
ONE POSSIBLE SCENARIO FOR HOW TO TRADE NEWS

TRADING NEWS RELEASES

Trading news releases creates a favorable environment for active traders in that it provides a near guarantee of a tradable move *following* the announcement.

When Important news such as Non-farm Payrolls, Gross National Product or Producer price Index are released they often create a major violent move in price. This happens because price will try to find a balancing area (equilibrium) to absorb the news when it is released, and that after the initial announcement and results are given, a revision having been made, can cause even more violent moves.

As with all aspects of trading, whether we make money on the opportunity created by the news event is not assured.

Watching how the market is reacting can provide us with more consistent results than trying to anticipate the directional movement the event will cause

Trading news releases can be very profitable, but one needs to stay calm and patient. This is because speculating on the direction of a given contract prior to the release can be very dangerous. Fortunately, it is possible to wait for the wild swings to subside. Then, traders can attempt to capitalize on the real market move after the speculators have been wiped out or have taken profits or losses. The purpose of this "waiting" is to attempt to capture rational, more sustained movement following the announcement, instead of being swept up in the irrational volatility that pervades during the first few minutes following a major announcement.

A STRATEGY FOR TRADING MOVES WITHIN THE FIRST 4 HOURS ON 5 OR 15 MINUTE CHARTS

There are many ways to trade these events. Here is just one example, which I first saw on fx360.com and have since seen variations of elsewhere.

The logic behind this strategy is to wait for the market to digest the information's significance. After the initial swings have occurred, and after market participants have had a bit of time to reflect on what the number means, we will enter a trade in the direction of the dominating momentum. We wait for a signal that indicates the market may have chosen a direction to take prices. This avoids getting in too early and decreases the probability of opening a position before the market has chosen a direction.

THE RULES (USING NON FARM PAYROLL NEWS AS AN EXAMPLE)

This entry strategy is generally traded off of 5 or 15-minute charts. For the rules and examples, a 15-minute chart timeframe will be used, although the same rules apply to a five-minute chart. Signals may appear on different time frames, so once you have chosen a timeframe to trade from stick with one or the other.

Do nothing during the first bar after the NFP report (8:30-8:45am in the case of the 15-minute chart).

The bar created following the news at 8:30-8:45 will be wide ranging.

Following the "first bar" we wait for an "inside bar" to occur after this first bar is formed (it does not need to be the very next bar but can be). In other words, we are waiting for the most recent bar's range to be completely inside the previous bar's range.

The high and low of this inside bar sets up our potential trade trigger. We use the high and low of the inside bar to define tradable breakout levels.

That is, when a subsequent bar closes above or below the inside bar, we take a trade in the direction of that breakout up or down.

We can also enter a trade as soon as the bar moves past the high or low without waiting for the bar to close. Whichever method you choose, stick to it. The first is safer, the second gets you in the move earlier and thus has higher profit potential, but with a greater risk of having the move reverse against you.

Place a reasonable stop loss order on the trade you entered. (Such as) two ticks outside the most recent Pivot ▼

Make up to a maximum of two trades. If both get stopped out, don't re-enter. The News event has caused too much uncertainty after its release and your risk following this "indecision" is not worth the potential gain. The inside bar's high and low are used again for a second trade if needed.

Our target is a time target. Generally, most of the move will occur within four hours of the news release. Thus, we exit four hours after our entry time or at a recognizable support or resistance level as determined by reading the Market Profile chart. A trailing stop (one that is defined by a dollar amount or # of ticks from the furthest advance in the direction of your trade) is an alternative if traders wish to stay in the trade but are unable to discern a likely level for a planned exit.

EXAMPLE 1:

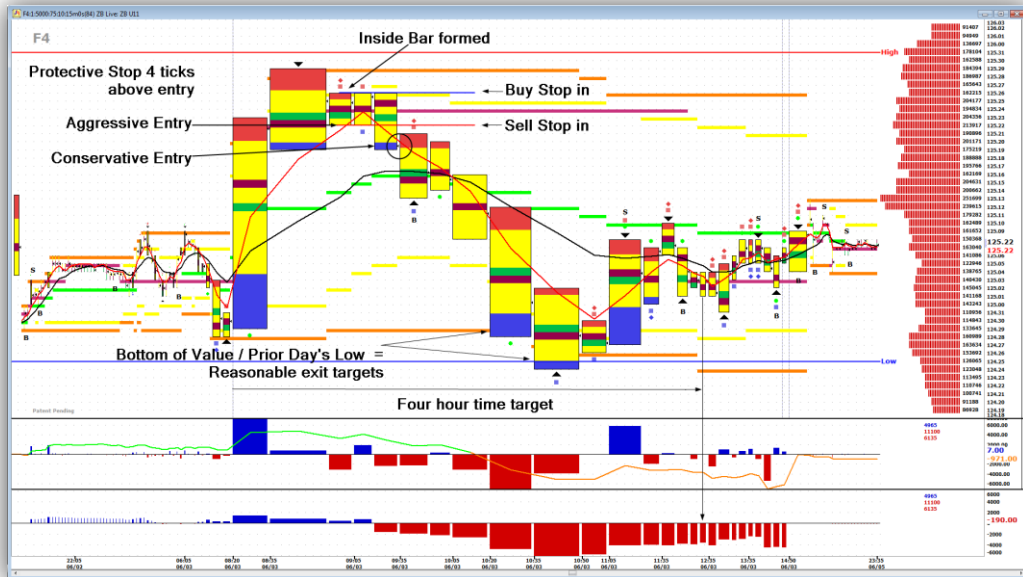


Figure 1: June 3, 2011 - 30 Year Treasury Bond (ZB) 15 minute chart. Time is EST.

Source: Inside Edge Trading Software, CQG data feed.

Looking at **Figure 1**, the vertical dotted line to the left of the 8:30am News bar marks the 8:20am EST Pit Session open just prior to the NFP report (News) release. As you can see from the chart, there are three bars, or 45 minutes, of back-and-forth action including the news release bar. During this time, we do not trade until we see an inside bar formed. The inside bar has an arrow pointing to it and is bounded by a blue line (top) and a red line (bottom) on the chart. This bar's price range is fully contained by the previous bar. To be conservative we will enter when a bar closes higher or lower than the inside bar. *To maximize trade location we can enter when price breaks below (or above) the inside bar's range. It should be noted that this second approach carries more risk.*

The next bar's close is circled, as that is our preferred (conservative) entry; it closed below the inside bar's low. Our protective stop in this example is a fixed 4 ticks above the entry price @ 124-19, or the top of the inside bar's range which is marked by a solid blue horizontal bar.

The profit stop would be placed at or near the bottom of the news bar's open. In this case @ 124-29

Because our entry occurred at approximately at 9:20am EST, we will close out our position no more than four hours later or 1:20pm EST unless we have already met a desirable exit level. By entering the trade at 124-19 and exiting at 124-29, 10/32nd's were captured while risking only 4 ticks. However, it should be noted that not every trade will be this profitable. (Before attempting to trade any strategy, be sure to practice trading with a Sim Account and be certain to record your Sim trades in a journal to help you understand "What You Learned & What You Didn't".)

EXAMPLE 2:

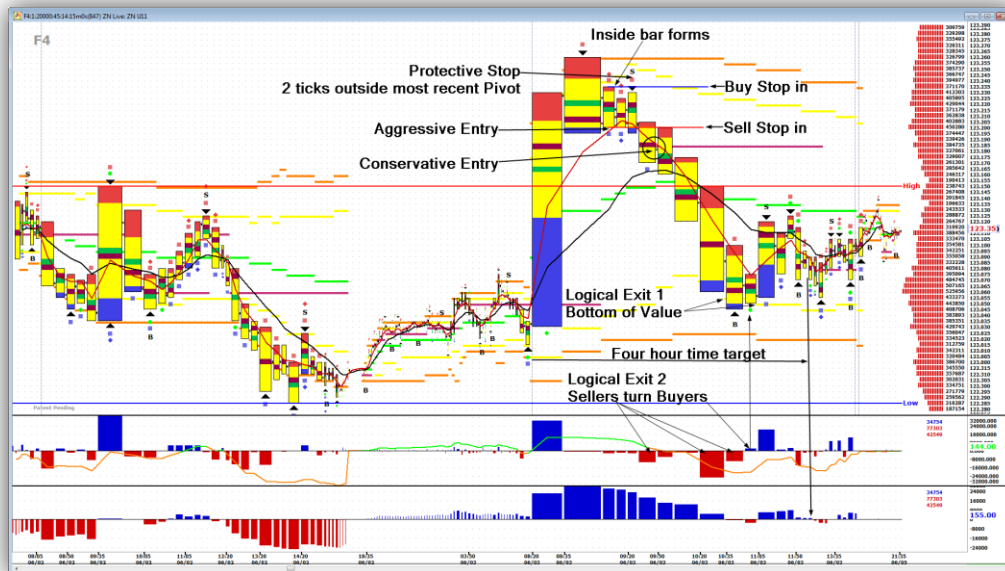


Figure 2: June 3, 2011 - 10 Year Treasury Note (ZN) 15 minute chart. Time is EST.

