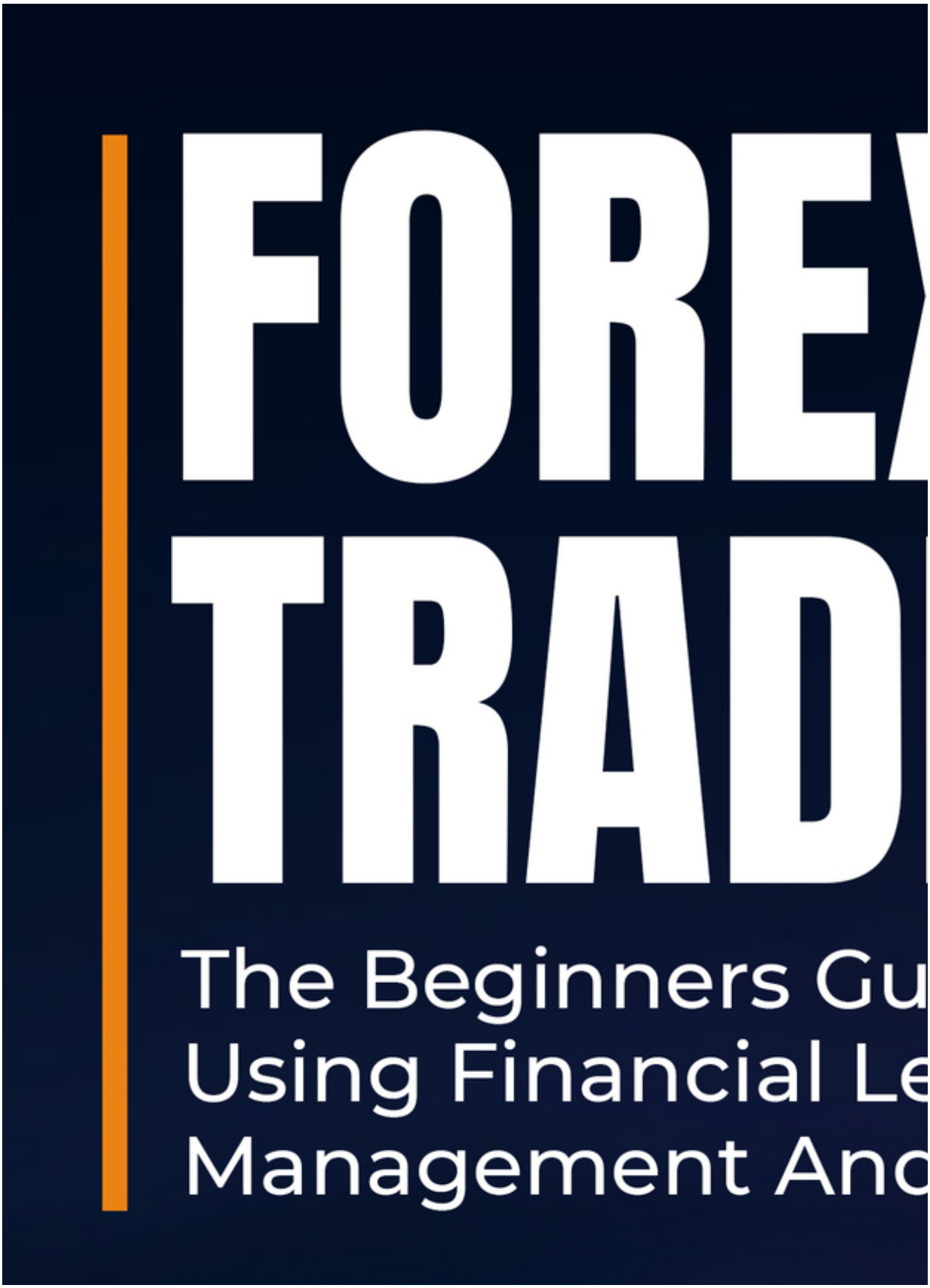
FOREX TRADING

The Beginners Guide To Invest In Market, Using Financial Leverage, Master Money Management And Get Financial Freedom



WARREN RAY


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FOREX TRADING

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PART ONE

INTRODUCTION TO FOREX TRADING
CHAPTER ONE
INTRODUCTION

The Forex market was created when floating exchange rates began to materialize in 19 71. The Forex market is not cen-tralized, as in futures on currencies or stock markets. The exchanges are done on computers and phones in thousands of countries.

The forex market, often called FOREX, is where banks, investors, and speculators trade one currency for another. Stronger foreign exchange activity maintains the spot exchange between five major currencies: the US dollar, the British pound, the Japanese yen, the Eurodollar, and the Swiss franc. Foreign exchange is also the largest financial market in the world. In comparison, the US stock market can trade $ 10 billion in one day, while the foreign exchange market is trading up to $ 2 trillion in one day. The Foreign exchange market is a 24-hour open market, where the currency market is the 24-hour interbank market. This market follows the sun all over the world, passing from the main banking centers of the United States to Australia and from New Zealand to the Far East, then to Europe and finally to the United States.

Until now, the professional operators of the main commercial and international investment banks dominated the foreign exchange market. Private speculators, large multinational corporations, global money managers, authorized resellers, international money brokers, and futures and options traders are examples of other market participants.

There are three main reasons for participating in the foreign exchange market. One is to facilitate a real transaction whereby international companies convert profits earned in foreign currency into their national currency. Corporate treasurers and fund managers also enter the foreign

exchange market to guard against undesirable exposure to future price movements in the foreign exchange market. The third and most popular reason is profit speculation. It is now reported that less than 5 °/o of all foreign exchange transactions facilitate a real business transaction.

The foreign exchange market is considered an over-thecounter or "interbank" market because transactions are made between two counterparties by telephone or via an electronic because transactions are made between two counterparties by telephone or via an electronic hour market, Forex trading starts every day in Sydney and travels around the world as the business day commences in every financial center in Tokyo, New York, and London. Unlike any other financial market, investors respond to currency fluctuations caused by economic, social, and political events, as they occur day and night.

WHAT IS FOREX TRADING?

Forex trading involves transactions in international currencies. Here, you can sell the currency of one country to buy the currency of another. The trader negotiates [Forex] at the most appropriate time to profit from the transaction. Good forecasting techniques are very important here. One can imagine how much Forex trading can be a lucrative opportunity since trading fluctuations are very small.

But remember, when volumes are large, a small change can be very helpful. There are also many non-monetary benefits. Anyone who wants to trade Forex can do it because only basic knowledge is needed for this purpose.

Forex can help you make a lot of money. But there are some conditions to follow before trading Forex. First, you must have a thorough knowledge of stock market trends, fundamental trading principles, and the ability to take risks. You will have all the help you need to reach these conditions very easily.

Many websites on the Internet can help you clarify your basics and cope with bad weather. A good reason to consider Forex trading is the fact that there are frequent currency fluctuations, although in percentage it may be small.

You win if the flotation favors you and the reverse is also true. Nobody can accurately predict the evolution of currencies. Liquidity is another reason why Foreign exchange trading is so popular.

Now, the most important part - on the Forex, you can earn large sums of money, even if your initial investment is lower. You can only invest $ 50,000. Rich people have no upper limit on the value of the investment. So, ensure to remember that even with a nominal investment, the ability to win is undoubtedly very big.

Most large companies are now connected to the world of the Internet, and forex trading is no exception. You can carry out foreign currency transactions directly from your home. Everything is accomplished online. You have the freedom to choose when you want to negotiate, and you must respect no delay.

You can be your boss. The online trading process is easy enough for anyone to understand. You need to open an account for trading Forex with a recognized broker, and they will do the rest of the formalities. The only thing required to do is to prepare for the value of your investment.

Thus, Forex trading can be one of the best companies to make money. There is certainly a level of risk, but it can be avoided with the necessary caution and with an alert mind!

Importance of Forex Trading

Foreign Exchange [Forex] involves the exchange of different currencies for a profit. The reason to buy the currency of another country may be the need to buy some goods from that country and make money through the exchange rate difference. In the latter case, people buy money from a foreign country when the market rate is low, and they sell when the rates go up. Currency trading is usually between central banks, governments, speculators, and multinationals. It is impossible for nations to trade with each other in the absence of a foreign market.

A huge amount of money is traded daily in the Forex market, although the amount invested by an individual trader can be very low. Nobody individually can have any influence on Forex fluctuations, not even within

the government. Thus, it can easily be concluded that the level of the currency reflects the strength or weakness of a country's economy. This makes the foreign exchange market a good place for competition.

The government and the central bank are trying to stabilize the currency of their country by speculating, buying, and selling currencies on time. For example, they can influence the market if they trade large volumes. However, to buy their currency, the government or the central bank must have huge foreign exchange reserves. It is, therefore, practically impossible to artificially inflate the value of the currency.

Banks trade a lot in foreign currency, and that's part of the volume in the Forex market. They buy parts not only individually, but also on behalf of their customers. They trade a lot of futures contracts. Until a few years ago, brokers could influence trading volumes in the Forex market. But because of the electronic services currently available, broker services are not required. It is easy to operate electronically.

Negotiating with international countries is only possible with the existence of Foreign exchange markets. When there is no Foreign exchange market, there is no common currency between the two countries, so you cannot evaluate the value of one currency over another. The buyer pays the seller in the old currency. With the money received, the seller buys goods in the country of the buyer and sells them in his country [the seller].

Only then can he know how much he has earned through exporting. However, in the presence of a Forex market, it is very easy for a seller to know his income as soon as he carries out an export operation. Similarly, the buyer will also have a thorough understanding of the costs he will incur to purchase goods from an international country.

Four main types of orders on the Forex market

There are many types of orders that traders can make to trade in the Forex market to make a profit.

1 Market order: A market order is the simplest and most common type of order. Here, the trader purchases and sells the currency at the rate prevailing on the market at the time when the order was placed. Due to the high

volatility and the huge size of the market, trends can be reversed at any time. People, therefore, prefer to place their orders at the market price to protect themselves from any adverse trend.

2 Limited Order: In this case, the merchant specifies a price for which he may want to buy or sell the currency. Suppose a trader has bought GBP at 1.9 710 against a dollar so that he can make a sell order at 1.9725 when the stock is executed, and he will benefit from it. The order will be canceled if the target price is not reached during the day.
3 Stop loss order: Due to volatility, stop loss is essential. It helps to determine the maximum loss a trader is willing to suffer. Suppose that, in the case above, the trader has a low risk-taking capacity, he can, therefore, set a stop loss at 1.9705., 9705.

4 Entry Order: Such a request is only fulfilled when certain conditions are fulfilled on the market, specified by the order. The input order can be a limit entry order or even a stop order.

• **Limit Entry order**
For example, suppose the current market price for GBP / USD is 1.9705-10. This implies that the trader can negotiate on these levels. Here, an operator can place a threshold order to sell his shares at a price above the market price, for example, 1.9715. His order would only be executed if this price was reached. Similarly, he can place a purchase order at a level of, for example, 1.9700, and his "buy" order would remain pending until the price drops to that level.
• **Stop Entry order**

Stop Entry order is generally used when the negotiator has sufficient reason to believe that the currency is traded at a fixed interval and is about to fall out of this range. He may want to buy at a price above the market price or sell at a price below the market price. In the same example, the trader can go ahead and buy at 1.9720 or sell at 1.9690, where he estimates that once these levels are reached, the currency will only go up or down, as the case may be. The operator shall only issue a stop order if he has reasonable grounds to believe that sudden exchange rate fluctuations will occur on the foreign exchange market.

CHAPTER TWO
PROS AND CONS OF FOREX TRADING

Forex trading has many favorable aspects, but just like every other trading activity, it has a downside. Every trader that seeks to enter the trade system must assess the advantages and disadvantages of foreign exchange before they make a decision in the appropriateness and attractiveness of the market.

The Advantages

Forex exchange has a large number of advantages regardless of the risks; therefore, it makes an attractive and lucrative activity. The advantages include:

1 Leverage: Leverage provides traders with substantial opportunities for them to trade and make profits. Access to leverage largely determines the difference between small profits and large ones. In the foreign exchange market, there are more resources for leverage than other markets and depending on the location from which a trader is working from one can get the resource they need. A trader may be able to access a margin that supports leverage of 100:1 or more for the initial capital.

2 Fast returns: The foreign exchange market moves very fast, and the liquidity is very deep. When the speed, liquidity, and high leverage are combined in the forex market, they create great opportunities for the trader to make exponential profits in the trade more than other markets. In some other markets, the traders have to wait for very long and still get limited returns.

3 Easy "short selling": In some other markets, short selling may require a trader to borrow assets and get exposed to risks, but in the forex exchange, short selling currencies have a simpler process. Foreign exchange works in a

way that the trader buys one currency while selling the other. In other words, the currencies are traded in pairs. Traders speculate the inclines and declines of different currencies, therefore, sell the losing currency and buy the winning pair without involving a borrowing process.

4 Liquidity: Because the forex market is the largest market in the world by volume, there are many participants; therefore, liquidity for trading is ample especially for the major currencies. Liquidity allows the traders to buy and sell the currencies quickly at any time; there is a flow of traders in the market. A large number of participants in the market enable the trader to transact extremely large orders of currencies without diverting the prices too much. Liquidity reduces the chances of price anomalies and manipulation, and as such, the spreads become tighter leading to efficient pricing. A trader does not have to worry about the stagnant prices during the afternoon and high volatility during the opening and closing which constantly affect the equity markets. In the forex market, a trader can observe similarities in the patterns of volatility (low, mid and high) apart from times when major events occur.

5 Lack of central exchange: Keeping in mind that the forex exchange market operates globally, there is no central regulatory or centralized exchange. The market operates as an over the counter although central banks occasionally interfere with the operations as needed in order to regulate it. However, it is very rare for the central banks of any other authority to intervene unless under extreme conditions. The decentralization and deregulation of the market ensure that the traders are safe from sudden surprises. Many of the other security markets are centralized for example the equity market. When a company trading in the equity market suddenly reports losses or declares a dividend, the prices suddenly react to the information. Regulated markets also have higher chances of insider information compared to forex markets.

6 A variety of pairs to trade : There are eight major currencies traded in the forex market, and they result in 28 major currency pairs that one may choose from. A trader can select any pair and easily switch from one to the other.

7 Low-capital requirements: A trader can start trading in the forex market with a low amount of initial capital because of the tight spread in relation to

pips. In some other markets, one may not be able to trade without a large amount of capital. To ice the low capital cake, forex exchange also has a margin trading and leverage factor.

8 Technical strategy: Many traders venturing into bonds and equity have to delve deep into the financial and fundamental state of the bonds or share issuer in order to confirm that there are chances of making a profit. However, the forex market, traders do not have to dig too deep, all they need is to study the price charts. Technical analysis of forex market price charts helps the traders identify their entry and exit points. However, they may choose to combine technical and fundamental analysis when selecting a trade. While fundamental analysis requires one to get detailed background information about the assets of the issuer and the financial health and prospects, Technical analysis requires one to watch the trends and histories of the market, therefore, getting clues on the demands and supply of the currencies.

