

Introduction to Binary Trading

Part 2 in a Series

Andrew Simensen

andrew.simensen@liquidology.net

TIC – 19th October 10

Topics

- A quick recap from last month
- The concept of Value
- Finding Binary opportunities
- Testing your system
- Next time...
- Final Thoughts

This series of presentations

- Purpose – to open your eyes to the world of possibilities that Binary Trading can offer.
- Method – build a usable trading system framework using common tools and free data sources that can be the building blocks for your own system.
- Goal – instill a sense of curiosity and promote good practice. Build confidence and own your system and profit.
- Share – with other traders.
- *Standard Disclaimer – these opinions are my own and do not constitute financial advice. Information is for educational purposes only.*

What is a Binary Trade anyway?

- Speculating on an event in terms of true or false. Will the event occur? Yes or no?
- For example —
 - Will the FTSE finish up today?
 - Will the Dow stay within a +/- 100 point range today?
 - Will the EURUSD be down at the end of the week?
- Change in mindset from traditional spread betting
- Same technical analysis tools can be used

Looking at things differently 😊



The concept of value

- The cornerstone of my Binary trading.
- This is my “edge”
- Simple three step process:
 - 1. Determine probability of outcome
 - 2. Identify pricing discrepancies
 - 3. Manage the trade
- Example, an event that occurs 68% of the time on a particular day is priced at 20. This could represent very good value. There could also be a very good reason for this price. Time decay.
- Our challenge is to find these cracks in the pricing of various instruments and to exploit them.

Value examples

- NASDAQ system based on the date
 - There are 29 days in the year historically where the NASDAQ Composite index has finished up more than 70% of the time on a given date
- Wall St tunnels
 - In the last 194 trading days the Dow Jones index has exceeded a 200 point move from the open on 45 occurrences. That is 23.2% of the time.
- E-Mini opening gap
 - In a recent sample of 3,276 trading days the e-Mini (S&P 500 futures contract) has closed the opening gap 2,311 times which is 70.5% of the time. On Wednesdays this increases to 74%!

Finding Binary opportunities□□□

- Good news! There are lots of them.
- My goal is to find events with a high probability of occurring.
- Use Excel and freely available data to begin your research.
 - Get started with the NASDAQ Composite -
<http://finance.yahoo.com/q/hp?s=^IXIC+Historical+Prices>
 - Or the FTSE -
<http://finance.yahoo.com/q/hp?s=^ftse+Historical+Prices>
- Then use your imagination!

Sample 1

- NASDAQ Composite Index – Up day analysis
 - Tools used – Excel and Yahoo finance web site
 - Techniques – Excel pivot table
- Trading
 - Use BetOnMarkets.com and select Indices – Rise/Fall – Variable return.
 - At the start of the day check the price and place the trade.
 - **Brand New!** – IG Index started custom bets on Monday morning. Very similar to BoM and lets you tailor your speculation.

