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So there! 😊

TRADING THE FOREX

With The Captains Fund

or

How to Survive on \$68,000 a Week

By

Captain Meryl Getline

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Introduction

My name is Meryl Getline and as I wrote this content originally in the fall of 2006, I had just recently retired as an international airline captain for United Airlines, flying the B-777. When I retired, I wanted to find another way to make money, but I certainly didn't want to go out and get another job.

My #1 passion has always been aviation, but for the last 20 years or so my #2 passion has been trading, first in the stock market and then later in stock options. FOREX trading has opened up a whole new world for me, and I'm looking forward to sharing with you the method used by the Captains Fund, which is the most lucrative trading system I've ever used.

Many people who trade with us are at least somewhat familiar with the method we use, while others are not and have asked for some insight into our trading method. We're happy to share it with you.

My subtitle, "How to Survive on \$68,000 per week" is meant to be semi-amusing but in fact is based on the amount one of my personal accounts made the week I wrote this, in May of 2007. It is not meant in any way to imply specific results you may experience, as it is not possible to predict the returns of any Forex account. However, even without trading others' accounts, I can say quite truthfully that we (my husband and I) are making more in retirement than we ever did from flying as international airline captains flying jumbo jets worldwide.

Trading the Captains Fund is something I enjoy doing. If I didn't enjoy it, I can assure you I wouldn't do it. However, there is an enormous, in fact immeasurable, satisfaction and sense of worth to be gained in helping you improve your financial picture. Please plan on giving us at least several months (although you're likely to see profits in a much shorter time frame), some faith that yes, we actually do know what we're doing, and some patience. I honestly believe you will reap the same kinds of financial rewards we've seen ourselves (although we can't guarantee it, of course).

All of us captains at the Captains Fund, including me (retired United captain), Glyn Taylor (former Eastern and retired Cathay Pacific captain), Al Carmickle, (retired United captain and my husband), and Dino (active pilot

based in Hong Kong) Stylianopoulos welcome you aboard this behind-the-scenes look at the method of trading we do here at the Captains Fund.

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Chapter One

Harnessing the Power of the FOREX

The FOREX is the largest financial market in the world, with a volume of over 1.5 TRILLION dollars per day. It dwarfs the daily volume of the New York Stock Exchange, which trades around \$25 Billion daily.

And what is traded? Not stocks, not bonds, nothing like that. MONEY is traded. When you trade the FOREX, you buy one currency while selling another. You might, for instance, trade this pair: EUR/USD, which would be buying the Euro while selling the U.S. dollar.

I'd never even heard of the FOREX until a year or so ago but now I trade it full-time for myself, family, friends and now clients of the Captains Fund. After having been a pilot traveling the world for the last three decades or so, it's actually a pleasant change for me to stay grounded, put down some roots and make a good, solid income right at my computer. I do miss flying terribly since retiring, but trading is my new passion.

To trade the FOREX you don't have to go anywhere, but you do have to have your act together and what I mean is, you have to have a method to trade. This is a giant marketplace with lots of money to be made, but wherever you can make money, obviously you can lose money. You need a good method to use if you're going to trade any of the financial markets, including the FOREX.

Traditional traders have some sort of trading plan, and if they don't have a trading plan, they should. They should know how to read and analyze charts and graphs, and know what economic events are likely to affect the currencies they trade. If Japan is having a bad day economically, then that's a good day to sell the yen either against the U.S. dollar or against some other currency. But you don't need to worry about any of that. As I said, that's for traditional traders and we're talking about something quite different here.

The Captains Fund method is almost diametrically opposed to traditional trading in that no analysis is necessary. Traditional trading methods are what I call "predictive." That is, one studies materials such as charts, graphs, reports, etc. and then ventures a guess (and likely says a little prayer)

as to which currencies will rise and which will fall. No matter how good the analysis is, however, things can and do change when they are least expect to and can quickly deplete portfolios. (Been there, done that, believe me.)

The Captains Fund method, on the other hand, is what I call "reactive." That is, trades are based on the direction the currencies have already headed. For instance, say I'm trading the currency pair USD/CHF (U.S. Dollar vs. the Swiss Franc.) I will initially enter the market at whatever the going rate is to establish my position. Then, if the price of this pair goes up, I'll sell some of my lots (currencies are sold in "lots"). If the price goes down, however, I will buy more lots when the price is deflated.

Now, if this is the first time you're hearing all this, it may sound confusing, but stick with me because by the time we're done you'll understand why this method is so powerful. You'll also learn how it is possible to always buy low and sell high, without having to predict or analyze market direction, after the initial entry into the market to establish positions.

Does this method of trading work? Yes. Am I sure? Yes, based on my personal experience with the program. Can you lose money? Yes, but unless you get out too quickly after a downturn it isn't likely. Will you make money? Very likely. A lot of money? Possibly. Will you be absolutely 100% guaranteed to make money? No, because nothing is that certain. Is your risk high? NO, because this program is designed to minimize risk. (You'll see how in Chapter #2.)

The title of this chapter is "Harnessing the Power of the FOREX." What I am talking about is LEVERAGE. Every time I see this word used at a FOREX or other financial seminar or lecture, I see the question marks appear in people's eyes. And that is why this most important topic is the subject of the very next chapter. You just won't believe it when I tell you how you can apply it to your extreme advantage, how it can make you money and minimize your risk at the same time. It's almost too cool for words.

Chapter Two

Leverage - Part One

What is it and How Can I Use it?

If you research the FOREX even a little bit, most likely you'll read about large profit opportunities alongside warnings about substantial risk, including a statistic stating that at least 90% (and as many as 95%) of individual traders lose most or all of their money within the first three months of trading.

So which statement is true? They're BOTH true, and I know this from personal experience. I bought expensive software, studied candlestick and other charts, learned which of the many economic reports posted each week are likely to have a noticeable effect on the FOREX, etc. etc.

I placed stops as I was taught (a stop sells your positions at what you consider to be an acceptable loss rather than waiting to get wiped out), but even though I had some big winners, I also had too many losers and my portfolio would go up and down, but when it all averaged out it was either neutral or down slightly after several months of trading. I'd had some heart-stopping losses along the way right alongside some exhilarating gains, but still, overall, when it all averaged out, I was unable to realize any real profits after several frustrating months. I'm not saying there aren't plenty of successful traders out there; I just wasn't nearly as good at it as I thought I'd be.

Then I came across a method of trading that was completely different. Instead of trying to predict which way currencies would go, one bought a "basket" (my term) of them, some of which tend to trade opposite each other. This has the effect of stabilizing your trading overall, while provide a platform to buy low (when prices drop from the initial purchase price), sell high (when prices rise from initial purchase), and all the while collect interest. Prior to learning this method, I didn't know collecting interest was an option, and we are talking substantial amounts of interest. More on that later.

When I learned about this method for the first time, it reminded me of a stock program I learned about in the 70's in a book called "How to Make

"\$1,000,000 in the Stock Market Automatically!" by Robert Lichello, using his A.I.M. formula (Automatic Investment Management). I used to take the book along on some of my flights as an airline captain, depending upon who my crew was.

I had several fellow pilots who were also interested in the stock market and we'd meet at various educational seminars sometimes. On the cruise portion of our flights or in Flight Operations between flights, we'd talk about different trading methods, and Mr. Lichello's formula made a lot of sense to us. It didn't deal with stock selection, trying to guess which stocks would rise in value, but rather with reacting to prices after they changed. In a nutshell, his premise was to buy more of your stocks on dips and sell some stocks with price increases to lock in some profits. His method did and does work and still I apply its basic premise to my stock and stock option trades as well as to the Forex.

I can tell you the Captains Fund program is basically using the same basic premise as the A.I.M. method—the age-old and ever-popular premise of "buy low and sell high." Everyone knows buying low and selling high will make money, but figuring out how to do it consistently—aahhh, therein lies the difficulty.