9 No insider price manipulation: Many markets such as stock markets and bond markets can be influenced by information held privately by some investors and insiders who have interests in the assets. This is because most of the markets are centralized. Foreign exchange markets are not centralized; therefore, they cannot be easily manipulated by people who have insider information. In most cases, the only holders who can access insider information in the forex exchange are central bank authorities or government officials, and they are usually under a lot of intense scrutiny from the public and the private sectors. As such, the foreign exchange market is one of the most transparent markets one can trade in.

10 Few commissions and fees: Traders get charged Pricey commissions and hidden trading fees when dealing with bonds, equities mutual funds and other kinds of instruments. This makes trading very expensive and reduces the profits of the trader. In forex trade, the costs of trading are determined by the bid-ask price only. The spread price is the difference between the bid and the asking price which is clearly published in real time by the brokers. As such, a trader does not have to worry about eliminating breakage overheads. This aspect makes Forex exchange more advantageous to trade in.

11 Simple tax rules: In many other markets, the traders have to keep track of their trading activities both in the short term and the long term in order to report taxes. However Foreign exchange trading is in most cases subject to a simpler tax rule, therefore, making tax calculations very easy.

12 Automation: Technology advancements have made it easy for forex traders to trade with utmost ease. The trade has adapted well to automated trading strategies, and with some training, a trader can reap the benefits of the available moves. A trader can set up programming entry, automated trades, limit prices and stop loss before he/she even makes a trade. The trader may also instruct the trading platform to transact when there are certain price movements or market conditions. When a trader identifies a well revised automated strategy, he/she may have the chance to take advantage of the daily swings in the market without having to put all their efforts in keeping up with the movements in the market.

13 Suits different trading styles: Trade in the forex market happens at all hours of the day, Monday to Friday, therefore, enabling a trader to work at their own convenience. This schedule is very beneficial especially for short term traders because they take positions over a limited timeframe (a few hours or even a few minutes.). Some traders prefer to trade during off hours. Off hours refer to the times when one trade zone is not so active, and the other is active.

For example, when it is daytime in Australia, it is night-time on the east coast of the United States. If a trader is based in the US, he may trade AUD during the business hours in the US because the prices are quite stable and little development is expected to occur during the off hours for UAD. The traders who prefer off hours trade adopt the strategies of high volumes and low profits because they have a little profit margin. The low-profit margin results from the lack of developments in the particular currency. Off hours traders, therefore, try to compensate the low-profit-margin with high volume trades during the low volatility period. Other trading styles allow the traders to hold positions for a longer time; days to several weeks.

Disadvantages

Although trading may appear easy at first sight, some challenges make it

hard for the traders. In some cases, the challenges can have serious adverse effects on the trader.

1 Volatility: All markets show volatility at one point or another. The forex market is not excluded from volatility. Forex traders are exposed to volatilities at times, and if the effects are negative, the trade will be unprofitable.

2 Forex can disadvantage small traders: In a day, the foreign exchange market can transact up to but not limited to $5 trillion. That huge amount of transaction is usually done by the main layers such as hedge funds, banks, and other larger institutions. These major players have access to a lot of capital, technology and also information that might give them an upper hand while making decisions; therefore, they are naturally advantaged. To some extent, these major players can influence the movement of prices in the market. On the other hand, a small trader will have to stay alert and utilize the latest information in the best way possible because the forex market is very fast moving. The reality of small traders being disadvantaged is evident in almost all markets, but the forex exchange market is highly affected. The forex market is not regularized, and it is dominated by brokers. The fact that there are many brokers makes it hard to have full transparency.

A trader is competing against professionals, and he/she may not have a say in how the trade order gets fulfilled. The trader may also not get a good price, and he/she will only have access to the quotes provided by the selected broker. The best course is to deal with the brokers who are under the broker regulators. Although the market is not regulated, the actions of the brokers are.

3 The complex process of price determination: The rates in the forex markets are determined by multiple factors such as global politics, economic status, among others. Some of these factors can pose challenges in analyzing and quantifying, therefore, a trader can have a hard time drawing reliable conclusions on the trade. To a large extent, forex trading relies on technical indicators (Mathematical calculations based on volume, price or open interest of securities). Technical analysts analyze historical data and use the indicators to predict the price movements in the future. If a trader gets the predictions wrong, he/she will incur losses.

4 Lighter regulatory protection: Many traders and investors have a list of securities they can choose to trade in, and they prefer to act on trades that are swift and have transparent pricing. For most well-known securities, trading takes place in on formal exchanges constituting of large institutions that set the regulations and are regularized to guarantee an active market, a flow of assets and healthy supply/demand balance. Foreign exchange market is not centralized and does not have a fixed oversight regulation; therefore, it is an over the counter market. The main challenge with over the counter markets is that the trader will have to conduct a due diligence investigation to confirm the reputation and trading practices of the brokers before opening an account with them. Again, lighter regulatory protection might put the trader at risk because; depending on the country that one is trading in, he/she may have no way of getting compensated if he/she feels that the broker gave unfair treatment.

5 Fewer residual returns: Some trade instruments such as bonds and stocks have a regular schedule for payment of dividends and interests; therefore, they have an enhanced long-term value. However, foreign exchange trade aims at gaining immediate capital gains from a currency pair when one currency appreciates. Again, the forex exchange can either get or pay interest when a position is held overnight. This varies depending on the country that is issuing the currency.

When is the Forex Market Open?

Let us discuss the trading times and as you will see, there is ample time to trade Forex. As stated earlier, it is a market that is open longer than it is closed. As most people would be aware if you were trading stocks then you would trade these through an exchange, whether it was the New York Stock Exchange or the Australian Stock Exchange. Forex trading does not have any central exchange as such. All trading is done through the banks or market makers, which are basically the brokers that traders like you and I would use.

Forex trading follows the world's time zones and is broken down into three major time zones.

• The first to open is Asia, which includes New Zealand, Australia, Singapore, Japan etc. This is called the Asian session and is normally the quietest of the sessions with regards to trading volume.
• This is then followed by the European session. In the meantime, traders in the Middle East are kicking in, and then all the major European centres, where eventually London opens. The European session is the main session as it normally has the greatest volume traded. You have to remember also that London is the financial capital of the world, even though most people think it is Wall Street in the US.
• The last session to open is the US session, and this session can also be very frantic, especially early in the day where there can at times, be major news releases that have a big effect on the US dollar itself. So we have the three trading sessions, which do overlap each other. There are no set times, just when banks open for business in each major financial city and volume picks up.

In Australia, the Asian session is mostly during the day, followed by the European session which kicks off at about 5pm, followed by the US session at 11pm. In a nutshell, you can trade at any time, but if you intended on trading the London open and you lived in the US, you may have to set your alarm clock and get up very early in the morning. Every time zone has its advantages and disadvantages. There are plenty of free online time zone clocks available that relate to the different session times, so it is quite easy to find a session or sessions that suit your lifestyle. You can also find free custom indicators that clearly put the different session times on your trading charts. This is a great visual tool for some.

CHAPTER THREE
CURRENCY PAIRS AND PIPS

Prices are always in terms of the price of one currency relative to another. Learning how to read and understand quoted data is important, and you need to have a thorough understanding of what everything is referring to. The good thing is that this is not really very complicated, so most readers will pick it up in a short amount of time. In addition to learning about currency pairs, we will need to learn how prices are quotes and the allimportant “pips” that you may have heard about when people discuss Forex. We will get started by looking at currency pairs first.

Currency Pair Trading

When you are trading currency, you are trading one currency against another. So, what does this mean? Essentially, you buy one currency and sell the other simultaneously. You need to understand how you would buy or sell currency pairs based on the market conditions that you are anticipating. Let’s use the Euro and US Dollar currency pair as an example. If you believe that the Euro will strengthen against the US Dollar, then you would buy the EUR/USD currency pair, which means you are buying Euros and selling dollars.

Conversely, if you believe that the Dollar is going to strengthen against the Euro, or put another way that the Euro will weaken against the dollar, then you would sell the EUR/USD currency pair. In that case, it means that you are selling Euros and buying dollars. Currencies are priced relative to one another, and they are always quoted in pairs. For example, the Euro and the US Dollar are one of the currency pairs. Currency pairs are ordered, and the ordering is always the same. For the Euro and the US Dollar, it will appear like this: EUR/USD.

The currency on the left side is the primary, or base currency. The currency on the right side is the secondary. The order never changes, this is just the standard, and it’s for trading and ordering purposes only. So you will not see USD/EUR quoted. It does not have anything to do with one currency value versus another or anything of the sort. The ordering of the pairs has the practical significance that we described above. So if you want to buy Euros because you think that the Euro is going to go up with respect to the dollar, then you buy EUR/USD. Or consider the pair GBP/AUD, which pairs the Great British Pound and the Australian Dollar. If you think that the Great

British pound is going to go up against the Australian Dollar, then you would buy the currency pair. That means you are buying Great British Pounds and selling Australian Dollars. On the other hand, if you believe that the Great British Pound is going to go down with respect to the AustralianDollar, then you would sell the currency pair, meaning that you're selling Great British Pounds and buying Australian dollars.

Many of these currencies are ref erred to by nicknames that are of historical origin. It's good to know what these nicknames are in case you get involved with conversations about currency trading, as experienced traders may throw around this terminology. You would not want to be lost in aconversation because you didn't know what the nicknames are. You may also on occasion see the nicknames used in articles and such.

Some of the nicknames are obvious. The Australian dollar is often referred to in shorthand form as the Aussie. The US Dollar is known as the greenback. This name will not surprise anyone. The New Zealand dollar sometimes goes by the name Kiwi.

A couple of more obscure names exist as well. The Great British Pound, while sometimes known by the name pound sterling, also gets referred to by some as the cable. The origin of its term is moderately interesting. In the days when electronic communications networks were first being established, the name cable came about because trading was done by undersea cables between the U.S. and Great Britain, and so American bankers began referring to the Pound as the cable. Somehow this name has stuck through more than 100 years of usage. Another interesting name is for the Canadian dollar, which sometimes gets referred to as the Loonie. This comes from the name of the dollar coin that the country used to have with a duck on one side of the coin.

The Majors

The currencies of the main developed countries and the European Union are known as the "majors." These include the US Dollar, the Euro, the Japanese Yen, the Swiss Franc, the Australian dollar, the New Zealand dollar, the Canadian dollar, and the Great British Pound. The symbols used for these are USD, EUR, JPY, CHF, AUD, NZD, CAD, and GBP, respectively. But

when someone says the “majors” they are really talking about the currency pairs that these are involved in.
The major currency pairs include:

• EUR/USD
• USD/JPY
• GBP/USD
• USD/CAD
• USD/CHF
• AUD/USD
• NZD/USD

The majors make up the vast majority of the trading on the Forex markets. But as you might imagine, there are many different currency pairs. In fact, they can number 100 currency pairs. There can be money to made trading currencies that are not majors. You have to be careful when looking at other currency pairs because you might find yourself in a liquidity trap.

You know from finance that liquidity is a measure of how quickly you can convert an asset into cash. Something that is readily converted into cash is highly liquid. Therefore, a gold bar is pretty liquid, you can run down to a precious metals store and sell it for cash right away. A house is less liquid. While it can be converted into cash, it might take some time to sell it. When the markets are hot, it might sell in a few days or weeks, but it could take months at other times. If you needed money to pay for a car repair, selling your house would not be a good strategy, but selling a gold bar would allow you to raise the money nearly immediately.

In the currency markets, liquidity means you can either buy back a currency pair (if you sold it to open your position) or you can sell it (if you bought it to open) quickly. As we will see, when you are watching currency pairs on the charts, the time frame over, which you may need to make a move to close your position, can be very small. So it’s important to be able to move quickly.

Many people, including some experts that you might run into on the internet, might be promoting the idea that you can make money trading minor currencies, like the Mexican Peso. There is a lot of software out there that

will find currency pairs that are trending for you. That is all well and good, except it's not so good if you are trying to enter a trade when you identify it forming, and it takes so long that by the time your order is filled, it’s nearing the peak in a price increase. Alternatively, you might be following a trend, and it starts showing signs that the trend is coming to a reversal. That is the time to get out of the trade. But you might get in a situation where you can’t close your position quickly because it’s a currency pair with low liquidity.

For that reason, you might want to stay away from minor currencies. The action is in the majors, and one thing about the majors is you won’t have to worry about the kinds of problems that I have just described. Liquidity also impacts the cost of trading. The less liquid a currency pair is, the higher the cost of trading it. There are currency pairs that involve some of the currencies from developed countries, which do have relatively high trading volume. These are composed of the major currencies when they are paired with each other but not with the US dollar. These include:

• GBP/CHF: Great British Pound and Swiss Franc.
• GBP/CAD: Great British Pound and Canadian Dollar.
• GBP/AUD: Great British Pound and Australian Dollar.
• GBP/JPY: Great British Pound and Japanese Yen.
• EUR/GBP: Euro and Great British Pound.
• EUR/AUD: Euro and Australian Dollar
• EUR/NZD: Euro and New Zealand Dollar
• EUR/JPY: Euro and Japanese Yen
• EUR/CHF: Euro and Swiss Franc
• EUR/CAD: Euro and Canadian Dollar
• CHF/JPY: Swiss Franc, and Japanese Yen
• AUD/JPY: Australian Dollar and Japanese Yen
• NZD/JPY: New Zealand Dollar and Japanese Yen
• CAD/JPY: Canadian Dollar and Japanese Yen

Next, we come to the socalled “exotics.” These are currency pairs between a major and a strong economy that isn’t considered one of the majors. So the USD or Euro can be paired with each of these currencies. Some of the “exotics” include Sweden, Norway, Singapore, Hong Kong, Denmark, South Africa, and Turkey. The exotics are not traded as much and so can be considered to be illiquid. As a beginning trader, they are probably best

avoided. Some currency pairs that you will see include the Mexican Peso (MXN) and the Chinese currency (sometimes called the Yuan) CNH.

It doesn’t end there, of cour se; you can trade currencies for nearly every country on earth that has one, so, for example, you could trade the Mexican Peso in one of its currency pairs. However, these currency pairs may be illiquid as well. As long as you can get in and out of the trade quickly, it’s considered to be a good currency pair.

PIPS

If you get into Forex trading, the concept of a pip is one of the most important that you will come across. Essentially, a pip is a measure of a price change in a currency pair, and it can be considered to be the most significant measure to make. Small pips mean big money when you are trading lots of currency. So it is crucial to understand a pip. We might begin by asking what does this phrase mean. It is nothing more than an acronym, and you must familiarize yourself with what it stands for.

