For the Economy section of the EIC Approach, we will be examining the US's GDP, Interest rate, employment rate and inflation rate for the ‘Economic’ section. United States of America is currently the world’s leading economy with regards to Gross Domestic Product (GDP). In the third quarter of 2019, USA’s quarterly GDP is at $5,381,455 million. This is growing at an annual rate of $21.5 trillion a year. As for the interest rate, it is 1.50%, dropping from 2.00% in 27 September 2019 by 0.5%. The employment rate for United States is 61.00% as of October 2019, and lastly, the annual inflation rate for the United States was 1.8% for the 12 months ended in 2019.

Between 2006 and 2016, US healthcare saw an increase of jobs of 2.8 million, which was almost seven times higher than the overall US economy. (Deutsch, 2019) In addition, the United States spends almost twice as much on healthcare than other industrialized nation. In 2016, the United States of America spend 18% of their GDP on healthcare, which is about 3.3 trillion. The numbers are expected to rise to 20% by 2026 because of their ageing population. The numbers are high due to healthcare in America being much more expensive than other developed countries, and not because U.S citizens get more care or subsidies. Researchers have found that the key drivers for expensive healthcare include higher drug prices, staff salaries, and prices for medical services such as emergency ambulances. (Hopkins, 2019).

Meanwhile, the US healthcare industry is looking to maximise profit while simultaneously improving customer satisfaction. Healthcare providers are focusing on revamping their financial model, such that it is geared towards value instead of volume in customers. (Beaudoin, 2019) This is caused by the industry’s need to focus on customer satisfaction and retention rather than raw profits. This is due to the idea that one-time customers are not as profitable as repeat customers. Upon research, the healthcare industry seems to show no signs of slowing down as there is always a constant demand and for healthcare in any economic state. Therefore, the healthcare industry should focus less on the bottom line and more on treating patients like people instead of numbers on a sheet. Implementing this will show that healthcare providers truly care for the health of patients and will boost profits beyond any price hike.

Walgreen Boots Alliance is a global leader in retail and wholesale pharmacy that is present is more than 25 countries. It is one of the world’s largest purchasers of prescription medicine and other health products. Today, the companies stock price is at a stable USD$61, with the highest reaching USD$86 and the lowest reaching USD$49 in the past 52 weeks.

Walgreens Boots Alliance has shown a steady gross margin between 22% to 27% in the past 3 years. In the most recent quarter, it was at 22.0%, which is still above the industry median at 20.9%. This indicates that the company has high profitability. This is good for investors because higher profits mean more dividends which will in turn be given out to investors.

The Pretax Return on Assets (ROA) is higher at 6.7% as compared to the industry average at 5.4%. This indicates that the company utilizes their assets at the upmost potential. This is good for investors because it shows that the company makes wise investments to boost their profits. Looking at the previous quarters, the company also has a history of high pretax ROA, with the highest at 10.7%.

However, in terms of the liquidity, the company does not seem to be very liquid. Their quick ratio, 0.36, and current ratio,0.73, are almost half as compared to the industry average. This indicates that the company is holding too much cash that could be utilized in other areas.

= =

= USD$56.04 per share

The DDM also shows that the taking into consideration their dividend payouts and market expected return, the value of the share may drop in the coming future. With all this factors, there is no 100% guarantee that WBA should be invested on.

The operating margin of Johnson & Johnson(JNJ) shows its profitability ratio. The operating margin is at 7.9% which is higher than the industry median of 4.1% which shows that JNJ is more profitable than most companies in its sector.

The liquidity of JNJ can be calculated using the quick and current ratios and cash cycle. The quick ratio of JNJ is 1.0 compared to the industry median of 1.80. The current ratio of JNJ is 1.26 compared to the industry median of 3.11. The cash cycle of JNJ is 91.5 compared to the industry median of 173.2. JNJ’s quick ratio being lower than the industry median shows that they can settle their urgent short-term obligations quickly as they are able to quickly turn their assets into cash to pay their short-term liabilities. The current ratio of JNJ shows that it is able to repay its short-term liabilities quickly within the span of a year. The cash cycle of JNJ is lower than the industry median. This means that JNJ is able to convert their assets into cash quickly. Therefore, JNJ is very liquid as it is able to repay its debts quickly and efficiently, keeping their cash conversion cycle low which improves liquidity and its ratios are all better than the industry medians.

The dividend discount model (DDM) is used to determine the value of a company through their common or preferred stock that is worth the discounted amount of all its future dividend payments.

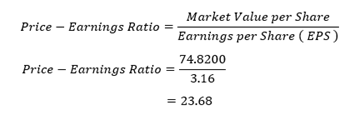
Johnson & Johnson rate of return: 10.75

By using the operating margin, liquidity and DDM we can determine that JNJ is a profitable company and is worth investing in as it is performing above the industry median.

CVS Health stands for Consumer Value Stores Health provides products and services that caters to their consumers health. CVS currently have 6200 stores in 43 states and they have a revenue of $194.58 billion annually. They specialise in providing high quality private testing and treatment for a wide range of cardiovascular conditions.

