



VOLUME WEIGHTED AVERAGE PRICE

BY MARK WHISTLER

In currency trading, many retail traders can lose fortunes, before ever even hearing about VWAP and TWAP. It's an odd occurrence really, that so many self-proclaimed 'hi-tech' at home traders can seemingly miss major institutional benchmarks like I have just mentioned. Clearly, the simple fact that so many retail traders have no clue about VWAP, simply proves success continues to rest within the hands of those controlling the bulk of the order flow.

VWAP (Volume Weighted Average Price) is really the average price over an average period of time, weighted for the amount of shares that are traded over the duration of the session.

For institutional traders who are running order flow, VWAP is used as a major benchmark for those who seek passivity in order expectation. In other words, trading to VWAP is a way for institutional traders to either remain anonymous, or simply dollar cost average during the session.

The VWAP is calculated using the following formula:

$$P_{VWAP} = \frac{\sum_j P_j \cdot Q_j}{\sum_j Q_j}$$

Where:

P_{VWAP} = Volume Weighted Average Price

P_j = price of trade j

Q_j = quantity of trade j

j = each individual trade that takes place over the defined period of time, excluding cross trades and basket cross trades.

The code provided to FXStreet is modified VWAP, which will show traders the Volume Weighted Average Price over the given timeframe of bars measured... Unlike equity markets, the VWAP code will not measure the Volume Weighted Average Price from the beginning of the session until the end, as currency markets are open 24-hours a day. With this in mind, traders can 'reset' the code to measure from each days open (5:00 PM EST), however, the code provided should allow greater guidance into institutional mindset, based on the divergence from typical moving averages.

Exit is Everything,



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UPCOMING BOOK: Trading Forex Volatility (co-authored with John Taxiarchos) and is scheduled for release in late April, 2009.

From time to time, Whistler can be seen on CNBC, while also contributing to TradingMarkets.com and TheFXMarkets.com. Mark is the founder of WallStreetRockStar.com, FXvolatility.com and InstitutionalIndexResearch.com. In March 2009, Mark and three International partners launched fxWorldMarkets.com, developing algorithmic currency trading solutions for institutions and retail traders globally. Whistler also contributes educational articles to Investopedia.com, BabyPIPs.com and TradersChoiceFX.com. In addition, Mr. Whistler founded and operates EatsForTheStreets.com and MarkWhistlerGallery.com
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