PIP Means percentage in point. It can also mean the price interest point, but most people think of it in terms of percentage in point. In truth, most traders probably don’t think about the formal definition, but they know how to work with pips and what the meaning is, when looking at prices of currency pairs. To understand how to use pips on a practical level, you must look at how currency pair prices are quoted. Most currency pairs are actually quoted to five decimal places. It used to be four decimal places, but this has changed in recent years. One pip is a one-point change in the fourth decimal place. Let’s suppose that the EUR/USD pair is quoted as: 1.14671

This is not real value; I have made this up for illustration purposes. The number to note is number 7, which lies in the fourth decimal place. This is the pip. If this value were to change to: 1.14681

Then there has a been a 1 pip move for the EUR/USD currency pair. We can practice some more. If the price moves to: 1.14781
It has changed in price by 0.00100. That is, the price went up by 10 pips. Now suppose that it changes to: 1.14731

If you take the difference, you get 0.00050 – that is, the price has dropped by five pips. You are already becoming an expert at Forex trading. But you will notice that we have added a fifth number. The firth number is called the “pipette.” Sometimes, the pipette is shown in a smaller font. Generally speaking, the pipette is not all that important. You can do well in Forex trading without worrying about pipettes. It is such a small number that it hardly matters for anything, but at least you know that it is there and what it is called. So if someone calls you and says that the GBP/JPY pair moved by 1 pipette, you know that the 5th decimal place has increased in value by one. But does it mean anything to the trader, as far as gaining or losing money? Not really.

Japanese Yen

When learning about pips, there is a special case of the Japanese Yen. In this case, pips are treated differently than they are for every other currency. The reason that this is so is quite simple. This has to do with the value or scale of the Japanese Yen as compared to other currencies. The Japanese Yen is a smaller currency than others that are traded. You might think of this by imagining that instead of the US Dollar, the 25-cent coin was the standard measure of US currency. That is all it is, and it's no more complicated than that; the Japanese Yen is just denominated at a smaller level.

It is quite a popular currency. So, it pays to know where the pip is for the Japanese Yen, since it is quite a bit different from the pips of the other currencies. The special rule here is this. For the Japanese yen, the 2d decimal place is the pip. The third decimal place is the pipette. So, if you see a quote for Japanese Yen that was, say: 110.873

The pip, in this case, is the number in the second decimal place, which would be 7. The pipette is the number that is found in the third decimal place. So, in this example, it is 3. Now suppose that our price quote undergoes the following transformation: 110.893

This means that the price has risen by 2 pips. If it now goes to: 110.894 That means it has risen by one pipette. Now suppose there is a further change in the value. This time it goes to: 110.853

This time, it has dropped four pips, and also by one pipette. Do you see how simple this is? To be truthful, Forex trading is so simple that a child who has not yet entered high school can grasp the basic facts of Forex trading. Show this to your children, and they will learn all about pips and pipettes.

How Traders Talk About Pips

You are going to hear different conversations about pips when you are following the Forex markets. Included in this discussion is going to be some talk about how the price of a currency pair has changed. Right now, I am looking at the USD/RUR currency pair. RUR is the Russian Ruble. In this case, the value is: 63.54494

What is the pip?
Try and figure it out before I give you the answer. This will test whether or not you are gaining knowledge. You can stop reading here if you need to. Remember that for any currency pair other than the Japanese Yen, the pip is the fourth decimal place. Therefore, the pip is 9 in this case.

What if a trader told you that the US/RUR currency pair moved 50 pips? What on earth does this mean? It simply means that we add 50 pips to the value above. This is done by adding to the fourth decimal place, but it's the third since it's a power of ten.

Moved by 50 pips -> 63.54494 +0.00500 = 63.54994

Of course, I am saying that it went up by 50 pips. This might be a bit of assumption; it could have gone down 50 pips; the trader used the word "moved." Without further information, this could be the assumption to make. But you may ask to get clarification, if you are not completely sure of the direction of movement. If it went down 60 pips instead, then we would see a price movement in the following manner:

Down 60 pips -> 63.54494 - 0.00600 = 63.53894
And what is the pipette in this case? It is the number in the fifth decimal place, which is 4.
Price Quotes, Spread, Buying, and Selling
When you bring up price quotes for a currency pair, you are going to see

them in two columns. Here is a real-time list of quotes from meta trader 5:

EURUSD	1.11399	1.11404
GBPUSD	1.21823	1.21832
USDCHF	0.99137	0.99146
USDJPY	108.775	108.782
USDCNH	6.88852	6.88988
USDRUB	63.54402	63.55333
AUDUSD	0.69054	0.69061
NZDUSD	0.66299	0.66311
USDCAD	1.31665	1.31671
USDSEK	9.48899	9.49212
EURRUB	70.726	70.749
USDRUR	63.54494	63.55455
USDHKD	7.82281	7.82290

For a new trader, this can be a bit confusing. We will now explore what these numbers mean. If you are trading Forex, these are the types of price quotes that you are going to see on your trading platform. Therefore, it is important to know what they mean so that you are not in for any surprises when you trade a currency pair. Let us look at the top number, which is the famous EUR/USD currency pair, that makes up something like 35% of all currency trades on most days.

On the left-hand side, we see 1.11399. But on the right-hand side, we see 1.11404. What are these two numbers? It turns out that the number that is shown as the price on the left-hand side of a currency pair quote is the selling price. So, in this example, 1.11399 is the selling price for the EUR/USD currency pair. The other price, which is found in the column on the right-hand side, is the buying price. The buying price is always going to be higher than the selling price! This difference in price is called the spread. So, to compute the spread, enter the value on the right-hand side into your spreadsheet or calculator. Then subtract the value on the left-hand side. That will tell you what the spread is for each currency pair.

For the Euro and US Dollar pair, we have the following spread: 1.11404 – 1.11399 = 0.00500

The 5 is in the third decimal place. The pip is the fo urth decimal place. So, it’s a power of ten higher. That means the spread, in this case, is 50 pips. So, it costs 50 pips more to buy the EUR/USD pair than it does to sell it. If you were to sell the pair, you’d receive the price 1.11399, while if you wereto buy the pair, you’d have to put up 1.11404. Now, does that sound fair? Well, the Forex dealer has to make their money in one way or another, and this is the method used for charging commissions.

Let us choose another example. These are the price quotes from the USD/HKD pair that you can see in the figure. The quoted value in the left-hand column is the selling price.

ON the left side, we have 7.82281 for the USD/HKD pair. That means if you want to sell the USD/HKD pair, this is the price you will sell it for. On the right side, we see 7.82290. The fourth decimal place is the pip, so there is a 1 pip spread between these prices.

So, what is a spread exactly? Our past conversations on this should give a pretty clear hint. A spread is a markup price put there by the FX Dealer. I said it was a commission, but that is not really the case. When it comes to Forex trading, brokers actually make money from two things. They make money from the spread, that much is sure. But some brokers will offer tighter spreads. But brokers or Forex dealers, whatever you want to call them, are definitely not charities. They have to make money to stay in operation, and the fact is if they are giving you a smaller spread, they have to make up the money in some other way. This is done by charging a commission. This means that a Forex dealer or broker is going to make money from spreads and commissions.

Buying and Selling

The spread is something that is important to pay attention to. First lets us say what will happen if you enter a trade by various methods. Well, actually there are only two ways that you can enter the Forex trade. The first method that can be used is buying the currency pair. If you buy the currency pair, then you are going to start the trade-up by a small amount, because the buy quote on the righthand side is always a little bit higher than the sell quote on the left side.

So, if the currency pair was the AUD/USD from the image above, the price quotes are listed here as: 0.69054 0.69061

We should immediately quote this in pips. There is a 1 pip difference here. The left side of this number pair, 0.69054, is the selling price. That is a bet that AUD/USD is going to drop in value. Or put another way, it’s a bet that the Australian Dollar is going to drop with respect to the US Dollar. It can even be put in a third way still. That third way to say it is that you are betting that the US dollar is going to rise in value, as compared to the Australian dollar. The left-hand number is the SELL price for the trade. So, we could sell for 0.69054, which also means that we would be selling Australian dollars and simultaneously buying US Dollars.

The spread is important because if you sell to open a new position on the Forex market, that means we have to buy it back to close the trade. That is a little bit weird for new traders to wrap their heads around because most of us

are used to the conventional way to use the stock market. That is, we buy stocks at a low price, and then we sell those stocks at a higher market price when the time is right.

You can loosely think of a trade when you sell to open a currency pair as shorting the currency pair. We are hoping that it will drop in value because then when we buy it back, it will be cheaper and we make a profit on the difference.

So this is very much like shorting the stock.

But if you will notice since the value quoted on the right-hand side, which is the buy price for the currency pair, is always higher than the price given for selling, that means you always open selling prices down by a given number of pips. That doesn't matter, typically the number of pips that you open down is going to be a small number. The values of these currency pairs can move by large amounts over the course of just one trading day. Just in the few minutes that I have been writing this passage, the prices quoted have changed. For the EUR/USD currency pair, you can remember that we started out with this: 1.11399 1.11404

Now it's already changed to this: 1.11415 1.11420

The selling price, which would be the price on the left-hand side here, has risen by 1 pip and 6 pipettes. On the other side, the buying side, its risen by 2 pips. The spread has, in fact, narrowed a bit.

If you buy a currency pair, obviously you have to sell it back in order to close a trade. So buying a currency pair is more along the lines of conventional thinking, that is it will be like the buy low, sell high mentality.

You have to wrap your mind around both modes of thinking, however. You are simply not going to want to be buying currency pairs all the time, because circumstances are always changing. So, while one day it might be advantageous to buy a currency pair, a few days later it might be far better to sell a currency pair. Therefore, it will become important to understand the concept of selling to open a trade, and then buying it back to close the trade.

But in currency exchanges, it is really not all that mysterious. If you sell to open the USD/RUR currency pair, that means you are selling US Dollars to buy Russian Rubles. If you buy to open the currency pair, then you are buying US Dollars and selling Russian Rubles.

It really is that simple, and when you sell to open you star the trade down a bit. Some brokers will offer a rebate. This means that some of the spread will be paid back to the trader. Please check with your individual broker for details.

SWAPS

Another concept that you have to become familiar with when it comes to Forex trading involves what are called swaps. A swap is involved with the payment of interest rates. When you hold currency, that means that you can earn interest on the currency. Well, to be honest, it depends on the situation. You need to know the interest rates in each country of the currency pair in order to determine whether or not you will earn interest. Consider the following currency pair, for the sake of our discussion here: GBP/CAD

This currency pair is the Great British Pound and the Canadian Dollar. Now for the sake of argument, say that you have bought the currency pair. If you have a higher interest rate for Great Britain, as compared to Canada, that would mean that you would earn interest overnight. For the sake of example if the interest rate in Great Britain was 3%, but it was 2% in Canada, that means that if you old the currency pair overnight, you will earn 1% interest.

But you can pay interest on currency pairs held overnight as well. If the interest rates were switched, that is if the interest rate in Great Britain was 2% and the interest rate in Canada was 3%
- and we bought the currency pair, then that would mean that if we held it overnight, we would have to pay interest. If you sell the currency pair, then the opposite situation holds. If Great Britain has a higher interest rate than Canada, and you sell the currency pair GBP/CAD, and you keep your position overnight, then you would owe interest. On the other hand, if Great Britain had a lower interest rate than Canada, and you had sold the currency pair, then you would earn interest overnight.

This might sound like important talk, but the reality is that it's not going to be that important for most Forex traders. And that is probably going to include yourself. The reality is that the amounts of interest that we are talking about here tend to be very small. This is true generally speaking and to be quite honest about this; it's even truer now. The reason is that most central banks throughout the world are charging low-interest rates. So the only time this is going to be important is if you are making large trades, and you hold the position for a long time period. If you hold the position for a long time, then each night that rolls over there will be a new calculation of interest either paid or received. So on one time, it might be small, but small things can add up. Therefore, if you hold your position for 120 days, then it will add up 120 times, and this could possibly make a difference. But even then, it’s going to be a small amount of money, relatively speaking. I will say that in today's environment of small interest rates, and small differences in interest rates between the major central banks, that nobody is going to get rich trying to earn interest in this fashion.

PART TWO

BASICS OF FOREX TRADING
CHAPTER ONE
BASIC TRADING STRATEGY

The basic Forex strategy that is used by many traders of all experience levels is Trend Following. This strategy is widely followed because of its simplicity to identify and trade and many times, strong trends can bail you out of an imperfect set of buy and sell rules. A popular trading express is “the trend is your friend.” This expression has stood the test of time because many traders find it to be a critical building block of a trading plan. Before we delve into the basics of Trend Following, it is important to first explain why trend trading is a popular strategy used by many new and experienced traders.

Learning how to trade in an imperfect world is very important because Trend following is a simple way to cover up some strategy imperfections by identifying the strongest trends in the market. For example, if the market is moving up in a strong trend, it isn’t as important what the strategy is used to

time entries, you simply need to be buying. When you trade in the direction of the trend, the rest of your trading approach can fall right into place. This doesn't mean that all your trades will be winners. It does mean that you don't have to be exact in your entries and exits once you find a strong trend to trade. Every trader either a newbie or a pro should develop his own style of trading. There are several trading styles that you can adopt. You will choose your style based on your personality and financial capacities.

Many traders make the mistake of adopting a trading style that is unnatural for them. A trader may adopt one of the following two main trading styles:
• Day Trading
• Intraweek trading.

1. Day Trading: Day trading on Forex means that one or few trades are conducted within one trading day. As a rule, the time intervals between the opening and the closing of trades may take from several minutes up to several hours. Despite some difficulties of day-trading, this type of trading is very popular among the newcomers as well as among experienced traders. Day trading allows for the opportunity to make profit within a short period of time with a small amount of funds.

In order to achieve favorable results in an intraday trading it is essential that you make the right forecast as to the price movement, as there are many external factors that cause high volatility in the currency market. So, to make your day trading beneficial you have to track the market situation, collate facts and make conclusions about the price behavior of currencies, it is also important to be able to react fast so that you will find entry and exit points quickly at the opening or the closing of trades. Combining knowledge of technical analysis with patience and observance a trader has good chances to earn well with a relatively low risk. There are several strategies of day trading.

There are many and diverse popular strategies of day trading but there are two most popular which are:

• **Scalping:** Is a technique often employed by traders of stock market securities whereby they attempt to make a relatively small profit from hundreds of trades made in the course of a day. By scalping a trader hopes to

exploit the differences between the bid/ask prices or profit from very small negative or positive movements in price.
• **News trading:** Traders, who choose particular strategy for trading, monitor the market events permanently; analyze the currencies behavior in different cases. Usually news trading requires an insight learning of market development and a proper trade experience accumulation.

Day trading can be a source of a nice income through the readiness to devote most of your free time to trading.
Now here are the advantages and disadvantages of day trading.
Advantages of day trading

• It doesn't require large sums of money;
• Trader may stop trading at any time;
• Minimal risk.