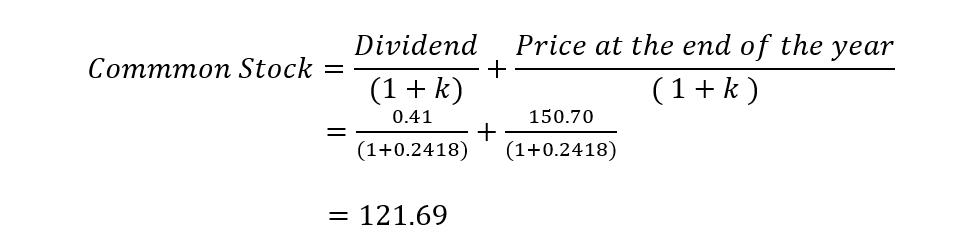
Dividend discount model (DDM) is a methodology used to value a company based on the theory that a stock (common of preferred) is worth the discounted sum of all its future dividend payments. This model helps to evaluate stocks relative to the net present value of future dividends. Dividends serve as a measure of cash flows returned to the shareholder upon successful investments. The theory suggests that the value of a stock equates to the worth of all future cash flows expected to be generated by the firm, discounted by the appropriate risk-adjusted rate.

P/E Ratio (Price-Earnings Ratio) is a ratio of company’s current share price compared to its per-share earnings. Using P/E Ratio, we can find out the company growth rates and use the trends to analyse the trade allowing investors to find out when a stock is overpriced. By comparing the Ratio Market Average against CVS Health P/E ratio and their company growth rates, we can find out if a P/E ratio is low or high.

Currently, the Price-Earning Ratio for CSV Health is at 23.68 while the industry average is 24.05. We can see in the later part of 2018 that CSV Health is financially in trouble as they have had the highest profit in the previous months before they had a drastic increase in the profit. While comparing the growth rate of CSV Health and their industry average, CSV Health do not have a low P/E Ratio and are financially stable.

Clovis Oncology is a biopharmaceutical corporation that committed to the production, development and marketing of anti-cancer agents in the United States, Europe and other international markets. In years 2017 and 2018, the Asset Turnover is higher than Industry median, this means the company is using its assets efficiently, that is why I would like to invest in here. For DuPont, the Return on equity is higher than industry median, this suggests that Clovis Oncology Inc. is increasing its ability to generate profit without needing as much capital. The higher Return on assets also shows the company is earning more money on less investment. Liquidity describes the easiness to convert assets into money and cash. Quick ratio in 2018 and Current ratio in 2017 are higher than Industry Median, indicates the company's liquidity and financial health is in good condition, and more likely to meet its liabilities which are due over the next 12 months. Higher ratio of Time interest earned, shows the company’s ability to meet its interest obligations because earnings are significantly greater than industry average. The higher ratio of A/R Turnover also indicates company has combination of conservative credit policy, aggressive collections department, and a number of high-quality customers. Clovis announced $33.0 million in net product sales for Rubraca in 2019, which included $32.7 million in ex-U.S. net product revenue. Rubraca tablets is a prescription medicine used for maintenance treatment of adults with ovarian cancer, fallopian tube cancer, or primary peritoneal cancer with certain gene mutations of "BRCA." The director and CEO of this company is Patrick J. Mahaffy. BOULDER, Col. and Clovis Oncology, Inc. announced the issuance by the United States Patent and Trademark Office of the United States Patent 10,130,636 claiming methods for the treatment of rucaparib camsylate formulations with high dosage strength. Bristol-Myers Squibb Company and Clovis Oncology announced a strategic cooperation agreement, other partnerships include Immunomedics and Lonza etc. Top Competitors of Clovis Oncology includes ILEX Oncology Inc., Beigene Ltd., Pharmion Corporation.etc. Clovis Oncology provide updates for FAP-2286, recently-licensed FAP-targeted radiopharmaceutical compound, as they move this preclinical candidate forward in the future.

The company I have chosen from the US healthcare industry McKesson Corporation US. Firstly, McKesson’s gross profit margin is 5.0% in Sep 2020 compared to the industry’s median of 29.5%, which is significantly lower. However, they have had a steady positive gross profit margin for the past 2 fiscal years for all quarters. This is good, as stability and consistency is favourable for investors because if the company is constantly profiting, they are able to give our dividends more regularly. Secondly, for pretax ROA, McKesson is at -1.6% compared to the industry median of 1.3% in Sep  2020. McKesson has a net neutral or positive pretax ROA 5/9 interims in the past 2 years. ROA indicates how well the company utilizes its assets. Investors can observe that they are able to utilise their assets decently. For liquidity, I will be comparing Times interest earned and cash cycle. For times interest earned (TIE), the industry’s median is 4.9 times, while McKesson’s is 10.7 times in Sep 2020, a significant margin above. McKesson has also been positive throughout the past 2 years. This is good for investors as TIE measures the ability to meet its debt obligations. The number shown is how many times the company could cover its interest charges with pretax earnings. For cash cycle, the industry’s median is 29.1 days while McKesson’s is 2.3, which is about 14 times faster. They have also been consistently low through the past 2 years. This is good as it shows the company is incredibly liquid. Lastly, the dividend discount model is calculated below.