There are also two additional components which give this method such a strong likelihood of producing profits, one being the interest we collect as mentioned previously. The other component is compounding method we just don't see others using. The reason may be that compounding does cause some additional complexities, taking too much time to execute by most individuals, or that people simply do not understand the power of such compounding.

Contrary to every other FOREX trading method I've seen and used, we get into the market at the market (current) price without analyzing the likely direction of the market, then sell a little if it goes up to a predetermined price, and buy a little more if it goes down to a predetermined price. The software tells us those predetermined prices. Once we're established, we can ONLY buy low and sell high. We never sell at a loss, as is common

with traditional traders who use protective stops. Much more about this later.

We don't analyze where to get into the market, then hope it goes up (or down, for those of you who may currently short the market) as you expect. The software lets us know, after your positions are established, where to either take some profits (and how much) or add to our positions (and how much). When one point or the other is reached—that is—you just sold some at a profit or bought some more—then the software will once again tell us where our new buy or sell point is and how much to trade. And that's the core of this method—the mechanical execution of trades. No emotions, hunches, guesses or other subjective elements to get in the way.

Your portfolio will be in constant flux, but adding to your positions when the market is down is where some of the real profits are made. By having more positions or "lots," purchased at a lower price, the price does not have to fully recover before a profit is realized. And that, in my opinion, is one of the biggest strengths of this program. There are many differences (and advantages) between trading the FOREX using the Captains Fund method and all the other programs I've seen, and I'll be discussing these various differences in later lessons.

Now, let's talk about leverage. Bear with me if this is too basic for you, because we'll get to why it is particularly powerful in the FOREX, and even more powerful using the Captains Fund software.

Some people apparently have no idea what the word really means, I've discovered. Let's take a physical example of leverage: Say you want to move a large boulder, but it weighs several hundred pounds. You push and push but it won't budge. Then you spot a long, sturdy plank and put the end of it under the boulder so the plank has a slight tilt to it. You push down on the opposite end of the plank and voilá! The boulder moves. That's a literal example of leverage—you used an actual lever to move something relatively big (the boulder) with something relatively little (you).

Now, let's say you want to buy a \$100,000 house. Do you need \$100,000 in cash? Not necessarily, at least not if you have a decent credit rating. A typical purchaser would go get a mortgage for, say, \$90,000 and have to put down only \$10,000 in cash. That's a 10 to 1 margin rate—that is—the

buyer pays \$10,000 of his own money to purchase something 10 times the value. $\$10,000 \times 10 = \$100,000$. He used leverage in the form of a mortgage to buy a lot with a little.

So leverage is, loosely speaking, the increased "power" to do something, while "margin" is the amount of that increased power.

Now, there are THREE things I want to discuss regarding margin and leverage in the FOREX.

1. Many brokers offer a 100:1 margin rates. This means you can buy, not 10 times the value of your money as in the house example above, but 100 times. With my \$10,000 and a 100:1 margin rate, I could buy a MILLION dollar house ($\$10,000 \times 100$).

Some brokers, including the one recommended by Captains Fund, offer margin rates as high as 400:1. With my \$10,000, I could buy a FOUR MILLION dollar house ($\$10,000 \times 400$). Think about that—a \$4,000,000 mansion with just \$10,000. That is a spectacular amount of leverage!

The example of the house, and how much you can buy with how little, hopefully will help put this into perspective if you've never dealt much with margin.

But, you're thinking, WHAT ABOUT THE RISK? Good question, but you know what? I'll tell you all about it in Chapter 3.

I'll tell you the other two things on my alleged mind regarding margin and leverage, and how to use them to your advantage while minimizing your risk, in the next chapter or two. Wait till you see!

Chapter Three

Leverage - Part Two -The Risk and the Rewards

In the previous discussion about leverage, I told you there were three things I wanted to discuss with you regarding margin and leverage. I covered only the first one regarding margin rates of 100:1 and as high as 400:1. If this was new material to you, you might want to review that part before continuing.

The **SECOND** thing I want to discuss with you is how, instead of overexposing your portfolio when using the highest possible margin rate of 400:1, you can use this giant leverage while **MINIMIZING** your risk at the very same time.

The first concern many people have goes something like this: "If I use leverage to trade, could I lose more than I put in? If I use \$1,000 on a 100:1 margin to buy \$100,000 of currencies, could I suddenly find myself bankrupt because the currency values dip? Could I ever owe that \$100,000 or part of it if that's how much in currencies I bought with my \$1,000 and the value goes down?"

You can breathe a sigh of relief now, because the answer is, if you put up \$1,000, then the broker will liquidate your account (sell it off) before it sinks so far that you would owe more than that. In fact, all the brokers I know of will sell all your positions (liquidate your account) while there remains the same amount of cash you put up as margin. For instance, at the Captains Fund we put only 10% of your portfolio into trade at 400:1. So, if everything went against us and your portfolio was actually liquidated, you'd be out \$9,000 but that \$1,000 would still remain. It's not a complete wipeout like you see in other financial markets.

Are there exceptions to this? I mean, could you ever wind up owing more than you invested? In theory, during a gigantic spike downward, I suppose, where the broker wasn't quick enough to get you out, but I've never heard of it actually happening. In my own demo account, I deliberately traded too great a portion (30%) of my fake \$10,000 using the maximum 400:1

leverage to see what would happen. If the currencies I'd bought had gone up, I would have seen a wonderful increase in my equity, of course.

Instead, some of the currencies took big dips and I was wiped out in a matter of about four days. All my positions were sold by the broker when my account got too low, but I was still left with \$3,000 of my money and owed nothing in my demo account. You're not going to be given leverage against a zero balance in your funds, and that is your protection. It was also a total bummer to get wiped out, even though it wasn't real money. However, it taught me to not try it in a live account.

If by putting up more, in this case 30%, there was more left over than by putting up 10%, why don't we put up more? Because you are far more at risk of getting wiped out by putting up larger amounts of margin. The object of this game is not to have more WHEN you get wiped out, which you will with that much margin. The objective is to always, always stay in the game with a low, low margin. Your account would have to experience a 90% loss to get wiped out at 10%, but 60% with a 30% margin.

The trading software starts by having me allocate your portfolio. Now what does that mean, to allocate your portfolio? Hang on, we're getting there. Say you have \$10,000 to invest. At first glance, you might assume that with a 400:1 margin rate you're going to plunk down your money, put it through the software and next thing, you own four million dollars worth of currencies.

Right? No, and not only no but HECK (this is a G-rated Ebook) no!

But why not? $\$10,000 \times 400 = \$4,000,000$, does it not? Yes it does, but one of the truly beautiful things about investing through Captains Fund is that we keep your risk very, very low, yet still have plenty of funds to trade with due to the 400:1 leverage.

For illustration purposes, using what seems to be a healthy but not overly-risky allocation figure, let's say we decided to start our FOREX portfolio with \$10,000 and we're going to allocate 10% at 400:1 leverage of it with which to buy currencies.

10% of \$10,000 is only \$1,000, though, and that doesn't sound like very much fun. Who cares about buying \$1,000 worth of anything and how can you make money doing that?

Aaaah, but you are perhaps forgetting something. Remember, we're using 400:1 leverage and actually buying \$400,000 worth of currencies! Even at "only" 100:1 we'd be buying \$100,000 worth. NOW we're talking!

Using a relatively small percentage of your funds, such as 10%, allows us to take advantage of these large leverage amounts without putting up very much of your money. Leverage is a beautiful thing—it really is. Without it, most individuals could not find much opportunity in the FOREX market because most of us just couldn't afford to trade these large amounts.

Okay, so the first of the three things I wanted to discuss with you was in the last lesson, and that was the tremendous leverage rates available to trade the FOREX.