Disadvantages of day trading

• High emotional pressure.
• Lack of time during a trading session.
This style is suitable for traders with endurance and quick reactions.

2 Intraweek Trading: Intraweek trade has no such furious market movements as in intraday trade. It may seem that the market is motionless. But it is just at the first sight.
Intraweek trading has the following characteristics:

• A trade can remain opened for ten days.
• All trades are counted on taking the most part of profit on market movement.
• As a rule, not more than 2 positions are opened during a week.
• Requirements for invested funds are usually higher than for intraday trading.
• The work time is multi-hour charts.

The advantages and disadvantages of Intraweek trading is listed below
Advantages

• Not too much pressure.
• High profitability.
• There is free time during a trading session.

Disadvantages

• Larger volume of funds is required.
• Trader may be outside the market during a trend correction.
• Impossibility to stop trading at any moment.
• Necessity to hold opened position for 24 hours.

CHAPTER TWO
TRADING STRATEGY
Breakouts

As well as looking for trends in the market, one of the elements that a trader should constantly be looking for is the breakout. Breakouts occur when the price passes through a level of support or resistance and continues to move in that particular direction. This type of activity can be produced as a result of many different events and will present as either a continuation of a preceding trend, or as the start of a new trend. When true breakouts develop, there is often a rush of trading activity as traders seek to capitalize on the movement, and this, in itself, often pushes the price further in the new direction.

In a period of consolidation, they occur as a continuance breakout forming in the direction of the preceding trend. Prices can also breakout at the beginning of a new trend, if there is a reversal. Alternatively, when prices are ranging between two bounding support or resistance levels then breakouts can occur in, either the upward or downward directions. In order to effectively trade a breakout, it is first necessary to determine whether there is an actual breakout occurring, or whether there are conditions causing misleading price movements that could be misinterpreted as a breakout. Using multiple combinations of charting techniques, technical analysis, and, fundamental analysis, will help to identify reliable breakout signals.

Key Lesson : Breakouts are more likely to occur during periods of high volume, when there are greater numbers of participants in the market.

Higher volume levels will mean that, when a breakout begins, there is substantial supporting activity which helps sustain the breakout and perpetuates price movement.

As there is no comprehensive measure of volume available in the Forex market, it can make the process of spotting high volume periods difficult. Volatility is therefore the key to identifying when there is an increase in market participants and, as such, when there is the potential support for a particular breakout. If there is a large price movement in a relatively short period of time, then price volatility can be said to be high, conversely, where there are small price movements over short time periods, then this can be classed as a period with relatively low volatility. **Trading Strategy** : Many traders will get sucked into a breakout as it is happening, and try and follow the rapid/volatile movement. The problem with this type of trading is that, by the very nature of the high volatility, it can mean that any profits can be rapidly reduced if prices move against your position. Therefore, a much more effective way to profit from breakouts, is to look for currency pairs where there is initially relatively little volatility. By doing so, you give yourself sufficient time to analyze the market conditions and the technical nature of the price movements, and as a result put in place trades that will allow you to benefit when a breakout does occur.

This means that you have a better opportunity of benefiting from being in at the start of the breakout and you may dictate the terms of your trade, rather than trying to chase a breakout that is already well underway.

Measuring Volatility

A number of techniques can be used to measure the volatility in prices. Essentially, any technical measure employed should be used to try to determine the level of price movement taking place within a given time period. Of the technical analysis methods, we have considered previously, both the Bollinger bands and the moving average indicators are suited to providing a measure of volatility.

In the case of Bollinger bands, the bands will tighten closer to the central moving average when there is low price volatility, whereas the bands will

broaden away from the central moving average when there is high price volatility.

Moving averages can also provide a good indication of volatility as they indicate the average price over a given period of time.

Confirming A Breakout

Breakout signals don't always lead to a true breakout event developing. Over ti me, if you traded all these false signals then this would likely result in significant losses. However, there are ways to help improve the chances of spotting and confirming true breakouts. It is possible to use some of the methods described earlier to determine when a breakout is more likely. They can also indicate the degree of momentum in the market at any particular time, which provides a good measure of where the price may be ultimately heading.

The moving average convergence and divergence indicator (MACD) is a very good measure of price and market momentum. When the MACD histogram is relatively small, it suggests low levels of momentum, whereas when the MACD histogram is larger, it suggests greater levels of momentum. The way this works in relation to trends, is that when a trend is occurring and the MACD is high then this tends to indicate high levels of momentum and strong support for that trend. However, when the MACD indicator registers low momentum in a trending scenario, then this often indicates that support for that trend is subsiding.

The relative strength indicator (RSI) is another good measure of divergence, providing useful information as to when the market is showing signs of either being in over-bought or oversold conditions. In both these situations, when they happen, it is often a good signal that there may be an imminent change in forthcoming trend patterns.

Trading the Opposite Break

Due to the nature of the Forex market, many potential breakouts fail to become true breakouts, instead, prices swing in the opposite direction to that which was expected. Many traders refer to these situations as a fake out and the opposite price movement that results as fadeout.

The reason for these fake outs often comes from the inherent differences between the trading activities of institutional traders (market makers) and retail traders (market participants). At this stage, it is not necessary to know all of the intricacies that lead to these fadeouts as, over time and with experience, you will learn to identify when they are occurring and why.

It is prudent though to remember that they do happen, and that often they will occur within ranging markets at times when chart patterns have suggested a change in trend. This is because institutional investors are well aware that many of the chart patterns we have described are readily known and used amongst retail traders. This means that there is a degree of predictability in terms of what may happen, at any given time, in the marketplace. This predictability can be used by market makers to push prices in the opposite direction to that which the, majority of retail participants may be expecting, resulting in a significant windfall for them.

It is essential for a novice trader to be aware of fake outs and to always understand that the market can react in a different manner to that which is expected. Ultimately, this knowledge helps to improve trading strategy as it means a trader must ensure that they use multiple buy signals and price indicators before making trades, and understand the necessary use of stop losses and trailing stops, in order to lock in profits and prevent damage from any swings in price.

Divergence Trading

One of the problems for any trader of Forex is deciding when to enter the market and when to exit the market. Knowing when a price is likely to reverse, and getting out of a trade prior to that point, is vital to lock-in profits.

Divergence trading is one of the methods that can be used to help improve the planning and execution of trades in order to increase overall gains. It involves the comparison of actual price movement in relation to an indicator. Indicators can provide three different types of trading signal: Crossing over a major signal line; Crossing over a center line; and Indicator divergence.

Indicator divergence : occurs when the actual price movement and an indicator are travelling in opposite directions. Positive divergence refers to situations when the price is in a downward trend and the indicator (MACD, RSI, and Stochastic Oscillator) is moving in the opposite upward direction. Negative divergence describes when the price is an upward trend whilst the indicator is moving downwards.

Key Lesson: Divergence is a useful early signal of possible price reversal, and, as such, when used properly can work well as a reliable leading indicator.

Divergence often happens over longer periods of time, so it is useful to employ trend lines, and support/resistance levels as a means of analyzing the market over the short-term, which should provide additional evidence for a reversal occurring.

The philosophy behind divergence trading is that, consistently, price and momentum tend to work together e.g. higher prices are often supported by higher levels of momentum, and conversely lower prices are often supported by lower momentum levels. When there is a divergence of these two elements in opposing directions then this signifies that the price movement is losing momentum and that there must be a correction coming at some point in the near future, most probably resulting in a reversal.

Trading Strategy : By knowing how price and indicators interact, divergence provides vital signals that suggest when a trend may be beginning to weaken. Divergence can be used as a reliable leading indicator, providing trade signals, which take advantage of changes in market momentum or price direction.

There are two types of divergence: Regular divergence and Hidden divergence.

1 Regular divergence : is best used as an indicator signaling the end of an existing trend or that a reversal should be expected. In practice, it means that even where the price is continuing to head upwards or downwards on trend, the evidence of divergence is highlighting that momentum is beginning to slow and that the support for the increasing or decreasing value is starting to

reduce Where the price is high, but the indicator/oscillator moves lower, then this is known as regular bearish divergence, and often indicates the top of a price run.

Conversely, when the price is continuing to move lower, but momentum begins to swing higher, this is known as regular bullish divergence, and often corresponds with prices reaching the bottom of a trend.

2 Hidden divergence: occurs actually within a trend and can be used as a signal to suggest that the trend will continue. Hidden bullish divergence can be seen when the actual price is registering progressively higher lows, but the oscillator is, conflictingly, showing lower lows. When this particular combination is found in an upward trend, then it suggests hidden divergence and suggests evidence of continued support for that trend. Hidden bearish divergence will be seen in a downward trend and occurs when the price makes progressively lower highs whilst the indicator/oscillator is showing higher highs. This can be taken to mean a continuation of the prevailing trend.

In conclusion, the evidence of divergences should not be used solely as a means of determining when and where to enter transactions. They instead should primarily be employed as a supporting factor among other technical analysis tools. By building an understanding of divergences into your analysis process, it will help to spot profitable occasions and to generate a clearer picture of market conditions and activity.

Key Lesson: As with any form of trading that relies upon technical analysis, if, at any point, you are unsure as how the price activity may be developing, then it is sensible to wait and see how things progress, even if, at times, this means missing out on opportunities that would have resulted in profits.

CHAPTER THREE TIME TO TRADE

Okay time to get into the trading. To date, I have explained what Forex is all about so you should have a reasonably good idea of the basics. It is now a matter of getting your hands dirty by actually doing a bit of trading. As mentioned earlier, there are plenty of brokers out there that offer you the chance to demo trade. This is a great idea, but please don't be fooled into

thinking that you can replicate your demo trading into your live trading without missing a beat. It is just not possible! What I would suggest is that you open a live account that allows you to enter with micro lots (1 pip = 10c), so at least you are trading with real money. Not much I know, but enough to keep you interested. Anyone can successfully trade a demo account as there is just no actual risk or emotions involved.

As a technical trader, you will probably look at the charts to determine my trade entries etc. When I say trade off the charts, it basically means using technical analysis. I like the whole visual thing with charts. Now there are thousands of technical indicators and trading methods out there. They are everywhere. Just look in any of the big Forex trading forums, and you will find plenty of free information on all sorts of methods on trading from tick charts to the monthly charts. Some information is good, but most of it is rubbish.

You have to remember, what may work well for one trader, may not work at all for another. Also, you may have two traders trading the EUR/USD. Trader A may be long, and Trader B may be short. Now naturally you would think that one of them must be wrong, but what if Trader A was trading off a 1-minute chart and Trader B was trading off a daily chart, then it is quite possible that both of them are correct in their analysis (or both maybe wrong). Different horses for different courses.

There are so many technical indicators out there that it would be difficult for me to cover them all. I am aware of a lot of them, having tried most of them out. I know quite quickly whether something works for me or not. I do have my favourite indicators, and I have ones that I have no idea of how anyone works them out. One thing I must say is that about 99% of technical indicators are lagging indicators. That is, they only really move after the market moves, and their position is only obvious after the market position is obvious.

Anyone can look at the history (left hand side) of a chart and see some beautiful moves based on an indicator of your choice. That hindsight is a great tool! I figure all I need is a time machine that puts me about 1hr into the future and then lookout Forex. Getting a bit silly now, but you can see what I mean. When you are trading live using your indicators and watching

the very far right of your chart (the current price), you only have an opinion of which way the price is going to move next, as you do not know for certain which way it will go. Nobody does! All technical indicators do are giving you a higher probability of something happening in a particular direction based on your interpretation of the indicator/s at the time.

They say a lot of technical indicators are self-fulfilling. What I mean by this is that a lot of traders use the same indicators and therefore expect the same thing to happen at a particular point. An example would be using Pivot Points. The price is heading up towards the R1 (1st resistance level), hits it briefly and bounces back down. Was it the actual R1 level that stopped price or was it the case where many traders knew about this level and set sell orders at that level, forcing price to bounce down off it? Who knows? The same applies to popular Moving Averages like the 50 or 200, also Fib Levels, Bollinger Bands etc.

One thing you have to keep in mind is: PRICE IS KING.
Period!

You can have all the indicators in the world on your chart, with all the planets aligned, where you think 100% that price is going in a certain direction, only to see the exact opposite. There is no certainty in trading, so you have to be prepared for the worst at all times. PRICE IS KING!

As a trader, I much prefer to open a trade in the direction of the market at the time, or to say it another way, I go with the trend. Some traders will prefer to look for turning points, where they will trade the opposite direction to the current trend. Go back to my above example of the Pivot Points with price approaching the R1 level. I would be more inclined to ride the trade up to that level and look at getting out near that level if I had been long, whereas another trader may have placed an order to sell at the R1 level, looking for that bounce down even though price may have been heading up there for the last few hours. There is nothing to say that the market will stop and reverse at that R1 level, as it may continue right through without skipping a beat. I still can't wrap my head around looking for turning points, but it has proved quite successful for other traders.

I have seen quite a few different systems over the years, and have come to appreciate the amount of effort and imagination that goes into some of them. A lot of these are done by taking a standard indicator or idea, and slightly twisting it a bit so you aren't doing what everyone else is doing. The trick is finding something that works for you.

I use technical indicators, and I look at both short term and long-term trading. Sometimes I like to be done for the day quickly and other times, I have no problems being constantly in the market. If I had a choice, I would much prefer to trade the longer time frames just to cut out the noise. Also, I don't want to be sitting at my computer for hours on end, but then again, I enjoy the thrill of the chase. Sometimes waiting for set ups on the longer time frames gets a bit boring for me as I like a bit more action. I guess I have to find a balance like everyone else, hence the reason I have two accounts to cover both types of trading. The beauty of day trading is that it doesn't really matter if you miss a day or two, but if you are trading the bigger time frames, you are quite committed to the markets.

Day Trading or Longer-Term Trading?

I will cover short term trading first. Most would call this Day Trading. If you are a Day Trader, that means you will be in and out of the market within the same day or session. Once you have finished for the day, you would have no open trades left. They call this ‘being flat’ in trading jargon. I would prefer not to be sitting at my computer for hours on end if I can help it. You have probably gathered by now that I have a specific target for the day, and this is normally around 20 pips profit. I have been through the math and the power of compounding, so you know my thoughts on this already.

With the day trading, I stick to trading just the one pair, the EUR/USD. It is by far the most popular pair to trade and it consistently has the lowest spread. On Oanda, which is my day trading platform, the spread is normally less than 0.8 pip. If you were trading a pair that had a spread of 5 pips, then as soon as you enter, the market has to move at least 5 pips in your favour just to get you to break even. Trading the one pair also allows you to concentrate all your efforts into that pair.

