

CORRELATION TRADER



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1. About correlation

The Correlation Trader shows the correlation between symbols over a configurable timeframe, e.g. recent H1 bars.

Correlation is measured on a scale from -100 to +100:

- +100 means that the price movements in symbol A and B have been identical (“positive correlation”).
- -100 means that the price movements in symbol A and B have been exactly opposite: A went up when B went down, and vice versa (“negative correlation”).
- 0 means that the symbols have moved independently.

Correlation can have a major effect on your trading risk. For example the following charts show H1 EURUSD and USDCHF over the same time period:



These symbols had very strong negative correlation (about -95). If you were long EURUSD and short USDCHF over this period, or vice versa, then you would have seen very similar profits on both positions. In effect, you did not have two positions: you only really had one position. (If you were long both symbols, or short both symbols, then you probably had a profit on one and a matching loss on the other.)

It is generally advisable to minimise the correlation between your open positions. Otherwise, you are either trading the same price action twice over, or you have two positions which cancel each other out.

The Correlation Trader helps you to identify symbols with strong or weak correlation, and to trade emerging differences in the correlation.

2. Using the Correlation Trader

2.1 Price charts

The Correlation Trader shows recent price charts for two symbols side by side (and can be used simply as a way of displaying two linked price charts):



2.2 Correlation

The bar in the middle lets you change the timeframe for the charts. It also shows the following:

- Recent correlation between the two symbols over the selected timeframe.
- Any open position in each symbol, and its profitability



2.2.1 Correlation values





The gauge shows the correlation on scale of 0 to ± 100 . It makes little difference whether values are positive or negative (e.g. +90 or -90), and the meaning depends on whether you are long or short each symbol. For example:

- +90. If you are long both symbols, or short both symbols, then you will tend to see identical profits or losses on both positions. If you are long one symbol and short the other, then you will tend to have a matching profit and loss.

- -90. If you are long both symbols, or short both symbols, then you will tend to have a matching profit and loss. If you are long one symbol and short the other, then you will tend to see identical profits or losses on both positions.

2.2.2 Correlation colors

The color of the gauge depends on the strength of the correlation:

	Green. No correlation (0 to ± 25)
	Blue. Weak correlation. (± 25 to ± 50)
	Orange. Medium correlation. (± 50 to ± 75)
	Red. Strong correlation. (± 75 to ± 100)

2.3 Changing the symbol selection

You can change a symbols by clicking on its name. The label is replaced with an editable box where you can type in a new symbol name, with auto-complete.

2.4 Opening and closing positions

[Please note: the order tab is not available on the tradable platform]

You can use the New Order to carry out simple trading actions such as closing an open position or opening a new one.

EURUSD	Symbols	New order
Volume: 0.10 L	Floating P/L: -20.20	Close
EURUSD		
Volume:	<input type="text" value="0.10"/>	lots
S/L:	- <input type="text"/>	pips
T/P:	- <input type="text"/>	pips
<input checked="" type="checkbox"/> Non-hedging mode (sells close buys, and vice versa)		
<input type="button" value="Sell"/>	<input type="button" value="Buy"/>	
1.36764	1.36778	

The top of the trading form shows any open position in the selected symbol, with a button for closing the position. Below that is a simple form for placing a new buy or sell market order.