



Example Australian dollar *hedged* carry trade

Step 1) Qualify the carry on the Australian dollar futures contract 1 year out,
For today's quotes see [click here](#)

Contract	Last	Change	Open	High	Low
Cash '00 (A6Y00)	0.98806	-0.00198	0.98999	0.99245	0.98391
Mar '11 (A6H11)	0.97830	+0.00200	0.97920	0.98220	0.97360
Jun '11 (A6M11)	0.96700	+0.00200	0.96990	0.97070	0.96500
Sep '11 (A6U11)	0.95480	+0.00190	0.00000	0.95480	0.95290
Dec '11 (A6Z11)	0.94340	+0.00180	0.00000	0.94340	0.94160
Mar '12 (A6H12)	0.93200	+0.00170	0.00000	0.93200	0.93030
Jun '12 (A6M12)	0.92060	+0.00160	0.00000	0.92060	0.91900

The **Mar 12, 0.93200** delivery is trading at 0.05606 point discount or \$5,606 per contract to **Cash 0.98806** delivery, this spread represents the interest rate differential between the US and Australian dollars justifying the trade but only if the medium to long term trend in the Australian dollar is neutral to higher.

For today's rates see [Current U.S. Interest Rates](#) & [Current Australian Dollar Rates](#) or on the video page links 3 and 4.

Step 2) Confirm the trend;

For today's report [click here](#)

Medium Term Indicators

- [40 Day Commodity Channel Index](#) Hold
- [Price vs. 50 Day Moving Average](#) Buy
- [20 - 100 Day MACD Oscillator](#) Buy
- [50 Parabolic Time/Price](#) Buy

Medium Term Indicators Average: 75% - Buy

Long Term Indicators

- [60 Day Commodity Channel Index](#) Hold
- [Price vs. 100 Day Moving Average](#) Buy
- [50 - 100 Day MACD Oscillator](#) Buy

Long Term Indicators Average: 67% - Buy

For today's Aussie Trend Opinion [click here](#) and look at medium and long term indicators this link is also available on the video page link 11.