The second thing was how to minimize your risk by investing only a small portion of your available funds using this leverage, leaving plenty of funds in your account to keep your account open on price dips. If you over-invest using too much leverage or too large a percentage of your money, your broker could sell your positions on a large dip in your account value before it's wiped out altogether, but you won't owe any money.

The third thing I want to discuss is something most traditional FOREX traders pay no attention to whatsoever. I know, because I used to be one of them before I started using this reactive method of trading. There are lots of extra dollars, potentially thousands depending upon the size of your portfolio, to be made with no extra effort from you at all, and I've never seen a single other program that took advantage of it. I personally have profited many thousands of dollars from this unexpected source and before I learned how to do it, I didn't profit from it at all or, if I did, it was so little as to be negligible. I was, in fact, barely aware of it.

What could it be? Well, I guess you'll just have to wait and read about it in the next chapter.

Chapter Four

Leverage - Part Three-An Unexpected Gift

Okay, so what's the big mystery I alluded to in the last lesson, this "unexpected gift? Maybe you've probably already guessed that I'm referring to the interest you'll make by trading currencies. The type of trading we do is called "carry trading" since we "carry" our trades day after day rather than closing our trades and re-entering at different prices.

But let me expound on this just a little bit just to make sure you fully appreciate it. I didn't at first, for two reasons. The first reason is I had been trading for a few months using traditional methods, jumping in and out of the market frequently—many times per day, as a matter of fact. Although I sometimes held a position or two overnight, I never had any really big positions that I held onto for very long. Interest I earned or that I paid (some currencies earn interest, but you pay interest on others) was negligible.

As I've stated at least a couple of times, however, the Captains Fund method is very different. Basically, after you establish your portfolio on the first day you start to trade, much of it stays intact in the market. In a later lesson, I'll discuss the very essence of why this is possible with the Captains Fund method, and entirely impossible using any other trading method I've used.

However, take this at face value for now: We will be holding the bulk of your portfolio on a long-term basis. When prices go up and a sale is directed by the software we use, we will only sell off a small fraction of your account value. Likewise, we'll add only relatively small amounts to your portfolio on price dips. In the meantime, your money is just sitting there, doing nothing. Or is it?

Far from it. When we first allocate your portfolio, we can see what interest rate you'll earn on your account, and it will be substantial, usually around 65% to 70% for starters (it will go up later when we start compounding your account).

Now, think why these interest rates seem so high compared with what you might get at the bank. I have to tell you, I really didn't get it the first time I

learned this type of interest was possible. Somebody finally spelled it out for me somewhere along the way: You do not earn interest on the money you personally put up to buy currencies. You earn interest on the LEVERAGED funds. That's the second thing I didn't get about the interest being so important. I wasn't in the market long enough at a time to earn interest, and didn't realize interest was paid on the leveraged amount and not the actual amount of your investment. On a \$10,000 portfolio, with just 10% put up to trade, X 400:1 leverage, you're earning money on \$400,000!

Now, this is not a precise explanation because the fact is, you earn interest on some currency pairs while you pay interest on others, but we ensure a positive net interest by trading specific amounts of specific pairs per the software we use.

Right now, as I write this, I'm going to go to the Captains Fund Allocator to find out what your interest rate would be on a \$10,000 account right this minute, so hang on...

Okay, I'm back. I plugged in a \$10,000 portfolio amount and told it I wanted to use 10% of my funds to buy four currency pairs (EUR/USD, GPD/USD, USD/CHF and USD/JPY), using 400:1 leverage. I can see that my annual interest rate will be 67.48%. That's \$18.48 paid out daily and \$6,748 annually. This is approximate but very close, and the fact is that if you stick around you will see your actual interest become much higher than this, probably at least a few hundred percent per year. This is because of the method I use to compound profits, meaning I take your profits and buy even more currencies. More currencies in trade equate to more interest as well as higher potential profits.

The only currency pairs ever traded at the Captains Fund are these four "majors" (most heavily traded of all currency pairs) with the one exception being the USD/JPY. From experience, I know this pair pays the highest interest, has a lot of volatility (I consider this a good thing), and I like it in the mix.

However, also from experience, I know this pair can go straight down in a hurry. Most currency pairs "ratchet" their way up and down, a little at a time, and so does the USD/JPY MOST of the time. However, when it takes off either straight up (which is good) or straight down (which is bad), it

sometimes does so without any hesitation. This is the one currency I leave out of the equation once in awhile. A technical charts analyzer watches this pair with me all the time and if we see signs of a drastic drop, I'll get out of this pair and come back in when the signals are more favorable. Although the most temperamental of the major currency pairs, it's also the easiest to read.

So, back to the subject of earning interest on leveraged funds, think about taking your same \$10,000 to a bank. If you earn 3% annually you're doing quite well by today's standards. Personally, however, I like the idea of making 60% and up on my money, leveraged and in trade.

It may sound like this method of trading actually depends on earning interest. The fact is, the interest is more of a "bonus prize," as I like to call it, often account for only about 10%-20% of our total profits. It acts somewhat like an extra cushion of reserve for your account.

If things are humming along and your account value is going up because the value of your currencies overall is up, then this interest, which is paid daily, boosts it up even further.

Should your currency values sag somewhat, your account balance is helped by the fact that it's being padded with interest every day. Any way you slice it, making daily interest is wonderful, and on larger accounts it amounts to many thousands of dollars per month. Some of the larger accounts I trade make thousands in interest per DAY.

One interest of note is that there is an advantage to getting your funds into trade by Wednesday of any week as three times the normal interest is paid at 5:00 PM. Why triple interest on Wednesdays? To make up for not paying interest on weekends and holidays, brokers pay extra on Wednesdays.

And don't make the mistake made by novices, who may think it's the money NOT in trade but in reserve that's earning interest. Nope, that money sits there and does only one thing, and that is to protect your account from being liquidated during a "drawdown" or decrease in your portfolio amount. It doesn't earn interest, but who cares when it's your leveraged funds earning that interest?

Now, I made a comment earlier in this chapter about how it would not be possible to leave enough funds in trade to earn substantial interest using more traditional trading methods. This gets really interesting, and we'll see if I'm up to the challenge of explaining it in the next chapter.

Chapter Five

TALES FROM THE FOREX

Goldilocks and the Three Pips

And now, from a land far, far away, comes this Tale from the Land of Forex.

Once there was a pretty little girl named Goldilocks; her hair was the color of gold. As it happened, she also loved gold. She wanted more and more of it, and was always thinking and studying how to accomplish this.

One day, while in the forest gathering berries, she stumbled into a small opening normally hidden by dense foliage. She had never noticed it before. Once inside, she found herself face to face with a craggy but very wise old woman.

"I understand you want to discover where the gold is in this forest," said the old woman.

"Oh, yes!" cried Goldilocks. "Do you know where it is?"

"You must go deep into the forest, where others never venture, and discover for yourself which of the three pips can help you the most. Be wary, for things will not at first be what they seem." And with that the wise old woman turned and disappeared into the denseness of her forest alcove.

"But what is a pip?" asked Goldilocks. It was too late, though. The woman was gone.

So Goldilocks turned and went into the forest, deeper than she had ever gone before. Soon she came across a small dwelling. She knocked, but there was no answer. She was tired by now and decided the inhabitants probably wouldn't mind if she let herself in and refreshed herself a bit.

Once inside, to her amazement, she saw three baskets—a big one, a medium-sized one, and a small one. Each had the word "PIPS" written on it. She peeked inside the first one, having no idea what to expect. She had

imagined that pips were perhaps furry little creatures that lived under rocks and came out only at night by the light of the moon. She had a very active imagination, that Goldilocks.

But no, inside each basket were just slips of paper—piles of them. She picked one up out of the first basket and noticed each very large slip of paper had "1 Pip = \$10" written on it. She later dubbed these "Maxi-Pips" in her own head.