Overall, McKesson is a stable healthcare company that has been doing well the past 2 years in all interims. A keen investor can look to invest as they are prospective and can look forward to receiving dividends regularly.

The company I have chosen is Windtree Threapeutics. They specialise in respiratory diseases development for KL4 surfactant therapies. One way to evaluate the company is using liquidity ratios. Liquidity ratios are used to show whether the company can pay off its short-term liabilities on time. One liquidity ratio is the times interest earned ratio. The times interest earned ratio of Windtree Therapeutics is 11.5 as of December 2018 which is higher than the industry median average of 10.2. Times interest earned ratio is calculated using the earnings before interest and taxes divide by the interest expense. The company is able to pay the debt interest payments and make contractual interest payments from the current earnings on time. Besides that, the company can fulfil its interest obligations based on its operating profit. This means there are sufficient cash to meet its development activities, business operations and debt services funding. Interest expenses can also be covered in the future and investing in the business will be done without facing any difficulties. Another way is fundamental analysis which is used to determine the future and development of the company by evaluating the financial status. One fundamental analysis is market cap which is used frequently to determine the validation of the stock and to measure the size of the company. Windtree Therapeutics has a small market cap of $128.76B as of 13 November. Market cap is calculated by multiplying the current stock price by the number of shares outstanding. It represents the actual stock value of the overall market. This means that the company stockholders are facing a lot of risk due to their small size. However, the company is producing a faster growth and larger returns despite having a small size as it can beat institutional investors. Thus, the concept of market cap is important in helping investors know how they are investing their money.

For my part, I will be trading $100,000 under USD/CHF. Swiss Franc, which is the currency of Switzerland, is viewed as a safe haven when doing Foreign exchange trading because of the country’s stable political and financial position. Since the two countries have very good relationships, the main thing that can affect the prices are the country’s own Gross Domestic Product (GDP) and employment data.

For all of my trades, I will be using the indicators that I get from the MACD line, RSI lines and some minor indicators from candlesticks.

USD/CHF was bought at 5.51 P.M. on the 18th of November. I opened the trade at the moment the I saw the two indicators from the MACD line and the RSI graph. I will explain the indicators in the following paragraphs.

The Moving Average Convergence Divergence line is a trend-following momentum indicator to show the relationship between the two moving averages. When the line crosses, it indicates reversal. The histograms are present to help traders look at the momentum of the growth. The steeper the histogram is, the more momentum it has in the growth and the more likely it is to go in its current direction.

However, it is best to only trade if the MACD lines cross below the signal line and not on the signal line. The signal line is the line in middle of the histogram. For this case, it was optimum time to trade because the crossing happened far from the signal line.

Looking at this crossing, the MACD indicates that there is a current downtrend in the price. This is the best time to wait for the next time the MACD lines crosses because the next time it crosses, the trend and reverse and the prices will go up.

This is the point where I opened the trade because the MACD lines crossed. Also, the green colour histograms indicated that there was a very strong momentum in the growth of the price of the currency. These two factors combine to tell me that opening the trade would be profitable.

The Relative Strength Index (RSI) is a momentum indicator that measures how fast the price of the stock changes. Mainly, it indicates whether the currency is currently overbought or oversold. When the graph is above 70, it indicates that the currency is overbought which means it is a good time to short. When the graph is at 30, it indicates that the currency is being oversold which in turn means it was a good time to buy the currency. At the time I opened the trade, the line had already hit 30. But seeing the current momentum, it shows the price is still increasing strongly.

USD/CHF trade was closed at 6.43 P.M. on the same day. This trade was closed mainly because of the indicators from the MACD line.

The trade was closed because like the previous explanation, the two lines crossing is a sign of reversal. Since the previous time that is crossed was an indicator to open the trade, this time it was an indicator to close the trade.

Also looking at the histogram, it was in a downward trend at the time the lines crossed. This provided more evidence that the trend was reversing, and it was time to close the trade.

This trade was opened at 10.25 A.M. on the 21st of November. I open this trade because of the indicators that were shown in the MACD line and the RSI graph. This trade was much better than the previous one because this time there was a clear indication in the RSI. Also, there was a huge downtrend in the graphs. This was a good sign because it meant that the trade could be opened at the most optimum position, when it is the lowest. Doing this will result in high returns when closing. My understanding proved correct when at the peak, the profit shown was about $98.

Compared to the previous example, this one was clearly below 30 which means that the currency is currently oversold. This is a good indicator to open the trade because the trend was reversing, and the currency will sell for much higher.

