



FOREX
BULLISH CONSENSUS

USING CONTRARY OPINION AND BULLISH CONSENSUS

IN THE FOREX MARKETS

A NEW AND UNIQUE TRADING EDGE
FOR CURRENCY TRADERS



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Using Contrary Opinion and Bullish Consensus in the FOREX Markets

A new and unique trading edge for currency traders

By

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1 Introduction

Compared to equities and futures, FOREX trading has advantages and disadvantages. One advantage is liquidity. It is much better than futures and – given the quantities which can be bought or sold because of high leverage – even greater than equities. Another advantage is high leverage; even with the CFTC artificial constraints on margin, leverage is multiple times higher than in futures.

The single biggest weakness is the lack of a central exchange, offered with both equities and futures. Three types of information worthy of mention lacking just in a comparison with the futures markets.: Volume, Open Interest, Hedgers vs Speculators:

Volume

Each FOREX broker aggregates the volume from their own liquidity providers. This does not necessarily accurately reflect aggregate volume across the entire FX world. A simple comparison of volume on a variety of platforms confirms this issue. Nor is aggregating volume from multiple platforms worthwhile. In many cases the same liquidity provider services multiple platforms. The volume data may still be skewed.

Open Interest

Open interest measures the total number of contracts outstanding. Open interest goes Up if two new parties enter the market as buyer and seller. Open interest goes down if an existing buyer liquidates to an existing seller. Open interest remains the same if either a new buyer or seller replaces an existing buyer or seller. This requires a central exchange, not available in FOREX. This author, a futures trader since 1973, has always found open interest worthy of study as a predictive indicator. In fact, he has worked for a considerable time to create ‘synthetic open interest’ for currencies using a variety of price, range, and other factors. Currently close, but at this writing no cigar!

Some years ago, my team wrote a program, Mercury Charts, displaying open interest and volume changes on the main chart window with prices. We found some interesting patterns in the data by looking at the chart.

A standard OHLC daily bar chart is employed but with one major enhancement: the color scheme of the vertical bar represents two additional items of information. The upper half of the vertical bar represents an increase or decline in volume over the previous day. The lower half of the vertical bar represents an increase or decline in open interest.



Figure 1 Mercury Charts

Hedgers vs Speculators

Futures markets offer Commitment of Traders (CoT) reports. This breaks down the participants in a market to larger and small speculators and large and small hedgers. Also, in futures, a very valuable predictive tool if properly utilized. Obviously, nonsuch in FX.

I've mentioned above the concept of aggregating information in FOREX. In most cases it doesn't work, but there is one wonderful exception that provides real predictive information to FOREX traders!

2 Contrary Opinion and Discounting

Every seasoned trader has heard the adage, 'Buy on the rumor, sell on the news.' This is an example of contrary opinion and the fascinating market process of 'discounting.'

Let me discuss discounting with an old story from the 1970s futures markets.

When I entered the market in 1973 for decades there had been a 'February Bounce' in wheat futures, tied to the winter wheat crop. But by the time I showed up so many traders knew about this event – and bought wheat futures in anticipation – that there was no longer a bounce. In fact, on several occasion there was a February break as early-to-the-show traders took profits!

If enough traders anticipate an event by buying or selling in advance when the event occurs, it has little or no effect on that market. This is easy enough to understand. Too many traders have bought and sold in anticipation of the event and there is no longer enough buying power or selling pressure to move the market very much more. In fact, as I mentioned in the wheat story, the event may precipitate a move in the opposite direct!

"To many traders making too much money too quickly-Watch Out!" – Charles B. Goodman

This phenomenon is called discounting. Another example are the classical bar chart patterns as the Head and Shoulders pattern. You guessed it! So many traders became familiar with the pattern that soon the right shoulder became weaker and weaker because of anticipated selling or buying. Discounting. A small tip: In this day of so much automated trading and 'expert advisors' perhaps the old bar chart formations are again worth a look-see.

"If you use the techniques and methods of the majority – you will fail like the majority." A corollary might be to use techniques and methods not popular with the majority.

You can now see the similarity to 'buy the rumor, sell the news' as traders anticipate the news by buying or selling. When the news arrives, there is not enough buying power or selling pressure for the market to react. The news has been discounted.

Contrary opinion – going against the crowd – works in a remarkably similar manner to discounting.

When a large majority of traders are either bullish or bearish on the markets at some point there is not enough buying power or selling pressure to move the market further. For a short time, exists an imbalance of buyers or seller and the market proceeds to move – sometimes quite sharply – in the opposite direction to correct the imbalance.

