QUANTSTRAT FX

QUANTSTRAT FX MONTHLY INSIGHTS

AUGUST 2026

A BRIEF ON QUANTSTRAT FX

QuantStrat FX is a sophisticated, fully automated trading system designed to manage FX investments with precision and discipline. It operates on data-driven, quantitative models that dynamically adapt to changing market structures, liquidity conditions, and macroeconomic volatility. By removing emotional bias and discretionary intervention, QuantStrat FX provides a systematic and rule-based approach to navigating the complexities of the foreign exchange market, with a core focus on capital preservation and risk adjusted returns.

A NOTE FROM THE DESK

August was a month of quiet discipline. The system didn't do anything flashy. It made +0.88% net, with drawdown contained comfortably under 5% at all times, and it did so with the FX engine performing exactly the way it's engineered to perform.

I want to spend this newsletter walking you through something specific: a feature of the system called Smart Sigma Close — the mechanism that decides when to close a trade not because it's wrong, but because it's idle. Two trades in early August, on NZDCAD and EURGBP, triggered this exit. Those small controlled losses are worth understanding, because they are one of the reasons the system compounds steadily instead of dramatically.

Trusting the system means trusting every response it has — including the quiet ones.
— Zach · Chief Trader & Managing Director, QuantStrat FX

PERFORMANCE REVIEW
AUGUST 2026 HIGHLIGHTS

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+0.88%

Net return · August 2026

DRAWDOWN

Under 5%

Comfortably within design tolerance

SMART SIGMA CLOSE EVENTS

2 NZDCAD · EURGBP

Idle-trade exits on ranging setups

FX-only · Fourth consecutive positive month post-gold-removal

- Trade mix dominated by Scenario 1 and Scenario 2 outcomes across the majors, with a Scenario 4 second-layer resolution mid-month adding conviction to the run.
- Two Smart Sigma Close events — NZDCAD and EURGBP in early August, on ranging setups where the second-layer conditions never arrived.

UNDERSTANDING SMART SIGMA CLOSE — THE SIXTH RESPONSE

Last month we walked through the five scenarios the system handles once a trade is live: swift take-profit, delayed win, risk-managed exit, second layer, and hedging recovery. This month, one specific mechanism inside that framework deserves its own explanation — because it fired twice in August and it's one of the most underappreciated pieces of the system.

First, a reminder — the system trades in two independent layers
Every QuantStrat FX trade is structured around two independent layers:

- Layer 1 enters when our three-condition filter fires (overbought/oversold, trend exhaustion, overextension in range).
- Layer 2 is designed to add on if and only if the market pushes against Layer 1 and the broader trend read is still intact — turning a difficult first entry into a stronger combined outcome. This is Scenario 4 from last month's letter.

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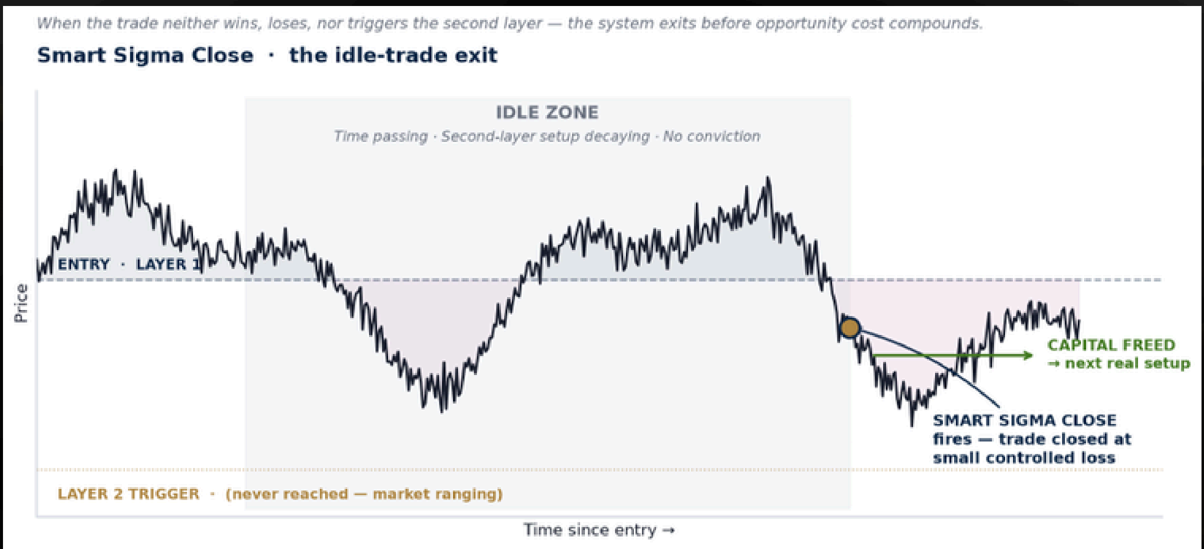
But sometimes, the market does neither