The way of identifying the hammer is when the lower shadow is at least twice the size of the real body, and there is nothing sticking out from the top. Taken from the slides, the hammer is known as an exhaustion indicator because it means that the price is too tired to keep going the direction it has been going. This makes it a guaranteed sign of reversal. However, what it cannot determine is the momentum of the reversal. So sometimes even if a hammer is present in a candlestick diagram, it is not worth the trade because it may also mean that the currency is stabilizing. But in this case, it coincides with the other indicators which makes it a good sign to open the trade.

Similar to the previous example, the MACD lines crossing is a sign of reversal in the trend. This has the added benefit of dipping far below the signal line which means that this a very good time to buy since the value of the currency is at the cheapest.

This was the graph at one point of the trade. The reason I did not close the trade was because there were no indications that it was time to close. But if it was not for the purpose of this exercise, I would have closed the trade because this hit my stop/loss and my risk appetite, despite it not being the peak of the trade. Overall, this trade was the only one that I had for the week where all the indicators aligned.

I closed the trade at 4.12 P.M. on the same day. This was the point where the indicators show that the trend was changing. The indicators were found in the MACD line and the candlestick chart.

Like the previous explanation, the two lines crossing is a sign of reversal. In addition to the lines crossing, there is a drastic difference in height of the two histograms next to each other.

The hammer was also present as a very clear sign of reversal for this case. This was also the reason why I closed the trade at this time. However, before this point, despite there not being indicators previously, the price was already starting to drop drastically.

Things to note about the hammer

This is a very good example of why the hammer is sometimes not a good indication of why one should open or close the trade. Even though there was a hammer present at this point of the trade, rather than the price increasing, the chart just stabilizes.

Chart analysis has really helped me gained a better understanding of how to trade. I learn to look out for simple indicators and not to over-complicate things. When I first started this project, I was trying to find as many indicators as I could before making a trade. This made trading difficult because getting the all the factors to align is rare. Trying to get all the factors to align when closing the trade also made me lose out on a lot of the profits I would have gotten from the trade. Vice-versa, looking out for only one indicator is not reliable.

I found the sweet spot to be 3, 1 from each chart (RSI, MACD, candlesticks). This made trading a lot more consistent. Also, I realise that setting the stop/loss is very important. Setting stop/loss just helps traders have a piece of mind instead of actively looking at the chart.

Overall the two trades did go according to plan but for this exercise, I did not get any profit.

Overall profit percentage: -0.13%

Screenshots of the trade being made in Oanda.

100,000 units of USD/CAD bought

Trade 1 was made on the basis of the candlestick, MACD and RSI indicators indicating signs of reversal.

The blue arrow in image 1 shows the point of entry for the trade.

The purple highlight shows the candlesticks displaying a hammer. This is a key indicator that the price is going to reverse soon as it is too exhausted to continue dropping.

The yellow highlight shows the MACD lines touching which is a key indicator of the price reversing.

The blue highlight shows the histogram of the MACD indicator. The histogram has crossed the line as the MACD lines have crossed which indicate reversal. However, the histogram also displays the momentum of the price and it shows that there is not much momentum. Thus, I had to use another indicator to cross refer to ensure that the price was going to reverse.

I used the RSI indicator to cross refer the information from the MACD indicator to confirm my hypothesis that the price would reverse. The green highlight shows the RSI oscillating to below 30 which indicate that it is oversold and signals that the price is going to reverse

Therefore, by using the different indicators to compare and contrast, I can ensure that I am making the right decision when making a trade and bought 100,000 units of USD/CAD at 1.3670 due to multiple indicators signalling reversal.

Trade 1 (Sold)

Image 1

Trade 1 was made on the basis of the candlestick, MACD and RSI indicators indicating signs of reversal.

The blue highlight shows the candle sticks displaying a hammer. This is a key indicator of reversal as it shows that the price is too exhausted to continue rising and will reverse soon.

The green highlight shows the candle sticks displaying a doji. This is a key indicator of reversal.

The red highlight shows the MACD lines touching which signifies that the direction of the price is going to reverse.

Therefore, with speculation that the price is going to fall, the trade was closed at 1.31684 and a profit of $USD 10.63 was made.

Trade 2 (Bought)

Screenshots of the trade being made in Oanda.

100,000 units of USD/CAD bought

Reasons for entering the trade:

Trade 2 was made on the basis of MACD and RSI indicators.

The yellow line shown in image 2 indicates where the sell order was made.

The red highlight in image 2 shows the RSI indicator oscillating below 30. This indicates a sign of reversal as it is oscillating below 30 shows that it is oversold.

After gathering information from the RSI indicator, the trade was entered at 100,000 units for USD/CAD at 1.3285

Evidence for my hypothesis that the price would reverse is also shown in the MACD lines crossing (highlighted in blue) after my trade was made.

Trade 2 (Sold)

Trade 2 was made on the basis of MACD and RSI indicators.

The blue highlight shows the MACD lines crossing which indicates the price will reverse soon.

The green highlight shows the histogram of the MACD indicator. The histogram has gone over the central line and indicates that the price is dropping with significant momentum. This is a sign of reversal and indicates that the price will steadily fall.

