



## HANDLING NEWS WITH AN OPEN POSITION

I have already written about TRADING AROUND THE NEWS.

This document is based around how to handle open positions when a major news announcement is approaching. There are several strategies that I trade where this plan wouldn't be ideal and I will highlight these as I write.

The point however, is that this information should at least show the importance of having an idea what to do with a position when there is about to be a major news announcement. For me, please bear in mind, when I say major news, I mean RED news items that are listed on Forex Factory. I would take no action if an announcement with low or moderate impact was on the horizon. Also, I am only interested about announcements that pertain to the specific currency pair. In other words, a big EUR announcement would not make me alter my USD/JPY position.

Why do we need to worry about news announcements when we already have a position, and we already have a stop loss and limit / profit target in place? We worry about this because a major news announcement can move the market a great deal. The examples below will show how these announcements can create more risk than normal.

A few things to always remember when reading about this subject are that: -

- You can always reduce risks by adjusting your position size. It is easy to add back and adjust your cost average after the news event is over.
- A lot depends on what type of trade you are currently live with. For me my approach on news is different for FUNDAMENTAL TRADES (very long term), RADAR TRADES (short term to swing) or FLASH TRADES (intra-day, pullback, scalping).
- It's all about RISK v REWARD
- It's all about PLANNING YOUR TRADES and TRADING YOUR PLAN.

**EXAMPLE 1:  
THE POSITION IS CURRENTLY NOT PROFITABLE:**

We would in most cases leave the existing position intact. There is an exception to this rule. If the trade is 90% of the way to the stop loss position already with the broker (e.g. -50 pip stop and within 5 pips of stopping out), I would just close this trade. The reason for this is the concern that a big move against the trade could create a gap. If the gap goes past the stop then you could lose more than the risk tolerance in place, this is not good. If the trade is not near the stop loss in place just prior to the news it may be fine to leave the trade live and see what happens.

**EXAMPLE 2:  
THE TRADE IS AT BREAK EVEN:**

With this scenario that trade would usually be left live. However, there are a couple of exceptions.

Firstly, if you think that there is a chance the news could gap beyond the stop loss, you should exit the trade. This is rare but it could apply to a very short-term trade.

Secondly, another reason to exit the trade is if the original charting pattern no longer appears valid. If the original reason you placed the trade is gone, it makes no sense to continue. One would normally not expect this as most trades should be well thought out in advance but with a less defined strategy it could be a situation that you find yourself in.

**EXAMPLE 3:  
THE POSITION IS CURRENTLY PROFITABLE:**

This is probably the most difficult of the three scenarios to manage. In the first example, the trade is more likely to be stopped regardless. The second example happens very infrequently. Example 3 is quite tricky.

If the currency pair that you are trading is about 50% to the limit / target or better, personally, I would seriously think of exiting the trade. The reason is you can go from a nice profitable trade to a losing trade in an instant, or even be stopped out. However, there could also be some subjectivity in that level depending on how much you think the announcement could move the pair relative to the size of the pattern. The main objective is that you do not want to go from a profitable trade to a losing trade in a short amount of time.

Psychological philosophy comes into play here, but for me it's all about the risk reward. I would adjust the trade size and take profits off the table. The position size can always be added to after the news event is over, if it is the right thing to do.

A news event generally represents a move that is random, rapid and usually large. Therefore, I always ask myself questions such as, "If I had a 50/50 chance of the currency pair moving up 30 pips or down 30 pips, would I take it right now?". This is a very basic and very simple example, it is like lots of things associated with trading a grey area, and it generates lots of different and conflicting views.

The easiest approach is just ignore the news, but I think by following the criteria listed above, trading results could be improved when you have a position in the market as a major news announcement is about to be released.

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