

# OFFSET TRADING ©2006

By Dana Martin / Sterling Blackstone, Inc.

Offset Trading is a proven method of capturing the maximum amount of Pips from an economic announcement.

This is the act of placing a buy order above, and a sell order below, the current trading price of a currency pair in the moments before an economic announcement. In essence, you are betting that the market will make a significant move *in either direction* immediately after the announcement.

In theory this may sound simple, but it has taken more than a year to research and to perfect a winning strategy to deal with all of the unforeseen variables that accompany this type of trading strategy.

We will describe in detail the main components of setting up this type of trade and provide additional support by e-mail, phone and updates on the web site.

For this type of trading, you will trade only when the market has the potential for the greatest movement based on the currency pair you are trading. My experience is that EUR/USD is best suited for trading during the periodic economic announcements that are often scheduled between 8:00 AM and 11:00 AM Eastern Time. In this timeframe, both the London and the New York currency markets are open.

The necessary components are:

1. A trading strategy that produces more positive trades than negative,
2. A good money management practice,
3. A broker that will place your trade for you on the open market at a fair price, and
4. A trading station that does most of the work for you.

It is important to first understand the difference between brokers with “dealing desks” and those without.

Traditional FCMs use a deal desk, which is not necessarily in your best interests. Deal desks can trade against your orders, which may not result in the best possible experience. We recommend a broker who does not operate a deal desk or trade against your orders. Using Straight Through Processing to route your orders directly to various bank quotes, increases the possibility for price improvements.

You may use any trading station you like, but trading stations that have a functionality that allows you to preset your profit limit and stop loss prior to trading will make your trading experience much simpler. Not all trading stations have this feature, and some that do are limited in what they can do. This trading station functionality is a key part of efficiently placing your tickets just before the announcement and avoiding mathematical errors.

If you look at a 10-minute EUR/USD chart you will notice that there is usually a great many pips worth of movement in the morning hours. Market movement is often greatest on mornings when there are significant economic announcements. All you have to do is figure out if the trend is going up or down.

This may sound easy enough but you never know when a trend is about to reverse, thus, if you start a trade after an announcement has already caused the market to move 20 or 30 pips, you may be too late

to enter and you could have a losing trade. Next time you see a trend emerging, ask yourself what guarantee you have that this trend will continue in this direction and thereby giving you a positive trade.

What if you could always capture the *first* twenty or more pips of any announcement? Then you could decide to take your profit or risk a little of it and stay in for a longer term trade. This is what our Offset Trading method can do for you. You also won't have to worry about entering a trade just before a trend reversal because you will have already captured the best part, the initial market movement.

Once you have mastered your trading station software and can quickly place your orders before the announcement, you must become a "student of the announcement". This will require you to study historical data on the movement and personality of each economic announcement. We highly recommend that you keep a separate account for this type of trading and not take any other type of trade on this account so that you will have an accurate accounting of this trading strategy for yourself.

The timing for placing the trade is very key to our method, so we highly recommend that you use a utility such as "atomic clock sync" to ensure that the time on your computer is set as accurately as possible. You don't want to miss a trade because your computer's time is not correct.

Once you have preset your trading station for quick placement of trades, mastered placing your orders quickly, and made sure that your computer's clock is synced up, you are now ready to place your trade. If you watch the market before economic announcements, you will notice that anywhere from a few minutes to an hour before the announcement there may be many pips of movement, in fact there may be a "horizontal channel". For this reason you would not want to set up an Offset Trade because you could prematurely have one or both of your pending trades activated and suffer a loss when the market retraces. This is why we wait until 30 seconds prior to the announcement before placing our orders. If the announcement is set for 8:30am EST, then we would wait until 8:29 and 30 seconds before placing our orders.

Be attentive to your trade as it unfolds but try not to interfere with its progress, it is usually best to let it run its course. Remember to Trade Your Plan™, and to avoid allowing your fear and greed interrupt what could have been a successful trade for you. Sometimes, announcements will cause the market to move so fast that you will not be able to track its progress and your trade will be over and you will have made your profit before you know what has happened.

