UpShot Trade Signals

Forex Trading Strategies: One way to trade the Non Farm Payroll report.

June 3 2011

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-Upshot

One way to trade the Non Farm Payroll Report

The Non Farm Payroll report!

The arguably biggest trading report of the month.
There are even clubs that get together once a month just to trade this one report.
The members travel to a different location each month.

We are going to discuss a way to trade the Non Farm Payroll report but please know, there are many ways to trade it.
This is just one way I do it and it has made me more money than losses from using it.

The set up:
The first thing I do is begin with the attitude that I might not find a trading opportunity during the report or even after it has been released. This is very important because I don't want the pressure of having to trade when there isn't a trade opportunity.

As they say, “it takes just as much effort to realize there isn't a trade as it take to find a trade”

I also start by watching how the markets closed the day before Non Farm Payroll. I watch the end of the day financial news (CNBC and Bloomberg) but I don't necessarily trade off of the information the analysts and traders share on the news.
I know that I will be sticking to my trade strategy. What I am looking for is a majority consensus on the numbers they think will be reported and how they think the market will react.

I am just using this information to see if there is a majority agreement. If not, then I could expect a wild reaction and I know for sure that I would stay out until something clear appears on my charts.

Anything is possible:
This is so important to keep in mind.

I remember when I first started trading,
I would join chat rooms and just before Non Farm Payroll would be released, the chat room moderator would give his opinion (or maybe it was that of another analyst) but the one thing that always confused the beginning traders was that the moderator would basically end up saying, “Price could go up or price could go down”

Now I know that sometimes they will say that because they just don't know and they don't want to call it. But when your new, you sort of expect a definite answer and that's not the way trading is.

Every time you trade a report, the outcome could be completely different or similar but when it comes to entry and exit details of a trade, I don't think that any two trades are exactly alike.

This is what you need to know before you try to trade Non Farm Payroll (or any report) if you are new.
The chances are that you will be unfamiliar with the results, the reactions or a many number of variables that will have an impact on the market and ultimately price.

Always remember... be careful!

Is it important how you set up your charts?

I think that if you are using a strategy with a particular set of indicators and a specific time frame, then you should stick to it if you're going to use real money on the trade.
Even if you read an article the night before the report and it seems like a winning strategy, I wouldn't recommend changing your strategy just before the report.

What is important to have, is a strategy and or set of indicators that will help you identify a break out in price.
After all, that is usually what the reaction causes when the Non Farm Payroll report is released. A break out.

How I trade Non Farm Payroll.
The strategy that I prefer and that works the best for me is when price moves into consolidation before the report is released.
I prefer to see price remain inside the consolidation range for several hours and preferably through a few sessions before the report.

This helps me to identify a clean break out candle.
If I don't see price inside of consolidation, then I will most likely stay out of the trade all together but watch the reaction.
Remember, each time you trade it, it will be a different set of circumstances that can have an effect on price.

What time frame is best?
Well honestly this is a matter of opinion.
Some people use a 5 minute chart to identify a break out candle, and I like using a 1 hour chart.

Getting the data:
When it comes to news services, you get what you pay for.
Since most people that are new to trading have a limited budget, they try to get many things for free. There are some news feeds that are free but I wouldn't think of trading real money on the initial reaction when the news is released.

Using a break out candle as you entry and even using a larger time frame, you will have more time to confirm the numbers that are reported when the announcement is read. This means that the success of your trade wont be determined by how fast you can get into the trade after the data is available.

Jumping into a Non Farm Payroll trade immediately when the announcement is read is probably the worst idea for a new trader. There are simply too many things that can go wrong.

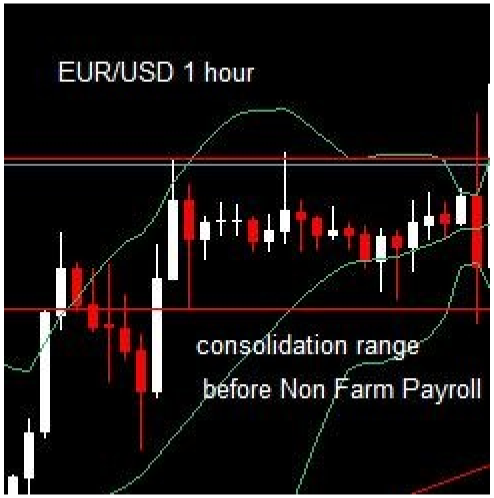
What size stop loss should you use?
This is probably a matter of personal preference.
Some traders use strategies that only allow them to trade when the risk is no more than 20 or 30 pips.
This will determine what type of time frame they will use to execute the trade.