3 Bullish Consensus

Contrary opinion is the *phenomenon*; bullish consensus is a *technique* based on a measurable quantity to utilize it effectively in a predictive fashion. Bullish consensus quantifies contrary opinion allowing it to be analyzed, studied, and manipulated for predictive effect.

The 'consensus' is of a defined group of traders. It is expressed as a percentage of the traders in that pool who are bullish. A consensus of traders above 90% is deemed bearish; a consensus of traders below 20% is deemed bullish.

Earl Hadady did the seminal work on contrary opinion and bullish consensus in commodity futures back in the 1970s. His book is worth a read. The most recent edition is titled: *Contrary Opinion: Using Sentiment to Chart the Markets* (John Wiley and Sons, 2000.)

When I first traded futures at Peavey & Company (later acquired by Geldermann, then acquired by the later defunct Refco) one of the few successful traders I met, an elderly gentleman, used quite a simple system blending a moving average, a relative strength type indicator and Hadady's bullish consensus numbers. He called it Triad. This could be used two ways: 1) The bullish consensus figures may act as a secondary tool, a filter, to avoid false signals from common indicators or 2) Using bullish consensus as a primary tool, a common indicator may help time the proper entry into the market.

To be effective and predictive, bullish consensus works best used in conjunction with a simple timing tool. I have reconstructed this pleasant little Triad tool with a rule base and publish it weekly in my **FOREX Bullish Consensus Report**.

Bullish consensus, as Mr. Hadady worked it out operates in this fashion: If – *ceteris paribus* - more than 90 percent of traders are bullish the market is a Sell, you are going against the crowd by exercising a contrary opinion.

If less than 20 percent of traders are bearish the market is a Buy. Bullish consensus is naturally systems-neutral and may easily be incorporated in any timing indicator or method. It is a great complement to every trader's arsenal!

It takes 90 percent of traders to generate a bullish consensus Sell. The mirror image for bullish equivalent is 10 percent. Why is it 20 percent? It takes more to turn a bull market down than it takes to turn a bear market up. These were Hadady's original numbers and in a tribute to his ground-braking work I believe they are still valid and the most accurate half-century later.

