Spike Trading: Spot FX Vs Futures

You should be aware of all the risks associated with foreign exchange and futures trading. There is a substantial risk of loss in foreign exchange and futures trading. Past performance is not indicative of future results. This is not a recommendation to sell or to buy any security. You should NEVER trade with money you cannot afford to lose.

Spike Trading: Spot FX Vs Futures

News Trading is, very simply, the trading of different markets, be it currency markets, index markets, etc., based upon economic data the moment that data is released. The economic data we look at would be Employment numbers, GDP, Consumer Confidence, Interest Rates, etc.

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If you are here, more than likely you have tried trading the news using Secret News Weapon, or something similar, on different spot foreign exchange currency pairs.

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When these programs were created, it was easy to open a forex account, set up the program during news time, and rake in the cash.

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But now the forex brokers have caught on to our little secret, and have taken steps to make it difficult, even impossible for you to win using this system.

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Why do forex brokers make it difficult for you to make a profit? Isn't the point of having an account to make easy money trading forex?

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It's simple really. Many forex brokers are actually Market Makers. In other words, when you buy a currency pair, they are selling the position to you. Instead of you buying that position from another trader or from one of the many banks that trades foreign exchange, the broker holding your money is actually taking the opposite side of your position.

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This means every time you close your position with a profit, the broker actually loses money.

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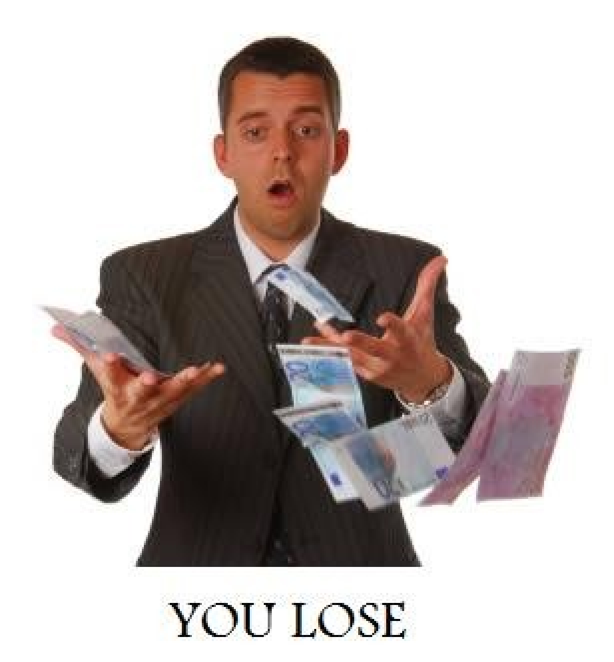
These brokers know that most day traders end up losing money, so they are willing to bet that when you open your account, you will lose money too.



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News Trading started to take this scenario away from these brokers. When you started trading based on the economic releases and then closing your positions very quickly with a nice profit, you started to take profit away from the brokers.

And believe me, they were not happy.

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So these brokers fought back by simply changing some of their rules.

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Some stopped allowing you to place a trade during news events.

Order Rejected

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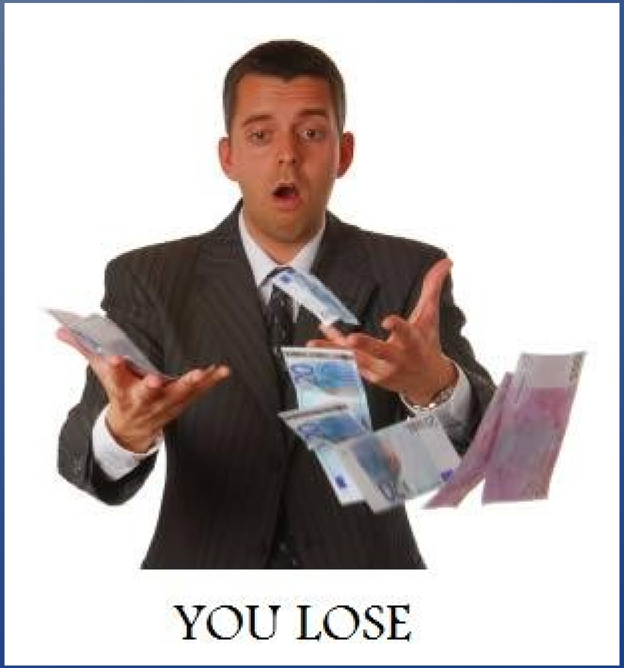
Some started holding or even re-quoting your orders to intentionally fill you at the wrong end of the spikes, costing you your hard earned pips.