Inside the second basket she found a similar pile of paper slips, but they were only one tenth the size of the slips in the first basket. Each slip had a small "1 Pip = \$1" written upon it. She later dubbed these "Mini-Pips."

In the third basket, she had to look very closely to see anything at all, but finally realized the heap of scraps she saw was actually a whole pile of very tiny slips, a tenth the size of the ones in the previous basket. On each tiny scrap she could barely make out, "1 Pip=10 cents." These she would think of as "Micro-Pips" and couldn't imagine what value they could possibly be to anyone.

"Well, obviously, the big basket has the most value. Each of those pips is worth \$10. I'll just take this one," she thought to herself. She headed toward the door, then stopped suddenly, remembering the old woman's words to her: "Be wary, for things will not at first be what they seem."

She suddenly felt very sleepy, and went upstairs to find the bedroom. The first bed, the biggest one, was way too hard. The second bed, the second biggest one, was way too soft. The third bed was JUST RIGHT; soon she fell sound asleep and began to dream:

She was in another world, one unfamiliar to her, trading currencies from lands far away. She discovered that she could make profits by gathering pips—more pips, more money. She opened a "regular account," the type that fluctuated one \$10 pip at a time. She had \$10,000 to spend but prudently decided to spend only \$1,000 of it, and left the rest in reserve. She could buy only 1 lot or batch of currencies with her \$1,000 in this type of account, even though she was able to borrow quite a bit of money to buy these lots with.

She watched the prices fluctuate a bit, up and down. The prices were all printed in several digits, but soon she realized the one to watch was the very last digit, for each time it moved up or down one pip, her portfolio value went up or down \$10 in value.

She was just getting into it, excited to watch her portfolio grow, and having no idea if or when to sell one or both her lots, when quite suddenly and unexpectedly, her currency pair went way, way down in value. She didn't know what to do, and bought one more lot with some of her reserve cash when the price dipped pretty far, figuring she'd get a bargain, but still her portfolio kept going down. In desperation, she bought one more lot on a further dip, but prices went so far down that she was wiped out. She just didn't have enough money left to be able to afford to keep buying lots at \$1,000 a pop.

Her broker liquidated her account, selling her currencies at a loss and leaving her with only a her \$1,000 left of her \$10,000 account. At least she didn't owe any money, she thought with relief. Still, who needed this? It seemed like a nightmare.

Somewhere deep inside, though, she realized this was just a dream, and decided to let the whole thing play out again using her "Mini-Pip" basket in a Mini-Account. Here, she could buy 10 times the number of lots, which were one tenth the value of the lots in the maxi-account, and where each pip movement was only \$1 instead of \$10.

Again, she watched with excitement as the values climbed in her portfolio and she imagined herself getting richer and richer, but once again the currency values took a sudden dip. This time, her account wasn't liquidated, and she decided to buy some more lots when the price went down, but when they took another sharp drop her broker once again closed all her positions, selling all her currencies at a loss.

Even worse, right after her account was sold out from under her, prices started rising again and she missed out on what would have been some nice profits. "Oh, my!" she thought. This isn't going quite as well as I'd thought. I just don't have enough staying power. How does anyone make any money doing this when prices go up and down so much?

So she thought, "Surely those little teeny-tiny 10 cent pips aren't the answer, are they?" How could they be? But remembering again the old woman's words, "Things will not at first be what they seem," she decided to venture once more into the FOREX market place to see what would happen.

She opened a new portfolio and this time could buy hundreds of small lots of currencies, again spending only a small portion of her investment money. Before, using Maxi-Pips, she could buy only 1 lot with \$1,000. Using Mini-Pips, she could buy 10 lots. This time, however, she could buy 100 very small lots with her \$1,000. She watched her account go up again, and even though the pips were individually worth only 10 cents each, she had so many of them that each price movement was still significant.

When the price shot up suddenly, she decided to sell some of her lots. It wasn't a hard decision this time—she didn't need to go "all or nothing." She just sold a few.

Suddenly, though, just as before, the prices then took sharp dips. But now, she could buy more lots just a few at a time without over-spending. But the prices didn't go back up—they kept going down. Still, she had plenty of money left and was a shrewd enough little girl to realize that nothing goes down forever. So after awhile she bought some more currencies. She now had the staying power to see herself through this downward price move.

Suddenly, the prices did reverse and started creeping back upward, and when they did so it dawned upon her that now that she owned so many more lots at lower prices, they didn't have to come up to where they started and suddenly she was making money, and quite a bit of it. Not only was she making money with the rising prices, but she hadn't had to sell her other currencies when prices went down to keep from getting liquidated, and she was earning interest on all that money (which she knew, was leveraged 400 times over so she was earning interest on borrowed money).

Goldilocks woke with a start, thinking, "Now I know what the old woman meant! She wasn't saying, 'Venture deep into the forest' at all! She was saying, 'Venture deep into the FOREX!' And she skipped happily home, knowing exactly what to do.

In her excitement to get home and open her FOREX account, she never even saw the three bears she nearly ran into on her way home.

We'll discuss pips and lots further in the next chapter.

Chapter Six

Pip Tips and Lots of Lots

I hope you got a kick out of the previous lesson, but I'd like to explain further about pips and lots.

LOT: A lot is simply the name given to batches of currency. Just as you can buy one batch or several batches of cookies, you can buy (and sell) one "lot" or several "lots" of currencies. And, just as you can buy different sized batches of cookies with different numbers of cookies in each batch, you can buy (and sell) different lot sizes. So a "lot" is basically a batch and they come in three different sizes.

In a regular account, each lot is worth \$100,000. In a mini-account, each lot is \$10,000 and in the type of account addressed by the Captains Fund software, \$1,000 lots are traded. Being able to trade many more of the far less expensive lots gives us the flexibility to keep most of our portfolio intact and in reserve, while being able to buy more lots on price dips and selling some lots on price hikes. In a regular account, unless you have hundreds of thousands of dollars to work with—and I mean cash without considering leverage—you can only work with a few lots at a time before you run out of money buying these expensive lots.

And, just to remind you, when your money stays in the market, it earns interest on its leveraged value, which is as high as 400:1. Many brokers offer "only" 100:1 which is substantial, but which obviously has far less power than the 400:1 we get from our broker.

PIP: What's a pip, really? No, not a furry little creature after all. A pip is actually an acronym for Price Interest Point. And what, exactly, is that? I'm so glad you asked. It just means a unit or increment. In a regular account with \$100,000 lots, the smallest price change is \$10. In a mini-account with \$10,000 lots, each pip is worth \$1. In the account type used by Captains Fund (I use the term "micro-account") each pip is worth 10 cents. (Micro-pip is a term you'll hear elsewhere for 10 cent pips, but I haven't yet come across the term "micro-account" other than in my own writing).

Let's look at a sample FOREX price on a commonly traded currency pair, one you'll likely trade whether or not you use the Captains Fund management software, and I'll show you what a pip looks like. (By the way, not all pips are created equal but for purposes of this discussion, assume all the pips are worth 10 cents.)

USD/CHF is a popular currency pair traded on the FOREX. I have my brokerage account open right now so this is a real price at the moment (late 2006). Actually, I see two prices displayed by the USD/CHF: 1.2704 and 1.2708. One is the price I'll pay to buy this pair (the more expensive one, called the "ask" price), and one is the price I could sell it at (the less expensive one, known as the "bid" price). That difference in price is the "spread," just like you see in stock prices. More about that in the next chapter.

See that last digit in both prices? That's where my attention is when watching the price fluctuate, and which of the two prices I'm looking at depends on whether I'm buying or selling. If I'm buying, and that 1.2708 suddenly changes to 1.2709, then the price just went up one pip. That may be \$10, \$1 or just 10 cents per lot depending upon whether I'm trading in a regular account (\$100,000 lots and \$10 pips), mini account (\$10,000 lots and \$1 pips) or micro account (\$1,000 lots and 10 cent pips). With Captains Fund, we trade only \$1,000 lots with 10 cent pips.