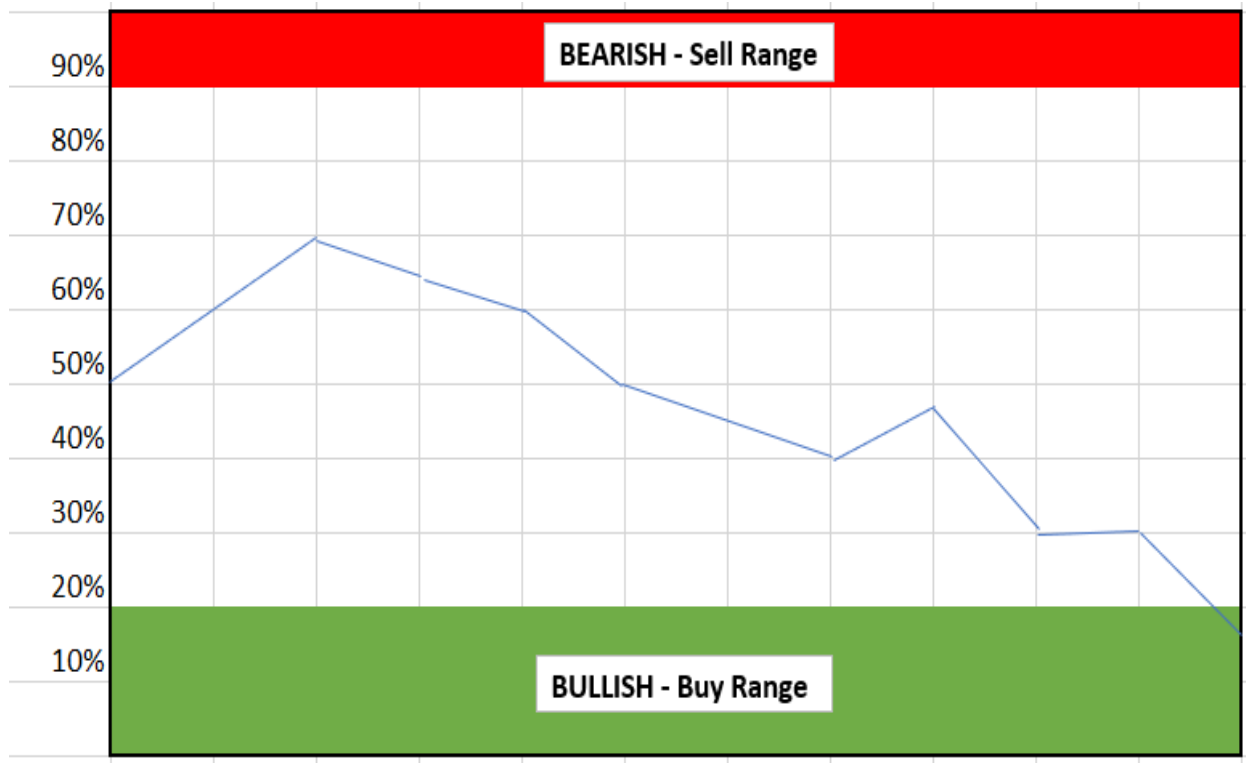


Figure 2 – Bullish Consensus Chart (www.forexbullishconsensus.com)

This market has moved into a 'buy' range.

Remember – Even if you use Bullish Consensus as a primary indicator, you will still rely on a common indicator such as a moving average to time your entry. A market – a bull market especially – may remain over 90% while prices continue to rise.

As I detail below, it is possible to aggregate trader opinion to derive the raw bullish consensus figures for FOREX.

Two examples showing bullish consensus as an excellent filter for common indicators:

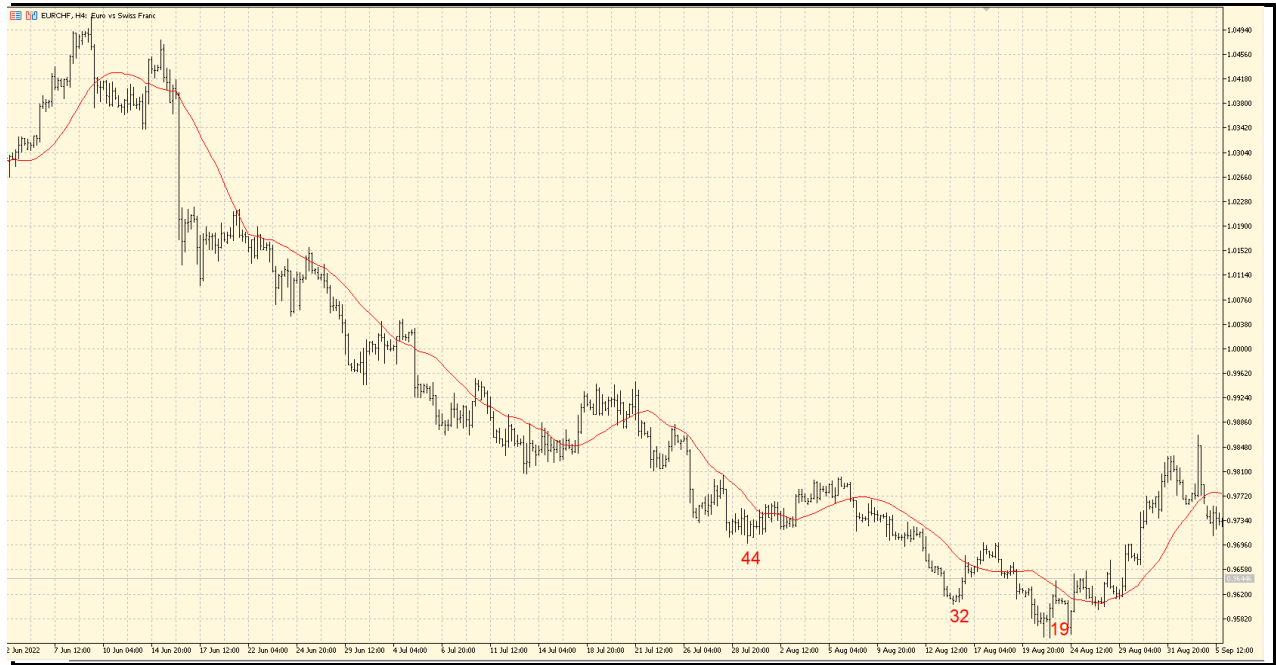


Figure 3 – Bullish Consensus in a Currency Pair – Moving Average (www.metaquotes.net)

