you bought this system.

The Logic of Entry

Movement

All movement through space and time must adhere to the mathematics of movement. Define “movement”, and specify as “DM”.

Chaos Theory

All subsequent movement or development is defined as beginning from an “initial state” or starting point. Define “initial state” and specify as “IS”.

The Logic of Exit

Specifying Risk and Profit Potential

Define “Risk” and specify as “R”.

Define maximum potential for profit and specify as “PP”.

Mathematical Expectation of System

The mathematics of movement dictate that entry within the definition of the movement must give odds of 50% or greater that the movement will continue. Therefore, $DM = 50\%$.

The mathematics of Chaos dictate that the initial point, by its nature, is inviolate, and therefore must give odds of 100% that subsequent movement must follow. Therefore, $IS = 100\%$

The mathematics of risk specifies that risk is the probability of failure. Therefore $R = 1 - \text{the probability of success}$.

The mathematics of maximum potential are specified as 3 standard deviations of random or equiprobable events (50%), and therefore, must contain 99.7% of that potential. Therefore, $PP = 150\%$

Odds of success are $(DM + IS)/2 = 75\%$

Risk is $1 - \text{Probability of success} = 25\%$

Standard Deviation of equiprobable events is 50%.

3 Standard Deviations is 150%.

Projected Profit is $PP / R = 6$ or 6 to 1.

Therefore, according to the logic of mathematics, any system constructed to these specifications must profit, on average, 75% of the time, and gain, on average, 6 units of profit for every 1 unit of risk.

To get the percentage gained per trade, use the formula:

$$(\text{Winning \%} * \text{Average Win}) - ((1 - \text{Winning \%}) * \text{Loss})$$

We bet in two different increments in this system: a Reserve bet, which is usually about 5% of the reserve equity, and a fractional bet (FB) which is designated as 15% of the FB equity. (See “Betting Algorithm”). We don’t need to concern ourselves with the reserve bet, only the FB. The average FB win is 90%, and the average FB loss is 15%.

Taking our formula from above, we get:

$$(.75 * .90) - ((1 - .75) * .15) = 64\% \text{ (rounded)}$$

So, when betting FB, we can expect a 64% equity gain per trade.

To determine the final profit of 30 trades for a particular percentage, place the amount: \$100 in a cell. Let’s say that cell is A1. In the cell below it (A2), use the formula: $A1 + (A1 * \text{Percent})$. Now, copy and paste the formula to A3 - A31. A31 is your projected profit over 30 trades.

Plugging in 64%, you should get \$278,814,555.00

Mathematically, these projections are an accurate representation of what you can expect in your trading.

Assuming our statistics bear out, you have a 95% chance of reaching the projected goal. This is calculated by a fairly complex Risk of Ruin formula that is listed in the “System” section.

Opening a Trading Account

Open a trading account in the U.K. I recommend this because we want to take advantage of the 400 to 1 leverage you can use in a micro account overseas. You can't do that in the U.S. I also suspect the 100 to 1 leverage available in the U.S. will soon be going away.

Open an account, and fund it with \$300.00. Make sure to set your leverage to 400 to 1, and your unit size to 1000 units. (So your trading size is about 10 cents per pip)

I recommend FxSolutions. This is the broker I use. Their U.K. branch can be found at:

<http://www.fxsol.co.uk/>

They offer to let you trade with MetaTrader, or their in-house programs: GPS Pro, and Accucharts. Use the in house programs, because GPS Pro allows you to make all sorts of adjustments to your trading account on the fly (such as leverage, unit size, lot size ...etc).

The Betting Algorithm

\$200.00 of your account is specified as your **Reserve**. \$100.00 of your account is specified as your **fractional betting equity**, or **FB** for short.

Define the **risk** on your trade. Risk on the trade is the difference between your market entry price and your **stop-loss** protective order. If the difference between your entry price and stop-loss is 54 ticks/pips/points. Your risk is 54.

