Andreas Witt
Andreas Witt has been studying the forex market since 1998 and has developed several strategies for different products, including a fully automated forex-strategy-software program (Expert Advisor). In addition he posts daily signals for a forex-platform and trades on his own account.Contact: forexpoint@web.de

How to Trade Economic Data

FUNDAMENTAL AND TECHNICAL TRADING COMBINED

In this article we introduce a manual trading strategy based on current economic data that you can apply daily. The approach is based mainly on the volatility of the underlying. This strategy is especially suitable for beginners but also for intermediates who want to profit at trading the forex market and stock market indices.

➔ The most difficult thing of manual trading is certainly depending on yourself. You decide whether or not to enter the market. There is no predefined signal or system that shows you the right time for your entry, therefore it is essential to prepare each trading day accurately. In advance of trading a signal you should extensively analyse the economic data and its emphasis, because not every event has an effect on the market. However, this approach is not highly complex so you can even be successful with this strategy if you are a trading beginner.

TAKE TIME TO ANALYSE THE ECONOMIC DATA
The preparation of the trading day and the analysis of the economic data is most important. Therefore take a close look at the current economic calendar: Often you can see a pre-evaluation of the events.

RECOGNISING A TREND
The trend is defined by published economic data. As we have learned from the past, markets react very heavily to the daily publication of this data. An important tool is the well-appointed economic calendar. It should show you all of the important information, like date, time, currency, importance, name of the event, current estimation and prognosis. Based on this information you can analyse the data that is important for the day.

TECHNICAL ANALYSIS
If you have determined the possible entry based on the date, it is important to monitor the chart. Make sure that the selected currency pair is shown in a 15-minute chart. Choose the "candlestick" chart. Now compare the analysis of the data with the chart. Search for an entry to buy or sell. It is important that the last shown candle is a doji-candle. It appears like a cross in the chart (see Figure 1). Take a look at your chart and the candle that appeared just prior to the publication of the data. If immediately after the publication of the data you see a long candle with decreasing prices and it stretches over ten to 20 points, it is very probable that the next candle (after 15 minutes) will be a doji.

HOW A DOJI DEVELOPS
A doji-cross develops if the open and the close are (nearly) at the same price within one candle. The body of the candle is missing. If you look at a 15-minute chart it means that price goes up and down during this 15 minutes, but at the end it is at the same level as the open. A doji-cross usually means that a reversal will happen, but this is not guaranteed so you should still monitor the price closely.

THE CORRECT POSITION SIZE
If you see that there is only one date – for example in the morning industrial production – you can use a bigger position size. But if there are several important dates during one day – for example, non-farm payroll or early indicators – you should start with smaller positions. You should wait to see how the data can influence each other. If all data is poor, you should add to your positions.

TRADING OF A DOJI
We assume that at 10am important economic data will be announced according to the economic

EXAMPLE TRADE LONG

Economic data:	10 am industrial production
Prognosis:	Positive
Development:	-0,3 to +0,7
Price at publication:	1.3242
High of the doji-candle:	1.3250
Low of the doji-candle:	1.3240
Entry at:	1.3245
Lot:	1
Target:	1.3255
Take profit:	5-10 pips
Stop-loss:	10-12 pips

F1) DOJI AT EUR/USD

A doji-candle in the 15-minute chart of the EUR/USD that spikes up at 9 am. Source: www.tradesignalonline.com calendar. Observe your chart several minutes prior to the publication of the data. If a doji-cross appears immediately before or after the publication of the economic data, you enter the market. The direction is shown by the data and the doji-cross. If the data is positive and the doji-cross increases, you buy. If the data is negative and the doji-cross decreases, you sell. Please note that both data have to move in the same direction. As soon as the candle tightens or a new candle appears you close the trade. The take of this trading strategy is between five and ten pips. If you want to protect yourself, you should enter a stop-loss at ten to twelve pips.

EXAMPLE FOR A LONG TRADE

We assume that the economic calendar shows that data for industrial production will be announced at 10am. The prognosis is very positive. Based on the economic data you recognise that an uptrend may develop. As soon as you recognise a doji-candle, you have your entry signal. We assume that the doji develops and spikes up. You enter the trade long. Now you have to stay cool. As soon as the candle tightens or a new candle starts you exit and close the trade in profit. In our example this would be at 1.3253 USD. That means 24 pips profit. Of course you have to be aware that the risk increases the longer you stay in the trade. That is the reason why we place this profit target.

STOP-LOSS

You should choose your stop-loss wisely. In general a stop-loss of ten to twelve pips is possible, but at important events there can be heavy fluctuation at the beginning. As you can see in the short trade example in the table next to this article, the procedure for selling is similar to the long trade, the only difference being the direction of the price.

CONCLUSION

The most important thing in this strategy is discipline. It is absolutely necessary that the trader is in front of the screen and observes the situation in order to earn a good profit. Sometimes it is a matter of seconds. As soon as the trade runs, the trader has to follow the trade and wait for the right exit signal. This manual trading strategy is not for every trader of course – but with a little observation and exercise you can generate daily profits.

STRATEGY SNAPSHOT

Strategy type:	Manual trading
Time frame:	Intraday trading of the 15-minute chart
Tradeable currencies:	EUR/USD, USD/CHF, GBP/USD, USD/JPY, EUR/GBP, AUD/USD, EUR/USD
Tradeable indices:	DAX
Setup:	Formation of a doji-cross in combination with the publication of economic data
Entry:	Long: data positive and doji-cross spikes up; short: data negative and doji-cross spikes down
Stop-loss:	Optional, 10-12 pips
Take profit:	Yes, 5-10 pips
Risk- and money management:	2 % risk per trade at maximum, fixed stop-loss recommended
Hit rate:	78 %
Average number of signals:	1-6 per day

F2) TRADE EXAMPLES

This chart shows two examples of doji-candles for possible trades. The first marked candle is a doji that spikes down and triggers a short trade. The second marked candle is a doji that spikes up and triggers a long trade. If chart patterns and publication of economic data interact, the hit rate increases as well as the average profit per trade.

Source: www.tradesignalonline.com