Source: Inside Edge Trading Software, CQG data feed.

The Equity markets generally move inversely to the 10yr Treasury Note and the 30yr Bond. Note how closely the 15 minute chart below of the S&P 500 moves inversely in both timing and magnitude to the "Treasuries". The above strategy would have worked well here too.

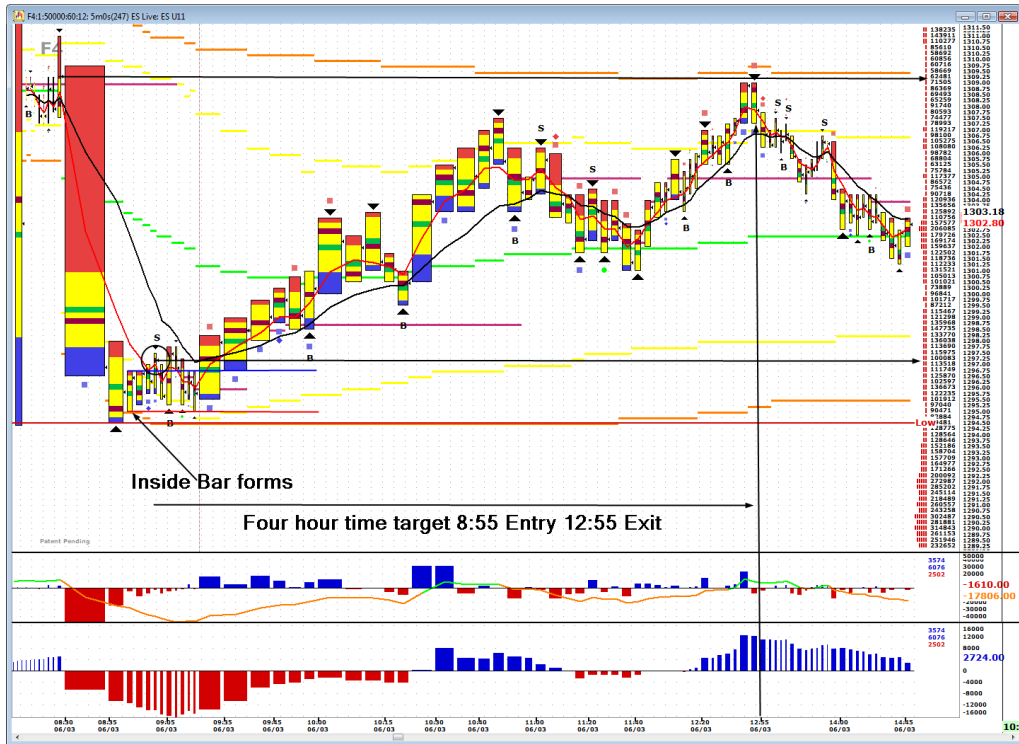


Figure 2: June 3, 2011 - S&P 500 E-mini (ES) 5 minute chart. Time is EST.

Source: Inside Edge Trading Software, CQG data feed.

Strategy Disadvantage

While this strategy can be very profitable, it does have some faults to be aware of. For one, the market may move in one direction aggressively and thus may be beginning to fade by the time we get an inside bar signal. In other words, if a strong move occurs prior to the inside bar, it is possible a move could exhaust itself before we get a signal. It is also important to note that in high volatility times, even after waiting for a pattern setup, rates can reverse quickly. This is why it very important to have a protective stop in place.

Summary

The logic behind this strategy of trading the NFP report is based on waiting for a small consolidation, the inside bar, after the initial volatility of the report has subsided and the market is choosing which direction it will go. By controlling risk with a moderate stop we are poised to make a potentially large profit from a huge move that almost always occurs each time the NFP is released.