The red highlight shows the RSI indicator oscillating above 70. This shows that the currency been oversold and is an indicator of the price reversing soon.

Therefore, with speculation that the price is going to fall, the trade was closed at 1.33156 and a profit of $USD 228.28 was made.

In trade 1, the MACD lines crossed and the RSI indicators displayed that the currency was being over sold. These two indicators signalled that the price was going to reverse which made me decide to buy. I also applied these when making my second trade. My learning point from the FX trade is that indicators are not the be all and end all of trading. There are situations where the MACD lines stagnate and seem to go in a straight line. Thus, in times like this multiple indicators should be used to cross refer information to identify trends reliably. I can perform better by also researching factors that affect FX. When I made my trades I chanced upon an article talking about the current trade war between American and China causing USD/CAD to steadily increase which caused me to hold on to it before selling. (145 words)

Profit loss of trades and total return in percentage:

Capital used for both trades: $100,000

Realised profit made in trade 1: $10.63

Realised profit made in trade 2: $228.28

Total profit earned: $10.63+228.28 = $238.91

Return in percentage 238.91/100,000 = 0.23891

0.239% (3 significant figures)

The Great Britain Pound (GBP) has reduced in value ever since the vote for Brexit began in 2016. Many investors have pulled out from the European market as there were many uncertainties regarding the future of the United Kingdom. The vote for Brexit started on 23rd June 2016, as a refugee crisis made migration a subject of political rampage across the entire Europe. Reflected in Figure 1.1 below, each Brexit vote caused a severe decline in the value of GBP. For example, the value of GBP before the Brexit Vote in 23rd June 2016 was recorded at $1.48. The next day on the 24th June 2016, the value of GBP plunged to $1.36. This shows a severe impact that the Brexit negotiations have on the economy. 

Europe is Britain’s most important export market and it is the largest source of foreign investment. The membership of Britain to the European Union has also helped London to lay a strong foundation as a global financial center. With the ongoing discussions of Brexit, the government has projected a rough estimate of 4% - 9% decline in the country’s economy without The United Kingdom. Figure 1.2 below reflects the business confidence index that businesses have towards the European Union. Ever since 2018, tensions regarding Brexit has been increasing at an incremental rate, thereby causing businesses to lose its confidence in the EU market.

In Figure 1.3 below, an extreme plunge in GPB’s value was observed in year 2008 to 2009. This is due to the great recession occurred during year 2008 to year 2013. The recession came after credit crunch that happened in 2007/2008. During this period of time, the credit crunch caused immense problems for a particular bank, the Northern Rock. They had a high percentage of risky loans that curiously also had the highest percentage of loans financed through reselling within the capital market. As the sub-prime crisis reaches its shores, Northern Rock could no longer raise sufficient time within the usual capital market. They had to resort to asking the Bank of England for emergency funds. This caused many of its customers to withdraw their savings from the bank even though their savings weren’t directly affected by the crisis. After mortgages were deemed as hard to obtain, the demand for houses naturally declined accordingly, causing a fall in house prices and even deemed as a negative equity. The impact of credit crunch period eventually led to a fall in investment count and lower the general consumer spending. The recession also led to a sharp increment of government borrowings. The UK and other countries within the Euro-zone economies took the approach of fiscal austerity - cutting spending or impose higher taxes as a measure to try and reduce levels of government borrowing. Unemployment was also on a rise during the crisis

According to the 4-hour chart as shown in Figure 2.1 below, an upward trending market can be observed between the period of 9th October 2019 to 21st October 2019. This upward trending market caused severe over buying of stocks as shown in Period #1 in Figure 2.1 below. After this period, the market experienced a sideway trend with low volatility in the stock’s prices until 9th November 2019. Due to the (oversold) trend seen as per Point #A in Figure 2.1 on the RSI chart, I enter a short trade at market price of 1.2941 with 100,00 standard units at 5% Risk Capital with a stop loss of 23.8 pips which is a maximum of $5000.

Patterns Identified:

A Bullish Rectangle Pattern was observed from 9th October 2019 to 19th November 2019

At Period #2 in Figure 2.2 we can see that there was a morning star, the prices dropped, and a small body candlestick was formed. The candlestick then shows the reversal in market.

Technical Indicators used:

* (Bollinger Band) At Point #B in Figure 2.2, price action exceeded the edge of the higher band, causing a higher likelihood of a reversal which will come back within the band range. During Period #2 in Figure 2.2, the candlesticks are moving around the dynamic support range of the band indicating that prices will start to reverse. Also, the standard deviation band is increasing in size as compared to 14th November which then shows a higher volatility. At Period #3, we can see the narrowing of the band which will also tell us that the volatility is about to increase drastically which will cause the price to either increase or decrease significantly.
* (RSI) An instrument is deemed to be overbought once the RSI is above the 70 level at Point #C. Once it hit the overbought level, there will then be a reversal in the market resulting in a drop-in value which is shown at Point #D. It could potentially mean that the stocks could be getting overvalued and is a good candidate for a pull back or a reversal.
* (MACD) At Point #E, the MACD line and signal are about to crossover which shows the increase in trend has completed is about to reverse to the downtrend run. Thus, I predicted there will then be a drop-in market price.

