

Dr. Steven J. Enticott

Enticott Indicator

Revision – 2010

www.enticott.com.au/indicator

The Enticott Indicator is a foreign exchange (FX) trading mission in teaching safe(r) FX trading to others, donating all trading profit to the glory of God.

First published 2007

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Revision Notes

Revisions to the original edition of the “Enticott Indicator” are a necessity because the original will continue to evolve. Since the first edition (2007) a thirst and a growing FX knowledge has only increased the passion to master this market.

Revisions continually improve the Enticott Indicator and it is envisaged that this work will always be ongoing.

The original three fundamental components of the indicator remain unchanged:

- USDX
- Commodity Index
- Interest rates

A fourth fundamental ‘volatility’ has since been included (an obvious inclusion from the 2008/9 global financial crisis):

- VIX (Volatility Index)

The two technical components of the indicator remain unchanged:

- The hourly AUD/USD trade chart.
- The daily AUD/USD trade chart.



Measure the risk

Seek the courage for risk

But be rare to risk all

Learn - there's no loss in loss

Know - there's only loss in not

Risk-takers are rewarded

Risk-averters resent

Risk is good

Forward - The Enticott Indicator

Created by Dr. Steven Enticott (a professional profile is found at the end of this book). The Enticott Indicator is a foreign exchange (FX) market opinion formed from fundamental and technical indicators offering buy and sell triggers for the Australian Dollar against the United States Dollar (AUD/USD).

Forward

The Australian dollar's strength, as measured by the Enticott Indicator, derives from certain fundamental and technical elements, but is ultimately based on solid trends. The fundamental elements are drawn from the following:

- The US Dollar's strength or weakness measured by the US Dollar Index (USDX) (issued by the New York Board of Trade).
- The Reserve Bank of Australia's (RBA) Index of Commodity Prices, covering more than 50% of Australia's export earnings.
- The difference between Australia's RBA cash (interest) rates and the USA's Federal Reserve (Fed) cash

(interest) rates and the perceived direction of future interest rate movements as measured by 2 year bond yield.

- Market volatility (the VIX) as listed on the Chicago Board of Exchange. The higher the volatility the higher the likely-hood that a ‘flight to safety’ (USD) will occur.

All four fundamental factors significantly influence the value of the Australian dollar.

The technical trend elements are drawn from hourly and daily price data charts.

The Enticott Indicator does not predict the future, but rather forms the basis for trading by visualising the direction of current trends (which can be broken at any time with the arrival of new information).

Why develop the Enticott Indicator?

The Enticott Indicator was developed for many reasons: for personal trading, to promote brand ‘Steven Enticott’, and to advance my academic credentials. The main reason I developed it, though, was to take a swipe at the blizzard of ‘black box’ and currency prediction services that are selling just about everywhere, and for quite substantial dollars. That’s why I’m supplying the indicators outcomes (and past ‘real’ performance) for free at www.enticott.com.au/indicator.

In reality, nothing can predict the future, because the future is based on random events. I refer to this as ‘randomness’. As a result, the Enticott Indicator measures probabilities, (Probability

means RIGHT sometimes WRONG other times) and not certainties. It does not represent financial advice in any shape or form as no-one knows the next direction of any market.

The first rule of any good trading strategy is that nothing is certain. No matter how good the indicators are, a trend's direction is still subject to randomness. To address this, a prudent trader analyses fundamental elements and past activity (both the recent past and the longer term past) and formulates a strategy based on that. The trader then builds on a number of trades, where the majority of those trades are profitable.

What traders must never do is to place all their resources in just one trade — randomness strikes very quickly, and with dire results. To ignore the underlying principle of randomness, one could argue that you have better odds betting your stake on a single spin of red or black at roulette. Unless traders use prudent risk management as part of any trading strategy, they will be wiped out by the odds, and sometimes in the blink of an eye.

What drives FX trends?

Long term AUD/USD movements are driven by fundamental forces such as Australia's export of its commodities, bond yield differences and the performance of the USD overall.

In the short term, AUD/USD movements are driven by news and events,' reflecting upon the perception of the above longer term fundamental forces.

If FX forecasting is not accurate, why bother with predictions?