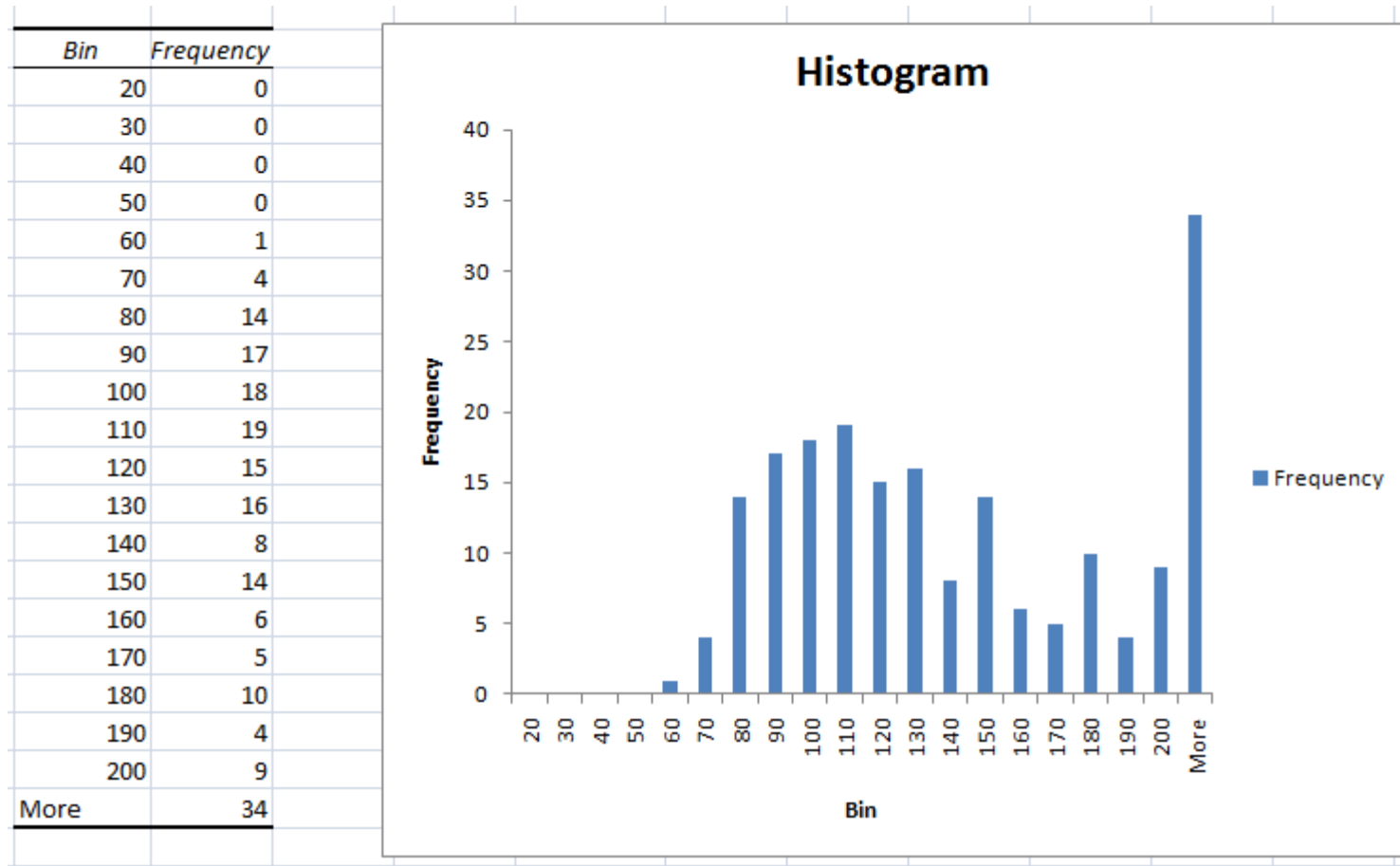
Sample 1 Data

	A	B	C	D	E	F
1	Date Analysis					
2	Sum of 1	Column Labels				
3	Row Labels	DOWN	UP	Grand Total	Down %	Up %
8	Apr-05		8 19	27	29.63%	70.37%
15	Apr-12		5 23	28	17.86%	82.14%
50	Aug-17		7 22	29	24.14%	75.86%
85	Dec-21		7 21	28	25.00%	75.00%
86	Dec-22		8 20	28	28.57%	71.43%
87	Dec-23		8 19	27	29.63%	70.37%
89	Dec-26		4 19	23	17.39%	82.61%
93	Dec-30		8 19	27	29.63%	70.37%
94	Dec-31		6 22	28	21.43%	78.57%
96	Feb-02		7 21	28	25.00%	75.00%
97	Feb-03		8 19	27	29.63%	70.37%
109	Feb-15		6 17	23	26.09%	73.91%
123	Feb-29		2 5	7	28.57%	71.43%
128	Jan-06		7 20	27	25.93%	74.07%
132	Jan-10		8 20	28	28.57%	71.43%
136	Jan-14		5 23	28	17.86%	82.14%
150	Jan-28		8 20	28	28.57%	71.43%
161	Jul-09		4 25	29	13.79%	86.21%
165	Jul-13		8 21	29	27.59%	72.41%
166	Jul-14		7 21	28	25.00%	75.00%
167	Jul-15		8 20	28	28.57%	71.43%
226	Mar-13		8 20	28	28.57%	71.43%
246	May-02		7 21	28	25.00%	75.00%
248	May-04		7 22	29	24.14%	75.86%
280	Nov-05		6 22	28	21.43%	78.57%
286	Nov-11		8 19	27	29.63%	70.37%
299	Nov-24		5 18	23	21.74%	78.26%
300	Nov-25		6 15	21	28.57%	71.43%
318	Oct-13		8 20	28	28.57%	71.43%

Sample 2

- Wall St Tunnel analysis
 - Tools used – Excel and Yahoo finance web site
 - Techniques – Excel Data Analysis Tools
- Trading
 - Use IG Index and Sell the Wall St tunnel if in the value zone
 - At the start of the day check the price and place the trade

Sample 2 Data



Sample 3

- E-Mini Opening Gap

- Tools used – Excel and TradeStation – ES Futures data not available free
- Techniques – Basic Excel skills

- Trading

- Use IG Index – US SPX to finish up/down. Be careful here – this instrument is based on the Index not the futures contract but both are highly correlated.
- At the start of the day check the price and place the trade. Specifics and approach next month ;-)

Sample 3 – Data (1/2)

Gap Close Months - Success Rate		
Jan	262	74.0%
Feb	249	75.9%
Mar	286	68.2%
Apr	269	73.6%
May	273	72.5%
Jun	279	72.0%
Jul	275	72.0%
Aug	287	69.7%
Sep	267	61.4%
Oct	289	67.8%
Nov	264	67.8%
Dec	276	72.1%
	3276	

Sample 3 – Data (2/2)

Gap Close Days - Success Rate		
Mon	618	67.8%
Tue	671	70.6%
Wed	674	74.0%
Thu	658	69.9%
Fri	655	70.1%
	3276	

Testing your system

- Binary trading benefits:
 - Probable outcome is known before the trade is placed due to research
 - Risk is strictly controlled – no dependency on arbitrary stop levels
 - Trades can be adjusted in-flight to cater for market developments

System benchmarking

- This method can be used for any system not just Binaries to evaluate one system against others
- Thanks again to John Piper for sharing this method of determining system metrics
- 2 key metrics to be calculated for the trading system
 - Success rate
 - Average win to average loss ratio
- Combine these two metrics to score the system
- Working examples next time

Useful Resources

- Web Sites
 - Forexfactory.com – for economic news
 - IGIndex.co.uk, IGMarkets.co.uk, Betonmarkets.com – binary trading sites
- Books
 - [Binary Betting](#) – John Piper - Introduction
 - [Binary Trading](#) – John Piper – More about financial markets.

Next Time...

- Different approaches to trading Binaries
- Examples of actual trades

Final Thoughts

- Got any good ideas, thoughts, feedback or general rants?
 - Email – andrew.simensen@liquidology.net
 - Twitter – TheRealSimmo