Whenever the FB is large enough we will bet fractionally:

Risk 15% of the FB on the trade.

If your FB is \$100.00, and your risk is 54, and the pip value of 1 **lot** is .10 (10 cents), $54 \times .10 = \$5.40$. $\$5.40 \times 3$ is \$16.20, close to 15% of your FB. So, you would trade 3 lots.

If your FB drops to a level where 15% risk would be less than or equal to 1 lot, trade only 1 lot. Continue to trade only 1 lot until your FB increases to the point where you can once again trade multiple lots.

As your FB increases, bet 15% of the new FB.

Remember, the FB is always the amount in your account that is in excess of your \$200.00 reserve. If your account drops below \$200.00, you must bet only one lot, until your account increases and gives you in excess of \$200.00, giving you the ability to once again trade FB.

That's all there is to it!!!

The System

This is a simple system designed with the components, and to work within the specific mathematical structure as defined earlier.

Use Daily time frame. In this system, you should only have one trade open at a time. Always close out your current trade before moving on to the next.

Apply a 30 period Bollinger Band to your chart, with bands of 1(one) and 2(two) standard deviations.

Entering a Trade

BUY PATTERN:

1. A Low lower than the previous Low.
2. A High Lower than the previous High
3. A Close greater than the midpoint of the bar range.
4. A Close greater than the central line of the Bollinger Band.
5. A Low that less than the 1(one) standard deviation upper line of the Bollinger Band.
6. The central line of the Bollinger Band has been level or rising for 10(ten) consecutive days.

Action:

Within 5 to 10 minutes of the close of trading for the day, BUY at the market, and place your stop-loss orders 2(two) points below the Low of today's bar.

SELL PATTERN:

1. A High higher than the previous High.
2. A Low higher than the previous Low.
3. A Close less than the midpoint of the bar range.
4. A Close less than the central line of the Bollinger Band.
5. A High greater than the 1(one) standard deviation lower line of the Bollinger Band.
6. The central line of the Bollinger Band has been level or declining for 10(ten) consecutive days.

Action:

Within 5 to 10 minutes of the close of trading for the day, SELL at the market, and place a stop-loss order 2(two) points above the High of the Sell Pattern bar.

**NO TRADES ON PATTERNS WITH A “RISK” > 180 pips/points
DO NOT OPEN ANY NEW POSITIONS ON FRIDAY.**

Multiple signals:

If you have buy or sell signals in more than one currency pair, take the trade whose pattern is closest to the central line of the Bollinger Band.

Exiting a Trade

Exit **Long** positions when you get a closing price greater than the 2 standard deviation upper line of the Bollinger Band, followed by a lower close on the following day.

Exit **Short** positions when you get a closing price less than the 2 standard deviation lower line of the Bollinger Band, followed by a higher close on the following day.