Price fluctuations can be quiet and move rather calmly at times, but at other times they can shoot wildly (such as after certain economic reports) up or down, or both in quick succession. If that 1.2708 went up 10 pips to 1.2718, then, assuming I already own one lot, my account value just went up \$100, \$10, or \$1 depending upon what type of account I'm trading (using regular \$10 pips, mini \$1 pips or micro 10 cent pips).

Now realize that if you're trading in a regular account using maxi pips worth \$10, you're not likely to own very many lots. You can own more lots in a mini account, and even more in an account using micro-pips. So even though a gain of one pip is maybe only 10 cents, you have to consider that you won't own just one lot. If there is a one-pip 10 cent move but you own 100 lots, well, that's a change of \$10. If you own 1,000 lots or even more, which you will if your account value is high enough, then a one pip change is \$100. (Some Captains Fund traders have six and even seven figure

accounts, and believe me, it's exciting to watch as each pip change raises or lowers the account value by hundreds or even thousands of dollars).

Maybe the best way to put it is like this, and just take it at face value for now: To trade a regular account with \$10 pips using the Captains Fund method and their minimum recommended number of lots to trade in your account, you would have to have a minimum of \$500,000 of actual dollars in it.

In a mini account, you'd have to have a minimum of \$50,000.

In a Captains Fund account, you could trade with as little as \$5,000 although, due to the extreme popularity of this Fund, the minimum amount per our requirement is \$10K, and being raised to \$25,000 as of July 1st, 2007. This is to attempt to stem the absolute flood of applications overwhelming our broker and me as the Senior Trader at the Captains Fund. At the moment, I am not only the Senior Trader but the Only Trader, and there is a limit to the actual number of accounts I can safely handle.

Using the maximum leverage of 400:1 while using a small percentage of your cash gives you some good volatility in your account—just remember your account can and will swing wide in both directions, up and down, but using a relatively conservative amount of your cash—we use 10% here at the Captains Fund—should be pretty safe.

Changes percentage-wise might be significant in a small account, but not very impressive in terms of dollars when the dollar amounts get too low. When you trade with more money, you can own more lots and price changes in terms of dollars become much more significant. A \$200 price swing in a \$10,000 account may not seem like much, but, say, in a \$100,000 account, that same price swing would be \$2,000. Same percentage, but more in terms of actual dollars.

The 10 cent pip gives us the flexibility to keep most of our lots intact, rising and falling in value while earning interest, while buying and selling relatively small numbers of lots as prices dip and rise, lots you could probably not afford to buy in a regular or even a mini-account. Don't forget that it's the capability of letting the bulk of your portfolio rise and fall as it

stays in the market that also gives you the capability of earning interest on your leveraged account. In accounts using more expensive pip values, it's

typical to buy and sell most or all positions without leaving any money in long enough to earn interest at all.

(*I'm proofreading this lesson right now one day later and happened to check the USD/CHF. Right now, less than 24 hours after I wrote the above paragraph, it's showing an ask price of 1.2780—up 72 pips. Moves like this on a day-to-day basis are not uncommon. If you owned 50 lots, you'd be up \$360. $72 \text{ pips} \times .10 \text{ per pip} = \$7.20 \times 50 \text{ lots} = \360 . Now I might be directed by the software to sell a few while keeping most of your 50 lots intact for further gains. Should the price dip, there is now extra cash to buy more lots when the price is down.)

This concept of trading with \$1,000 lots instead of \$10,000 or \$100,000 lots is somewhat difficult to explain, but I can tell you, I've traded with regular lots and it really ties your hands with little flexibility when prices drop. You just can't afford to be adding to your positions at \$1,000 a pop in a \$5,000 or \$10,000 account. And I can tell you first-hand I earned negligible to no interest by jumping in and out of the market instead of leaving the bulk of it intact and just trading part of it, made possible by the micro-pips. While I've been sitting here writing this, \$358 was just deposited into my account—my daily interest. On Wednesday of this week—triple interest day—I'll watch \$1074 dollars go into my account. Interest piles up fast while your account fluctuates with currency price changes.

The beauty of everything I just told you is—you don't have to understand it although most clients want to have at least a little insight into how their money is growing or, if it's going down, why this is a natural fluctuation that actually helps us in the long run. We make future profits by buying cheaper currency lots when prices drop.

There is an interesting and opposite effect when prices rise. We sell off small numbers of lots of currencies whose prices have risen. When prices once again fall, which they will as surely as the tides ebb and flow, you have less to lose as you now own fewer lots which are decreasing in value.

More lots going up in value, fewer lots decreasing in value, interest and compounding are the four elements that make Captains Fund portfolios consistently earn more than any other method of passive income I've ever seen.

Chapter Seven

Spreads, Stops & Other Stuff You Don't Need to Know But I'm Telling You Anyway

In this lesson I'll talk about a few little odds and ends. These are things traditional FOREX traders know, and you might be interested to know as well. They're along the lines of "nice to know" stuff.

WHAT'S A SPREAD, FRED? Previously I mentioned there are two prices displayed for each currency. We're stuck with the more expensive price when buying, and get the cheaper price when selling. This is called the "spread" and works just like the spread in, say, stocks. If you buy a stock for \$1, you can't turn around and sell it for that much. Rather, you'll probably be able to sell it for a few cents less. Same idea, except stock brokers also charge a commission. In Forex trading, paying the spread is the entire expense. There is no additional commission to pay the broker.

Brokers retain the right to change the spread at times and I've seen it happen during highly volatile times, such as immediately after an interest rate announcement, but normally they're steady. For Captains Fund traders, should the spread widen suddenly, it is of little concern anyway since we don't jump in and out of the market just because a market is spiking. If we did jump in and out, we'd have to pay those increased spreads and if we sold our positions, then turned right around and opened them again it would get expensive. The name of the game for us is to get into the market and stay in, buying and selling only small numbers of lots as prices fluctuate.

WHAT'S A MAJOR, MAJOR? Although there are many currency pairs to trade, most individual traders concentrate on anywhere from one to six of them, referred to as the "majors." The Captains Fund software is applicable to four of them (EUR/USD, GPD/USD, USD/CHF & USD/JPY). These top currency pairs are the ones with the highest trading volumes by far, ensuring liquidity (easy getting in and out).

WHAT'S A BASE, ACE? As you already know, currencies are bought and sold in pairs. You never just buy dollars (USD) or yen (JPY) or British pounds (GPD). You buy pairs, like the USD/CHF or USD/JPY or GPD/USD. Whichever currency is on the left is the "base." If that one goes up in value, it's going up relative to the currency on the right, which is going down in value relative to the base currency. The currency on the right is the "cross" currency, by the way.

For example, if the USD/CHF rate is 1.2677, it means one U.S. dollar is worth 1.2677 Swiss Francs. If you buy the pair and it goes up, your investment is increasing in value. If 1.2677 changes to 1.2678, your portfolio just went up 10 cents times the number of lots you own (assuming you're trading with 10 cent pips). "Base currency" is just a term I thought you ought to be familiar with. Just because.

WHAT'S A SHORT, SPORT? Although there is such a thing as "shorting" the FOREX, just as you can short the stock market (you make your money when prices drop), the software we use is geared only toward buying low and selling high. Remember, this software is not trying to predict highs and lows but merely reacts to relatively higher prices and relatively lower prices by directing either purchases or sales of lots. Also, getting out of a long position and into a short position would mean constant exiting and entering positions, causing more expense (paying the spreads each time) and less interest earned. Positions need to be held past 5:00 PM Eastern Time to receive interest. It doesn't matter if you've been in the market 30 seconds. If you're in at 5:00 PM Eastern, you'll earn interest.