If you choose the right announcements, you will have very few losing trades. Spend some time studying how the market reacts to each announcement. You will notice some moves have what is commonly referred to as a "head fake". This is an initial knee-jerk reaction to an announcement in one direction, and then the move will reverse quickly and produce a winning trade. If you have set your entry price too close to the market price, you can get caught by a "head fake". If this happens, you can usually count on the opposite trade to trigger on the market reversal and be a profitable trade, which will cover your loss and give you your profit for the day. The worst situation that could happen would be a "double head fake". These are to be avoided at all times. Only through careful study of the upcoming announcements should you be able to stay clear of these unwanted trades.

Remember to remove your second pending order when your first trade is positive and closed out. You don't want to leave an order in the queue to have it inadvertently activated sometime later by a market reversal and perhaps produce a losing trade and erase your profit. Also remember: Trade Your Plan – after your Offset Trade is complete, you have met your profit target for the day, so turn off your computer and do something else for the rest of the day. We have found that this method is so reliable

that it is best to stop trading after your winning trade closes and you have made your profit. Continuing to trade with traditional technical trading methods after the morning announcements will often result in negative trades that erase your profit.

Try setting your trading station presets to use a stop loss of 7 pips and a 23 pip limit. This should work well for most announcements. This is also a good practice of responsible money management. It means that for every dollar or pip you are risking, you have the possibility to make 3 dollars or pips worth of profit. This is called a “risk to reward ratio”. Our risk to reward ratio is 3-1 and sometimes greater. If only 50% of your trades are positive and hit your preset profit target, then you should still have an overall profit at the end of a number of trades.

## ANNOUNCEMENT EXAMPLE

### 8:30am USA Nonfarm Employment Change:

Measures the number of new jobs created in the previous month, excluding the farming industry. Employment growth will generally strengthen a country's currency, as it is viewed as one of the most important indicators of economic health.

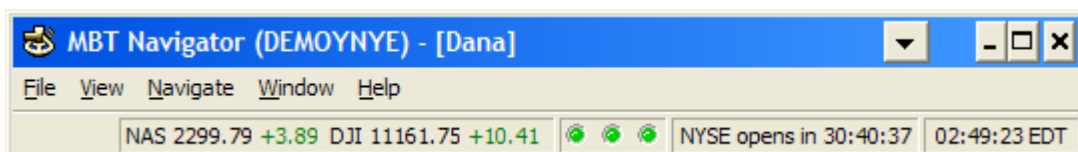
Among FX traders, this announcement is everyone’s favorite tradable announcement because it tends to produce the most amount of movement. You should know that the market will begin to move a few seconds early so you will want to get your order entries place at 8:29 exactly. We also set our limit (profit target) larger than normal – to 42 pips vs. the normal 23- to gain a few extra pips.