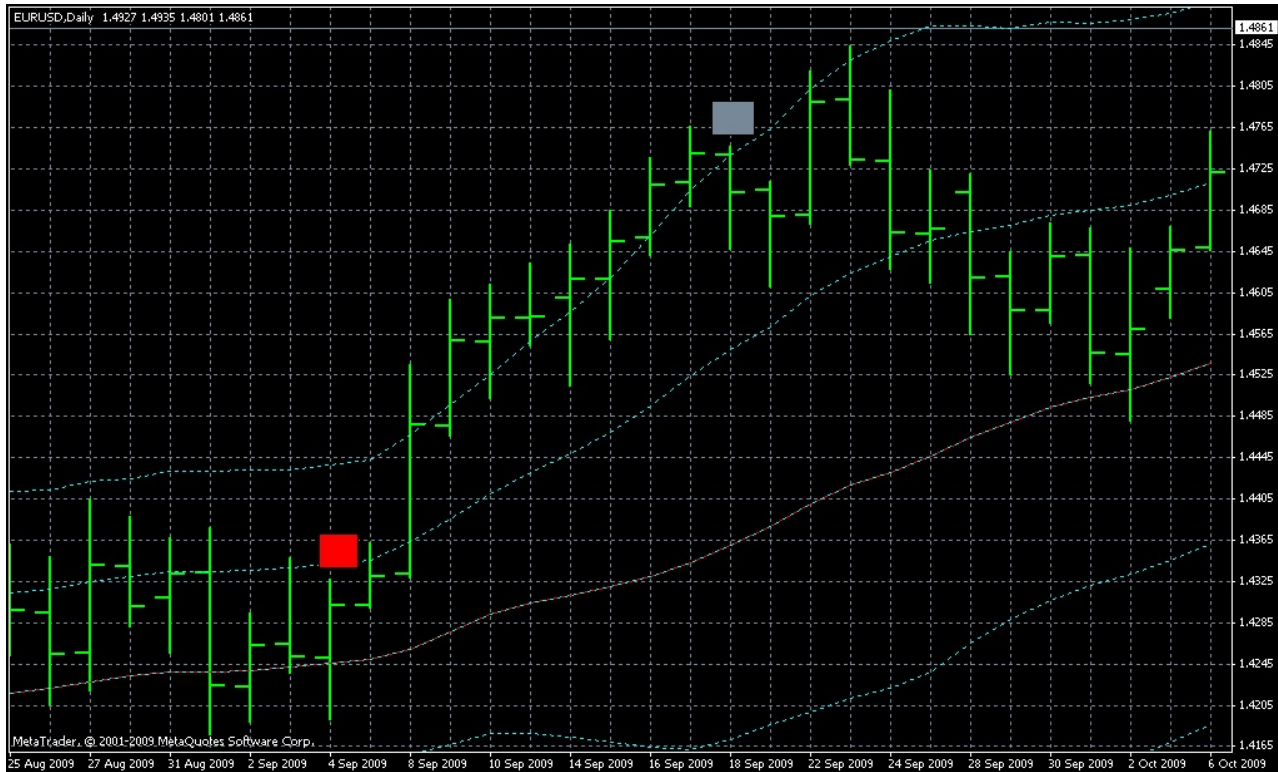
Conditional Exits:

Move your trade to the breakeven point if two days of trading occur, and the currency has moved only slightly in your favor, or after four days.

If a market stalls, and does not move significantly in your favor for 3 consecutive days, exit the position, and look for another trade.

Exit all positions that have been open for 16 days.

TRADE EXAMPLE:



RED BOX:

1. $H < H(1)$
 2. $L < L(1)$
 3. $C > \text{Midpoint of bar}$
 4. $C > \text{central line of BB}$
 5. $\text{Low} < 1(\text{one}) \text{ SD upper line of BB.}$
 6. Central line of BB level or rising for 10(ten) consecutive days.
- The BUY pattern is complete. Enter the market.

GRAY BOX:

Previous day's Close $> 2(\text{two})$ SD upper line of BB, and Close today less than previous Close. Exit the Market.

TRADE EXAMPLE:



RED BOX:

1. $H > H(1)$
 2. $L > L(1)$
 3. $C < \text{Midpoint of bar range}$
 4. $C < \text{central line of BB}$
 5. $H > 1(\text{one}) \text{ SD Lower line of BB}$
 6. Central line of BB level or declining for 10(ten) consecutive days
- A SELL pattern is complete. Enter the market

GRAY BOX:

Previous Close less than 2(two) SD lower line of BB, and Close greater than previous Close. Exit the market.

Computer Testing of System

The basic Entry/Exit parameters were tested for veracity in the five major currency pairs. This testing represents the most pessimistic view of what the system can achieve, as the conditional exits were not considered. Consequently, the winning percentages of the system were about 20%.