I will look at starting my trading any time after 2pm local. This is the tail end of the Asian session, which is then followed by the London (European) session, and if I am not done by then, it is into the US session. As previously mentioned, I will check with Forex Factory before I start to see what major news releases are due out that may affect the EUR or the USD. I need to be aware of these so I can be prepared around those times. *Very important!*

I won't go into specific set ups that Day Traders use; as there are just so many variations, I could not do them justice in this book. Some traders look to trade off 1 min charts, while others would look at the higher timeframes. An example could be a Day Trader using the 5 min chart for entries and exits, but bases all these trades on the direction of the 1hr chart, which acts a filter of sorts. If you go into any of the popular trading forums you will find thousands of examples of day trading set ups.

With day trading, you have to really go all-out effort wise, with total concentration. You have to be prepared to take small losses and keep chipping away at the market. Just about every day, there are one or two decent moves on the 5 min chart that will make it all worthwhile. Don't be greedy, going for the big kill every trade. Perhaps start your day with a small trade looking for 5 pips just to give you that winning feeling.

There is a lot of discretion involved in day trading also, as it is very difficult just to rely on indicators to get you in and out of trades. They certainly help but there are plenty of times where you would just look at the chart and see something doesn't look quite right, and in that case, you may give it a miss. You may regret that decision, but that's trading. There will be plenty of trades coming along soon enough.

Now I want to talk about long term trading, where you can be in the same trade for hours, days or even weeks. When I say long term, I am normally referring to trading off the 1hr, 4hr or daily charts. Some traders may look to the weekly chart or even the monthly chart, but that's not for me. Some may even refer using the 1hr and 4hr charts as Swing Trading. I find the problem trading off the 1hr charts is that you tend to end up also doing a fair bit of screen monitoring, hence I lean towards the 4hr and daily charts.

With the daily charts, I normally check my trades at least once a day, possibly twice. My daily charts tick over to a new day at 8am local, so I check them when I get up first thing in the morning, and even though the new candle has not yet opened, I will have a fair idea of what is happening as it is after the close of the US, and Asia hasn't really kicked in. A bit of a dead zone really, which suits me just fine. Then maybe in the evening sometime, just to make sure there have been no dramatic changes. That will do me. The 4hr charts obviously require a little more monitoring but can still fit nicely in with a normal day job.

Trading off the daily charts allows you plenty more free time to do the other things in life, like go to the beach, walk the dogs, play chess or whatever blows your hair back. Because you have much more time and your trading decisions aren't rushed, you can afford to follow several pairs at the same time. No need to limit yourself to the one pair here. Also, spreads are not such an issue, because of the big moves involved where even a biggish spread will be well and truly absorbed in the action. But please be warned, you cannot take the same position size in your trades. There are a couple of reasons for this.

One is that it will be highly unlikely you will use the same tight stops as you would use on a day trading (5 min) method. You may, but I doubt it. Keep in mind your risk per trade. I have discussed risking 2% on each trade, and if you were to use this figure, then that 2% must be maintained on these types of trades also. So, it only makes sense that if you used a 15 pip stop on a 5 min chart trade and were using a 150 pip stop on a daily chart, your position size on the daily chart is going to be a lot smaller.

And secondly, as you are more than likely trading several pairs at once, your overall risk will be higher, especially if the pairs with open trades are highly correlated like the EUR/USD and the USD/CHF. Again, it is a risk issue, but more of an overall risk. If you were to risk 2% on a long EUR trade and also 2% on a short CHF trade, because of their very high correlation, your actual risk is more like 4%, because if one goes wrong, then more than likely, so will the other. Just be aware of your overall risk when you combine all your open trades. It may be a good idea to look for the least correlated pairs to trade when several good signals appear on your radar. A bit of common sense is required here.

Now you must keep in mind that you are trading off the daily charts, so you may experience some huge moves against you, and a lot of traders may not be comfortable being a couple of hundred pips or so down in a move against them. It just doesn't sit well with them as it is playing with their mind. Remember some of these majors move on average 100+ pips a day. You have to look at the big picture though, because as soon as you nail the start of a good move, your profit can be in the many hundreds or even thousand plus pips. These are the moves you want to catch and trust me, there are plenty of them.

Trading several pairs may also help with an overall result (as long as you are not wrong on every trade). You do have to look at the big picture and not just judge your results on a daily or weekly basis. I would suggest you look to the month to month results, as this will give you a much better overall indication of how your daily chart trading is performing. You have to give it some time to prove itself one way or the other.

Trading off the 4hr or Daily charts is a laid-back way of trading and may suit the trader that may have a normal day job or family duties that prevent them from becoming a zombie and sitting at your computer for hours on end. The options are fairly unlimited, and the trading forums will give you plenty of ideas if you are having problems coming up with your own system or method. You have to find something that works for you, and something that you are comfortable with. Not all trading systems are the same, nor are all traders the same.

Keeping a Journal or Diary

Before I get into the actual trading side of things, one thing I do want to mention is the use of a Trading Journal or Diary. This very important to me as it keeps a detailed record of not only my trading results, but also other useful information that I can refer to later if required.

A journal or a diary can be as simple as an exercise book where you handwrite everything. When I put pen to paper, it actually makes me think about what I am doing and helps me confirm my thoughts at the time. You may decide to keep your information online via an ongoing word document

or something similar - just make sure you keep copies and back it up as you go.

I also use excel spreadsheets at times, to provide an overview of results when I am trialing different systems. One glance at these can give me a quick and accurate overview of how a particular method is performing, especially if you add color to it.

A Journal or Diary is not simply a place where you keep your trading results recorded, it is much more than that. If you are trading a particular method, you may wish to describe how it works in detail for future reference, and also to record any modifications to the method as you go. You could also record the details of your money management plan along with adjustments to the plan as you go.

Once you have traded a particular method for a while, you could make some comments on how it is performing, and how it may be improved. Any mistakes you have made should also be highlighted to ensure you don't make those same mistakes over and over.

Maybe you would like to comment on how you are feeling at the time, or if you had any technical problems, or any other outside interference that disrupted your trading.
There is so much you can put into a Trading Journal/Diary, and it is up to you how simple or complex you wish take it.
Here is an example of my Journal entries. These are all hand written in a large book in handwriting that I think is a little hard to read and seems to be getting worse with age! But I digress.

Before I start trading at all, I will go to my Trading Journal, write in the day and the date, followed by my starting account balance. I am mainly a Day Trader, so every day is a new start for me so I don't have any open positions to worry about. I already know my money management rules as they are loaded into my trading platform, but I would have written this down previously in the Journal. Directly under the day and date, I would put another subheading called 'News', and after checking the Forex Factory Economic Calendar, I would note the time of any major news and the

currency it will affect. I don't care what the news is, just when it is coming out so I can be prepared for it.

So, my news info maybe something simple like this: 10.30pm – USD This tells me that at 10.30pm local, there is major news coming out that may affect the US Dollar. Simple as that and I will set an alarm on my mobile that actually has a voice recording of me saying 'Check the charts Jim, as there is major news coming out soon'. It might sound stupid, but my family knows what it is all about. Then I'm into the trading if I know I have a clear couple of hours. If I had to pick up one of my kids in an hour or so, I may just hang back until that task is completed.

Okay, so the first trade is on, and here is an example of how I would write it up. I do use a bit slang and abbreviate words, but I'll explain it all to you.
EUR B 1.2 @ 1.4215 @ 6.01pm. Stop -20, target +20
Mkt had turned up nicely with all signals on 5 min chart bullish. Also 60 min confirmed this with price having recently bounced up off the MPL, after price ranging for most of the day.
Went up to +15, so stop moved up to 1.4205 (-10).
Closed at B/E at 6.23pm as mkt had turned down and was looking a little ugly.
Again, I was up over 10 pips and let it slip.

That is an actual entry from my journal on Tuesday the 21st July. My first trade for the day. So, you can see I bought the EUR/USD, with position size, time, stop and target all nominated. The position size, stop and target are all pre-set in my trading platform, so they just happen automatically. I then gave my reasons why I took the trade as all my signals were bullish on my 5-minute chart. I then comment on the 60-minute chart, with MPL standing for the main pivot line.

This was followed by some trade management by moving my stop up and reducing my risk as the trade moved in my favor. I then explain why I closed the trade due to the fact I didn't like the look of the 5-minute chart as the indicators must have started to turn bearish. This includes the time of close and the result, and in this case, it was at the point of entry or break even (B/E). I then go on to state that I should have taken some profit at least out of this trade as I was up over 10 pips in profit. As each trade is closed, I keep

a running total of pips won or lost in the left margin, so I can see at a glance where I am at for the day. Once my target is hit, stops are tightened right up or I just close out. There is no better feeling than getting a trade into a 'no lose' situation.

So, you can see it is fairly basic, but it does give me something to go back over at the end of the day to see what I did either right or wrong. You may end up trying a few different trading methods, and in a few months go back through your Journal to see what worked for you and what didn't. The Journal will cover a lot more detail than just a simple spreadsheet with results.

That’s all I have to share for now, so it’s time to get your Trading Journal organized and get ready to start trading…

CHAPTER FOUR
INDICATORS AND OSCILLATORS

The key to all technical analysis is to try and identify trends in price movements as they happen. There are many tools available to a trader which can help to achieve this. These tools tend to fall into two distinct categories of indicators and oscillators. They provide useful information relating to where trends are occurring, how they are developing, and suggest how the market may react to these movements in the nearest future.

As a trader, knowledge of these tools will help you to more easily and accurately identify potential trends and to uncover signals that will determine when, and where, to enter and exit the market with each trade.

Trading success requires a good working knowledge of all these tools, in addition to an understanding of how they are calculated, charted, and what they ultimately mean. Trading strategies will often use combinations of different indicators and oscillators to try to increase reliability.

LEADING VS LAGGING INDICATORS

There are two main types of indicator; the leading indicators (also known as oscillating indicators or simply oscillators) or lagging indicators (also known as trending or momentum indicators). Lagging indicators use price

information in order to determine trends after they have begun, whereas leading indicators use the same information to attempt to determine trends in price movements before they have begun.

The main difference between the two types of indicator is related to the reliability of the results they produce. If it were possible to use leading indicators accurately all the time, then they would essentially be the ‘holy grail’ of Forex trading. It would be possible to foresee new trends before they begin and to profit from the predicted movements each and every time. However, unfortunately this is not how things work in real life. In reality, leading indicators, whilst extremely useful, are also notoriously difficult to interpret accurately and are regularly prone to providing unreliable indications. They will often predict breakouts which either fail to actually occur, or which do not produce any significant change in price. Despite this, leading indicators are still a vital element of any trader’s toolbox, because when combined with other elements such as fundamental analysis, or when used in conjunction with supporting lagging indicators, they make it possible to predict when and how prices may change.

Lagging indicators, which are retrospective by nature, are considerably more reliable as they rely upon information and events that have already occurred as a means of revealing underlying trends. This does mean, however, that they can only be used to identify trending phases after they have begun, which means that it could be potentially too late to be able to profit from them.

Key Lesson: The most important thing to remember, when it comes to using indicators of any type, is that they can only tell you either what the market has been doing, or what the market may do in the future, based upon analysis of the historic movement of the currency.

All indicators have been developed to interpret price information in slightly different ways and, therefore, they react differently to certain conditions. They are also developed under the assumption that the market will always have the same response to particular behaviour within the price movement, and this is simply not the case.

Trading Strategy: In order to successfully identify potential trends and future price activity it is vital to use a variety of both lagging and leading indicators. When this combination of indicators produces conflicting signals relating to where the market may be heading, then you should avoid making a trade. Only trade when all the criteria of your individual trading strategy are present and when all your different indicators and sources of information reinforce each other.

Bollinger Bands

Bollinger bands are a form of technical analysis produced using the values of two standard deviations away from a particular moving average. It doesn't matter which MA is used, but by charting the two lines derived, using the standard deviations, it creates an upper and lower band to the top and bottom sides of the MA, which will track the price movement. Whilst this description may sound complicated, in reality, all the necessary required calculations are performed by your charting software and the bands are plotted automatically. It is sufficient to have only a basic knowledge of how the figures are derived, what is more important is having an understanding how these bands can be effectively used.

Bollinger bands primarily provide a strong indication of market volatility. When the market becomes more volatile, the bands will widen and move away from the MA and when there is less volatility, the bands will tighten towards the MA.

The relationship between the MA and the Bollinger bands can also provide information relating to whether the currency is becoming over-bought or oversold at any given time. As the actual currency price approaches the upper band then this will suggest that the currency is becoming over-bought. Conversely, when the price moves towards the lower band then it suggests that the currency is becoming over-sold.

Key Lesson : Bollinger bands are extremely useful as they indicate the relative levels of volatility in prices and, as such, provide a good measure of market conditions.

Trading Strategy : As well as being an extremely important indicator, Bollinger bands can also provide useful trading signals. The first thing to be aware of is that the price should tend to migrate towards the centre of the enclosing Bollinger bands. Knowing this, when the price does start to approach one or other of the bands, then it is likely that, if it hits them, it should subsequently rebound back towards the centre. This occurs because the bands act like dynamic levels of support and resistance. This pattern of rebounding is especially evident when there is no clear trend and the price ranges between these two levels. The longer the time frame used, then the more reliable Bollinger bands tend to be.

When there is a trend then Bollinger bands can also be used. As the bands begin to close together, this is usually a good indication of an imminent price breakout. When the price breaks through the upper band, then this will often signify the start of an upward price trend, and similarly, when the price breaks below the lower band, then this suggests a downward movement in price.

Moving Average – Convergence and Divergence (MACD)

The term Moving Average Convergence and Divergence often referred to by the acronym MACD is one of the most commonly used indicators amongst Forex traders. Whilst the name seems to suggest a potentially complicated analysis process, MACD is actually a relatively simple tool, that when used effectively, can determine short term price momentum.

To appreciate how the MACD tool can be implemented, it is important to fully understand the relationship between long and short-term moving averages.

As discussed previously, traders will consider the interactions between long and short-term MAs in order to determine buy and sell signals. When a short-term MA crosses above a longerterm MA, also known as a Bullish Crossover, it generally suggests growing momentum within the marketplace. It also highlights that prices in the short term are rising at a faster rate than they have done over the longer period. Overall, the indication is used by traders as a buy signal.

Conversely, when a short-term MA passes below a longer-term MA then this is known as a Bearish Crossover. In this circumstance traders will use the crossover as an indication that there is falling momentum and that short-term prices are reducing in relation to longer term prices. This will generally be employed as a sell signal.

The MACD indicator utilizes this relationship between MAs by analyzing the convergences and divergences. In practice, this is achieved by subtracting the value of the longterm MA from that of the short-term MA and visually representing the results on a chart. The time periods of the component MAs can be adjusted to fit with individual trading strategy, however, generally the default periods will be sufficient.

Most charting software will present MACD data in the form of a histogram to make it easier to read and understand.

Key Lesson : When the MACD tool produces a positive value (a result of the short-term MA performing above the long-term counterpart), then this indicates that there is increasing upward momentum suggesting a good time to buy. Alternatively, when the opposite is true and the MACD produces a negative value, then this suggests falling momentum and should be used as a potential sell signal.