## Setting Up Your Trading Station

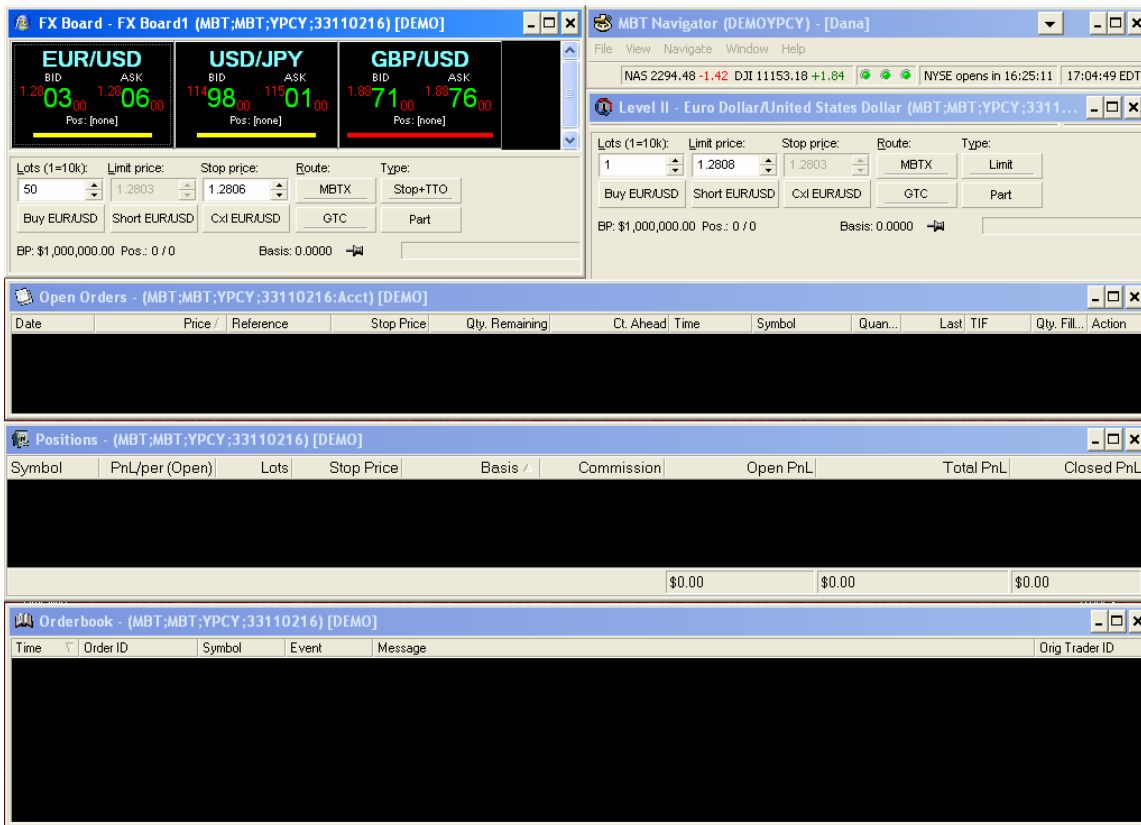
We have chosen MB Trading as our broker. First, because, of the many trading stations we have tested for Offset Trading, we have found that the MB Trading MBT Navigator trading station is the one that best lends itself to this type of trading. Second, we have found them to be a superior company to do business with. They have a very competent tech support staff that has always been able to answer any of our questions, they use Straight Through Trading (no dealer desk), and their trading station itself is very reliable.

The MBT Navigator trading station is a free download from MB Trading’s web site at [www.mbtrading.com/fx/demo.asp](http://www.mbtrading.com/fx/demo.asp). After downloading and installing the MBT Navigator trading station software on your computer, launch MBT Navigator and follow these instructions to preset the station for Offset Trading:

1. Set up your MBT Navigator layout. If you have received the Sterling Blackstone recommended Offset Trading layout, follow these steps to use our layout:
  - a. Click the File menu on the window titled “MBT Navigator”. This window is usually the smallest window of the set of Navigator windows and looks like the window below.



- b. From the File menu, select Open Layout and browse to the location where you have saved our layout file. Select this file and click OK. Your trading station will now look similar to the picture below. You may have to adjust or resize some of the windows to fit your screen and resolution for your monitor.



2. Configure your trading station preset preferences. The order type you will normally use is the **Stop + TTO** Order Type. The exception is a **Stop + Trailing**. Before we go through the steps for setting the preferences, we feel it's important to explain exactly what a "Stop+TTO order type is.

### What is a **Stop + TTO**?

This type of order initially places a "stop market order" (either a buy or sell) and upon execution, places an opposite buy or sell Threshold Triggered Order (TTO – see below for additional explanation of a TTO). *Note:* Upon execution of any part of the initial stop order, an equal TTO is placed with your pre-set stop prices. If you decide to change either the upper or lower trigger after the TTO has been placed, you must cancel and replace the TTO. To change either of your TTO price trigger parameters you must cancel and replace the order. Note: Either the bid or ask price can trigger your upper and lower price triggers. At the time the trigger is met the system sends out a market order.

