This paper analyzes if the combination of moving averages, on balance volume, and relative strength index can lead to profitability in the EUR/USD forex market. To answer this question, I used a trading program called Investor/RT to backtest a trading model. I wrote this trading model to buy and sell based on these technical indicators. The backtest was run four times, for different time frames. The backtest of the model showed insignificant profit and loss numbers over the year and a half time span. This study is a stepping stone to find entry and exit points that will make this model profitable.

I backtested this model in multiple time frames. Each candle is affected differently in various time frames. For example: in a one-hour chart, each candle represents one hour of price action. This means that the model will produce dissimilar results for each time frame. The parameters for a buy or sell order can be hit more frequently in a short time frame than a long time frame. I tested the 4-hour chart, the 1-hour chart, the 30-minute chart, and the 5-minute chart.

The 1-hour backtest had a net loss of $(568). Not only did this time frame not turn a profit, it produced a loss in both long and short trades. This was the worst model in terms of profitability. The 5-minute chart came back with a profit of $75.58. Throughout the 436 days that the model ran, there were a total of 2,395 trades, 1,938 going long and 457 going short. The results are shown in the bottom chart. This was the only profitable model that I tested.

Throughout the process of creating and backtesting this model, I started to doubt whether this specific trading plan would be profitable. Although the technical indicators used were common to many professional traders in the world, the use of them together did not create profit over a span of about a year and a half. One positive aspect of the results was the fact that there were not significant losses either.

The issue I have with my model was with my exit points. I feel that the model had a good chance to be profitable had I saw this problem before running the model. The way I constructed my exit points was faulty. The model was set up to sell when the moving averages crossed back over the other way. The use of the short and long moving averages is meant to show changes in price trends. When the short crosses over the long, then it is a long trend. If the long crosses over the short, then it is a short trend. Due to the way I constructed this trading model, it was exiting orders when the trend reversed. If I had made exit orders at the peak of the trend, then there would be more profitable trades, and the model would have been more successful.

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All in all, this specific trading model was insignificant. The use of these indicators together was not profitable. However, in the future, I am convinced I could take this trading plan and make it profitable with the right exit orders.

TRADERS USE MULTIPLE DIFFERENT STRATEGIES TO SHOW WHEN THEY SHOULD TRADEFOREX. THE TWO MOST PREVAILING STRATEGIES INVOLVE FUNDAMENTAL AND TECHNICAL ANALYSIS. IN LAYMAN TERMS, FUNDAMENTAL ANALYSIS DEALS WITH THE NEWS AND “REAL-LIFE” FACTORS. TECHNICAL ANALYSIS DEALS WITH THE PRICE MOVEMENT, INDICATORS, AND CHARTS. WORLD NEWS CAN AFFECT ANY PRICE POINT, BUT THE PRICE ALWAYS GOES BACK ALONG WITH THE TREND. THE U.S. STOCK MARKET IS THE PRIME EXAMPLE. ALTHOUGH THERE HAVE BEEN MANY DIPS, RECESSIONS, AND DEPRESSIONS IN MARKET HISTORY, IT HAS HISTORICALLY AND CONSISTENTLY GONE UP SINCE ITS INCEPTION. THIS SIP USES TECHNICAL ANALYSIS TO TEST IF A MODEL CAN MAKE PROFITABLE TRADES IN THE EURO/U.S. DOLLAR FOREX MARKET.