WHAT'S A STOP, POP? Okay, now it's just getting silly, but it's late in the Ebook and you'll just have to tolerate this a little while longer. By the time I'm done telling you all the reasons you're far better off trading with the Captains Fund way than with more traditional methods, if you're not convinced then there simply is no hope for you.

A STOP is something a traditional trader is almost religious about. "Never, EVER, EVER EVER EVER place a trade without placing a stop," they say. And, by the way, they're right. In a regular or mini-account, where each pip is far more valuable than our 10 cent pips, you gotta have a stop. A "stop" or "protective stop" (same thing) will keep your portfolio from sliding downhill too far, possibly to the point of no return (meaning liquidation).

You sell at a pre-set price with an acceptable loss should prices start to go south, rather than waiting to get absolutely creamed and be forced to sell.

You'll find some traders place stops very close—maybe as close as just several pips away—while others have stops as wide as 60 pips and maybe even wider than that for longer-term trades.

Now, this is what I had learned, what I embraced, what I was used to and what I practiced myself. In fact, I still trade a regular account (for fun) with \$10 pips and I do place stops.

Well guess what? Captains Fund doesn't use them. Not at all. Ever. How come? I told you early on this is an almost diametrically opposed method of trading compared with traditional trading.

Captains Fund feeds on volatility. The software will figure a price point where more lots will be purchased, and it has a second price point where some of your lots will be sold. Whichever one gets hit first wins. Game over and time for a new round to begin with new price points based on whatever previous price point was hit.

If prices rise and I sell some lots, then I will cancel out the price point where I would have bought had prices dropped. If prices dropped and I did in fact buy some more lots at the lower price, then the sell price will be cancelled out. The software will direct me to enter two brand new price points for a certain number of lots.

As I've been harping on for the last several lessons, the 10 cent pip and \$1,000 lots, as opposed to \$10 pips and \$100,000 lots, allows us to have hundreds or even thousands of lots of lesser value than traditional accounts. We thrive on price dips because that is where we ultimately profit even more than from a price that goes straight up to its sell point. It's when prices are down that we can add to our positions. The last thing we want to do is get stopped out of the market, and even during the most volatile trading times (after some economic announcements), we just sit tight and wait. Since we use only a small part of our portfolio, just 10%, and use huge leverage of 400:1, we maximize our ability to trade large sums of money. Even substantial dips don't cause us concern as we have plenty of cash in reserve.

Could a market go down and never come back up? I guess so—in theory. The world could come to an end, too. Nothing is impossible and there is a risk to everything we do. But by waiting as prices dip and adding to our positions, while selling some lots of high-priced currencies before prices drop again, the natural fluctuation of the market is where the money is made. If your portfolio dips, and it almost surely will at times, be patient and watch what happens to all those lots you bought so cheaply. When they come back up you'll be thrilled, as I have been over and over again watching my own accounts as they grow.

And when you feel exhilarated seeing profits piling up, temper your glee with the knowledge that your portfolio will be in constant flux. You may see an all-time high followed by an all-time low, only to reach a new all-time high, and on and on until, over time, you see permanent and hopefully substantial profits.

Chapter Eight

Important Economic Reports and How to Ignore Them

Most information published about trading the FOREX has advice on the need to learn how to analyze charts and graphs and become proficient in the technical side of trading.

In addition, you'll be advised to study the calendar of economic reports, and learn which ones are most likely to affect FOREX. This is fundamental trading and I think the majority of traditional traders, but not all, agree that a combination of both is desirable.

But we're not traditional traders here at Captains Fund. We've broken free of the mold and frankly, although we might glance up from our coffee and doughnuts to notice the occasional 100 pip spike, frankly, it's not going to change a thing for us regarding how we trade our accounts. Furthermore, it's unlikely we're staring at our computer in the first place. We're not timing the market, not analyzing it, not trying to guess what the Federal Reserve's going to do next. Frankly, my dear, we just don't give a.... Well, you get the picture.

On any given day, you could gaze at your brokerage account on your computer screen and come to the conclusion that this market never moves at all. Other than at certain times of day, which I'll tell you about in a moment, sometimes I feel it's like looking at a clock. That is, while you're staring at it, time seems to stand still. You can't actually see the minute-hand moving. Leave the room, however, even for a little bit, and you come back to see the minute hand has indeed moved while you were away.

Same thing in the FOREX. I'll be watching my screen and won't see any action at all. The prices seem almost frozen where they are. But if I go take out the trash or flip through my mail and come back, often as not, prices have risen or fallen in the various currencies while I stepped out, even if I was gone only briefly.

However, economic reports coming out all over the world in a seemingly endless stream can and do affect the FOREX quite noticeably, causing prices to spike upward, downward or both in quick succession. When the Federal Reserve chairman makes an announcement regarding interest rates, for instance, better stand back; fireworks often ensue in all the financial markets, including the FOREX.

Some reports have more impact than others and the real standout, as far as I'm concerned, is the Non-Farm Payroll Report which comes out the first Friday of each month. Because of the extreme reaction by the Forex to this particular report, you may hear this day referred to as "Freaky Friday." Currency prices just go nuts when the Non-Farm Payroll Report is released each month with prices spiking all over the place.

Although I know many traditional traders who close all their positions and sit out this particular report for fear of either being stopped out or even liquidated on a downward spike, there is no need for us carry traders at the Captains Fund to exit the market. In fact, it would be pointless and costly to do so. If we were to close your positions, then re-enter after the chaos subsided, you'd have to pay your spreads all over again. This can amount to about 1.5% to 2% of your portfolio. On a million dollar account (yes, we do have some this large and larger), that's up to about \$20,000 for an unnecessary expense.

This was the first time I became aware that stops were not necessary with the type of trading, I felt liberated—no more chain around the neck, wondering, "Should I pull it tight and keep the stop close? Should I let er' run awhile and risk a bigger loss should the market turn against me? All I could think of when I first learned about this type of trading was, "FREE AT LAST!"

If you ever care to witness what happens on Freaky Friday, sit in front of your computer screen right at 8:30 AM Eastern Time on the first Friday of the month (sometimes, but not always, delayed one week if the 1st falls on a Friday). This is what you'll see: For several minutes you'll see prices spiking all over the place, maybe up or down as much as 100 pips and maybe even more than that. But wait, and you'll see that prices will then settle back down and wind up pretty much where they started within several

minutes. About 15 to 20 minutes after the report comes out, the action gets back to normal.

Unlike the stock market, the FOREX is open for trading from Sunday afternoon Eastern Time until Friday afternoon, Eastern Time. There isn't an actual physical location for FOREX trading—it's all electronic.

The FOREX market opens first in Asia, then Europe, then the U.S. and a few times a day, two of these markets are open at the same time. Volatility is greatest then, and traditional traders like to trade during these hours as there is greater movement and greater opportunity for profits. This twice a day overlap of two markets happens once in the middle of the night and once in the morning, depending upon our time zone.

Okay, once again all nice-to-know stuff, but the bottom line is, we really only care about one thing at Captains Fund once we've established our accounts. Once a day, twice a week, three times in two days—nobody can predict how often—our preset price points, either the high one or the low one for each currency pair, will execute sooner or later.

We'll then go into the Captains Fund software program, tell it what just happened (at what price we bought or sold), and enter our new buy/sell price points at FX Solutions.

In addition, when I see profits along with some upward momentum, I'll add a new amount of lots with the additional funds in the same manner as I made the original purchases for your portfolio. That is, I buy all four (or three if I'm not trading the USD/JPY at the moment) in proportion according to the software we use. Although we may be paying a high price for some of the currencies, we're also undoubtedly paying a low price for the other currencies, just as we did the day we first entered the market.