### What is a **TTO**:

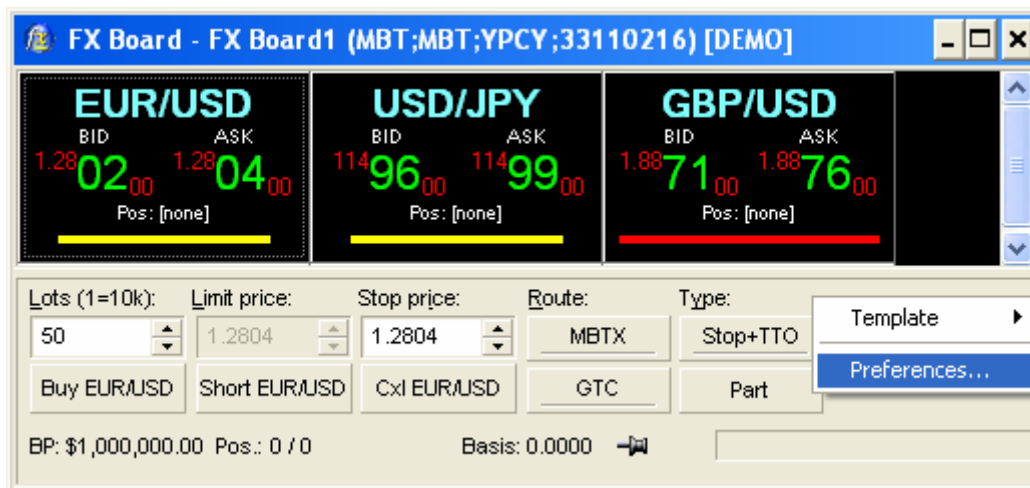
A **Threshold Triggered Order (TTO)** allows you to specify two prices, an upper and lower price trigger, also referred to as a stop loss and a profit target. Once the market trades at either price, a market order is sent to the marketplace. This order type was designed to help limit potential losses and lock-in potential profits.

*Additional Explanation:* Many Forex traders want to place one price trigger to take profits and one to stop out of their position at the same time that they execute an order at a specified market price, and they want whichever order is executed first to cancel the other part of the order automatically. The best order type to accommodate this strategy is the TTO. This order type allows you to set both an upper and lower price trigger when executing your initial order. The system will send out a market order for whichever price trigger is met first.

It is important that you know how to place a stand-alone TTO. A stand-alone TTO is a TTO that is not a part of a combo order type (see combo orders at: [www.mbtrading.com/fx/orderTypes.asp](http://www.mbtrading.com/fx/orderTypes.asp)). To view the TTO OES (Order Entry Screen) window simply right-click on a blank gray-colored area of the OES and left-click on "Template" then "TTO". This will change the OES to allow you to place a stand-alone TTO. Please specify the correct number of lots, enter your desired upper and lower price triggers, then left-click buy/cover/sell or short order buttons depending on what type of order you want to send.

The upper price trigger is activated once a transaction prints at or above your trigger price. The lower price trigger is activated once a transaction prints at or below your trigger price.