Trading Strategy : An effective method of using MACD in order to provide strong buy and sell transaction signals, is to combine the MACD plot with that of another moving average. By plotting this separate MA alongside the MACD, it can be used to accurately chart when momentum is shifting. A standard form of this process uses an MA calculated with a nine period average of the MACD values. When plotted together, these provide what is known as a trigger line or signal line as the points at which the two crosses can be used to effectively provide transaction signals.

Relative Strength Index

The Relative Strength Index (RSI) is a ratio which can be used to determine whether the market is showing signs of being over-bought or over-sold. It is a technical indicator that compares the levels of recent gains against the levels of recent losses, in order to ascertain current market conditions.

The RSI is calculated using the following formula:
RSI = 100 – 100/1 + RS*
Where RS is given as
RS = Average of x days' up closes/Average of x days' down closes
The RSI produces a figure relative to 100. RSI figures of below 30 suggest oversold market conditions whereas figures above 70 typically indicate overbought market conditions.

Trading Strategy: RSI can be used to determine potential reversals inprice movement, as a response to either the oversold or overbought conditions occurring in the market. For example, when prices are trending downward with falling values and the RSI suggests a figure of below 30, this can indicate that the currency has been oversold and has become undervalued. As such, it is possible that a reversal in trend could be imminent as traders realise that prices have become relatively cheap and restart buying.

The RSI is also a very useful tool for confirming whether an upward or downward trend has begun to form. Where there is a possible upward trend, then the RSI should show a figure of above 50 in support, whereas in a possible downward trend the figure should be below 50.

Key Lesson : Large swings in the market can result in a misleading RSI, so it is important to be aware of this and to simultaneously use other indicators to reinforce RSI trade signals.
Stochastic Oscillator

The stochastic oscillator is another technical indicator that again provides insights into price momentum, particularly in relation to market conditions, where a currency becomes either overbought or oversold. It provides an indication, suggesting when there may be a potential reversal of price, owing to a currency becoming either under, or overvalued.

A stochastic indicator compares the current closing price against the price range over a given period of time. The idea behind this being that, in an upward trend, prices tend to close nearer to the highs of that session and in a downward trend prices tend to close nearer to the lows of a session.

It is not essential to understand the formula for calculating the stochastic oscillator due to its complexity, but you should be aware that charting software will generally plot the resulting representation as two lines on a separate section under the main chart in your software. These can be used to analyze when the market is in overbought or oversold conditions, and, as such, when a reversal of trend may be expected.

Trading Strategy : When the two lines of the stochastic oscillator read above 80 then this is a good signal that the currency has been overbought and that a reversal to a downward trend can be expected to occur. When the two lines of the stochastic oscillator are below 20 on the chart then the opposite is true and it is likely that the currency has become oversold and undervalued.

Parabolic Sar Indicator

The parabolic indicator is a technical analysis tool that uses a method called stop and reverse or SAR as a means of determining where to place entry and exit orders.

Whilst the indicator can be complicated to calculate, it is extremely simple to understand and use. The parabolic SAR is often visually illustrated in charting software using dots placed above and below the charted price, which represent points of potential reversal given the current price conditions. The dots will appear either above the price in an upward trend, or below the price in a downward trend.

Trading Strategy: The simplicity of the parabolic SAR is such that, when the dots appear below the price on a chart then, they suggest a buy signal and when they are above the price line they suggest a sell signal. The positions of the dots can also be used to set trailing stop levels and to indicate when to exit a trade.

Average Direction Index

The average direction index (ADX) is another oscillating indicator, which is primarily used to determine the momentum present in current market conditions. Rather than trying to identify the direction of trends, the ADX

can be used to measure the relative strength of an existing trend and whether there is the continuing momentum necessary to keep that trend going.

The ADX is calculated using figures from two measures of price movement, the positive direction indicator +DI that provides a measure of upward price trends and the negative direction indicator–DI that provides a measure of downward price trends.

The actual calculation of ADX for the purposes of this book will not be detailed. However, it is sufficient to know that the index itself produces a figure that will range between 1 and 100. When the index produces a figure of less than 20 then it indicates that the particular trend is relatively weak, whereas when the value of the index is above 40-50 then it suggests that the trend, either up or down, is relatively strong and that there is significant momentum necessary to maintain the price movement.

When the ADX crosses above the 40 range, but fails to remain above it for any significant period of time, then this also suggests that a trend has potentially run its course and that a reversal can be expected. When the ADX crosses above 20 in the index level, it often indicates that a new trend could be developing.

Key Lesson : The only problem with the ADX is that it does not provide an indication of whether to buy, or sell. It is, however, an extremely useful tool for determining whether a trend is strong and likely to continue, as well as, when a trend begins to subsequently weaken.

Trading Strategy : Use the ADX as a tool to illustrate when a particular trend is beginning to develop and when there are strengthening trends of which you are in a position to take advantage. If the ADX stagnates around a level of 20, then this would suggest that the price is merely ranging between confining boundaries. As the ADX rises above 20, then this should be taken as a signal that a new trend, either upwards, or downwards, is beginning to develop. If the ADX continues to push above the 40 or even 50 levels, then this can be taken as significant evidence that a trend, supported by solid momentum, is occurring.

Once the ADX begins to range lower again, then this would be a good time to exit any trades and lock in the resulting profits.

The Common Indicators

As we have seen indicators are an extremely useful set of tools that can be used to help target trade entries and exits; identify trends and price movements; and help provide reliable trading signals.

The way to use indicators, effectively, is to understand how the mechanisms work and what they mean in relation to the market conditions. By having an understanding of the fundamental nature of each indicator, then this ensures that you recognize the strengths and weaknesses of the tools and the indications they can provide.

As we have mentioned previously, successful traders will often develop trading strategies that rely upon multiple combinations of these indicators and use them concurrently. This, ultimately, increases the chances of the analysis providing accurate and reliable trading signals, and reduces the occasions where a profitable transaction may be missed. Multiple indicators should reinforce each other, strengthening trading strategy, and will especially do so when they are combined in ways that provide information on different elements of the market.

Trading Strategy : The most effective combinations should comprise indicators that can help identify trends mixed with those that help to determine the levels of momentum supporting that particular trend.

Below are a couple of examples of how you may combine some of the more common indicators:

• Stochastic Indicator + Bollinger Bands
• RSI + Moving Averages

Each trader will ultimately develop their own particular combination of indicators. Many have searched in vain for the ultimate strategy that works every time, but the reality remains that there is no ‘magic strategy’ that delivers profits on each transaction. The best way to profit, from the use of indicators, is to learn from experience and discover how they respond to

different market conditions. From this, it will then become possible to develop strategies that work for you.

Key Lesson : Charting software should be able to calculate and plot all of these common indicators and many others, automatically, on your behalf. It is wise to spend time learning how each indicator works, especially those that have not been mentioned here. They are constantly being developed, adjusted and improved. There are many resources online that can keep you updated when new indicators are published, and which will allow you to download indicators not included in your standard charting package.

CHAPTER FIVE
OPENING A TRADING ACCOUNT

In addition to choosing a broker, you will also need to select an account type. First of all, do you want to open an individual account, a corporate account, or an IRA, which may be subject to different tax treatment from the IRS? Some brokers offer both standard accounts and mini/micro accounts. The advantages of using a micro account are that there is neither a minimum balance requirement nor a minimum allowable trade size. The downside of opening a micro account is that the temptation to use enormous leverage to enhance profits will be difficult to suppress. You must either get very comfortable with leverage or expect to make only a few hundred dollars per year in profit.

You will find that other brokers also classify account types based on account balance, trading frequency, and types of securities that can be traded. Some brokers will allow you to trade several different assets using one account and one platform, while others require segregated accounts. All brokers will try to entice you to commit to a more ambitious account type, using lower spreads and other perks to draw you in. My advice is to not let these marketing tools sway your decision. Trust your intuition, and don’t be forced into the position of overextending yourself.

The next step is to electronically fill out the documentation that is required to open the account. Most brokers will ask you for a combination of personal, financial, and employment information. You may also need to prepare documentation that can confirm your address, such as a recent utility

bill, as well as to upload scans of government-issued identification. Finally, you will be expected to agree to a litany of terms and conditions. If you haven't already perused your broker's margin policy and other terms of business, this would be a good time to do so.

The final act is to fund your account, which can be done using a debit card, credit card, or wire transfer. On the one hand, I would recommend only funding your account with money that you could afford to lose. At the same time, initially depositing more funds will save you the trouble and personal anguish of having to top up your balance (which may be required by your broker) in the event that you sustain heavy losses. In addition, the more that you invest, the less you will have to rely on leverage. Trading data corroborates the idea that accounts with higher balances are more likely to be profitable than those with low balances. Whether this is due to skill, leverage, or other factors is unclear, but the fact remains. Nevertheless, selecting a forex broker is a decision that should not be taken lightly. Consolidation has not yet swept through the forex brokerage industry, and the sea of brokers is still vast. There is a wide gulf between the best and the rest.

The type of account most suited for you will depend on your requirements. The main differences between account types are the levels of investment needed to initially fund the account, the size of currency amounts that can be traded, and as a result of both of these factors the level of risk associated with each trade. There are 3 main types of trading account available:

• Standard Account
• Mini Account
• Micro Account

1 Standard Account: A standard account is, as the name suggests, the most common form of account and provides access to standard size lots of currency ($100,000), utilizing leverage of as much as 100:1. This means that under the rules of Forex trading you will generally be required to have an available minimum capital of $1,000 to be able to take advantage of leverage at 100:1. The $1,000 capital is the sum known as the account margin and will enable you to control a currency lot of $100,000.

However, most brokers will require that accounts be initially funded with levels over $2,000. The standard account means that when you enter a transaction every pip of movement can be worth the equivalent of $10. This level of gain can seem very attractive to novice traders, but some caution should be exercised in the use of a standard account. Whilst gains can rapidly accumulate, this level of leverage can similarly quickly reduce capital reserves and lead to substantial losses beyond the original stake, should the market move against you. Standard accounts are therefore generally more suited for experienced traders.

2 Mini Trading Accounts: A mini trading account simply reduces the level of capital required to initially fund the account, and provides traders with the ability to trade in minilots, thus reducing the exposure to potential gains and losses. Generally, a mini-lot is equal to $10,000, which reduces the level of investment required to initially fund the account as well as reducing the risk associated with each trade. Most mini accounts can be funded with just $500 or less and the levels of leverage can be as high as 400:1. The mini account is better suited to traders who are relatively new to the Forex market or for traders who are happy to test new strategies with relatively lower levels of capital.

3 Micro Trading Accounts: Micro accounts are the final type of conventional self-trading account available. Brokers often offer them as a method of encouraging traders to try Forex trading and to do so with relatively low levels of risk. A micro account provides traders with the opportunity to trade in micro-lots of $1,000. This further reduces the levels of capital required in order to fund and begin trading.

The size of one lot expressed in base units is usually not determined by the client, but by the requirements of the liquidity provider and we can see through the example of LiteForex that there are completely different lot sizes for different asset groups and types of trading instruments. LiteForex uses a standard lot of 100,000 units for currency pairs and a nano lot for gold. If you look at the cryptocurrencies, LiteForex offers its clients to trade Bitcoin and Ethereum in lots of **only 1 unit!**

Note: It should be remembered that the cost of a position depends not only on the number of units in the contract but also on the value of the underlying

asset or currency in which these units are expressed.

For example, a position in XAUUSD with a lot of 100 units will be equal to 100 troy ounces in US dollars. In the same way, for 1 GBPJPY contract equal to 100,000 units, the trade value will be 100,000 British pounds against the Japanese yen.

What does all this mean for the Forex market participant? Only that by buying cross rates (currency pairs that are not quoted against the US dollar), you are not only betting that the quoted instrument will grow, but also that the value of the quote currency will fall. It is important for every trader and investor to know all the details of trading a specific instrument.

In addition to the information about the lot, you can see a lot of useful data there:

• The cost of one pip when buying 1 contract for this instrument.
• Quoted Currency - the monetary unit in which the quote price is expressed. It always comes second in the designation of the pair. So it’s pretty easy to identify. Stocks, oil, indices have no quotation currency in the name of the asset. You can find information on how the asset is denominated in the section “Information about Instrument”.
• Base currency is the currency in which the contract price is expressed and which is traded in relation to the quoted currency.
• Size of 1 lot and the currency it is expressed in for this asset. This currency is usually called the base currency.
• Leverage set up on your account. If the broker has a leverage set for an asset in the form of % of the margin, you will also see the leverage it corresponds to.
• The size of the buy and sell swap and the day of the triple swap. Swap is an overnight fee.

In addition to self-traded Forex accounts, it is also possible to experience the potential rewards that foreign exchange currency speculation can provide without actively trading. Managed trading accounts provide an option to have an account which is centrally managed by a Fund Manager who will make day-today trading decisions on your behalf, based upon your risk profile, and profit/strategic requirements.

CHAPTER SIX
HOW DO WE TRADE FOREX?

You will have to open an online brokerage account to enable you access that broker's trading platform. Most brokers offer demo trading where you can practice trading without risking real money “it’s a little like playing monopoly”. You do not need to deposit any funds with a broker to gain access to their demo platforms, as most are quite willing to let you try them without any obligation. This also gives you the chance to try various platforms and see what you feel comfortable with.

It may seem a little confusing at first but really, it is quite simple.

Forex is a leveraged financial instrument, as is Options, Futures, CFDs, Warrants etc. So this is nothing new. You trade Forex in 'lots'. That is basically the industry standard, but there are brokers out there that do things slightly different. For example, Oanda trades in 'units', but they can be easily converted to a lot size equivalent. Lots are known by different names, depending on how much currency they represent. There is a standard lot, a mini lot and a micro lot:

• **One standard lot:** 100,000 units of the base currency and is normally expressed as 1.0 lot
• **One mini lot:** 10,000 units of the base currency and is normally expressed as 0.1 lot
• **One micro lot:** 1,000 units of the base currency and is normally expressed as 0.01 lot.

How many lots you can buy or sell depends on a few things:

• Your account balances.
• Your nominated trading leverages.
• How much you are willing to risk on the trade.

All of it would still be around or within the 'margin', 'leverage' and 'risk'. Every information is important and necessary, but there is no need to get stressed about them as they can all be controlled and there are easy ways to maneuver around it.

Margin

This refers to the money you have in your account that is available to trade with. As stated earlier, Forex is a leveraged instrument, so if your broker offers you 100:1 **leverage** , then for every 1 unit you have in your trading account, you can control 100 units in a trade. Some brokers offer up to 1000:1 leverage. If you are over leveraged and a trade goes against you, and you decide not to take any action, your broker will close the trade on your behalf to protect their interests, even though you may have blown your account out. The “higher the leverage”, the more currencies you can control (buy or sell more).