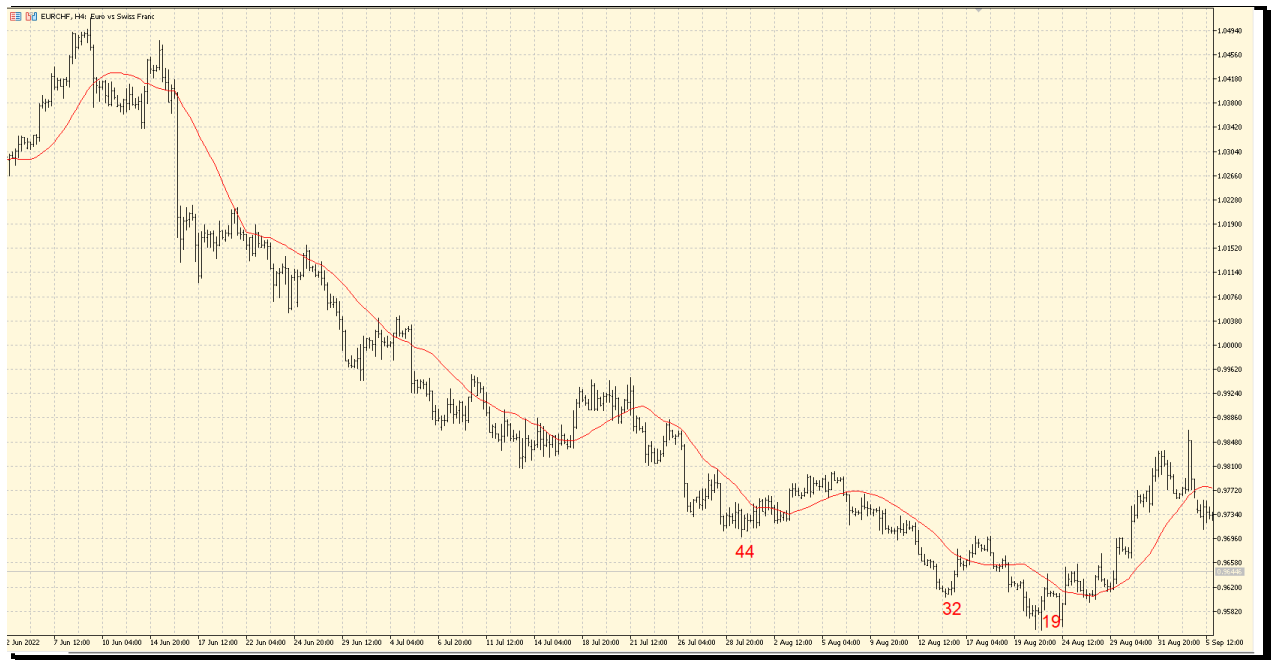


Figure 4 – Bullish Consensus in a Currency Pair – Moving Average (www.metaquotes.net)

The bullish consensus helps avoid false signals.

