



Happy Hour In Style

Friday Market Tamer

Fridays are usually quiet for currency traders, unless some fundamentals are released. But there is one strategy that can take advantage of the unpredictable nature of the markets on Fridays. Find out how to trade it.

by Azeez Mustapha



Fridays—they're the end of the week and something we look forward to. But since it's the latter part of the US trading session, they tend to be the worst days to trade forex because liquidity usually dies down. While there is truth to this, there is one strategy that can take advantage of the unpredictable nature of the markets on Fridays. This article discusses the strategy and how you can use it to make your Fridays more lucrative as far as trading is concerned.

CONQUERING THE FRIDAY UNCERTAINTIES

Fridays are typically quiet in the currency markets unless some fundamental figures are released. Even employment figures from the US and Canada tend to have transitory effects in some cases. Some people find it difficult to trade on Fridays. However, the markets have symmetry; whatever can bring losses to traders can also bring profits. If you bought and lost, it meant you would have made money if you sold. Observing the nature of markets on Fridays has revealed a setup that may be traded with around 75% accuracy.

Whether you're a beginner or a pro, you are still exposed to human emotions. Speculators tend to short in demand zones and buy long in supply zones. This truncates their profit-making chances. In a bull market, more speculators open long positions, hoping to gain from more bullish movement. And in a bear market, fearful investors short quickly, thinking further decline is possible. Staying calm when making logical trading decisions is not easy when capital is at stake, but achieving this hurdle can bring some benefits.

MORE ABOUT THE METHODOLOGY

In this article I will discuss a mean-reversion strategy. It suggests you open trades in a direction opposite to that of the price move, right after the release of some fundamental news. You base the trade on the expectation that a few minutes after the release, price will move in the opposite direction. This suggests there could be momentary negativity before the position turns positive. Sometimes, the position turns positive immediately.

Most of the market-moving news that comes out on Fridays tends to take place around the time the market has reached its highs or lows of the day. This is what makes the strategy I am going to discuss ef-

TRADING FOREX

fective. Since the news is released after prices have hit their highs or lows, it almost guarantees a large or slight reversal before the market closes. That's why the close of the day is usually lower or higher than the low or high of the day.

This trading method comes with a high hit rate, though on certain Fridays it has shown not to work well. With this method, the losses you make within the Monday to Thursday period would usually be recovered on Fridays. If you trade it on Fridays only, you are likely to have gains. The strategy details are listed under the heading "Strategy snapshot."

Speculation is largely managerial in nature. Anyone can open a position, but not everyone can make money. When you open a position, you either make money or lose it (the loss should be small, anyway). But by sticking to the recommendations that come with this trading idea, there's nothing to fear. It's a simple method and it is effective.

STRATEGY SNAPSHOT

Strategy name: Friday market tamer

Strategy type: Mean-reversion

Financial markets: Forex

Suitability: Good for part-time traders

Time horizon: Hourly or 30-minute chart

Indicators: None; naked charts recommended

Buy setup: Assuming news is bearish, go long 10 minutes following a news release. This should be in the opposite direction to price movement after the news.

Sell setup: If the news is bullish, go short 10 minutes following a news release. This should be in the opposite direction to price movement after the news.

Recommended risk per trade: 1%

Stop-loss: 50 pips

Take profit: 100 pips

Risk-to-reward ratio: 1:2

Trailing stop: None

Breakeven stop: None

Trade duration: Maximum of nine hours

Hit rate: 75%

Filter: Never trade when a news release has little or no effect on the markets

Maximum number of trades every Friday: Two to four trades every Friday

Date	Time	Currency	Impact	Detail	Actual	Forecast	Previous
Fri Jun 10	12:50am	JPY	🟡	PPI y/y	-4.2%	-4.2%	-4.2%
	All Day	CNY	🟡	Bank Holiday			
	5:30am	JPY	🟡	Tertiary Industry Activity m/m	1.4%	0.7%	-0.5%
	7:00am	EUR	🟡	German Final CPI m/m	0.3%	0.3%	0.3%
		EUR	🟡	German WPI m/m	0.9%	0.2%	0.3%
	7:45am	EUR	🟡	French Industrial Production m/m	1.2%	0.5%	-0.4%
	8:00am	EUR	🟡	German Dube President Weidmann Speaks			
	9:00am	EUR	🟡	Italian Industrial Production m/m	0.5%	0.3%	0.0%
	9:30am	GBP	🟡	Construction Output m/m	2.5%	1.5%	-3.6%
		GBP	🟡	Consumer Intention Expectations	2.0%	1.8%	1.8%
	1:30pm	CAD	🔴	Employment Change	13.8K	3.1K	-2.1K
		CAD	🔴	Unemployment Rate	6.9%	7.1%	7.1%
	3:00pm	USD	🟡	Prelim USM Consumer Sentiment	94.3	94.1	94.7
		USD	🟡	Prelim USM Inflation Expectations	2.4%		2.4%
	7:00pm	USD	🟡	Federal Budget Balance	-\$2.5B	-\$6.2B	106.5B

