



TRADING AROUND THE NEWS

I call myself a FUNDAMENTAL trader, but I am also a TECHNICAL trader at the same time, when it comes to timing my entries, therefore I do not very often place trades based on News Announcements, in fact it is a rare event for me that I would do so.

In fact, I am reluctant to trade around Non-Farm Payrolls and Central Bank Monetary Policy announcements, especially the FOMC and ECB.

I have various beliefs that my experiences have taught me regarding these announcements that have generally taught me the same lesson: Stay Away. I am referring to major news announcements. I don't really pay attention to the smaller announcements because they usually don't move the market much. I will go through why I avoid trading during major news events and various strategies for dealing with news announcements.

First off, I believe that news announcements are almost totally unpredictable, I often refer to Non-Farm payrolls as a lottery. As you may know, there is usually a "forecast" and a "previous" number listed before the news announcement is made. The market's reaction is generally based on whether the actual announcement is higher or lower than the forecast. The problem is that this assumes that most traders react the same way to the relation between the actual number, the forecast and the previous number. Even if we could correctly interpret this information, it is difficult to enter trades during these times because execution suffers within a fast-moving market.

In my opinion, these releases have very few long-term implications and are unpredictable in the short term. Of course, there are traders that may use these numbers to some degree of success, but I have never seen any strong evidence that you can profit while trading those numbers over the long term. The one constant around major news announcements (such as non-farm payroll) is that there are rapid moves with above average magnitude. These moves can be very erratic. Sometimes the move is in one direction. Sometimes the move looks like it will be in one direction, and then moves back to starting point just as rapidly.

Furthermore, these moves can be very irrational. Not only do they often ignore the logic of the news announcement itself, but these moves often ignore the logic of any

technical analysis. It would be much easier to trade these announcements if traders were rational, but they are not. Therefore, to me the most useful aspect of these major announcements is the time they take place I use the timing of the announcements to avoid placing trades right before them.

If a pattern has almost completed, there is no advantage to placing a trade immediately before or after a news announcement. Let's say that this trade is a long opportunity. Let's also say that the pair is just above the entry. If this is the case and the news makes the pair shoot up, then we never entered and there would be no trade. If the news makes the pair shoot down, then we will likely be stopped out. Therefore, we never would take this trade.

If the pattern is farther from completing, we still wait to enter until after the price action due to the news announcement has calmed down. If we already have entered a trade, we may close it before the news announcement comes out. This varies on a ton of different situations, which would be too long to write about here.

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