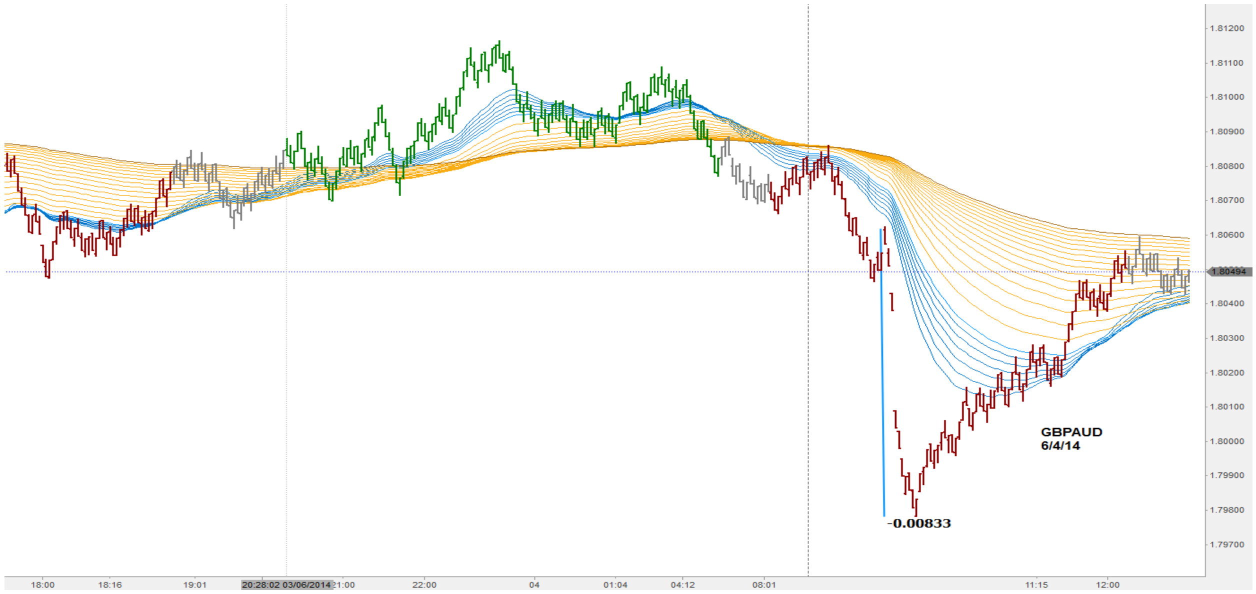
TRADING FX NEWS. NOT!

By Alexander O'Malley

We have had some readers write in asking why we do not trade the red folder news events. They cite examples of a lack of price movement during these events at various times throughout the month, showing that it is in fact possible to trade through these events when we have a good trend going. Well here is the answer as to why we do not trade during these events.

Not all news events are created equal. There are many factors that determine that price severity during a red folder news event. The majority of these factors we are not privy too. Is it possible to trade through these news events? The answer is yes. Should you trade through them? The answer is no. There is no way to determine how sever a reaction till be. The GBPAUD chart below is a good example. This is the market reaction to AUD GDP q/q news release. In the space of four seconds price dropped 83 pips. If you were on the wrong side of that trade, trading $100 a pip you just lost $8,300 in four seconds.



This is where we find it difficult to explain to some traders. The key to trading any market, but especially the FX market is good risk management. Consistent, low risk returns are what drive capital growth and wealth. If we are able to achieve this combination we will be able to make safe returns and grow personal wealth faster than any other means available too us. It is a romantic notion to be able to tell your partner that you just took a 120pip trade out of the FX market, but I would much rather tell me wife that I took 30 pips a day this week.

Let's put this into perspective as to why we do not need to risk our trading capital in the hopes of getting on the correct side of a news event. In the average month there are 22 trading days. Let's assume that we trade 20 of those 22 days with an average account size trading at $100.00 a pip. If we take 30 pips out of the market each day and then walk away, at the end of the month we would have made a total of 600 pips. At $100 a pip, we just banked close to the average Australian yearly wage in 30 days.

$ per pip	$100
Trade Days	20
Pft per day	30
Total pips	600
Total profit	$60,000

This is why when we approach the market we are not looking at what we will make today, or this week. We look at what our monthly progress is. If we look at today or this week we will begin to feel that we are not making enough. We will feel that we need to do better and will being to 'want' the trade too much. This is when we are more likely to do something stupid like try and get on the right side of a red folder news event. Instead if we take a step back and look at our monthly performance, and see that we are on track to make 600 pips at the end of this month we are more content.

Trading is a psychological game that we play against ourselves and we need to give ourselves the best chance of winning. We do this by stepping back from the noise of the market and the numbers and simply look at our month performance. In doing so we are able to make a more rational and correct trading decision. We also need to be realistic about our trading performance. We do not need to be in every run and capture every pip that is presented to us. What we want is to capture the pips that give us the lowest possible risk in growing our personal wealth.