Sometimes the market doesn't reward Layer 1 with a swift reversion. It also doesn't push hard enough against us to trigger Layer 2. And it doesn't invalidate the trend read either. It just ranges. Sideways. Quiet. Time passes.

The trade is open. It's not winning. It's not losing much. It's not moving.
This is where Smart Sigma Close does its job.



WHAT SMART SIGMA CLOSE ACTUALLY DOES

One sentence.
Smart Sigma Close is the mechanism that closes an open trade at a small controlled loss once it has been idle too long AND its second-layer setup has decayed, freeing capital to be redeployed into the next valid setup before opportunity cost compounds.

The mechanism monitors every open Layer 1 trade against two dimensions simultaneously:

- Time — how long has the trade been open?
- Conviction — has the setup that justified the trade decayed to the point where the second layer is no longer likely to trigger?

When both conditions cross the threshold — the trade has been idle too long, and the second-layer setup has effectively gone stale — the system closes Layer 1 at a small, controlled loss.

Not because the trade was wrong. Not because the market invalidated our read. But because capital tied up in an idle position is capital not available for the next real setup. Opportunity cost is a real cost, and Smart Sigma Close is the mechanism that acknowledges it.

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What happened in August — NZDCAD and EURGBP

In the first two weeks of August, two trades hit exactly this pattern.

- NZDCAD entered on the three-condition filter. The pair then drifted into a tight range. The reversion didn't come. The second-layer conditions never triggered. Smart Sigma Close resolved the trade at a small controlled loss and released the capital.
- EURGBP followed a near-identical pattern days later. Range-bound, stale setup, no Layer 2. Same clean exit.

Both were textbook Smart Sigma Close events. Neither one was a mistake. Both were the system doing exactly what it is designed to do in that specific market condition.

The proof is in the aggregate: despite those two controlled losses, the FX book delivered +0.88% net for August, with drawdown never exceeding 5%. The capital freed up by the early-month exits was redeployed into subsequent setups that did work — Scenario 1 and Scenario 2 wins across the majors — and the month closed cleanly.

Why this matters for you

- The system does not "hope." It does not sit in a stale trade waiting for something to happen. Every trade has a defined exit — including the idle ones.
- Small controlled losses are a feature, not a failure. They are the price the system pays to keep capital moving toward setups with genuine edge.
- Every scenario has a response. Whether the market runs, reverses, ranges, or breaks — the system knows what to do. That is what "trusting the system" means at the mechanism level.

WHAT THIS MEANS FOR YOU

- +0.88% net in August with drawdown under 5% throughout — the system doing exactly what it is engineered to do.
- Every trade has a defined exit path. The system doesn't hope, doesn't hesitate, doesn't hold on to stale positions. It acts.
- Small controlled losses on idle trades are a feature. Smart Sigma Close is the mechanism that acknowledges opportunity cost.
- Consistency over headline returns. A return profile that can be held with conviction across cycles.

