

Charting a forex course

CHARTING Unless traders believe they are lucky at roulette, the odds are they will depend on real-time data flows and on-screen charts to map their way through markets like gold and foreign exchange. **Peter Archer** reports

It was not so long ago that traders were relying on graph paper, pencil – and eraser – to chart the rise and fall of markets.

But, in fewer than 20 years, the trading landscape has been transformed from a sort of DIY data stream into a hi-tech and highly sophisticated version of computerised financial wizardry.

Gone are the days when Japanese traders, for example, hoarded huge rolls of prized paper, taped together into a long scroll, containing hand-drawn Ichimoku charts, a popular charting technique dating back to the first rice exchanges.

The same charts can now be plotted almost instantaneously by computer and updated in real time with up-to-the-minute analysis and commentary.

Only a persistent power-cut and back-up generator failure, it seems, could dim our enthusiasm for the processed patterns of lights on screens which currently signal the way ahead.

“Basically human beings are not good at processing data. We need to be able to visualise the data to see and understand what is happening and, by extension, what the data represents,” says David Upton, managing director of the DBFS Group which includes TraderMade International, providers of real-time charting and analysis.

Before the 1990s and without unwarranted expense, there was no way to create charts electronically.

SUBJECTIVE

Data for foreign exchange was highly subjective and hard to obtain, requiring analysts to watch Reuters or Telerate screens to record prices and update their charts manually.

Then IT companies began to offer data feeds and tools to allow the generation of charts electronically as an independent and reliable reference point for data and prices.

As much as anything, the major change was the ability to store and retrieve data. Plenty of technical-analysis (TA) theory had been developed before the advent of computers but, since the creation of electronic TA platforms, technically empowered analysts, traders, quantitative analysts (quants) and market theoreticians have amassed a growing arsenal of trading firepower, in the form of studies, oscillators, tools and techniques.

From a trader's point of view, the development of charting in markets like forex has radically altered the way trading decisions are made and executed.

We need to be able to visualise the data to see and understand what is happening

“There are a number of ever-more sophisticated software packages available, such as MultiCharts, TraderMade, eSignal and Trade Station, to name the more popular ones,” says Caspar Marney of Marney Capital Ltd. “All offer the classic charting functionality, and many now also offer the ability to simulate and test the performance of trading strategies and ideas.

“Historic data is obviously vital to either plot a chart or back test a trading idea. Much of the recent price history is now available to download for free, or at very little cost. The more historic data is harder to come by, particularly in the currency markets, as trading used to be dominated by voice brokers, making the capture of high-frequency data almost impossible.

“However, thanks to firms such as Olsen Data in Zurich and TraderMade in London, who have been capturing intraday data since the eighties, it is possible to see the intraday price action from over 20 years ago.”

According to Mr Marney, by combining a platform such as MultiCharts, with a data source from a vendor such as Olsen Data, the individual investor has the ability to level the playing field with institutional traders.

“For classic technical analysis and charting, TraderMade has always been known for its integrity of real-time data, as they have a

team responsible for amending any errors, in real time,” he says.

But can an individual trader really keep pace with the big institutions?

“With the huge advances in computing power, access to historic and real-time prices, and news data, no longer do institutions enjoy the significant technological edge they once had,” says Mr Marney.

FEAR AND GREED

“However, markets have always been driven by the human emotions of fear and greed.

“Therefore, while technology can make the trader's life much more efficient, in terms of creating charts and testing ideas, all the technology in the world will not replace the need for a trader to have the absolute discipline and consistency needed to be successful,” he says.

“It's certainly possible to succeed without charting and analytical services, but a trader's edge is knowing how to interpret the data and then having the discipline to apply that edge consistently.”

Mr Upton concludes: “I am sure that the use of charting and analysis is not a guarantee of success, but would say that most successful traders ‘beat the odds’ by having systems that they use routinely, and that most of those systems result from chart-based or derived analysis and are executed by monitoring charts of the market.

“My qualification is that, if a modern trader is creating an automated system, then charting is not needed once trading starts. However, in most cases, charting will have been required to be able to create the model in the first place, unless the model is based upon non-markets-based techniques.”

FX charts rising above the curve

Charting technology and services are constantly evolving and moving with the markets.

Among the latest introductions are hourly or two-hourly updates of analysis and commentary on foreign-exchange markets by top TraderMade analysts.

This frequent cycle of updates, on the Maverick web-delivered trading platform which features InterpreterTA, comes with simultaneous chart revisions through real-time data feeds. Users can watch the price action develop around the commentary.

The InterpreterTA service is also delivered through Reuters xtra3000, although the Thomson Reuters graphics feed is less comprehensive as charts do not update in real time.

A number of service providers are continually developing line, bar and candlestick charts which stream real-time data and include technical analysis.

Traders can track the world's markets online and customise charts without having to download software.

And the latest charts are available anywhere there is a browser and internet connection.

Up in lights: data feeds have transformed the trading landscape

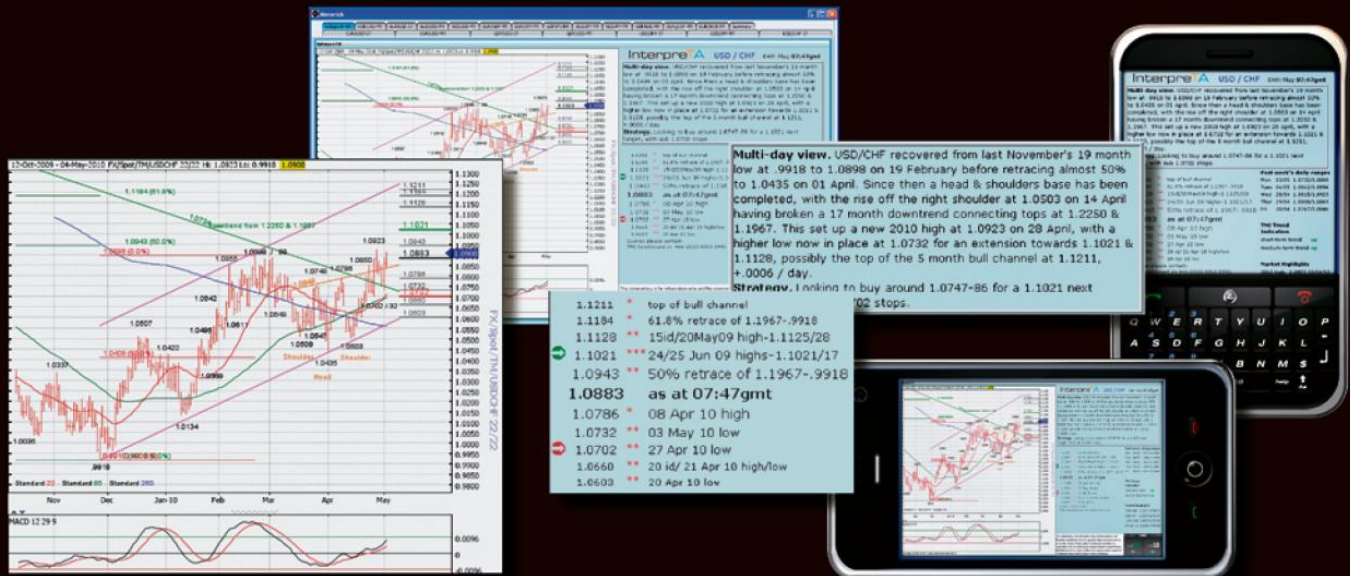


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