

Carry Trade Strategy

Carry Trade strategy — it's one of the most popular fundamental Forex trading strategies. It's used not only by the common retail traders but also by the big hedge funds. The main principle of the carry trade strategies is to buy currency with a high interest rate and sell one with a low interest rate. Such setup offers profit not only from the currency pair's fluctuations but also from the interest rate difference (overnight interest rate). **This strategy should only be applied under the normal global economic conditions. You should never use it during the crisis.**

Features

- Long-term profit potential.
- Two sources of profit.
- Works only with the growing global economy.

How to Trade?

1. Choose a currency pair with a rather high positive interest rate difference (AUD/JPY, NZD/JPY and GBP/JPY are good historical examples of such pairs).
2. Go Long or Short on the chosen pair, depending on the direction with the positive overnight interest rate for this pair.
3. Choose moderate position size, so that it would be able to hold a significant paper loss.
4. Don't set a stop-loss (one of the few Forex trading strategies, where stop-loss isn't recommended).
5. Wait.
6. When you feel that you earned enough or you expect some global financial turmoil, close the position.

Example



The example chart depicts a long-term "carry trade" growth of GBP/JPY from late 2000 till mid 2006. The pound had an interest rate of about 5% during the period, while the yen had its rate near zero, resulting in an overnight rate of about 5%, which is then multiplied by your leverage. With 1:100 leverage it's approximately 2,500% over the whole period.

During the period GBP/JPY also rose by more than 6500 pips. As you see, the profit potential is simply outstanding.

The problem is that the uptrend ended very fast in 2007 and traders had little time to react and close the positions. The carry trade is quite risky and you should be very careful when deciding to use it.

Warning!

Use this strategy at your own risk.

Source: Free trading strategy can be found on many free websites