

Trading Plan for Economic Releases

A trader asked how I came up with the trade we put on this morning, for the Retail Sales (RS) release [November 2004]. Here's a detailed account how I came up with the plan. It's basically the way I come up with plans for any important release.

The way I decided to trade the RS number was pretty simple.

1. I want to establish the same thing that I establish for all my trades, which is
 - a. Why am I getting into the market?
 - b. Where am I getting into the market?
 - c. Where is my profit target?
 - d. Where is my stop loss?
2. So I begin by answering the questions above.

3. Why am I getting into the market?

- a. Retail sales may offer an opportunity to trade
 - i. Then evaluate Retail sales release
- b. Evaluating the Retail Sales release:
- c. What is the overall bias in the market?
 - i. Daily chart is bullish
 - ii. 30 min chart is bullish
- d. What's the consensus on the street for RS?
 - i. Headline = -0.1
 - ii. Ex = +0.2
- e. Is there a bias to the number? Meaning, *is there a whisper number or does this number have a tendency to do something different?*
 - i. Whisper number? = No there wasn't
 - ii. Tendency to do something different? = Yes it does
 1. That tendency is that the ex-auto component number and the total number are usually underestimated by the street (consensus)
 2. That tendency tells me something. It sets up a trade.
 - a. If traders see the number come out better than expected then they will sell it off expecting it to go lower.
 - b. Since the overall market is set up in a bullish pattern on the daily and weekly charts, and the tendency is

- to already underestimate the number then a higher number is not really bearish, is it.
- c. Therefore I need to be a buyer, below the market.
 - d. I have established a reason to trade answering the first question “Why am I getting into the market?”

4. Where am I getting into the market?

- a. Does the last release or prior release of Retail Sales tell me anything about where I can get in? Yes
- b. The August release showed that the headline number came out bearish (above consensus) and the 10 yr notes broke 5 tics, stopped and ground higher.
- c. Where are we trading this morning in the TYs?
 - i. Answer these questions
 1. Range: 112'16 to 112'22+
 2. Open: 112'17+
 3. Yesterdays close: 112'15+
 - ii. Take last months action off of the RS number and subtract it from where we are trading a few minutes before the current RS release.
 1. Current price = 112'21
 2. Last months action sold off 5 tics
 3. $112'21 - 5 \text{ tics} = 112'16$
 4. I want to buy it somewhere in here
 - iii. Lastly, look at yesterdays close and today's open
 1. Open: 112'17+
 2. Yesterdays close: 112'15+
 - iv. Now look at where I might want to be a buyer
 1. 112'16
 - v. The T-Notes have a tendency to make a new low by one tic and reverse. Since we are trading a number, and one that I expect to not be very volatile, then I'll look for the T-Notes to make a new low by 2 , 2 ½ tics.
 - vi. Taking all this into account,
 1. Range: 112'16 to 112'22+
 2. Open: 112'17+
 3. Yesterdays close: 112'15+
 4. Where I want to buy: 112'16
 5. Tendency to make a new low by 2 tics
 6. I have decided that my best entry point is 14+
 7. Therefore I've answered the question, “Where am I getting into the market.”

5. Where's my profit target?

- a. There's no resistance above 112'22+ until 113'03+ (last weeks high)
- b. Develop a 'what if' scenario:
 - i. If traders come in and sell the number off, thinking its bearish, then they'll all get short in the hole and have to buy it back. We'll rally through 22+ easily, and test the old high of 113'03+.
 - ii. However, I know from experience that there probably isn't a reason to take out the old high today, because
 1. there's other numbers to be released this week
 2. Oil is topping out @45 bbl
 3. the stocks are near their highs.
 - iii. Therefore, I'll take a profit well under the old highs. TY's have a tendency to stop at 28+ and 29 on rallies and pull back to the old resistance, (112'22+).
- c. I'm out at 112'28.

6. Where's my stop?

- a. The TY's show major support all the way down to 112'04.
- b. This is evident from the daily and weekly charts
- c. Since I have a potential upside of 14 or so tics, then I'll risk the 112'04 level on the downside and sell 112'03s on a stop.

7. I've built a trade that defines 4 things.

- a. Why am I getting into the market?
 - i. Retail Sales has offered an opportunity to trade
- b. Where am I getting into the market?
 - i. 112'14+
- c. Where is my profit target?
 - i. 112'28
- d. Where is my stop loss?
 - i. 112'03

8. So what did we do this morning?

- a. We decided to enter two orders
 - i. Buy 1 @ 112'15+
 - ii. Buy 1 @ 112'13+
 - iii. This is an average of 14+ entry
 - iv. The numbers came out different than we expected, but we decided to stay with the 15+ bid, and pull the 13+ bid.
 - v. We did this because the release seemed to tell us that there was a lot for sale after an apparently bullish release and 15+ looked like a good buy after all the early buyers got out of their longs.
 - vi. We moved the sale down to 112'21 because that's where we were trading on the release and TY's looked like they'd test that level.
 - vii. We moved our stop to 112'12+ because if we got there, we'd likely see 112-08+.

- viii. We stayed in the trade because we had the 30 min MACD bullish.
- ix. When that MACD crossed to negative territory we got out @
112'16
- x. We did a lot of work and made only a ½ tic.
- xi. But, that work goes a long way into the future when other numbers are released. We get better and better at building a plan and we will catch a great trade 2 to 3 times a month by doing this.