100 PIP STOP

EUR/USD	3.64 - 1	-\$7,903
GBP/USD	8.39 - 1	\$44,423
USD/CAD	5.52 - 1	\$3,676
USD/JPY	5.14 - 1	\$6,896
AUD/USD	5.32 - 1	\$10,399
Average	5.32 - 1	\$11,498

50 PIP STOP

EUR/USD	7.59 - 1	-\$5,023
GBP/USD	17.38 - 1	\$43,810
USD/CAD	12.34 - 1	\$1,069
USD/JPY	10.86 - 1	\$9,478
AUD/USD	7.06 - 1	\$5,198
Average	11.05 - 1	\$10,906

OVERALL: 8.19 - 1 \$11,202

This testing is for a standard account (\$10 per pip), for a Micro account (\$0.10 per pip) divide the amounts by 100.

The most pessimistic outcome still shows solid profit. If you would like to test out these results for yourself, I can make the system available to you in a MetaTrader Expert Advisor system for \$25.00. If you want this, contact me at:

walt123@verizon.net

If you want to apply the betting algorithm we use, you will need the following formula:

This formula was created by Michael J. Friesen, CFA and Teresa Lo of <http://invivoanalytics.com> (Friesen not affiliated with website), and was cross-referenced and validated by the work on Risk of Ruin, put forth by Dr. Nauzer J. Balsara, in an issue of Technical Analysis of Stocks and Commodities magazine, with additions by Walter T. Downs Ph.D.

It is written in Excel macro language, so you can plug it in to Excel as a macro to calculate results.

Function POR(Win, Loss, Pct, Start, Success, Failure)

' error checking

TheError = 1

If Success >= Start And Start >= Failure Then TheError = 0

' convert data into "coin-flip" approximations

Expectation = (Win * Pct) - (Loss * (1 - Pct))

StdDev = (((Pct * (Win * Win)) + ((1 - Pct) * (Loss * Loss))) ^ 0.5)

P = 0.5 + (Expectation / (2 * StdDev))

Q = 1 - P

' find units of capital until success or failure

Account = (Start - Failure) / StdDev

FinAccount = (Success - Failure) / StdDev

' apply formula (we must do an averaging if P=0.5)

If P <> 0.5 Then

POR = (1 / (1 - ((Q / P) ^ FinAccount))) * (1 - ((Q / P) ^ Account))

Else

r1 = 0.50001 / 0.49999

r2 = 0.49999 / 0.50001

por1 = (1 / (1 - (r1 ^ FinAccount))) * (1 - (r1 ^ Account))

por2 = (1 / (1 - (r2 ^ FinAccount))) * (1 - (r2 ^ Account))

$POR = (por1 + por2) / 2$

End If

If TheError = 0 Then

POR = 1 - POR

Else

POR = "Error!"

End If

End Function

Now that we have our formula for calculating ROR, lets plug our numbers into it and see what we can project.

In the Forex Gambit, I suggested two betting schemes. I specified 1/3 of the account as a fractional betting (FB) approach, and 2/3 of the account as a reserve betting (RB) approach. The FB bets very aggressively, and the RB bets very defensively.

Here are the numbers I plugged in to the ROR formula for FB and RB, based on our computer test results:

RB

1. Win: 40% (8 to 1)(Average Win)
2. Loss: 5% (Average Loss)
3. Pct: 20% (Winning %)
4. Start: 100% (Reserve equity)
5. Success: 1,000,000% (What we judge as success)
6. Failure: 0 (The amount the account is reduced to that would mean failure)

FB

1. Win: 120%
2. Loss: 15%
3. Pct: 20%
4. Start: 100% (FB equity)
5. Success: 1000,000%
6. Failure: 0 %

Calculating these figures, we get a Risk of Ruin for RB of 9%, and a probability that FB betting will return to the reserve amount of \$200 of 45%. To get the total probability that we will lose our \$300, multiply the RB ROR by the FB ROR:

$$45\% \times 9\% = 4\%.$$

IF FB returns to the reserve level 45% of the time, then 55% of the time, it does not return to the reserve level, and takes off. If we are consistently betting FB, we can calculate our expected percentage gain per trade as:

$$(\text{Pct} \times \text{Win}) - ((1 - \text{Pct}) \times \text{Loss}) \text{ or}$$

$$(20\% \times 120\%) - ((1 - 20\%) \times 15\%) = 12\% \text{ gain per trade.}$$

Starting with \$100.00 and extrapolating a 12% gain per trade for 30 trades, gives us a figure of \$2996.00.