This addition of more of each currency pair is how we compound the number of currencies you have in trade, which in turn compounds your interest (on your same \$10,000 that we've used as an example throughout this Ebook, you're now earning interest on even more than \$400,000 you started with) and your trading profit potential.

Whew! All this information when all I'm really trying to tell you is you don't need to know any of it to trade the FOREX when you trade with us at the Captains Fund. But if I don't tell you all the stuff you don't have to learn and don't have to do, how will you ever appreciate it?

Chapter Nine

Hedging for Safety - Part One - Using Good Cents

The money you entrust to the Captains Fund to trade for you is a long-term investment and should be viewed that way. All FOREX traders experience drawdowns (lower portfolio values) at times, but remember, ultimately profits are born as we acquire currencies at cheaper prices. How can you go wrong when you're earning interest on tremendous amounts of borrowed money, and your trading plan will ONLY allow you to buy low and sell high (after your portfolio is initially established in the market)?

This morning, as I write this, after sagging rather badly all week, all of our accounts are subsequently showing ridiculously high profits. They're up far more than they were ever down, as a result of bargain lots I bought a few days ago. Some of my higher-priced currencies are on their way down again, but because I sold some off at a profit, there are fewer lots to lose value. When they get low enough, I'll start adding to them again. This buying and selling of small amounts of each currency is a continuous see-sawing and how our accounts grow. While this fluctuation is going on, the interest is coming in steadily.

This is truly zero-guesswork, non-emotional trading, and I find it fascinating to watch the oscillations of our accounts (it's more fun to watch it when they're going up, of course). It's fun to watch knowing I don't have to do try and predict anything, or try to catch some moves, or stare at my computer, etc. .

One of the most common questions, which I asked myself, was how often the preset price points trigger a buy or sell order. These price points may be 100 pips or more away, which seems like a lot, and when I first started I couldn't believe they'd come more than once a month. However, they tend to come in once a day, or twice a day, or three times per week—along those lines. I had a bunch go off this morning—three alerts in one of my four personal accounts (two were profit-taking and one was to add to a position) and one in each of my other three accounts (all three were profit-taking).

"Hedging" while trading the FOREX is something that had not even occurred to me prior to using their trading software. Trading currencies

which tend to move in opposite directions is a true safety feature of this software. You may trade two, three or four currency pairs, but not just one, which I'm about to explain.

There are four pairs managed by the trading software, and four pairs only. They all include the USD on one side or the other, all are considered "majors" (due to their high trading volume) and all will react to financial news involving the United States.

The four currencies are:

EUR/USD (Euro/USD)
GBP/USD (Great British Pound/USD)
USD/CHF (USD/Swiss Franc)
USD/JPY (USD/Japanese Yen)

The EUR/USD and USD/CHF trade almost opposite each other. Now, this isn't always true, but it's true much of the time.

My first reaction to seeing this was, what in the world is the point? If one's going up and one's going down, why bother? Your portfolio isn't going to change much. That's exactly the point. Your portfolio is unlikely to have any wild swings downward, which is nice to avoid. Nor is it likely to have huge swings upward. Hedging lends stability to your account. Wide swings up are fun—wide swings down are not and should be avoided.

I'll explain in a moment why hedging and stability don't mean a loss of profits. In fact, just the opposite. Trading the FOREX is considered highly, and I mean very highly risky, if you're going it alone. I know this to be true; I still trade a very small regular account and it's easy to make one false move and suddenly half the portfolio is gone. I normally trade only one or two currencies at a time, with usually only one lot or two, and have no thought of hedging anything (or of earning interest).

All I care about is that they both make a profit. It's very one-dimensional trading, with each currency sort of in its own orbit with no relation to any other currency I might trade.

But let's say you trade only these two currencies, the EUR/USD and the USD/CHF, and they trade exactly opposite to each other. They're unlikely to do this precisely, but just to make my point imagine they do. Say the EUR/USD goes up high enough to take some profits, while the USD/CHF is low enough the software has directed you to add some more lots.

When the USD/CHF lots head back up again, you have more of them. When the EUR/USD starts coming down again, you'll own fewer of them. Eventually, one currency pair will get high enough and you'll sell some at a profit. When the other gets low enough, you'll add some more lots and when they come up, even as the other might be coming down again, you're overall portfolio value is gaining as you add more relatively cheap lots to your portfolio.

Okay, so why not stop there and just trade these two for maximum safety?

You'll find the answer in the next chapter.

Chapter Ten

Hedging for Safety - Part Two - A Yen for Interest

In the last lesson, I was just about to explain why you might not want to trade just the EUR/USD and USD/CHF even though they are as opposite, probably, as two pairs get and a good way to hedge your portfolio against wide swings.

Unfortunately, if you traded only these two, you would actually wind up paying interest instead of earning interest. Even though you should still make profits, it just sits wrong with some people to be stuck paying interest. It definitely doesn't sit well with me.

I like trading all four currency pairs whenever possible. The USD/JPY pays the highest interest of any of these pairs, and I trade without it only when it's in a steep dive as mentioned earlier in this Ebook.

Although I have proven to myself that I am not a very good technical trader, relying on charts, analysis and such, I do have a good friend who is an excellent technical trader and has been studying trading based on signals combined with fundamentals (news reports) for over fifteen years.

Along with teaching me how to watch for signs of danger in the USD/JPY, he actively watches it himself and we confer often to ensure we're not trading this currency when negative signals are apparent. As I write this section of the Ebook in May of 2007, the USD/JPY is trending up. Earlier this year, however, it took a disastrous downturn. Many traders were liquidated, slinking away in the dead of night never to be seen from or heard of again.

Preservation of funds is our #1 priority, even above making profits. We want to make excellent profits, of course, but not at the expense of peace of mind that we're trading well within prudent, conservative guidelines. We trade our personal accounts using exactly the same methodology we use to trade our clients' funds, and would never forgive ourselves if we let you down by trading your funds with an overexposure to risk.

The Forex itself is considered a highly risky place to attempt to make money, but we have discovered and fine-tuned a highly conservative trading technique to minimize that risk to an acceptable level.

Chapter Eleven

Comparing Traditional Methods

I hope you're enjoying my Ebook and have learned something about the FOREX in general and the Captains Fund way of trading it in particular. I certainly enjoyed writing it.

Let me sum up some of the most noteworthy differences (and advantages) between trading with the Captains Fund versus trading using more traditional methods.

Seven Captains Fund Differences:

1. Captains Fund traders have most of their portfolios in the market all the time, buying and selling relatively small numbers of lots as directed by the software. Traditional traders tend to jump in and out of the market as often as many times per day.
2. Captains Fund traders earn substantial interest on their accounts because most of their currency trading capital stays in the market all the time. Traditional traders often ignore interest, as they don't tend to leave their investments in the market long enough. Interest is paid on the leveraged amount of your account—not just your own money but 400 times the value of your own cash.
3. Captains Fund traders use micro-pips, valued at only 10 cents each, and trade \$1,000 lots. Traditional traders trade \$100,000 lots or \$10,000 lots (in a mini-account) and have far less flexibility as to how many lots they can trade at one time. Captains Fund traders often have thousands of lots in their portfolios at one time and can take advantage of price dips to buy even more. We can also realize profits by selling small portions of our accounts on price increases rather than having to sell most or all of it each time we sell as traditional traders do.
4. Captains Fund traders do not use protective stops to try to minimize their losses. We take advantage of price dips by buying more lots

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- more cheaply. Traditional traders often take at least a small loss, and sometimes substantial losses, when their stops are hit.
5. Captains Fund traders have the soundest trading plan there is (in my opinion). They earn substantial amounts of interest on highly leveraged money while buying low and selling high once established in the market. Traditional traders should feel lucky if they can get their trades right more than 50% of the time to realize profits.
 6. Captains Fund traders know they'll be trading using a proven method that knows when to buy on price dips and when to sell on rises in price. There is no guesswork. Traditional traders may spend hours at their computer, including middle-of-the-night sessions when trading sessions are most active, trying to determine what to do and when.
 7. The Captains Fund doesn't need to analyze the market or study graphs or reports. Market movements are not predicted, but reacted to. In fact, even the Senior Trader doesn't do any analysis (with the exception of the USD/JPY to avoid major, sustained spikes downward) as our method is completely mechanical. Traditional traders may spend hours a week studying market influences.