Risk refers to what you are willing to risk on any particular trade, in terms of dollars.

Important Information for US based Traders

1 Most US Traders are restricted by their government's regulations whereby they do not allow US based brokers to offer more than 50:1 leverage on their trading accounts. It is “Big Brother’s” way of telling you what’s best for you. There are ways around this if you are a US based trader. It will take a little research on your part.

2 Another US only regulation is not allowing traders to hedge, which means that you cannot have a buy and a sell trade open at the same time on the same pair. A lot of traders hedge trades that are going against them so it gives them time to reassess their overall position. Some actual trading systems call for trades to be taken in both directions at the same time also. There are ways around this also.

3 Another US based rule is called FIFO, which means ‘first in, first out’. Basically, if you are trading multiple trades on one pair, and these would be all in the same direction as you are not allowed to hedge, you have to exit the trades in the same order that you entered. It also depends on the position size of each trade. Refer to your Broker for exact information on this. This is probably one of the most frustrating rules for US traders as sometimes you don’t necessarily want to exit in that particular order. Even though, most of these restrictions are not applicable to several other countries.

CHAPTER SEVEN

LOT SIZE AND EQUIVALENT PIP VALUE If the EUR/USD moved from 1.3924 to 1.3928, it has moved a total of 4 pips, and if the USD/JPY moved from 95.23 to 95.19, it also moved 4 pips.

Straightforward so far, If I was trading 1 standard lot ($100,000), then each pip is worth US$10. So, in the above EUR/USD example of the 4 pip move and you were trading 1 standard lot, 4 pips is equal to US$40. The same US$10 per pip also applies to the GBP/USD, AUD/USD and NZD/USD. That is the easy part. Now all the other forex pairs aren't quite as simple due to the fact that the USD is not the quota counter currency.

So, what you have to consider here, is the currency conversion between the two pairs and the math can be a little confusing. But we can make it simple, by considering all pairs to have a 1 pip value of US$10. Just about all of the forex pairs, except the EUR/GBP which will have a pip value of less than US$10, and most of these are just under that level, but they do fluctuate with currency variations. If you do need to know the exact pip value, there are plenty of free websites with a built-in calculator to do the math for you.

The majority of traders either trade standard lots or mini lots. As stated earlier, Oanda is slightly different here as they trade in units, which can be very useful for precise money management. So, if 1 pip is equal to US$10 on a standard lot (1.0 lot / $100,000), then 1 pip on a mini lot (0.1 lot / $10,000) must be equal to US$1, and 1 pip on a micro lot (0.01 lot/ $1,000) is worth $0.10. Simple! And to keep it very easy and simplified, just consider every Forex pair the same. Even though, a USD/JPY pip on a standard lot isn't US$10, but it is close enough not to worry about its exact value. If your style of trading is affected by the exact price of pips on the 9 Forex pair you are trading, then you will have to use something like a dedicated forex calculator to work out the exact values. They are freely available by just doing a Google search.

Let's get into a Trade Example: I have $2,235 in my trading account, and I am happy to risk 2% on each trade. I'm in my broker’s account looking at their charts and I see a nice set up on the EUR/USD where I am looking at buying at 1.3928. I am going to place my stop (stop loss) 30 pips below at 1.3898. So, my risk on this trade is 30 pips. Now I need to know what my

position size will be, where I am risking no more than 2% of my overall account balance of $2,235. This actually equates to $44.70.

The easy way to work this out is by using the following: Account Balance multiplied by risk percentage, divided by risk (stop size in pips), equals position size.
In this trade, the math would look something like this:
• $2,235 x 2% = $44.70
• $44.70 / 30 pips = 1.49

Therefore, my position size on this trade would be 1.49 mini lots (0.149 lots). You would have to round this down to either 1 mini lot (0.1 lot), or 1.4 mini lots (0.14 lots) if your platform allows this trading size. If you are unsure of the position size, whether it is in standard or mini lots, just do the math backwards to confirm. You know the maximum risk is $44.70 on this trade.

If you want to trade with 1 mini lot, you know each pip is worth $1, so if you were stopped out, then you would have lost $30, which is under your max risk of $44.70, due to the fact you had rounded your position size down.

Here is another example with a much larger account balance and a different risk percentage and stop placement.
Account balance is $37,840, your trade risk is 3%, and you are placing an order to sell the GBP/USD at 1.4562 with a stop at 1.4607, which is 45 pips away.
Let's do the math to work out my position size:
• $37,840 (Account balance) x 3% (risk percentage) = $1135.20
• $1135.20 (max risk) divided by 45 (stop) = 25.226
Therefore, my position size would be 25.226' mini lots (2.5226 lots), or rounded down to 25.2 mini lots (2.52 lots) which is basically 2.5 standard lots.

Do the math in reverse if you want to double check your position size. You know your max risk is $1135.20, and your stop is 45 pips, and each pip is worth $10 on a standard lot. If you were to lose 45 pips with 2.5 lots, then 45 x 2.5 x 10 = 1125, which is under the $1135.20 risk. It may be a little confusing at first, but it is very simple once you get the hang of it.

By using this formula, you should never have to worry about leverage, margin or risk. They just don't come into it. But having said that, it all depends on your risk percentage levels and your actual trading methods. You do need a successful trading method, because if you don't and you were only risking say 2% per trade, you will eventually blow out your account. It will just take a bit longer to achieve this than if you were risking 10% on each trade.

PART THREE

TOOLS AND PLATFORMS FOR FOREX TRADING

CHAPTER ONE
TOOLS FOR TRADING FOREX

Investors in the foreign exchange market have trouble understanding that the foreign exchange market is extremely unpredictable. While new entrants spend a lot of time trying to learn the mechanics of currency trading and spend their time and energy trying to find a method to predict movements, they naturally expect rules to govern market movements. However, many traders are at a disadvantage.

Although traders have several tools at their disposal to determine the right time to open or close a position, many prefer to rely primarily on one tool. Thus, after opening a position, they observe their favorite indicator and, to a large extent, base their trading decisions on themselves, ignoring others. It works well until the indicator starts to say something different from the others. Operators are held in an open position that their favorite tool tells them to ensure often, while other tools tell them to close and exit the market and lose money.

The fundamental problem, of course, is that the marketer does not look at the market as it is, but that he considers his expectations and always uses his preferred gauge to reinforce those ideas instead to consider the situation as a whole. And, encouraged by the fact that the chosen indica tor predicts the profit it wants, the marketing specialist focuses more on money than on the market. If the Forex market were not unpredictable, it would collapse because all traders would benefit at any time.

Many tools can help marketers predict market direction and do an effective job. But even in the hands of expert traders, the best tools sometimes do not allow to predict market movements correctly. Losing in the trade because of the poor market forecast is an innate part of Forex trading and marketers have to accept it. Also, they must learn to avoid finding themselves in a position where they do not have many options. For this, the trader must accept the fact that the foreign exchange market has its spirit and that traders must follow their movements rather than trying to go in the direction they want.

The Trading Tools

There is not a single super-smart Forex trading tool that will give you profits, profits, and more profits. The only possible solution is to combine different tools to identify market forces that are favorable to obtaining a maximum number of high probability trades over a given period. Trend lines are the most popular and reliable Forex trading tool that many successful traders give their testimony.

The Three Trend Line Strategy

Trend curves are an important tool for identifying and confirming trends in technical analysis. This is a straight line that connects two or more price points and then extends into the future to guide you. Lines will be traced by significant declines in the uptrend and significant uptrend trends in the uptrend to classify trend lines roughly; we can divide them into three: shortterm trend lines, medium-term trend lines, and long-term trend lines.

1 Short-term trend lines: Draw these lines on the last two last troughs for an uptrend or the Draw these lines on the last two last troughs for an uptrend or the minute chart.

2 Medium-term trend lines: Medium-term trend lines: minute chart. It connects the significant low close to the current price to the previous low in a significantly higher or higher stock price trend up to the previous one above in a downtrend.

3 Long-term trend lines: It uses higher time slots, such as the 4-hour chart or the daily chart, to plot long-term trend curves using the same method as the medium-term trend charts. The longterm trend line is considered an effective Forex trading tool. The daily chart is mainly used by traders from large institutions that do not typically make small intraday movements. When you draw a trend chart on a daily chart, you can graphically analyze where the price is and where it's likely to return. But use the trend lines as a Forex trading tool with caution and discretion. Covering your graphics with all possible trendlines will cause confusion and fuzzy analysis.

It is a bad idea to rely entirely on a short-term trend line. They provide only a defined picture of the current price action. These are often broken during a day. Its main use is to provide a clear and instantly recognizable graphical representation of current price behavior. If you realize that the price will come back to test a trend line in the longest time, consider other factors. Draw horizontal lines to mark support and resistance using previous highs and lows. Draw the retraction and extension levels of Fibonacci. Calculate the daily pivot points and place them on the graph. Display the 200 Moving Average Exponential (EMA) in your charts.

The Four Types of Trend Indicators

Many forex traders spend their time looking for that perfect moment to enter the markets or a tell-tale sign that screams "buy" or "sell." And while the search can be fascinating, the result is always the same. The truth is, there is no one way to trade the forex markets. As a result, traders must learn that there are a variety of indicators that can help to determine the best time to buy or sell a forex cross rate.

Here are four different market indicators that most successful forex traders rely upon to aid achievable profits:

1 A Trend-Following Tool: It is possible to make money using a countertrend approach to trading. However, for most traders, the easier approach is to recognize the direction of the major trend and attempt to profit by trading in the trend's direction. This is where trend-following tools come into play. Many people try to use them as a separate trading system, and while this is possible, the real purpose of a trend-following tool is to

suggest whether you should be looking to enter a long position or a short position. So let's consider one of the simplest trend-following methods—the moving average crossover. A simple moving average represents the average closing price over a certain number of days.

Many investors will proclaim a particular combination to be the best, but the reality is, there is no "best" moving average combination. In the end, forex traders will benefit most by deciding what combination (or combinations) fits best with their time frames. From there, the trend—as shown by these indicators—should be used to tell traders if they should trade long or trade short; it should not be relied on to time entries and exits.

2 A Trend-Confirmation Tool: Now we have a trend-following tool to tell us whether the major trend of a given currency pair is up or down. But how reliable is that indicator? As mentioned earlier, trend-following tools are prone to being whipsawed. So it would be nice to have a way to gauge whether the current trend-following indicator is correct or not. For this, we will employ a trend-confirmation tool. Much like a trend-following tool, a trend-confirmation tool may or may not be intended to generate specific buy and sell signals. Instead, we are looking to see if the trendfollowing tool and the trend-confirmation tool agree. In essence, if both the trend-following tool and the trend-confirmation tool are bullish, then a trader can more confidently consider taking a long trade in the currency pair in question.

Likewise, if both are bearish, then the trader can focus on finding an opportunity to sell short the pair in question. One of the most popular—and useful—trend confirmation tools is known as the moving average convergence divergence (MACD). This indicator first measures the difference between two exponentially smoothed moving averages. This difference is then smoothed and compared to a moving average of its own. Hence, when the trend-following moving average combination is bearish (short-term average below long-term average) and the MACD histogram is negative, then we have a confirmed downtrend. When both are positive, then we have a confirmed uptrend.

3 An Overbought/Oversold Tool : After opting to follow the direction of the major trend, a trader must decide whether they are more comfortable jumping in as soon as a clear trend is established or after a pullback occurs.

In other words, if the trend is determined to be bullish, the choice becomes whether to buy into strength or buy into weakness. If you decide to get in as quickly as possible, you can consider entering a trade as soon as an uptrend or downtrend is confirmed. On the other hand, you could wait for a pullback within the larger overall primary trend in the hope that this offers a lower risk opportunity. For this, a trader will rely on an overbought/oversold indicator.

There are many indicators that can fit this bill. However, one that is useful from a trading standpoint is the three-day relative strength index, or three-day RSI for short. This indicator calculates the cumulative sum of up days and down days over the window period and calculates a value that can range from zero to 100. If all of the price action is to the upside, the indicator will approach 100; if all of the price action is to the downside, then the indicator will approach zero. A reading of 50 is considered neutral.

4 A Profit-Taking Tool: The last type of indicator that a forex trader needs is something to help determine when to take a profit on a winning trade. Here, too, there are many choices available. In fact, the three-day RSI can also fit into this category. In other words, a trader holding a long position might consider taking some profits if the three-day RSI rises to a high level of 80 or more. Conversely, a trader holding a short position might consider taking some profit if the three-day RSI declines to a low level, such as 20 or less. Another useful profit-taking tool is a popular indicator known as Bollinger Bands. This tool takes the standard deviation of price-data changes over a period, and then adds and subtracts it from the average closing price over that same time frame, to create trading "bands." While many traders attempt to use Bollinger Bands to time the entry of trades, they may be even more useful as a profit-taking tool. A final profit-taking tool would be a "trailing stop." Trailing stops are typically used as a method to give a trade the potential to let profits run, while also attempting to avoid losing any accumulated profit.

Understanding Moving Average (Ma)

Moving average is a simple, technical analysis tool. Moving averages are usually calculated to identify the trend direction of a stock or to determine its support and resistance levels. It is a trend-following—or lagging—indicator

because it is based on past prices. The longer the time period for the moving average, the greater the lag. So, a 200-day moving average will have a much greater degree of lag than a 20-day MA because it contains prices for the past 200 days. The 50-day and 200-day moving average figures for stocks are widely followed by investors and traders and are considered to be important trading signals.

Moving averages are a totally customizable indicator, which means that an investor can freely choose whatever time frame they want when calculating an average. The most common time periods used in moving averages are 15, 20, 30, 50, 100, and 200 days. The shorter the time span used to create the average, the more sensitive it will be to price changes. The longer the time span, the less sensitive the average will be. Investors may choose different time periods of varying lengths to calculate moving averages based on their trading objectives. Shorter moving averages are typically used for short-term trading, while longer-term moving averages are more suited for long-term investors.

There is no correct time frame to use when setting up your moving averages. The best way to figure out which one works best for you is to experiment with a number of different time periods until you find one that fits your strategy. Predicting trends in the stock market is no simple process. While it is impossible to predict the future movement of a specific stock, using technical analysis and research can help you make better predictions. A rising moving average indicates that the security is in an uptrend, while a declining moving average indicates that it is in a downtrend. Similarly, upward momentum is confirmed with a bullish crossover, which occurs when a shortterm moving average crosses above a longer-term moving average. Conversely, downward momentum is confirmed with a bearish crossover, which occurs when a short-term moving average crosses below a longer-term moving average.