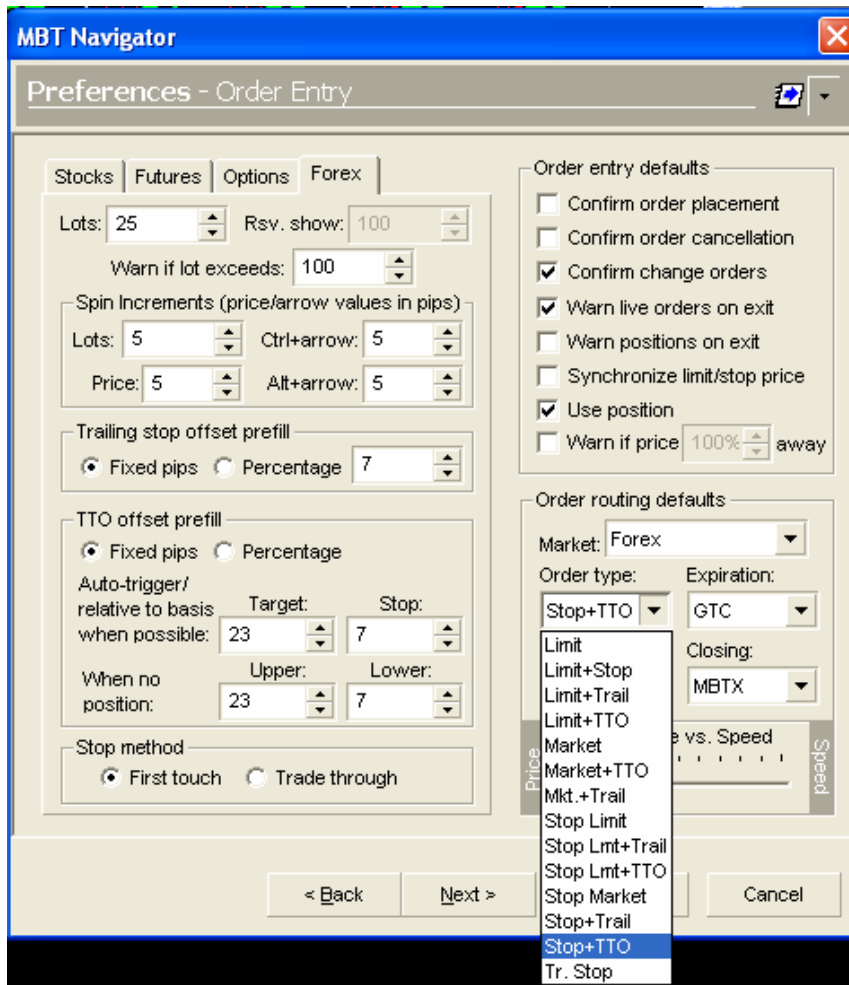
- A. To open your preferences window in MBT Navigator, right mouse click on the blank gray area to the lower right of the FX Board window. Choose Preferences and select the Forex tab.



- B. Take the maximum number of lots you can trade, round down to the nearest even number and divide by two. This is the maximum amount of lots you want to put in the Lots box. You have to divide the maximum you can trade by two because you will be placing two trades at the same time, one buy and one sell, so the maximum you can specify in either order is one-half of the total you are able to trade based on the funds in your trading account.
- C. Spin Increments: Set all 4 boxes to an increment of 5.
- D. Trailing stop offset prefill: set to 7.
- E. TTO offset prefill: Target is set at 23 and the Stop is set at 7. Upper is also set at 23 and Lower is set at 7.
- F. Stop Method: is set to First Touch
- G. Order Entry Defaults: Select (put a checkmark next to) the Confirm Order Changes, Warn Live Orders on Exit and Use Position checkboxes.

H. Order Routing Defaults: *Order Type* is where you choose Stop + TTO or Stop +Trailing.

These are the settings we use. As you become more comfortable with the system, change them as you like.



Click Finish and close this window.

Your MBT Navigator trading station is now preset for Offset Trading.

Trading steps:

- 1) Check time accuracy of computer. (<http://www.download.com/Atomic-Clock-Sync/3000-2350-10061823.html?part=dl-AtomicClo&subj=dl&tag=button>)
- 2) Open economic calendar to find trade announcements. “[www.forexfactory.com](http://www.forexfactory.com)”
- 3) Open your charts and set for ten-minute time scale.
- 4) Open trading station
- 5) Click on the pair you plan to trade and then click on the “BP:” in the lower left hand corner of the FX Board. This will tell you the maximum amount of lots you can trade for that currency pair.
- 6) Open the window from the FX Board Preferences menu and set the number of lots you will be trading for the pair of orders you will place for your Offset Trade. Remember that the maximum