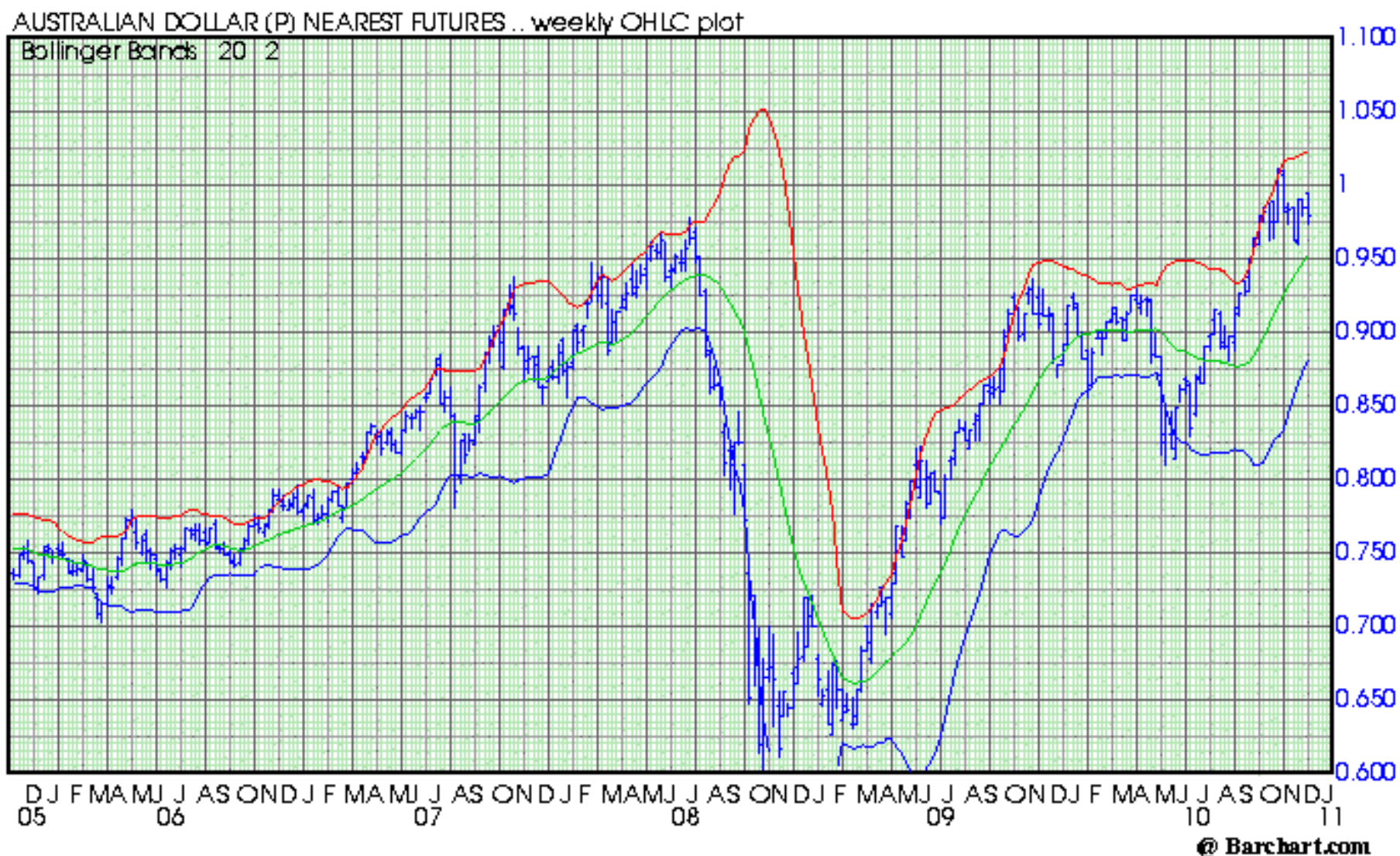
Create the chart to confirm

If you'd like to see today's chart using today's data [Click here for custom charts](#) or see link 14 of the video page

When the chart page opens

- Go to select symbol go, half way down in the first section currencies click on AD for Australian Dollar
- Next, change daily contract to weekly nearest
- Under chart options, change chart size to 720 by 432
- Turn volume on and Grids on
- Under Studies leave Barchart OHLC alone
- Change Overlay from None to Bollinger Bands 20.9
- Click on create chart

If the blue price bar is above the moving average we're good to go as seen on the chart below



Step 3) Buy the Australian dollar futures one year out, In this example we're purchasing the Mar 12 contract

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Sep '11 (A6U11)	0.95480	+0.00190	0.00000	0.95480	0.95290
Dec '11 (A6Z11)	0.94340	+0.00180	0.00000	0.94340	0.94160

Mar '12 (A6H12)	0.93200	+0.00170	0.00000	0.93200	0.93030
Jun '12 (A6M12)	0.92060	+0.00160	0.00000	0.92060	0.91900

Step 4) Hedging currency risk

To objectively control risk on every trade and for the duration of every trading period I'm using 29-59 day option writes and purchases, for current option quotes see [Options Prices](#)

The "front month" Mar 11 is trading at 0.9783

Contract	Last	Change	Open	High	Low
Cas '00 (A6Y00)	0.98806	-0.00198	0.98999	0.99245	0.98391
Mar '11 (A6H11)	0.97830	+0.00200	0.97920	0.98220	0.97360

Against the "front month" March 2012 I'm going to write a call and buy a put in the first option expiration month with greater than 28 and less than 60 days to expiration.

In the example below I'm writing the 0.9850 2/04/2011 call expiring in 49 days and collecting \$1,450.00

The only way I'll have to deliver a position at expiration is if the March 2011 Australian dollar moves higher from 0.9783 to 0.9850 or above for a profit of 67 points or \$670. If I have to deliver at expiration and the trend qualifies like we've reviewed, I'll immediately offset this mar 11 short position and maintain my Mar 12 long. If the trend does not qualify I'll immediately liquidate the march 2012 as well.