Chapter Twelve

“Could I Lose My House?” *and Other Fun F.A.Q.’s*

Q: 400:1 leverage is such a lot! Could I lose all my money, then owe the broker more?

A: Nope. One of the beauties of trading the Forex is that your initial margin is what’s left should the worst happen and you get liquidated. Let’s say that you have a \$10,000 portfolio, and I put \$1,000 of that into trade. Because we have leverage against that \$1,000, we have to always maintain that minimal amount in your account. If prices drop and drop and drop and suddenly your portfolio has lost 90% of its value, when you reach that \$1,000 level then you’ll see all your positions automatically sell off to maintain that \$1,000. It’s not like the stock market and nobody will call telling you to send more money. Leverage allows you to trade with more money than you actually have, allowing you to earn (or lose) money faster than you would with no leverage. However, that money is not actually placed into your account.

Q: Will I be able to watch live trades?

A: Yes. Everything is completely transparent in that you can see your trades, generate your own up-to-the-second reports showing your cumulative interest, deposits, my fees, etc. The current value of your account is your Equity and is always available to you live on your trading screen. Being able to watch your account any time you want is unlike most investments and very appealing. For complete instructions, please visit my June 16th, 2007 Blog Entry called, “Show Me The Fees, Please!” The Blog’s address is: www.captains-fund.com.

Q: Will I get a 1099 at year’s end?

A: No, Forex brokers are not required to report to the IRS. A report you can generate yourself will show all deposits, withdrawals, fees, etc., and the Daily Confirmation (a daily statement you’ll receive

automatically from the broker each day) for December 31st will show your year end Equity. This is all you'll need for your tax accountant to figure out your tax liability. The Forex has some special tax treatment, and you may want to use our suggested accountant to do your entire return or, if you prefer, just the Forex part of your tax return. There is a tax icon on our Home Page at www.captainsfund.com which will take you to some tax information and accounting resources.

Q: When do you take profits?

A: The surprising answer is “never.” What I do instead is keep all your profits working for you 100% of the time. Let's say your \$10,000 portfolio has done well. I started by putting 10% of it to work, which is \$1,000. Let's say your Equity is up to \$11,000. As far as I'm concerned, that's new money and I will put it to work, also at 10%. I use some judgment here. If there is strong upward momentum in our portfolio values, then I jump right in and buy more currencies. If things seem flat with little volume, I may hold off and not put that money to work right away if values seem to be dropping.

YOU, on the other hand, are free to ask for your gains directly from the broker any time you wish. You can obtain a Funds Redemption form right from our site, fax it to the broker, and get your money within a day or two, or in just a few days if you request a check (no charge) rather than a wire (\$25 currently as of June 2007).

We do recommend that when profits permit, you take out your starting capital. Everyone does this differently. If a client's account doubles or more, they may choose to take the entire initial amount out at one time. Others take out a little bit at a time as the portfolio value goes up.

Q: Can I trade my IRA with the Captains Fund?

A: Yes. Almost any retirement plan may be traded in the Forex with the Captains Fund. However, it's considered a “self-directed” investment, just

as buying a house would be when purchased as an investment for an IRA (which many people don't realize is possible). You must have a “custodian”

for this purpose, and there are two we can suggest:

Equity Trust – This is the company I use for my own IRA.

Contact: Tim Debronsky at 1-888-382-4727 x.329

Email: t.debronsky@trustetc.com Website: <http://www.trustetc.com>

Millenium Trust is another IRA custodian. I don't have a personal relationship with them but here is their contact information:

1-800-258-7878

Website: <http://www.mtrustcompany.com>

Q: What kind of license do you have?

A: At least for now, only a Limited Power of Attorney is required to trade managed Forex Accounts. This is unlike any other financial market. There are rumblings of change and should a Series 3 or other license become required, I'll go get a license but for now, I neither have nor need one. For now, our broker simply provides a Limited Power of Attorney form which you'll see in our Get Started --Step-by-Step application procedure at www.captainsfund.com.

There are many more FAQ's at my site so if you don't see your question answered here, you might check at www.captainsfund.com.

If you still have questions, by all means pop me an email to admin@captainsfund.com and I'll be sure to answer your question.

I try to put out a Blog once per week to address common questions or areas of interest. Once we get your Client Agreement, you'll be entered into our database and will be notified of important announcements, when a new Blog entry is published, etc.

Chapter Thirteen

Time to Fly

Are you comfortable that you're about to use only risk capital? If a little voice inside you is saying, "Better not," then for heaven's sake I hope you're listening. This is something you should consider only if you can truly appreciate the fact that on a day-by-day basis, your account may be substantially down or substantially up, but if you look at it like a day trader would, you won't be happy. It is always possible to lose your investment so please, don't risk money that would force you into bankruptcy or some other dire circumstance should the worst happen.

You need to realize that, unlike a day trader, we're not closing our trades but keeping them in place long-term, buying more when prices dip, selling a bit when prices rise, and all the while earning daily interest. Throw in some compounding (adding more trades with profits), and we have a system which, while not guaranteed to make us profits, is weighted to do so.

If you have some true risk capital and can look at your account once in awhile without getting your feathers ruffled, realizing fluctuation (both up and down) is necessary for it to go up over the course of what may be a few days, weeks or months, then you're of the appropriate mentality and temperament to proceed.

If this is you, proceed to www.CaptainsFund.com and click on "Get Started." You'll make your way to the Step-by-Step procedure and fill out all the paperwork. At first glance, the procedure looks long and cumbersome but it actually boils down to about 15 minutes of filling out basic information such as your name, address, etc. The rest is just signing and dating. You'll need to send a photo ID with your application; scanning and emailing is best. Faxing almost always makes the photo too dark but you can always try if you don't have a scanner. Kinko's and similar stores can help you get your photo scanned and emailed if necessary.

It takes about three days for the broker to process your application, and about 24 hours for a wire to be processed once sent.

At the very end of our Step-by-Step page is a Captains Fund Checklist. By going through this entire page carefully, then double-checking your work at the end with this checklist, your application should sail right through. I put the Step-by-Step page together after discussions with our broker. People tend to rush through, making errors and omissions, and bogging down the process. The Captains Fund has taken off like a rocket with new accounts streaming in daily and they have their hands full, to say the least.

As soon as your account is set up and funded, your funds will be placed into trade. You'll be able to monitor your own account in real time, and will receive daily email statements directly from the broker. You can also generate up-to-the-second reports, including cumulative interest. The instructions for doing this are somewhat lengthy, but you can find them in my June 16th, 2007, Blog entry called, "Show Me The Fees, Please!" www.captains-fund.com

Clients sometimes ask how I can trade so many (over 130 as I write this) accounts at once. The software I use, given to me by our broker, allows me to monitor hundreds of accounts at a glance. There is no automation, but certain functions, such as buying more currencies with profits, may be done simultaneously for all accounts currently in trade (new accounts are added one at a time.) Without this software I could not possibly trade more than a few accounts.

Help is only an email away at admin@captainsfund.com. In addition, you'll find all the broker's contact information in the Step-by-Step procedure at www.captainsfund.com. They can help you with application questions.

We look forward to trading your account at the Captains fund and don't forget, *the first couple billion are always the toughest.* ☺

Cap'n Meryl (Meryl Getline)
Elizabeth, Colorado
Revised June, 2007