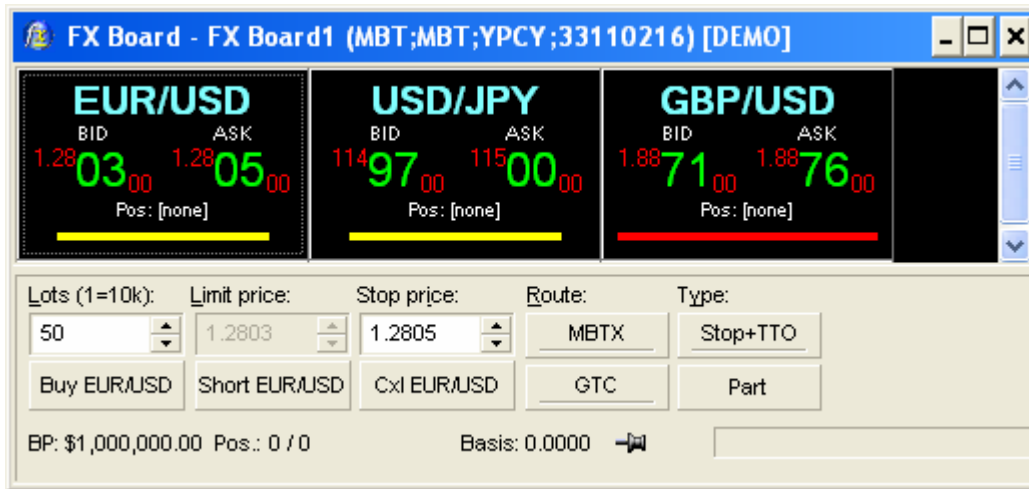
number you can place per order is one-half of the total number you can trade based on the funds in your account.

7) At the correct time, place your Offset Trade following the instructions below.

## Placing your Offset Trade

1. Placing your Buy order:

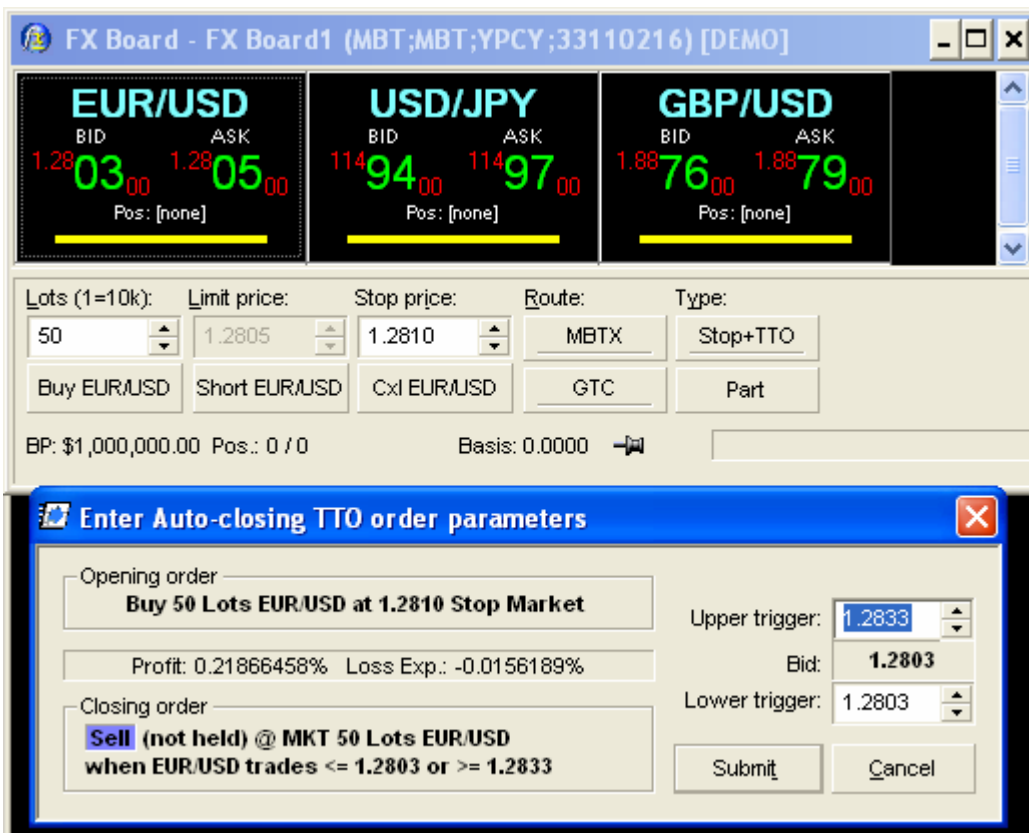
a. Click on the “Ask” price in the quote window for the EUR/USD, you will see that this has placed the current ask price in the stop price window.