By writing the 49 day 0.9850 call option I've limited my upside profit to 67 points but collected enough premium to offset the majority of the cost of the 0.9750 put I need to purchase to hedge my long march 2012 position at 0.93200.

Using the \$1,450 premium collected from the 0.9850 call write I'm purchasing the 0.9750 put with the same 49 day expiration for -\$1,650.00. Should the Australian Dollar move more than 33 points lower I'll exercise the 0.9750 put taking delivery of a short Mar 11, immediately offset the Mar 11 short and maintain the Mar 12 0.93200 long if the trend qualifies for a maximum loss of 33 points or -\$330.

Again at 49 day expiration I'll confirm the medium-long term trend composite indicators and chart confirmation if they're still a buy, I'll maintain the Mar12 0.93200 position and lay down another hedge, if they've moved to sell I'll offset the mar 12 0.93200 and wait until they are a buy, and repeat the same procedure.

[Click here Australian dollar options](#) quotes or link number 10 on the video page

Feb 2011	Open	High	Low	Last	Volume	Open Int.	Value
Exp: 02/04/11 Days to Exp: 49 Futures: A6H11 0.97830							
0.96000C		0.02940	0.02880	0.02940s		10	2940.00
0.96000P		0.01250	0.01110	0.01110s	25	817	1110.00
0.96500C		0.02600	0.02550	0.02600s		9	2600.00
0.96500P		0.01420	0.01270	0.01270s		38	1270.00
0.97000C		0.02280	0.02230	0.02280s		3	2280.00
0.97000P	0.01510	0.01600	0.01450	0.01450s	37	68	1450.00
0.97500C		0.01980	0.01940	0.01980s	50	105	1980.00
0.97500P buy		0.01810	0.01650	0.01650s	50	120	1650.00
0.98000C		0.01700	0.01670	0.01700s	5	69	1700.00
0.98000P		0.02040	0.01870	0.01870s		102	1870.00
0.98500C write	0.01390	0.01450	0.01390	0.01450s	11	25	1450.00
0.98500P		0.02300	0.02120	0.02120s	26	28	2120.00
0.99000C	0.01210	0.01220	0.01200	0.01220s	26	324	1220.00
0.99000P		0.02580	0.02390	0.02390s		3	2390.00
0.99500C		0.01020	0.01020	0.01020s		12	1020.00
0.99500P		0.02890	0.02690	0.02690s			2690.00
1.00000C	0.00850	0.00850	0.00850	0.00850s	20	107	850.00
1.00000P		0.03220	0.03020	0.03020s			3020.00
1.00500C		0.00710	0.00700	0.00700s		13	700.00

Example Position Summary

We own the March 2012 Australian dollar at a discount 0.9320

We've written the 02/04/2011 49 day call at 0.98500 and collected \$1,450.00.

We've purchased the 02/04/2011 0.9750 put and paid -\$1,650.00

Worst case scenario for 49 day period -\$635.00 the Australian Dollar drops to zero.

The confirmed long term uptrend in the Australian dollar reverses and the Australian dollar goes to 0.9750 or below at expiration.

Long March 2012 delivery 0.87460

-\$200.00 Hedge, we collected \$1,450 on the 0.98500 call written and paid \$1,650 for the 0.9750 put purchased.

-\$330.00 We take delivery of a Mar 11 short position at 0.9750 and offset for a maximum loss of 33 points or -\$330 (mar 11 was trading at 0.9783 put engages at 0.9750)

-\$105.00 Bid/ask spreads, clearing, exchange, floor brokerage, exchange and regulatory fees.

-\$635.00 Maximum loss including all bid/ask spreads, clearing, exchange, floor brokerage and regulatory fees.

If the Australian dollar stays the same for 49 days +\$350.00

The Mar 12 Australian dollar contract will appreciate by .0062 points or \$620 for no other reason than compensating for the interest rate differential between the US and Australian dollars. Please note the cash price at 0.98806 versus the Mar 11 0.9783 and Mar 12 0.9320

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-\$200.00 Hedge, we collected \$1,450 on the 0.98500 call written and paid \$1,650 for the 0.9750 put purchased both options expire worthless

+\$620.00 Interest rate differential paid daily

-\$70.00 Bid/ask spreads, clearing, exchange, floor brokerage and regulatory fees.