After almost 3hrs of entering the trade, I checked back and found out that the order closed due to a stop loss limit that I have set of 1.29500. In Figure 2.3, we can see a Bullish trend instead of Bearish trend of what I predicted. This then triggered the stop loss limit causing the order to be closed. By setting a stop loss limit, this then reduce the amount of money that was lost due to wrong analysis that was made. When I close the order, I have a lost a total of $9 from the trade.

After doing a 4-hr trade, I decided to do a 1-minute to see the difference and observe the extend of market volatility. I decided to place a long market order at 1.2902 of 100,000 units. I place a capital order of 5% Risk Capital with a stop-loss of $5,000.

Patterns Identified:

The first pattern that was identified was Morning Star. Before Point #F in Figure 3.2. The candles were showing a bearish candle which was part of a recent downtrend. Point #F in Figure 3.2 shows a small body indicating that there could either be bullish or bearish. Point #E in Figure 3.2 will then confirm the direction that the trend would be going towards.

The second pattern that was identified was Evening Star. At Point #D in Figure 3.2 then shows another small body indicating that there could be either be a bearish or bullish trend and at point #A then shows that the confirmation of the reversal.

Technical Indication :

* (Candlestick) After looking at the trend, I analyse and found a morning star trend. After realising that at Point #C in Figure 3.2 show the Bullish candlestick. We can see that the difference between the upper band and lower band are the largest at this point shows how volatile the trade is. At Period #1 in Figure 3.1, we can see that there is a narrow in the band which will result in a sharp increase in the volatility.
* (MACD) In the MACD line we can see that the signal line and the MACD line is about to cross each other in Figure 3.3 which will show a reversal in the market. The histogram also shows an increase in the trend which shows that there will be an upward trend which shows that it will be making a recovery soon.
* (RSI) The RSI line shows that the market shares were oversold at Point #I in Figure 3.1 and it shows that there will be an increase in the trend thus more investors are starting to buy the shares as the prices are now low. With many investors starting to buy the shares, the trend will reverse and will be an upward trend.

I closed my trade at 8:44pm on 20th November 2019. As reflected in Point #G of Figure 3.4 below, we can see that the Bollinger band has narrowed significantly. This shows that the volatility is about to increase drastically. However, by looking at the MACD, we can tell from the trend of the histogram that the prices are starting to drop below the neutral line, as well as the MACD line and Signal line crossing at Point #H. This shows the reversal in prices and it will then start to drop. The prices would not be able to increase as the MACD line has hit the peak. Not only that, by looking at the RSI, we can see that it is starting to increase, and the shares were almost overbought. By comparing it with the MACD line, we can see that there will soon be a drop in the price. Thus, many people started to sell their shares. As the price was high and there will soon be a reversal, I decided to close my order and I made $17 from this order.

Capital used for both trades: $100,000

Realised profit made in trade 1: -$9

Realised profit made in trade 2: $17

Total profit earned: -$9 +$17 =$8

Return in percentage 8/100,000 = 0.00008‬

Overall when analysing the market prices and the trend, we should not rely on one study as the determining factor to decide to place a Short or Long order. For an example, looking at the Bollinger band in Order 2, we can see that the band has narrowed and there will soon be a drastic increase in the volatility rate. However, if we do not use the other indicators as cross reference to analyse the trend, we will not be able to figure out if there will be a bullish or bearish trend. If we were to analyse the MACD and RSI in reference to the Bollinger Band, we can see that in the MACD indicator, there will be a reversal and that the price will start to drop and the RSI shows that many investors are starting to sell their shares.

We would also need to read about the trend in the market for the past few years and read the latest political situations which may affect the currency. We cannot be fully dependent on Bollinger Band, MACD and RSI as a sudden event that occur in a country may affect how the market price will move for an example would be United States.

The technical analysis I have adopted is Relative Strength Index. It is an indicator of momentum that calculates the magnitude of recent price changes in order to determine over-bought or over-sold conditions in a stock or other asset's value. I think displayed as an oscillator (a line graph that moves between two extremes) is convenient and clear to see the readings from 0 to 100. I bought a total of 100,000 units of USD against JPY at the point when it is around the line at 40.0000 at an interval of 1 minute. I bought at this point is because it is showing a low trend.

There is a total loss of 169.45. I have adopted Relative Strength Index as it is easier for me to see comparing with other technical analysis. At time interval of 5 seconds, I have exited the FX trade at this point as it shows a generally increasing trend in RSI as well as the Candlestick Chart above, so I decided to close the trade.

 I have bought a total of 100,000 units for the second trading. The technical analysis is still RSI. I bought at the point when it hits over 30.0000 and waiting for it to hit 70.0000 again to close the trade. The time interval is 1 minute.