b. Click once on the up↑ arrow of the stop price and this will increase your entry point by five pips. Remember we preset our spin increments to five in the preferences window.

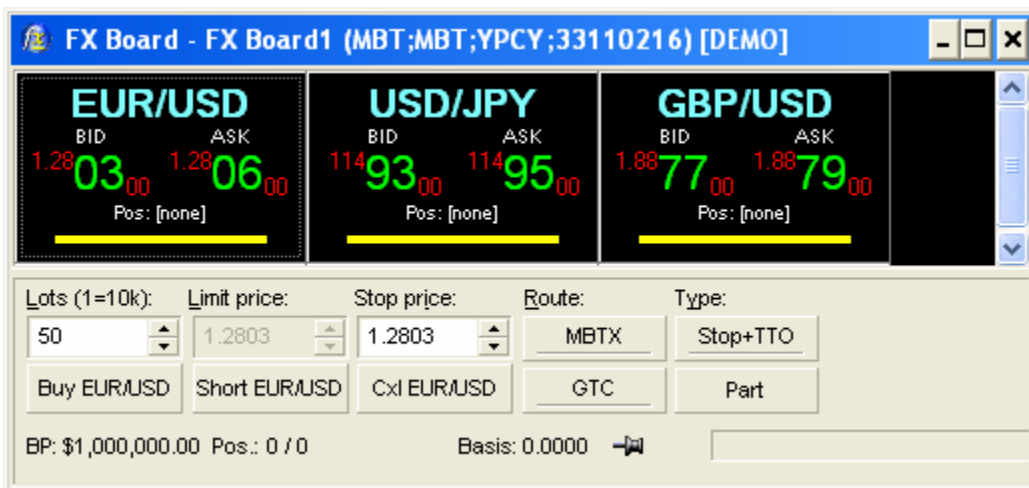
c. Click on Buy EUR/USD and the confirmation window will open with your stop loss, (here it is referred to as Lower trigger) and limit price (here it is referred to as Upper trigger) entered for you. Click submit and this window will close.

d. You will now see your pending order appear in the “Open Orders” window.