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Some of you work hard to fight these tactics by constantly switching from one broker to the next, hoping you can make some good money before they catch you and

SHUT YOU DOWN!!!!

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In other situations, the broker may either take the opposite position, or pass your order to a liquidity provider. The challenge with these brokers is the delay that can happen in getting your orders filled. It can also cause the difference between the buy side and the sell side to increase to a point that makes it very difficult for you to get a good entry price.

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At some point, all of these things will happen to anyone who trades forex using news events.

It has happened to me.

Spike Trading: Spot FX Vs Futures

At some point, all of these things will happen to anyone who trades forex using news events.

It has happened to you.

Spike Trading: Spot FX Vs Futures

At some point, all of these things will happen to anyone who trades forex using news events.

And yes, it has even happened to the guys who created programs like

Secret News Weapon

Spike Trading: Spot FX Vs Futures

But what if there were a better way?

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What if it were possible to news trade a regulated market, where the broker doesn't care how much money you make?

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Can you news trade different currencies in a market that is actually filling your orders based upon other traders instead of being based upon a forex firm that is trying to rig the game against you?

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The answer is YES!

Currency futures traded at the Chicago Mercantile Exchange (CME) offers you the opportunity to place your orders into a highly regulated and very transparent market.

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When you trade electronic futures contracts through the CME, your orders are not filled by the brokerage firm that holds your account. Your orders are simply matched to other traders just like yourself.

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Here is an example of an actual trade I placed in the British Pound futures contract on March 25, 2010.

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As you can see, there was some 'slippage' on my entry order getting filled. But the order was placed into a transparent marketplace. The British Pound continued it's move up and I was able to exit with 20 ticks.

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Can you guess what happened to a lot of spot forex traders on this same piece of news? Many of them were probably filled at the very top of that spike, just before it reversed and cost them 30 – 40 pips. That is how the forex broker makes money.

Spike Trading: Spot FX Vs Futures

Forex	Futures
Broker trades against you or has to find a liquidity provider (Bank) to reduce his own risk	Broker places your order into liquid market instantly and has no risk in your trade
Margin requirement can vary depended on the value of one currency against another	Margin requirement rarely changes so you always know your leverage and how much of a position you can take

Spike Trading: Spot FX Vs Futures Routing Your Order

Forex	Futures
You send your order	You send you order
Broker determines risk	Broker routes to CME
Broker determines spread	Market determines spread
Broker takes position against you or passes order to liquidity provider	Your order is filled against orders in place from other traders

Spike Trading: Spot FX Vs Futures Margin and Leverage in Futures

Forex Margin

The amount you need to create a position depends not only on the leverage your firm allow, but also depends upon the value of the currencies you are trading. This can make knowing your maximum lot size a challenge. It also makes risk management more challenging.

Futures Margin

Initial margin is a set dollar amount determined by the CME. Your broker has the option to allow a day trading margin that is a certain percentage of the initial margin. So you can always know your maximum lot size and can better set your risk management.

Spike Trading: Spot FX Vs Futures Margin and Leverage in Futures

Contract	Initial Margin	Day Margin	Tick Value
AD	$2,700	$675	$10.00
BP	$2,430	$608	$6.25
CD	$2,430	$608	$10.00
EC	$4,050	$1,013	$12.75
JY	$5,400	$1,350	$12.75

Let's break down exactly how this works when you start to buy and sell a futures contract. We will use the British Pound as our example. If you are a forex trader, the currency pair you would compare would be the GBP/USD.

Spike Trading: Spot FX Vs Futures
Margin and Leverage in Futures

Contract	Initial Margin	Day Margin	Tick Value
AD	$2,700	$675	$10.00
BP	$2,430	$608	$6.25
CD	$2,430	$608	$10.00
EC	$4,050	$1,013	$12.75
JY	$5,400	$1,350	$12.75

When you buy a contract of the British Pound, you are buying a contract that represents 62,500 British Pounds. Due to the price increments, every tick (pip) that contract moves while you own it increases or decreases your account by $6.25.