FIGURE 1: FUNDAMENTAL FIGURES AFFECTING CAD. On June 10, 2016 there were news releases that affected CAD. The figures were employment change and unemployment rate, and they came out at 1:30 pm GMT.



FIGURE 2: EFFECTS ON THE CADJPY. The figures had an effect on some CAD pairs. The CADJPY first went up after the news but started coming down later.

two trades are taken. Similarly, if the news affects only CAD pairs, only two trades would be opened. But if the news release is likely to affect USD and CAD pairs on a Friday, then it is possible to take four trades. Several minutes after news is released, the overpriced or underpriced market will experience a reversal by a few pips. That is when open positions based on this strategy could turn green.

News releases such as change in employment and unemployment rates have an effect on the Canadian dollar and US dollar. As an example, on June 10, 2016, at 1:30 pm GMT (Figure 1) there were a couple of news releases that affected CAD. The figures had an effect on some CAD pairs. In Figure 2, the CADJPY first went up after the news, but started coming down later.

It's a mean-reversion strategy where you open trades in a direction opposite to that of the price move right after the release of the fundamental news.

PATIENCE PAYS

With this trading method, you're better off trading only USD and CAD pairs. If a news release on a Friday affects only USD pairs, then it is recommended that



FIGURE 3: EFFECTS ON THE USDCAD. Here you see the effect of the news release on the USDCAD. It first went down but then started coming up, nearly hitting the 100-pips target at the end of that Friday.



FIGURE 4: A TRADE THAT COULD HAVE BEEN TAKEN. Here you see the effects of the figures on the EURCAD. Although only two trades were taken on June 10, 2016, it does not mean there were no profitable signals on other CAD pairs.



FIGURE 5: ALL FRIDAYS ARE NOT THE SAME. You win some and lose some. You can't win every Friday, so stick to the risk-control recommendations. The probability of losing a trade is 25%. On June 3, 2016, the unemployment figures affecting USD pairs brought directional movements, which lasted till the close of the markets. This kind of strong, directional movement is unusual for Fridays.

Figure 3 shows the effect of the news release on the USDCAD. It first went down, but started coming up, nearly hitting the 100-pips target at the end of that Friday. Figure 4 depicts the effects of the news release on the EURCAD and shows that though only two trades were placed on June 10, 2016, it does not mean there were no profitable signals on other CAD pairs. You could also have taken one of those trades.

Patience really pays: Wait to use the strategy on Fridays. The results far outweigh the seeming discomfort of having to use the strategy on Fridays only. Using the strategy on other

days besides Fridays would result in a lower hit rate.

Figure 5 reveals that it's not possible to always win every Friday. So stick to the risk-control recommendation that comes with the strategy. The probability of losing a trade is 25%, which means you could eventually lose 10 trades out of 40. On June 3, 2016, the unemployment figures affecting USD pairs brought strong directional movements, which lasted till the close of the markets. This type of strong, directional movement is unusual for Fridays.

WATCH AND LEARN

Racking up gains from price movements cannot be done overnight. You need to wait for good trading setups, such as the ones described in this article, so that over time, you can enjoy good income. Traders who don't have enough capital would need to save to reach a level where income from trading could sustain their lifestyles. Those who want to prosper as traders know it is a game of patience.

Trading offers you tremendous freedom but you can't take it for granted. You need to figure out how to make consistent profits and for that you need to find your own trading rules to trade when and what you like. Observe the markets on Fridays, especially on those days when a fundamental news report is released. Paper-trade the strategy provided here and see if it's something you can capitalize on.

Azeez Mustapha is a professional forex trader, an analyst at Instaforex Companies Group, a blogger at Advfn.com, a signal provider for some websites, and a freelance author. His articles have been published at itulglobalforex.blogspot.com and in various trading magazines including this one. He can be reached via email at atazeer.mustapha@analytics.instaforex.com.

‡ www.forexfactory.com

‡ www.metaquotes.net

‡ www.forex4you.com

† See Traders' Glossary for definition

‡ See Editorial Resource Index



Find similar articles online at Traders.com