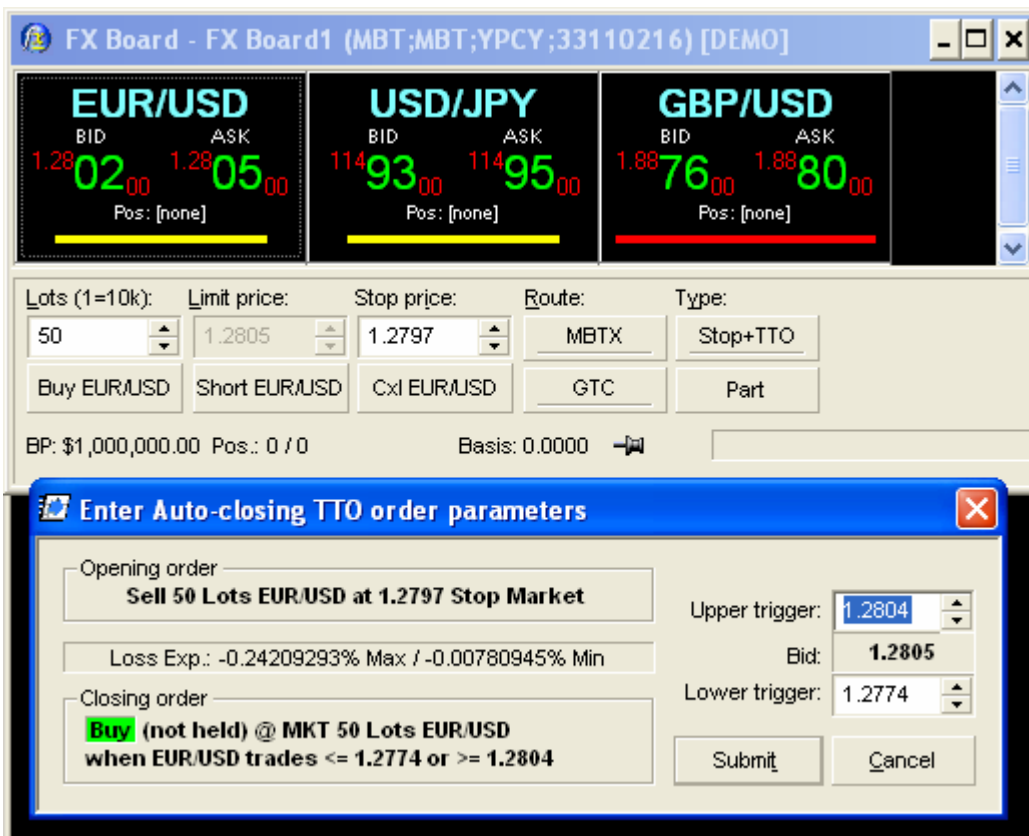
## 2. Placing your Sell order

- Click on the “Bid” price in the quote window for the EUR/USD, you will see that this has placed the current Bid price in the stop price window.
- Click once on the down↓ arrow of the stop price and this will decrease your entry point by five pips.



- Click on Short EUR/USD and the confirmation window will open with your stop loss, entry price, and limit price entered for you.
- Click submit and you will see your pending order appear in the “Open Orders” window.





### Tracking Your Offset Trade

You can see in the image below that you have placed both a Buy and Sell order in your “open orders” window. When the market moves more than five pips in either direction, for any reason, this will activate one of your orders.

Date	Price	Stop Price	Time	Symbol	Quantity	Last Action
8/3/2006	1.2799	1.2806	18:32:36	EUR/USD	350,000	1.2798 Buy
8/3/2006	1.2799	1.2794	18:32:41	EUR/USD	350,000	1.2798 Sell Short

You can see in the image below we have an open trade and we are selling 35 lots of the EUR/USD and we are positive one pip.

Because we earn a dollar per pip per lot with this broker, this gives us a profit of 35 dollars.

Symbol	PnL/p...	Lots	Stop...	Basis	Com...	Open PnL	Total PnL	Closed...
EUR/USD	+0.0001	-35.00		1.2794	22.39	\$35.00	\$35.00	\$0.00
						\$35.00	\$35.00	\$0.00

To automatically close out your trade, the market will need to move past either your profit limit price or your stop loss.

You may also close your trade manually by First clicking

“Cxl EUR/USD” on your FX Board. And then right mouse click on your open order in the “Positions” window and selecting the appropriate command.

Congratulations! You have just completed a successful order entry and a positive Offset Trade.

#### **High Risk Investment**

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Furthermore, there are risks associated with utilizing an Internet-based deal execution trading system including, but not limited to, the failure of hardware, software, and Internet connection. Since Sterling Blackstone Inc., does not control signal power, its reception or routing via Internet, configuration of your equipment or reliability of its connection, we cannot be responsible for communication failures, distortions or delays when trading via the Internet. Sterling Blackstone Inc. employs back up systems and contingency plans to minimize the possibility of system failure, and trading via telephone with your broker is always available.

#### **Risk Disclosure Statement**

This brief statement does not disclose all of the risks and other significant aspects of trading in leveraged investments. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other circumstances.

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