

Currency Hedging

Stratoblaster Style

Overview:

Hedging is a great technique in trading the currency markets, with very little risk and possibilities of great rewards. There are many different ways a Trader can hedge, using the same currency in both directions (Long and Short if your broker allows it) or using different currencies that trade on a consistent correlated basis, either in the same direction or opposite direction.

The following tables represents the currencies correlation. The correlation coefficient show the moves similarity between pairs.

If the correlation is high (above 80) and positive then the currencies move in the same way.

If the correlation is high (above 80) and negative then the currencies move in the opposite way.

If the correlation is low (below 60) then the currencies don't move in the same way.

The below list of currency correlations, show the Highlighted currency pairs which you will want to use in Hedging. This is a average over a 20 day period. **FOR EXAMPLE,** You can see in the last 20 days the *Pound and Euro went in same direction 97% of the time*, while the *Pound and Swiss went in the opposite direction 96% of the time*.

20 Days

1.	<u>EUR-USD</u>	<u>USD-JPY</u>	<u>GBP-USD</u>	<u>USD-CHF</u>	<u>USD-CAD</u>	<u>AUD-USD</u>	<u>EUR-JPY</u>	<u>EUR-CHF</u>	<u>USD-NOK</u>	<u>GBP-JPY</u>
EUR-USD	-	85-	<u>97+</u>	<u>97-</u>	37-	<u>94+</u>	60+	28+	95-	68+
USD-JPY	85-	-	88-	<u>90+</u>	18+	85-	09-	06+	71+	26-
GBP-USD	<u>97+</u>	88-	-	96-	34-	<u>97+</u>	51+	23+	94-	69+
USD-CHF	<u>97-</u>	<u>90+</u>	<u>96-</u>	-	42+	92-	47-	05-	88+	57-

The Hedge-Juice Trading Formula:

Using the above chart, I will begin to explain how to hedge using different currency pairs from the Middle short term Murrey Math Lines. 4 Day MM at 4/8 MM Level. I recommend using a 5 min chart most of the time.

The SHORT TERM (4 day) 4/8 Murrey Math Line is the center of our Murrey Math Indicator, and we will hedge starting at that point. For Example, we will wait for one of our HEDGE CURRENCIES to reach the 4/8 MM line, and then Hedge (for example) a Long Swiss and a long Euro from this 4/8 MM line in same direction.

Both Hedge Currencies will be entered at the same time! Long Euro and Long Swiss from 4/8 MM. This will be done when either the Euro or Swiss reaches its 4/8 level. It does not matter which one reaches the 4/8 level first.

Once we enter our Hedge Trade, we will leave these two currencies open and Hedged, until one is in profit, and the other one is in a drawdown.

Exiting our profit currency, or staying in our hedge?

We will keep our currency hedge open until a BIG NEWS / JUICE trade begins. What ever direction our set-up JUICE TRADES give us before the News comes out, we will either keep our hedge open, or we will close the one in profit and trade ***More Lots On REVERSAL!***

Example: Euro has gone up 100 pips from 4/8 MM line, and Swiss has gone down 100 pips from 4/8 mm line.

Euro is now at top of Murrey Math, and Swiss is now at the bottom of MM lines.

If we have a REVERSAL SIGNAL from the Euro at the top, we will close out in profit, our Euro trade, and upon signal ADD LOTS to go long the SWISS.

If our signal is a “Longer Signal” for Euro, or a shorter signal for Swiss, we will stay hedged and not close either of them! So if Juice indicates Euro is still going North, and Swiss is still going South, we stay in our hedge and ADD more long Euro’s or more Short Swiss’s!

The KEY to this Hedging Formula, is staying hedged until we either have a reversal signal *WITH JUICE* in which we will close our “Profit Currency” out, and trade more lots on the one which is drawn down, or we stay hedged if signal is in same direction on our “Profit Currency” and will add more lots. Only during NEWS / JUICE!