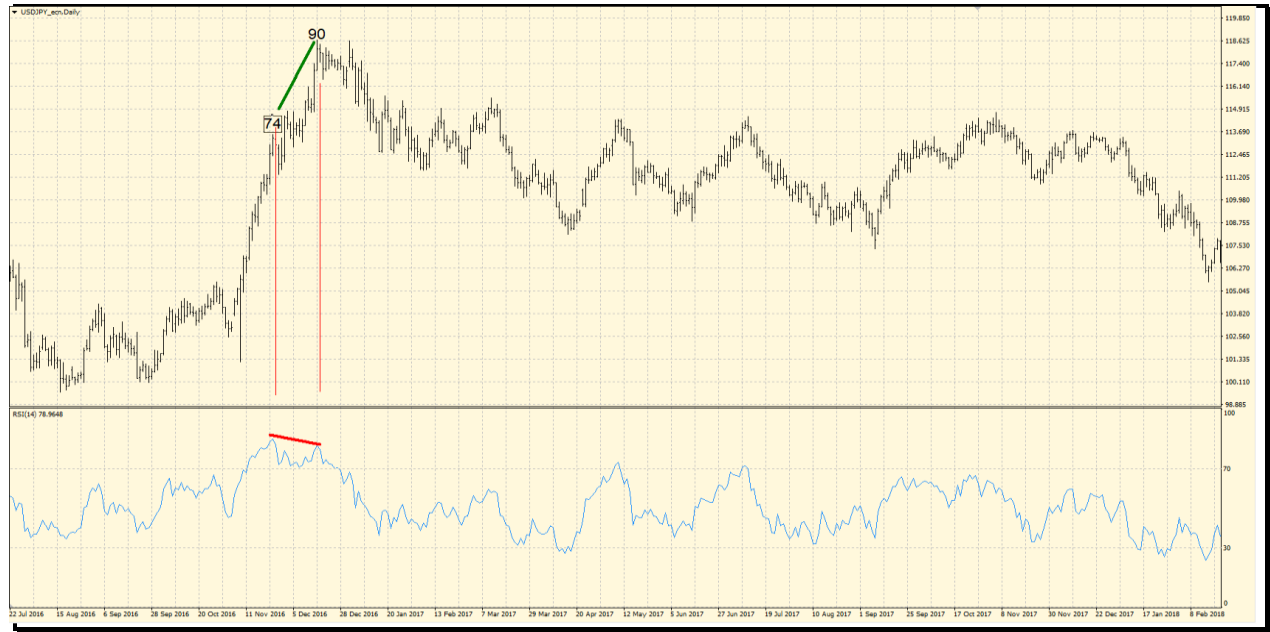


Figure 5 – Bullish Consensus in a Currency Pair – Relative Strength (www.metaquotes.net)

Note the interesting divergence of the RSI and Bullish Consensus. *Divergences between bullish consensus numbers and prices or indicators often provide excellent entry points.*

Prices may stay above 90% or below 20% for a short period of time. Especially in a bull market two or three days can be a significant price change! the astute trader uses bullish consensus along with a timing tool for it to be effective.

4 Where do you get the Opinions?

Where does the trader get the bullish consensus opinions to aggregate? Of course, you could scour the Internet – there is plenty of free advice on currency pair trend! Or you could subscribe to numerous market gurus for their insights. These would be time consuming and expensive. Nor would they offer clear opinions of specific pairs over a specific time period, limiting their effectiveness as a predictive tool.

In my half-century of trading commodity futures, currencies, and equities I have developed and nurtured a very large group of traders, both professionals and amateurs.

The FOREX Bullish Consensus Report derive figures from many of those traders and conducts a weekly poll every Friday with this question:

“Are you bullish or bearish on [Currency Pair] for the next week?” If no opinion, please skip this pair.

FX Bullish Consensus – Professionals

This is the group most followed. Professionals, money managers, bank and corporate traders, and individuals trade and manage larger amounts of money and they are less prone to outside influences such as news reports and the like. Ergo, when mostly agree, and the bullish consensus numbers are very high or very low – ‘things happen.’

Each week on a Friday, 45-50 professional traders are polled for their prediction for the following week on the eighteen most active currency pairs.

FX Bullish Consensus – Amateurs

My original FBC, published by FXstreet.com some years ago, only professionals were reported. While amateur trading behavior is more erratic than professional trading, the basic 90/20 numbers still apply and often prove insightful.

In FBCR each week on a Friday, 55-60 amateur traders are polled for their prediction for the following week on the eighteen most actively traded currency pairs.

5 Torturing the Data

I have discovered there is much more to be gleaned from the raw bullish consensus than simply the 90/20 paradigm!

The late James L Bickford, a math and stat/pro genius with whom I worked with nearly 40 years used to quip: *“You can torture the data, but can you make it talk?”* The answer is ‘yes’ but you must torture the data correctly. In FOREX trader consensus figures are not always – actually, not usually - above 90 percent or below 20 percent. However, the underlying data, properly tortured can prove just as useful for predictive insights even when numbers are between the two extremes.

Standing alone, the raw figures I believe offer all but the shortest-term traders a meaningful trading edge. But wait, there's more!

The FBCR now also offers several technical indicators based on that raw data. These include: the mentioned Triad as well as:

week-to-week change,

recurring patterns,

comparison of professional versus amateur figures,

divergence with prices and common indicators,

and other insights gleaned from studying FOREX both amateur and professional bullish consensus data for over a decade.

“There’s a lot going on in those charts!”