'Economists do not possess reliable methods of forecasting exchange rates over short time horizons such as days or weeks. Fundamental economic forces (such as the export and bond yields) usually take much longer, often several years, to have an effect on exchange rates. Nevertheless, the business community has to form expectations about the short-term trends of exchange rates. Because these expectations are formed by market sentiment, trends can be extrapolated. At the same time, market sentiments can change as financial news can change the outlook on a country's economic prospects.'

Source: www.fx.sauder.ubc.ca

About the Enticott Indicator e-book

The Enticott Indicator e-book comes in nine chapters, which discuss forecasting the strength of the AUD measured against the USD, and the various elements that make up the Enticott Indicator itself.

In this e-book:

- Chapter 1, The Fundamental Indicators (Part One) - USDX, discusses the fundamental of the U.S. Dollar Index (USDX).
- Chapter 2, The Fundamental Indicators (Part Two) - Australian Commodities, discusses the fundamental of the Reserve Bank of Australia (RBA) Index of Commodity Prices.

- Chapter 3, The Fundamental Indicators (Part Three) – discusses the fundamentals of two year bond rates between Australia and the USA.
- Chapter 4, The Fundamental Indicators (Part Four) – Volatility (VIX) discusses the fundamentals of risk and the flight to safety in USD that occurs when risk increases.
- Chapter 5, Analysing the Fundamentals, discusses the method by which the three fundamental indicators are analysed.
- Chapter 6, The Technical Indicators, discusses the two technical indicators, which are the daily and hourly chart movements of AUD against USD exchange rates.
- Chapter 7, Analysing the Technical Indicators, discusses the method by which the two technical indicators are analysed.
- Chapter 8, Fundamentalists, Technicians, and the Enticott Indicator at work, describes the way in which the fundamental and technical indicators are finally combined to create the Enticott Indicator.
- Chapter 9, An Example Trading Strategy, provides a simple example of just one way to strategically trade in the market.

This book does not provide advice on strategies, other than providing a simple example. Strategies, dear reader, you will have to work out for yourselves.

If you find developing a strategy difficult, then you should seriously consider whether or not you should trade FX — it is a decidedly unforgiving arena. There are many educational services I can point you toward (without making a recommendation) and this is where you should begin. Feel free to email me — steven@enticott.com.au for a list of educators I feel are worthy of looking at (at the very least).

Let's now begin to understand the Enticott Indicator in the context of the AUD's strength when measured against the USD (AUD/USD). The Enticott Indicator is used for this purpose only. It is not suited for analysing any other currency pair.

Legal Disclaimer

This book is not financial advice. You need to consider the risks of FX (great risks) either on your own or with the assistance of a licensed advisor/broker. I make no warranties, express or implied, that the exchange rate trends/forecasts are accurate, useful, consistent with any economic theory, reliable, or consistent with any particular standard of merchantability, or that they will meet your requirements for any particular application. These forecasts should not be relied upon for carrying out any currency transactions that could result in injury to a person or loss of property. If you do use the forecasts in such a manner, it is at your own risk. I disclaim all liability for direct or consequential damages resulting from your use of these forecasts.

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PROFILE:

Dr Steven J. Enticott is an **expert in Self Managed Superannuation Funds (SMSFs)**, having completed his Doctorate (DBA) on the use of derivatives in the SMSF environment. Refer to www.enticott.com.au/dr

Dr Enticott is an **active trader in foreign exchange (FX), options and shares**, A licensed financial advisor with a Diploma of Financial Services (DiPFS) and the creator of this 'Enticott Indicator' (a FX trade tool).

Refer www.enticott.com.au/indicator for more details.

Dr. Enticott is **the founder and Senior Partner of CIA tax** (www.ciatax.com.au), a successful suburban firm specialising in taxation, wealth creation, and small to medium-sized business growth. Employing two junior partners and core accounting staff are well placed to provide a complete service to its ever increasing client base.

Dr. Enticott's **academic credentials** (a Doctorate, two Diplomas, and an MBA), combined with his ability to communicate complex concepts (involving derivatives, taxation, and financial services) in a clear and practical manner, contribute to form his greatest strengths.

Dr. Enticott is a **confident speaker** with a passion for teaching on matters of tax, financial markets, investment and business management.