Other traders might tell you that it's not a good idea to use a fixed number as a stop loss, if you're not incorporating support and resistance on the particular time frame that you are using.

Whether you are using a 5 minute chart or a 1hour chart, you need to identify support and resistance and then base your stop loss on that information.

This is how we traded June 3 2011 Non Farm Payroll

first we will look at the EUR/USD 1 hour chart



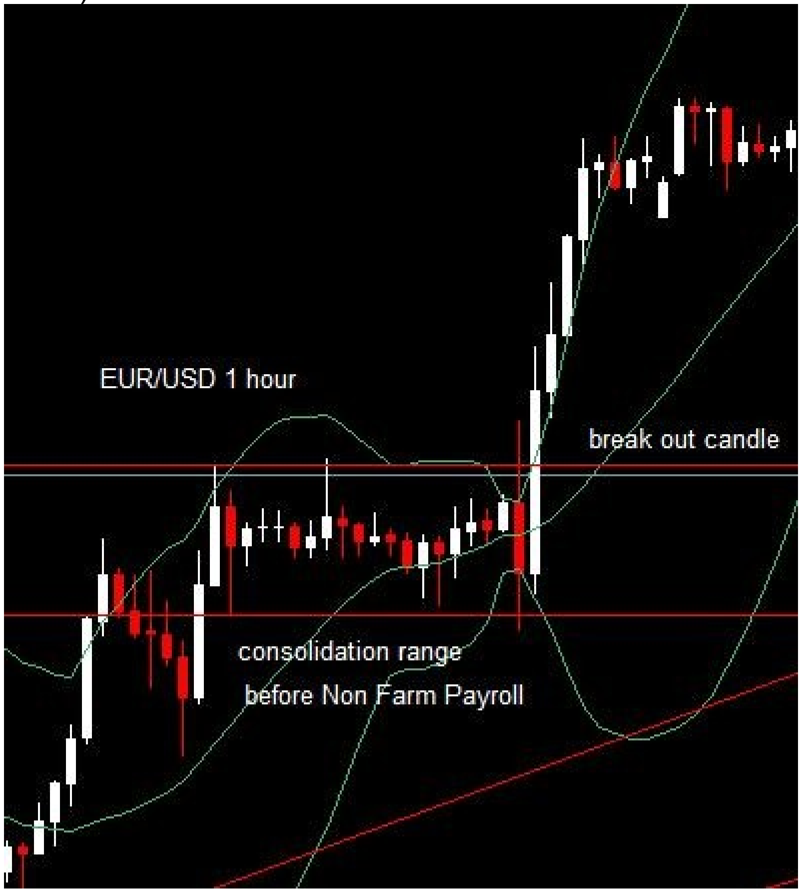
This is the consolidation range I was referring to. There is about 20 hours of price moving sideways when the report was released. This gives me a clear range to identify when the candle breaks out.
This consolidation is also support and resistance so I would also include the low and high to determine my stop loss placement.

This next chart below is the USD 1 hour

The EUR/USD and the USD looked similar to me and I used them as confirmation.
If I see one pair moving or trending and I can't determine why, then I will stay out until I can find the reason.

The charts below show the actual break out candles that occurred on the 1 hour time frames for each of these currencies.