I was planning to close the trade at the point of 70.0000, but every time I opened the RSI it did not hit 70.0000, so I set the time interval to 5 seconds instead of 5 minutes. However, I still could not wait for it to hit 70.0000 so I just close the trade and made a profit of 84.70. I think this might be due to the reason that it

 shows a generally increasing trend in overall.

Reflection:

One unique aspect of this international market is that foreign exchange does not have a central marketplace. Instead, currency trading takes place electronically over - the-counter (OTC), meaning that all transactions take place via computer networks between traders around the world, rather than on a centralized exchange. As the market is opened 24 hours a day, I should not only look at the trend to decide, I have to calculate and look at other data in order to make a profit. All trades have been executed according to plan for USD/JPY, I have made a loss for the first trading plan is because I did not wait for the line to hit 70.0000, I was supposed to close the trade when it hits 70.0000 in order to make a big profit. Therefore, thinking carefully in all aspects, buying low and selling high is a way to make profits.

AUD/USD. First trade overall realised P&L of -30.80. Which means I lost 30.80 USD in this trade.

The blue arrow represents the price I opened the ticket. I bought 140,000 units at 0.68499. I made use of candlesticks, Bollinger band, MACD and RSI to assist in speculation and decision making of entering and closing the trade.

For candlesticks, I observed that the bearish candlestick was next to a bullish candlestick. I noticed that it resembles a type of candlestick called railway tracks, which was a sign that the price is likely to reverse direction and go in the bullish direction.

The middle band is within the lower and upper band, which indicates that the market is moving according to trend. I also took note that I could make use of the upper and lower band of the indicator as support and resistance level as well. The middle line which identifies trend direction, was in a bearish direction. Hence, I took notice and referred to my other indicators.

I noticed that the MACD histograms were in a bearish direction and were below the neutral line. It correlates exactly to the MACD line crossing over the trigger line. It is also used as a visual representation of the momentum of price movement. With all this in mind, I realized that the price was low and a signal to buy.

I saw that the RSI was below 30 which indicates that the currency is oversold and starting to increase. RSI can be used to identify the general trend, and I noticed that it has dipped to a low and starting to increase. When a stock is oversold, means that it has been sold below its true value and it a sign to buy.

Hence with all this in information, I decided that it was a good time to enter the market, as through all the indicators and candlesticks, a likely reversal was due, and I could capitalise by buying.

I closed the trade at 12 November 2019 07:08:25 AM GMT +8, selling 140000 at 0.68477 per unit.

By observing candlesticks, I spotted that there was a bullish candle next to a bearish candle, another pair of railway tracks, which signalled a possibility of reversal.

I noticed that the upper and lower band were getting wider and wider indicating higher volatility. I was wary and took note as higher volatility might be dangerous as the price could swing in any direction. The middle band was roughly equal width apart from the top and bottom band, which did not indicate if it was a buying or selling signal.

I watched from the point where the MACD lines intersected at about 7:03 AM. I noticed that the MACD lines crossed. This indicated that the current downtrend has completed its run and is now reversing direction to a uptrend. I noticed this and was waiting for the next sign of reversal to make my exit. Then, next I noticed that the MACD histogram had reached its peak of the run and was starting to head for a downtrend again. Seeing this, I was ready to exit the trade.

I noticed that the RSI was starting to increase at the point of reversal, and it was at around 60. With 70 being a signal of an overbought product, I began to take note and keep in mind that it might be time to close the trade. It started to dip down to around 50 when I closed the trade.

With all this in mind, I closed the trade. This concludes my first trade.

AUD/USD. First trade overall realised P&L of -120.4. Which means I lost 120.40 USD in this trade.

I entered the trade at and purchased 140,000 units at 0.68071 per unit.

The Bollinger bands showed that the bands were narrowing and converging together. As high and low volatility periods usually follow each other, so I spotted the narrowing of bands which often means that the volatility is about to increase greatly.

The MACD histogram, which is also used as a visible representation of the momentum for price movement, had just headed in a bearish direction and was now making a recovery and going in the bullish direction.

I also noticed that the two MACD lines crossed which indicated that the downtrend had completed its run and is now reversing direction for a likely uptrend. The MACD lines were below the neutral line which indicated a downtrend, as such the reversing direction would be an uptrend. This was a signal of reversal and I went on to see my other indicators to confirm if I should enter the trade.

I noticed the RSI was at 20 and slowly increasing, which indicated it was massively undersold, as the mark of overselling is 30. Points of overselling is usually followed by increasing trend in price, as such I believed a bullish trend is inbound.

With all these points in mind, I enter the trade, hoping to capitalize on the signals that I identified.

I closed the trade and sold 140,000 units at 0.6798 per unit.

I identified that these 3 candlesticks resemble the ‘Three white soldiers’ candlestick pattern. It consists of three bullish candles that close progressively higher. This is usually observed after a period of downtrend which was observed shortly before. This was a good sign as the price of the currency went up.