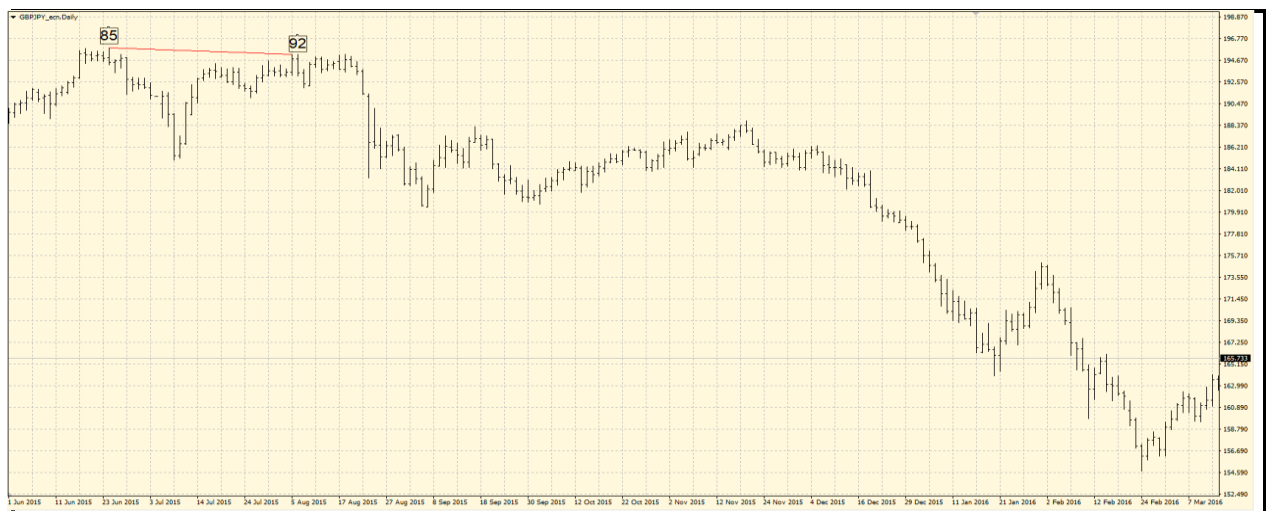


Figure 6 – Divergence in bullish consensus (www.metaquotes.net)

I've found this to be a common and very useful bullish consensus pattern. Prices fail to exceed a recent high, but the bullish consensus rises.

6 The FOREX Bullish Consensus Report

I began studying the markets in college. I count my first trade, in silver, from September 1973. In fact, I made the money to trade silver by purchasing a penny oil stock while still in college. So, I can truthfully say 50 years in the markets.

I have:

Traded stocks, commodities, and currencies for 50 years,

I have done considerable research on technical analysis of the markets. This also goes back to my college years (1968-1972) when I used a Data General Nova computer at the Physics Department of the University of Colorado.

I have been registered as a commodity trading advisor (CTA) with the CFTC and as an Investment Advisor with the SEC. I've held several licenses including 3, 6, 7 and 63.

I opened and owned a commodity futures brokerage house in Honolulu, Hawaii.

My automated trading program in futures was the first AI program in any market. It generated an average of 48% per annum with an extremely high Sharpe Ratio according to Managed Account Reports.

I have lectured on AI and technical analysis of the markets to: University of Chicago Symposium on AI, Haversham Group in Amsterdam, Chemnitz University Conference on Machine Learning and Automata 2008 in the UK.

I have written extensively on the markets, especially FOREX. My *Getting Started in Currency Trading* for John Wiley & Sons went four editions (2005, 2007, 2010, 2012).

I have mentored over 200 new traders in various online and onsite classes.

Over that half-century I have made and nurtured hundreds of contacts in all areas of the markets. From those contacts come the pool of professional and amateur traders for both **the FOREX Bullish Consensus Report**.

7 The Weekly FBCR Summary

FX Bullish Consensus Summary					11-Sep-22		
PROFESSIONAL TRADERS Pool = 46					Highest	Lowest	Responses
	11-Sep-2022	4-Sep-2022	28-Aug-2022	21-Aug-2022			Notes
AUDCAD	44	48	62	58			Lowest Consensus (17) EURAUD
AUDJPY	91	85	92	85			
AUDNZD	80	92	81	77			
AUDUSD	51	72	66	70			Largest Change (-23) EURCAD
CHFJPY	94	87	76	69			Highest Consensus (94) CHFJPY
EURAUD	17	33	60	66			
EURCAD	22	45	51	65			
EURCHF	42	54	34	19			
EURGBP	75	72	62	76			
EURJPY	92	88	74	76			
EURUSD	30	19	27	44			
GBPCHF	27	37	55	48			
GBPJPY	82	87	65	72			
GBPUSD	23	40	32	53			
NZDUSD	78	70	49	56			
USDCAD	67	49	60	45			
USDCHF	52	47	45	33			
USDJPY	92	91	79	80			

Figure 7 FBCR Weekly Summary

For the latest weekly FOREX bullish consensus summary and information on subscribing to the full FOREX Bullish Consensus Report, visit:

www.forexbullishconsensus.com

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