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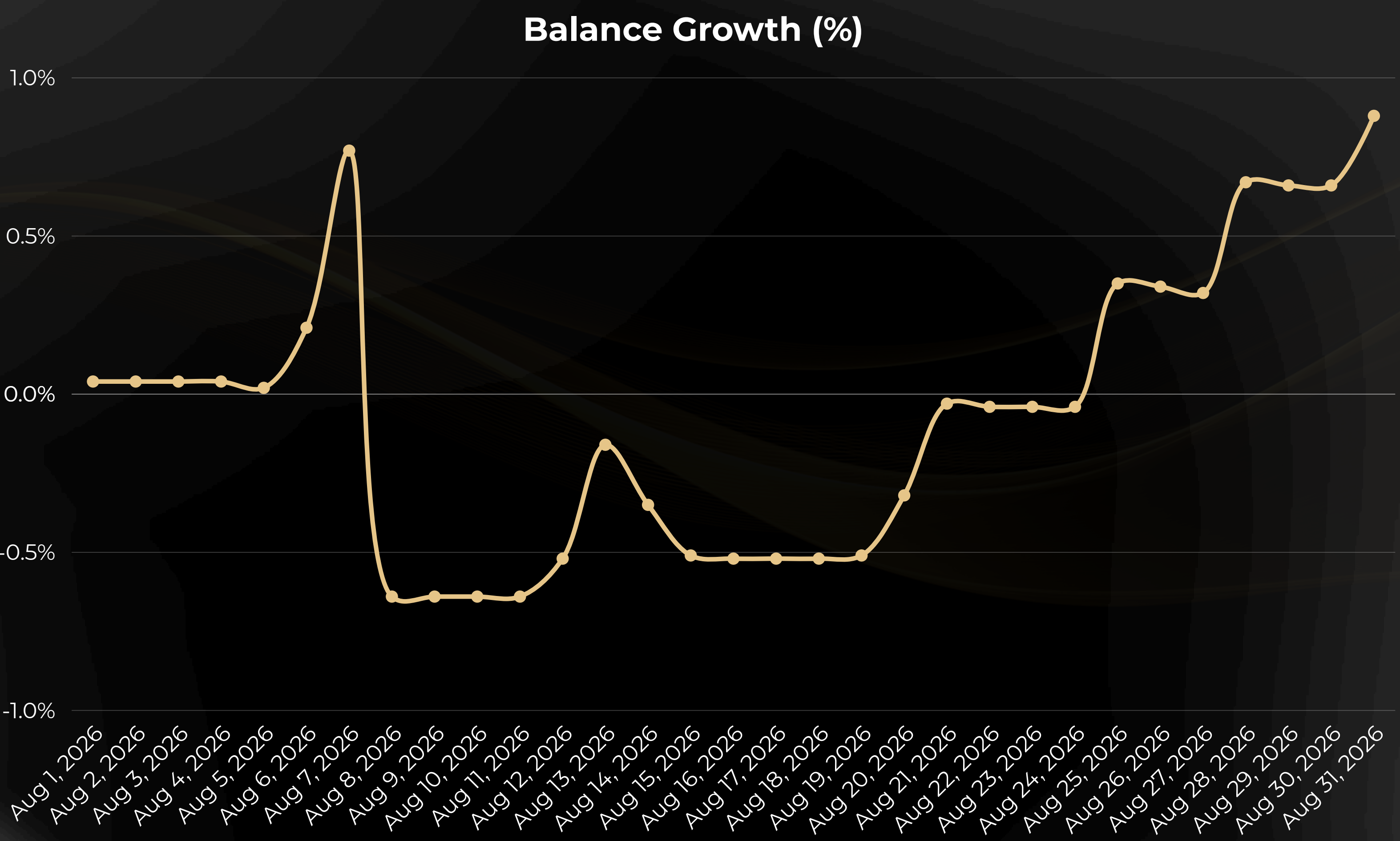
AUGUST 2026 PERFORMANCE HIGHLIGHTS