EUR/USD 1 hour chart (Break out candle)



USD 1 hour chart (break out candle)

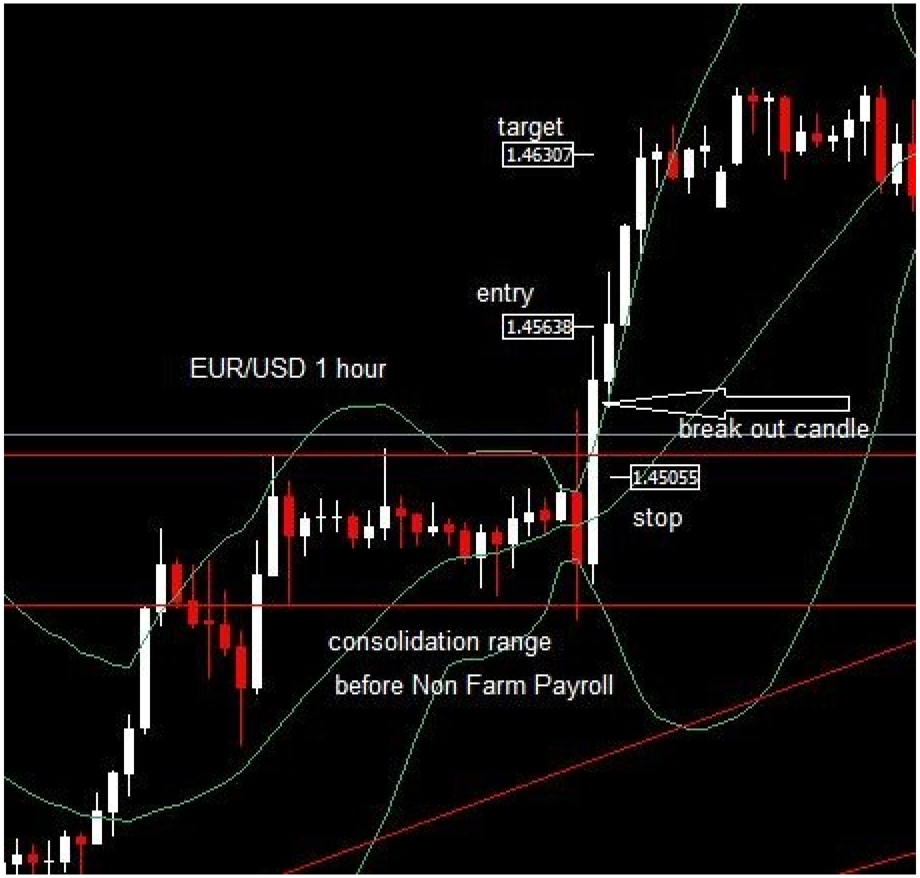
This strategy requires a clear candle break out. I also prefer to wait until the candle is closed before entering the trade.

Waiting for the break out candle and waiting for the candle to close gives me plenty of time to confirm the data and even to confirm the sentiment of the market (the reactions).

Now I haven't really discussed the profit targets.
In general, I try to use a one for one reward to risk ratio. But keep in mind that this isn't always possible.

The best method to use in finding places to take profits is to study the charts relative to the time frame you are using to enter. This will take sometime but you will start to see patterns that repeat. This includes how far price will move after the typical break out and the time frame will also help you determine the distance price can move in a given period.

Below is the trade we entered after Non Farm Payroll on June 3rd.
Please notice that I used the 1 hour chart and I waited until the candle broke out of the consolidation range.



This trade resulted in approximately 60 pips profit.

This trade was delivered through our email trade alert service.

We now offer email trade alerts that allow our subscribers plenty of time to get into the trades.
The email trade alerts are delivered and received usually within 15 to 30 seconds after we send them out.

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5 Mistakes to avoid when placing a trade

There are definitely ways to reduce the chances of a trade that fails and here we will take a look at 5 of the most common…

1. Failure to determine trend direction by using the larger times frames such as the 4 hour, daily and weekly charts.

2. Failure to determine an exact entry point before placing the trade. It usually isn't recommended to simply jump in a trade just because price may be rallying at the time. Often, this type of behavior leads to uncertainty and without a clear entry point, finding a place to take profits may be just as unclear.

3. Failure to determine potential profit target before placing the trade. It is not only important that you have a clear profit target but it is also recommended that you find more than one profit target. Scaling out of a trade can help to protect profits if the trade turns out to be profitable but the final target is missed by a few pips.

4. Failure to be aware of any economic announcement that can have a negative impact on your trade.

5. Failure to identify significant support and resistance levels that can only be seen by using the larger time frames. Often times traders hold on to a profitable trade too long expecting more and this can ultimately lead to a failed trade.

we hope you enjoyed this report. -Irishtrader