Spike Trading: Spot FX Vs Futures Margin and Leverage in Futures

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AD	$2,700	$675	$10.00
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As of this writing, the Initial Margin requirement to buy this contract is $2430 USD, but the Day Margin can be as low as $608 USD. Day Margin is an agreement between you and the broker that allows you additional leverage. It can normally be as low as 25% of the Initial Margin

Spike Trading: Spot FX Vs Futures Margin and Leverage in Futures

Day Margin	Contracts	Total Margin
$608	10	$6,080

What does this mean to your account?

Well, lets say you have $6,500 in your account coming into some UK news. You decide if the deviation hits, you want to maximize potential gain. You have enough money in your account to trade 10 contracts of the British Pound because the Day Margin requirement is $6,080.

Spike Trading: Spot FX Vs Futures Margin and Leverage in Futures

Day Margin	Contracts	Total Margin
$608	10	$6,080

Tick Value Per Contract	Total Tick Value	Your Profit with 20 ticks
$6.25	$62.50	$1,244.00

So the deviation requirement you plugged into SNW hits, and you initiate a position in the British Pound. Since you have $6,500, you take 10 contracts.

Spike Trading: Spot FX Vs Futures
Margin and Leverage in Futures

Day Margin	Contracts	Total Margin
$608	10	$6,080
Tick Value Per Contract	**Total Tick Value**	**Your Profit with 20 ticks**
$6.25	$62.50	$1,244.00

10 contracts multiplied by the $6.25 tick value of the GBP is $62.50 per tick (pip).

Spike Trading: Spot FX Vs Futures Margin and Leverage in Futures

Day Margin	Contracts	Total Margin
$608	10	$6,080
Tick Value Per Contract $6.25	Total Tick Value $62.50	Your Profit with 20 ticks $1,244.00

If you put your profit taking order at 20 better than your entry price, and that order is filled, you have increased your account by $1,244.

Spike Trading: Spot FX Vs Futures Recap Routing and Leverage

Forex	Futures
Broker trades against you or has to find a liquidity provider to reduce his own risk	Broker places your order into liquid market instantly and has no risk in your trade
Margin requirement can vary depended on the value of one currency against another	Margin requirement rarely changes so you always know your leverage and how much of a position you can take

Spike Trading: Spot FX Vs Futures Technology is VERY Important!

- Super fast news system (SNW)
- Low Latency Data Feed and Order Placement
- Automatic placement of exit order

All of these things need to work together to get your order to the CME as fast as possible. You also need to get OUT of the trade as quickly as possible when there is a minimum deviation.

Spike Trading: Spot FX Vs Futures Technology is VERY Important!

- Super fast news system (SNW)
- Low Latency Data Feed and Order Placement
- Automatic placement of exit order

Knowing that the CME will not re-quote you or refuse to fill your order allows you to use profit taking strategies. The right platform will let you send a limit order automatically after your initial order is filled.

Spike Trading: Spot FX Vs Futures Technology is VERY Important!

Going back to this example, you see here that my entry order was filled at around 1.4975. My trading platform then automatically sent in an order to exit 20 ticks from the entry.

Spike Trading: Spot FX Vs Futures Technology is VERY Important!

What you cannot see from this picture is that this entire process took a matter of a few seconds. My profit taking order was filled faster than I would have been able to react manually.

Spike Trading: Spot FX Vs Futures Technology is VERY Important!

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So speed is still key when news trading futures. You certainly want to get into the market as fast as possible. But in many situations, you want your platform to be able to get you out while everyone else is still getting in.

Spike Trading: Spot FX Vs Futures Technology is VERY Important!

- Super fast news system (SNW)
- Low Latency Data Feed and Order Placement
- Automatic placement of exit order

But make sure you have options. You know that SNW allows you to take trades based upon 2 sets of deviations. Sometime the larger deviation creates more volume and a sustained move in your direction.

Spike Trading: Spot FX Vs Futures Technology is VERY Important!

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- Automatic placement of exit order

So make sure your futures platform is a Low Latency platform. But also make sure it allows for multiple profit taking strategies to take advantage of the higher deviations when they occur. Right now I am recommending Ninja Trader through Patsystems.

Spike Trading: Spot FX Vs Futures Technology is VERY Important!

- Super fast news system (SNW)
- Low Latency Data Feed and Order Placement
- Automatic placement of exit order

To get a one month trial of Secret News Weapon along with access to the Ninja Trader platform through Patsystems, please visit www.ragandatatrading.com/snwspecial

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