Return On Investment	WIN RATE	PROFIT FACTOR
0.88%	72.50%	2.42

Number of trades	MAX DD	Trades
40 (20 Long, 20 Short)	4.54%	40

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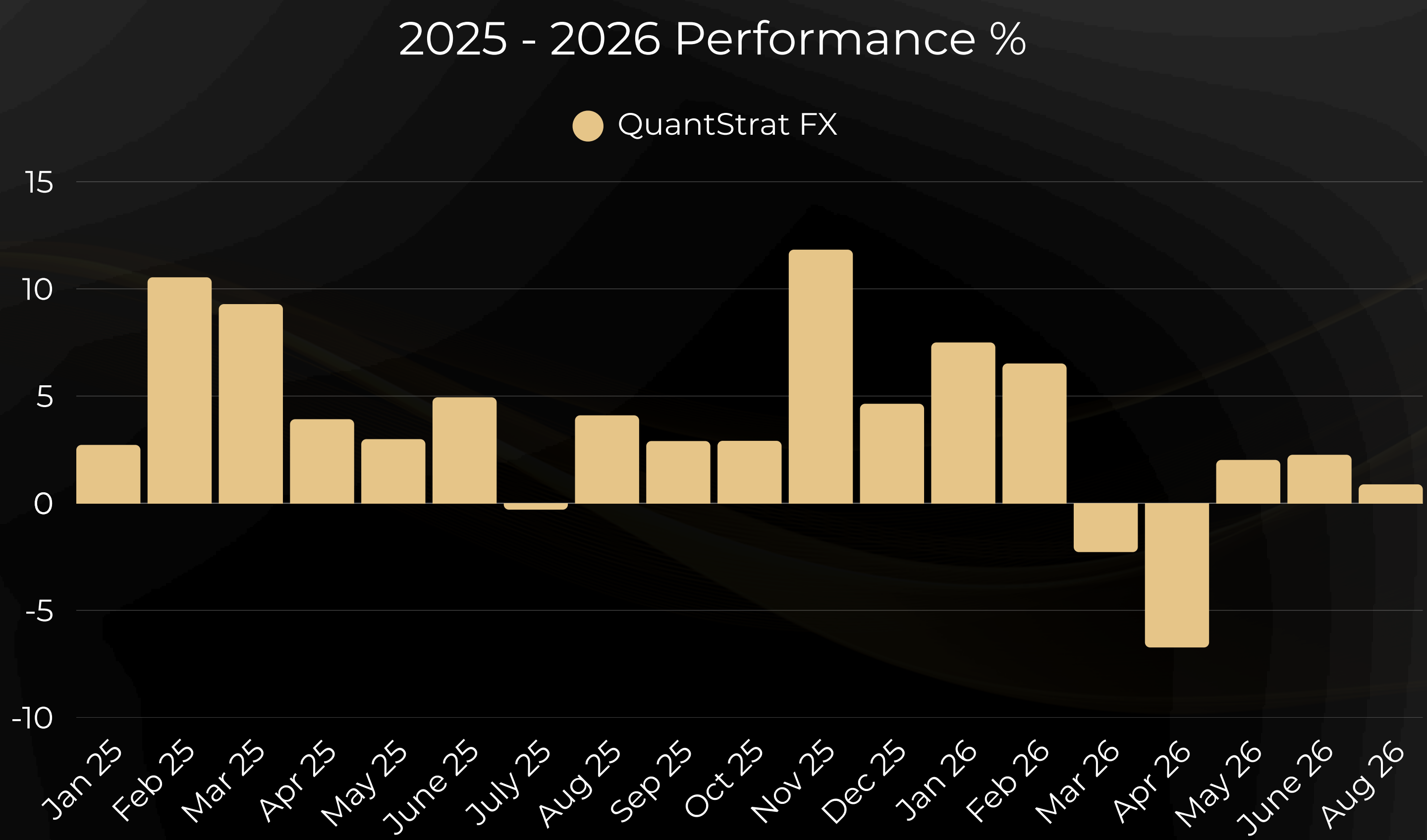
PAST PERFORMANCE



For additional data from 2020 to the present, please refer to our website.www.quantstratfx.com

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