Referring to the MACD histogram, I see that it is above the neutral line and peaking in the bullish trend. The histogram also indicates that the currency has increased in price. The MACD lines cross at the point before the spike in price, which indicated a reversal that was accurate. This led to the ‘three white soldiers’ phase which was an increase in price for the currency pair. To add on the MACD lines were above the neutral line, which indicates an uptrend. I then proceeded to look at my other indicators.

I noticed that the RSI was about 80, which is quite largely overbought, as the point for overbuying is 70. As periods of overbuying are often followed by a downtrend, closing the trade would mean avoiding the downtrend.

The Outer bands started to widen massively which indicated that the volatility was increased massively as well. As such the price was very volatile and referring to the other indicators, I noticed that a downtrend was due, and the high volatility could cause the downtrend to have a higher magnitude, as such it would be wise to close the trade.

With all this information, I closed the trade as I noticed many signals that a reversal was inbound and the currency pair was headed for a bearish direction.

Bollinger band is useful and is being used as it measures both trend and momentum, however it cannot be used stand alone.

MACD is also used as well as it also measures both trend and momentum. It measures the driving force behind the market, and when the market is tired of moving in one direction and needs a ‘rest’

RSI compares bullish and bearish price momentums and displays the results on an oscillator. Since it displays momentum, as long as momentum stays strong, sometimes the indicator can stay oversold or overbought for extended periods of time. Therefore, it is most useful in a market where the price frequently alternates bullish and bearish.

My total return was -$151.20, which is a -0.1512% return.

The two trades did not go according to my plan. Although I performed technical analysis with more than 1 indicator, I still made an overall loss. However, I realized that the AUD/USD currency pair has been on a general downtrend when I was trading and as such, I did not avoid making a loss. My learning points from this assignment is that I can confidently explain what the use of the indicators are, as well as apply it into real life. I also learned not to trade impulsively or let my feelings affect, as indicators are technical tools that can aid in detecting possible future trend patterns that basic candlesticks might not be able to identify as clearly.

I can learn to wait for longer periods to allow the currency for a chance to recover instead of closing the trade so early. By pulling out close to the buying periods, I am a ‘short seller’ and suffer due to AUD/USD currently being in a general downtrend.

The technical analysis I have adopted for the entry point of the first FX trade is the candlestick chart. The candlestick chart shows how the security price movements of the FX trade change over time. This makes it easier to determine how the price movement changes over time based on the patterns in the past. Trading decisions can also be made more effectively from it. The FX trade enters at this point because the profits can be maximised at the point it enters. Planning a trading strategy which ensures that there will be a profit is done before entering a trade. This helps to reduce investment risk from happening during the whole process of the trade.

The technical analysis I have adopted for the exit point of the FX trade is the candlestick chart. The candlestick chart shows the security price movements of the FX trade and the price looks like a candlestick after it is put into a single price bar. This makes it easier to differentiate the pattern of the prices as more information is provided in it. The FX trade exits at this point because the exact price of the trade is set and specified by a limit order. The trading strategy is also able to predict what will happen to the trade such as loss or gain as the exit point is above the market price. The Realised P&L for the exit point is -$55. This will help to meet the profit target after exiting the trade at a profitable position.

The technical analysis I have adopted for the entry point of the second FX trade is MACD. The MACD indicates the average price range as it shows the difference between the security price moving averages using the two exponential moving averages and a histogram. It is easier to view the patterns of the FX trade as all the prices are taken into consideration. MACD provides a price indication of what will happen to the market. The FX trade enters at this point because investment risk can be reduced through research on the market and the trading strategy. It can identify a trend and make the profit of the trade increase. This will help to reduce any loss that will happen to the FX trade by monitoring the trade.

The technical analysis I have adopted for the exit point of the FX trade is MACD. The MACD shows the trend of the security price using exponential moving averages and a histogram. It shows the relationship between the moving average of the two charts. This makes it easier to see the pattern of the price and how it changes over time. The FX trade exits at this point because the MACD breaks the trigger line in the opposite direction. MACD is able to gauge the price of the stock by predicting whether will there be a loss or gain in the trade. The Realised P&L for the exit point is +$10. This helps to ensure that the target of the profit is achieved after the trade exits at the profitable position.

Profit and loss for the first trade = ($1.1157 – 1.1158) X 100000 = - $10

Profit and loss for the second trade = ($1.1093 – 1.1091) X 100000 = + $20

Overall profit and loss amount of the two trades = - $10 + $20 = + $10

Total return in percentage = [20- (-10)] / 10 X 100% = 300%

Yes, it executed according to the plan as my FX trade for EUR/USD is completed successfully. I learnt how to trade from one currency to another and keep up with the market at the same time. Besides that, I learnt not to give up even when I faced a loss and trade when it is the right time. Lastly, I learnt to understand the ups and downs in the market as there are no specific rules to follow for success in FX trading. I can perform FX trade better by developing my own trading plan which covers most of my trading strategies and ensuring that I always follow it. I should not risk a single trade of more than 2% of my margin to prevent more loss from happening due to unforeseen circumstances. This will ensure that I know how to trade better and become a more successful trader in Forex.