

# iExpertAdvisor™

*information and ideas about Trading Systems*

## *FOREX Mechanical Trading Systems: What Every Trader Should Know*

Most successful FOREX traders use a handful of diverse trading strategies. Which strategy used may depend on the particular currency pair, recent price action or patterns, market volatility and/or a myriad of other variables.

The simple fact that a trader needs an arsenal of strategies suggests the need for at least one mechanical trading system.

In the recent past, the obstacles to develop, test and run a mechanical trading system were significant. Expensive, complex software platforms, coupled with costly real-time data feeds required a significant investment of time and money. In addition, the quantity and quality of brokers offering such services was limited.

Today, this is no longer the case. There are several *free* automated trading platforms available from a number of different brokers. One popular platform is MetaTrader 3.0, which uses the MQL II language to develop what MetaTrader calls an Expert Advisor. (In addition to MetaTrader 3.0, there is a newer version, MetaTrader 4.0. MetaTrader 3.0 is generally easier to learn by a non-programmer and is a better choice for a trader creating their first mechanical trading system).

Since this platform is free, and most introducing brokers offer demo accounts, it is an excellent opportunity for a FOREX trader to evaluate mechanical trading without incurring any upfront costs.

But what are the benefits of developing and running one's own mechanical trading system? Should a trader - *especially one who is not a programmer* - spend their valuable time learning this skill?

The answer is an overwhelming "yes". There are at least three reasons developing a mechanical trading system is worthy of a traders effort .

### ***Reason #1: The trader's strategy must be fully described***

The first step in developing a mechanical trading system is to describe its behavior. The trader is forced to fully articulate the strategy of their trading system. This includes both the trade entry and exit.

The trade entry must be described in detail, including concrete definitions of:

- the proper market conditions for entry,
- the trade setup or confirmation,
- the final confirmation or trigger.

The trade exit must be fully defined as well. The stop loss and limit as well as the conditions for exiting must be fully described.

For many traders, articulating their trading strategy proves to be both challenging and enlightening. The personal growth a trader experiences through this exercise alone justifies developing a mechanical trading system.

### ***Reason #2: Mandatory backtesting***

No trader in her right mind would unleash a mechanical trading system without first thoroughly backtesting the system. Paper trading or backtesting by hand is no doubt a tedious and error prone process. Fortunately, most brokers offering free trading system platforms also offer the ability to back test – along with sufficient historical data to perform the testing.

Since the trader has already fully described and translated their trading system into a working program, backtesting is as simple as pushing a button. Of course, a great deal of testing may be required, and the results may defy understanding! But the fact remains, executing the back test is a relatively easy task.

### ***Reason #3: Increased discipline***

An outstanding byproduct of backtesting is that it readies the trader for the actual performance of the system. That is, backtesting calibrates the traders expectations of their trading system.

The main benefit of possessing an accurate expectation of one's system is an increased level of discipline. When a trader conducts numerous back tests, they begin to understand the randomness of any one particular trade. This understanding prevents a trader from assuming too much risk on any particular trade – regardless of the quality of the trade setup. While testing, the trader has

seen too many “perfect trade setups” that resulted in losing trades. Again, this benefit alone justifies developing and running at least one mechanical trading system.

#### ***Reason #4: Consistent execution***

Consistently executing a trading strategy is the single most difficult task a trader faces. The ability to accurately interpret market behavior through a smoke-screen of emotions - fear, greed, anger, elation - is a talent very few traders actually possess. An often cited benefit of the mechanical trading system is its ability to execute trades according to its rules, with no variation.

The actions required to develop, test and execute a mechanical trading system are consistent with the behavior shared by most successful traders. If done correctly, the results of these actions reward the trader for the effort; this positive experience reinforces the “good” behavior and gradually builds and strengthens the framework successful traders rely on to remain successful.

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