Thus, we can say with confidence that if our trading results match those of the computer test, a “worst case” scenario, we have a 55% probability of making \$2996.00 or better, and a 4% chance of losing our \$300.00.

Important Additional Study

Read and study the system parameters closely. If you haven't already read my article in *Technical Analysis of Stocks and Commodities* magazine on the *Forex Gambit*, I suggest that you go to <http://www.traders.com>, and download the *Forex Gambit* article in .PDF form. (June, 2010 issue)

I suggest that you perform a series of “walk-through” historical trades in the markets the system trades using the basic parameters as set forth in the system trading instructions, and manually walking through each trade from entry to exit.

This will start to give you a “feel” for how the pattern performs, will build your general knowledge base of how markets tend to look when the pattern occurs, and will build considerable confidence in the pattern, when you see how well it performs historically.

These few things are very important, because it will help you to remain consistent and confident in your trading of this system.

Be patient! Stalk the markets and pick the patterns with the highest probabilities of success. Let the mathematics of the system work for you.

Currency Pairs to Trade

Trade the following currency pairs:

USD/CHF (U.S. Dollar / Swiss Franc)
USD/CAD (U.S. Dollar / Canadian Dollar)
USD/JPY (U.S. Dollar / Japanese Yen)
EUR/USD (Euro / U.S. Dollar)
EUR/JPY (Euro / Japanese Yen)
EUR/CAD (Euro / Canadian Dollar)
EUR/AUD (Euro / Australian Dollar)
EUR/GBP (Euro / British Pound)
GBP/CHF (British Pound / Swiss Franc)
GBP/AUD (British Pound / Australian Dollar)
GBP/USD (British Pound / U.S. Dollar)
GBP/JPY (British Pound / Japanese Yen)
AUD/CAD (Australian Dollar / Canadian Dollar)
AUD/CHF (Australian Dollar / Swiss Franc)
AUD/USD (Australian Dollar / U.S. Dollar)
AUD/JPY (Australian Dollar / Japanese Yen)
NZD/JPY (New Zealand Dollar / Japanese Yen)
NZD/USD (New Zealand Dollar / U.S. Dollar)
CAD/CHF (Canadian Dollar / Swiss Franc)
CAD/JPY (Canadian Dollar / Japanese Yen)
CHF/JPY (Swiss Franc / Japanese Yen)

Summing Up

This system is deceptively simple, and very powerful. It offers you the maximum probability of significant gains, while risking the smallest amount possible. It also affords you tremendous “Staying power”. During the development time of this approach, I traded a \$300.00 account for over a year, and I’m still going....

If you have any questions, or I can help you in any way, please feel free to e-mail me at:

walt123@verizon.net

Come Join Us on the Net!

I have created a Yahoo group specifically so users of the Gambit can talk to one another. As an owner of the system, you are invited to join!

Go to:

<http://groups.yahoo.com/>

and do a search on the Forex Gambit Group. Follow, the appropriate links, and apply to join.

DISCLAIMERS

IT IS UNLIKELY, BUT POSSIBLE THAT A WORLD EVENT MIGHT CAUSE A GAP IN THE MARKETS THAT WOULD RESULT IN YOUR LOSSES EXCEEDING \$300.00. BY TRADING, YOU ACKNOWLEDGE THIS RISK, AND HOLD WALTER T. DOWNS OR ANY OF HIS ENTITIES BLAMELESS FOR ANY LOSSES YOU MIGHT INCUR.

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All cases adjudicated in Florida.

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