+\$350.00 Profit including all bid/ask spreads, clearing, exchange, floor brokerage and regulatory fees.

If the Australian dollar moves 0.0067 points or higher in 49 days +\$365.00

-\$200.00 Hedge, we collected \$1,450 on the 0.98500 call written and paid \$1,650 for the 0.9750 put purchased.

+\$670.00 We take delivery of a Mar 11 short position at 0.9850 and offset, for a maximum profit of 67 points or \$670 (mar 11 was trading at 0.9783 call engages at 0.9850)

-\$105.00 Bid/ask spreads, clearing, exchange, floor brokerage, exchange and regulatory fees

+\$365.00 Profit including all bid/ask spreads, clearing, exchange, floor brokerage and regulatory fees

The objective of this program is not to speculate on the direction of the Australian dollar but to capture the interest rate differential between the US and Australian dollars when justified by neutral or uptrend in the Australian dollar.

Contract size 100,000 Australian Dollars traded on the C.M.E see <http://www.cmegroup.com/trading/fx/g10/australian-dollar.html>

Contract value of the Mar 11 0.9783 X 100,000 or \$97,830 U.S. dollars

Contract value of the Mar 12 0.9320 X 100,000 or \$93,200 U.S. dollars

Difference in contract value \$4,630

Annual Interest rate difference (USD versus AUD) per position 4.73% or \$4,63 per 100,000 Australian dollars at 0.97830

Margin requirement per contract \$2,500, recommended margin per contract \$5,000 to \$10,000

Daily rate differential paid daily \$12.68 per contract or \$385.62 monthly

Australian dollar interest [rate quotes here](#) [Spot and forward quotes here](#) [Option Quotes here](#)

All gains are taxed under the 1256 tax rule (60% long term 40% short term regardless of trade duration). Regulated futures (subject to mark-to-market treatment and traded on a qualified board or exchange), These types of contracts are governed by IRS Code §1256 and are treated partly as a long-term gain or loss (60% of the gain or loss) and partly as a short-term gain or loss (40% of the gain or loss), regardless of the actual length of your holding period. Only one form needs to be completed (6781) at the year end with the net result. More information in the [IRS publication here](#).

If you have questions please call me with this page up <http://keypage.net/> and I'll answer them and provide immediate links for verification.

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Risk Disclosure Statement

The risk of loss in trading commodities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains. In some cases, managed commodity accounts are subject to substantial charges for management and advisory fees. It may be necessary for those accounts that are subject to these charges to make substantial trading profits to avoid depletion or exhaustion of their assets. The disclosure document of a commodity trading advisor ("CTA") contains a complete description of the principal risk factors and each fee to be charged to your account by the CTA.

The risk of loss in trading foreign exchange can be substantial. You should therefore carefully consider whether such trading is suitable in light of your financial condition. You may sustain a total loss of funds and any additional funds that you deposit with your broker to maintain a position in the foreign exchange market. Actual past performance is no guarantee of future results. Simulated performance results also have certain limitations unlike actual performance records; simulated results do not represent composite trading. Also, since trades have not actually been executed for this composite, the results may have under-or-over compensated for the impact, if any, of certain market factors, such as lack of liquidity, simulated trading results, in general are also subject to the fact they are designed with the benefit of hindsight. No representation can or is being made that any trading system will, or is likely, to achieve profits or losses similar to those shown in this simulated performance record.

The performance records have been calculated in a manner we believe to be reasonable and are based on the respective leverage factors intended to be used. Prospective investors must recognize that any simulation of a hypothetical record, even when based on actual trading systems, with qualified trade execution, has inherent limitations. We believe that the records as presented should be of interest to investors in determining whether to participate, such rates of return should by no means be taken as an indication of how the system will perform or would have performed, even given the same trades. Any performance record compiled from individual performance records of any trading methodologies has certain hypothetical and artificial characteristics and must be evaluated accordingly.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.