While calculating moving averages are useful in their own right, the calculation can also form the basis for other technical analysis indicators, such as the moving average convergence divergence (MACD). The moving average convergence divergence (MACD) is used by traders to monitor the relationship between two moving averages. It is generally calculated by subtracting a 26-day exponential moving average from a 12-day exponential

moving average. When the MACD is positive, the short-term average is located above the long-term average, this is an indication of an upward momentum. When the short-term average is below the long-term average, this is a sign that the momentum is downward. Many traders will also watch for a move above or below the zero line. A move above zero is a signal to buy, while a cross below zero is a signal to sell.

Types of Moving Averages

1 Simple Moving Average: The simplest form of a moving average, known as a simple moving average (SMA), is calculated by taking the arithmetic mean of a given set of values. In other words, a set of numbers–or prices in the case of financial instruments–are added together and then divided by the number of prices in the set.

2 Exponential Moving Average: The exponential moving average is a type of moving average that gives more weight to recent prices in an attempt to make it more responsive to new information.

• Simple Moving Average (SMA) vs. Exponential Moving Average (EMA) The calculation for EMA puts more emphasis on the recent data points, and because of this, EMA is considered a weighted average calculation.

CHAPTER TWO
PLATFORMS FOR TRADING FOREX

If t here's something essentially needed to trade Forex, it is a trading platform! If you are assuming that trading is ideal for absolute beginners, I'd say yes, but you are not going to make millions overnight. If you look at Forex trading like gambling, you will not be able to become a profitable trader because greed will invade you. If you want to become a great trader, you must have skills and patience.

Also, you must keep practicing trading as it helps to shape up your trading style into a better version. Once you do your homework, you'd feel as if you are good to go. But then, Forex trading knowledge can't be accumulated into a few pages or days. It is a continuous learning process. If you have just started with the basics of Forex trading, you have a lot more to learn. I have already discussed selecting the right broker, but remember when you are

selecting a broker you must consider the demo account option. A beginner should have access to a user-friendly platform that can be easily handled when trading.

A beginner’s journey is already complex, so when the trader doesn’t select the right platform, the difficulties increase. When the trading platform is easy to understand, you will not have difficulties when trying out new strategies and techniques on the demo account. There are many reliable brokers that you can select when you are trading Forex, but the problem is finding the ideal broker.

To earn extra income, Forex is a good choice. But it doesn’t mean Forex can be traded as the main source of income. However, either main income or part-time income, you must find the ideal broker and an excellent platform to keep going in trading. Even though there are many good brokers, you must do your research to find the right one that offers the most straightforward trading platform. I know, you will encounter difficulties when selecting the right broker, so let me help you.

Before you settle for an ideal platform check whether the platform is reliable; it is one of the most crucial factors that you must consider whenselecting a trading platform. You don’t want to lose all the money that you collected, so make sure to find a platform that you can rely on. If you're going to deposit and withdraw your cash without facing any issues, the trading platform must be reliable.

Another important factor is charges related to the platform. You must consider the charges because your profits will disappear even before you know it if the charges are high. Besides, you are just starting your journey so your income will not be massive. The smaller income that you gain must be protected, so for that, you must consider the charges related to the trading platform.

You must next consider the licensing factor of the Forex platforms. If the relevant authorities monitor the platform, they are unlikely to fool you. The trading platforms will work according to terms and conditions, so you don’t have to worry when you are trading through it. But to find whether the platform is licensed, you must do some research even if it is tough. Along

with these, you must consider the simplicity in the Forex trading platform, but due to the software used, eventually, almost all the trading platforms have become easier to handle. In the meantime, don’t forget to consider the leverage, margin, and other requirements that generally should be considered when selecting a trading platform. Once you select the ideal platform, you will be able to trade in a hasslefree way. However, there’s more to learn about Forex trading platforms. So, keep reading!

There are two types of platform, such as commercial and prop platforms. Before you pick any, you must ensure to understand the types in detail. Thus, prop platforms are designed by Forex brokers, and specialized companies develop commercial platforms. However, there are unique features for both the trading platforms. Even though the prop platforms are considerable, there are times when you might want to change the broker. But when you try to do it, you have to learn the new platform from scratch.

Basically, prop platforms are not suitable for naïve traders because you might have to struggle a lot to understand the sophisticated features. But, why do these trading platforms include complex features? Well, a Forex broker’s main duty is not to create and manage trading platforms. Hence, they don’t spend much time to introduce better trading tools and features to prop platforms. For example, if you consider Aplari or FXCM you might find it difficult to handle because brokers develop these. Beginners like you need a lot of time to get adjusted with the trading platform. But, I don’t say trade execution speed is terrible because it is excellent in prop platforms, yet beginners will have a tough time understanding this platform.

So, beginners like you can consider the platforms designed by professional companies. One of the most common trading software is Metatrader. This is a user-friendly and a high standard platform that you can consider even if you don’t have experience. But if you are looking for a platform that includes broker feeds, then this is not going to help because the commercial platform has poor customization. These companies sell commercial platforms to Forex brokers so the benefits may be biased towards the broker, but not the trader. Yet, as beginners, you are not going to find anything better than commercial platforms because they are extremely user-friendly and flexible.

So that’s about the types of platforms that you will come across. But, I’m pretty sure you’ll have some doubts related to selecting the right trading platform. Hence, I’ll solve some of the common questions below.

What to consider when selecting the right platform for trading Forex?

You already know this, yet let me provide a brief answer. As mentioned, you must consider reliability, trading conditions, licensing, charges, and user-friendly interface. But, before you make a decision, it is better to read some reviews about the platform so that you will make a solid decision.

• **Which Forex software will be ideal?**

A technical trader must consider a comfortable charting platform. The platform that you have selected must have all the necessary tools. Only if you select the right trading platform will you be able to enjoy trading. A fundamental trader must consider the news and analysis factor and check whether it is accessible by the Forex software that the trader has selected.

• **Should you trust the platforms that provide exclusive offers?**

You already know when something is too good to be true, we shouldn’t rely on it. Just like that, if a platform is providing exclusive things that you cannot fathom, then you must think twice before considering that platform. If they are offering so much, they should have massive profits. If yes, then from where do they get so much profit? Instead of falling for exclusive offers, you can find a platform that is reliable and reasonable.

I hope these questions and answers cleared most doubts that you had about trading platforms. However, it is better to get some idea about the famous trading platforms. Let’s get started!

MetaTrader 4 and MetaTrader 5

The MetaTrader 4 and MetaTrader 5 trading platforms feature a wide variety of tools and you can use and develop expert advisor (EA) software to automate your trading and generate trading signals. You can find MetaTrader 4 at FOREX.com, along with the broker’s own proprietary platform.

MetaTrader offers real-time trading functionality and an impressive set of technical analysis and charting tools. It also has a highly customizable interface and an extensive user community that has devised many useful add-ons for the platform.

1 MetaTrader 4

It is considered as the gold standard among trading platforms, MetaTrader 4 is a free platform for trading forex and other financial instruments such as CFDs, futures, indices, commodities, and cryptocurrencies. MetaTrader4 is available for retail traders through specific brokers, which individually license the platform. According to its developer, MetaQuotes Software, the platform is available through over 750 brokers and banks and services millions of traders.

This platform is best for:
• Beginning traders looking to dip their toes into data.
• Advanced traders who want a data-rich experience.
Pros of MetaTrader 4

• Ease of deployment.
• Platform doesn’t overload the computer.
• User-friendly design for beginner investors.
• Compatible with several operating systems such as Linux, Mac and Windows as well as

iOS and Android.
Cons of MetaTrader 4

• Comprehensive historical data for backtesting isn’t available
• Execution speed is not great and is unsuitable for high-frequency trading
• Its nascent web platform does not allow automated trading
• Charting package does not provide for a custom timeframe

Who can use MetaTrader 4?
MetaTrader4 has something to offer anyone ready to trade. Here is what it can do to support beginners and advanced traders.

• **Beginners:** MetaTrader 4, with its simple design, excellent user interface, and functionalities such as copy trading and Expert Advisors are ideal ifyou’re a beginner. Since most brokers offer this as a sole platform or as an add-on with their own proprietary platform, you’ll gain access to a plethora of platform of educational resources and tutorials. The fully-functional demo account offers strong support for beginners.
• **Advanced traders:** The platform also appeals to advanced traders due to its advanced charting capabilities and technical analysis, several built-in indicators and graphical tools and more. The platform also allows automated trading by programming with MetaQuote’s proprietary MQL4 language and constructing custom indicators.

MetaTrader 4’s platform and tools

MetaTrader offers desktop, web and mobile platforms. The platforms support over 30 languages, including English, French, Spanish, Portuguese, Japanese, Chinese and Russian. The desktop platform helps analyze financial markets, performs advanced trading operations, runs trading robots and does copy trading.

The client terminal of the platform allows 3 trade execution modes:

- Instant execution
- Execution on request
- Execution by market

Orders executed through MetaTrader 4 can be a market order, which is an order executed at the current market price or a pending order, which is a commitment to buy or sell a security at a predefined price in the future.

A pending order can be a limit, stop or stop-loss order. The platform ’s quick trading function sends orders from the chart with one click. Another feature, called built-in tick, helps accurately determine entry and exit points. Price movement can be analyzed in nine timeframes. The platform’s charting application has **30 built-in technical indicators and 24 graphic objects** .

MetaTrader 4 platform also ensures security. It conforms to the highest security standards. Your trading account is secured by the encryption of data

exchanged between the client terminal and the platform's servers and the usage of RSA digital signatures. The web platform allows you to trade using any browser and operating system. It provides for all trading orders, 4 execution modes and 1-click trading. The chart carries realtime quotes. MetaTrader 4's mobile platform gives complete control over your trading account, and you can access your account anywhere, anytime. The free chat option also helps to communicate with other traders. MetaTrader 4 offers an automated trading feature with the help of automated trading robots called Expert Advisors (EAs). EAs can analyze quotes and execute trades.

These EAs, or robots, are available for download for free from Code Base, which is a library that features codes of free EAs, technical indicators and scripts. Alternatively, they can be purchased or rented from the Market, an online store. You can also order EAs from professional MetaTrader freelance developers.

TradingSignals in MetaTrader 4 allows copy trading of successful traders, who provide their trades in public access for free or for a reasonable fee, thereby becoming signal providers. These free and commercial signals are found on the Signals tab of the trading platform and on the firm's website. You can select a signal provider and start copying trades without leaving the platform.

MetaTrader 4's Research Offerings

The platform does not carry 3rd-party research offerings. The financial alerts and tools of the platform provide traders with the latest market events, news from exchanges and large financial institutions, interest rate decisions and geopolitical developments.

For transmitting the quotes and news, you need to launch a simple plugin, a gateway for connecting the platform with quotes and news providers. The platform has already created feeds for major quote and news providers such as IB Times, Trading Central, Dow Jones, Claws and Horns, MNI, Bloomberg, Reuters, Alliance News, FXStreet and Trading Central. You can create your own feed using the MetaTrader 4 API.

MetaTrader 4's Pricing

MetaTrader 4 is free for download from the website. On the 1st launch, you will be prompted to open a free demo account to enable you to test all features of the trading platform. When you access the platform through a broker, it may offer MetaTrader 4 free for its clients or widen its spread to account for the use of either the MetaTrader 4 standard account or the MetaTrader 4 Pro account. The brokerage pays an upfront fee of $100,000 for a full license and coughs up an extra sum of around $15,000 per month for hosting, bridging, hiring 24/5 support and other services.

MetaTrader 4's Compatibility
You'll need:

OS – Windows XP/2003/Vista/2008/7/8/10
Processor– One that supports SSE2 instruction sets
The other hardware depends on terms of using the terminal, load from running MQL4

applications and the number of active instruments and charts, etc. MetaQuotes do not create a version of the platform for Linux and Mac OS. However, to install MetaTrader 4 on the Linux, you need to have the Ubuntu OS and Wine, which is an installer of the Windows program.

For installing on Mac OS, a special program installer called PlayOnMac is needed, which can be downloaded for free. Wine and PlayOnMac do not guarantee perfectly installed programs; they can have bugs at times. If you want to install MetaTrader 4 on a tablet or smartphone with Android OS, Android 4.0 or a higher version is required. For an Apple device, iOS 7.0 or a higher version is required.

MetaTrader 4's Customer Support

MetaTrader 4's website has a webpage dedicated to help to pics, which provides information under various heads such as getting started, client terminal settings, user interface, working with charts, analytics, trading, auto trading, tools, articles, signals, market and virtual hosting. To purchase the software, brokerages can contact MetaQuote's offices in Cyprus, China, Singapore, Australia, Turkey, UAE, Pakistan and Thailand. Support is also available from brokerages that offer the platform

MetaTrader 4's Ease of Use.

Once you download the platform, you'll be up and running in no time. Its user interface is friendly and intuitive despite its advanced features. The feature that allows placing of orders right from the charts ensures quick execution and helps you capture profit-making opportunities.

2 MetaTrader 5

MetaTrader 5 is an institutional, multi-asset, multi-functional trading platform. Though it hasn't gained as much popularity as MetaTrader 4, MetaTrader 5 enables stock and commodities trading, unlike MetaTrader 4, which is forex market-centric. Available in web, online and mobile versions, it also offers additional services such as built-in trading robots, a freelance database of strategy developers, copy trading and virtual hosting service. The platform interface has been translated into 31 languages and is free through your broker.

This platform is best for:
• Advanced traders
• Day traders
Pros of MetaTrader 5

• Easy-to-navigate interface
• Comprehensive suite of analytical tools
• Allows eight types of pending orders and 21 timeframes
• Breadth of asset classes
• Economic calendar, which is provided as part of the platform

Cons of MetaTrader 5

• Hedging for exchange markets is disabled
• A MetaTrader 4 user might have to relearn some techniques, as these two platforms use different programming languages
• Advanced tools and features may be intimidating for a beginner

Who can use MetaTrader 5?

• **Advanced traders:** MetaTrader 5's multi-asset, multi-functional platform is a better fit if you're an advanced trader. It allows you to work with multiple accounts with different brokers. The platform provides price data, allows the use of a special type of non-tradable assets such as physical gold to provide margin for open positions of other instruments and create custom financial symbols.
• **Day traders:** Day traders need a trading platformthat's fast, robust, reliable and powerful. MetaTrader 5 checks all the boxes.

MetaTrader 5's platform and tools

MetaTrader 5 offers desktop, web and mobile versions of the platform. The desktop version offers superior tools for comprehensive price analysis, algorithmic trading applications through trading robots or expert advisors (EAs) and copy trading. The MetaTrader 5 platform uses the MQL5 language, which is automated trading software that runs on your computer and trades for you. It can perform a variety of functions such as tracking financial symbols 24 hours a day, copy deals, create and send reports, analyze news and even provide a specific custom graphical interface.

You can robotize your successful trading strategy, as the platform provides for the entire development environment to create and optimize your own EA. Alternatively; you can choose several ready-to-use EAs, downloadable for free from Code Base, or purchase or rent from "MetaTrader Market," the largest store of ready-to-use trading applications. You can also order custom applications from professional programmers using the freelance service. The copy trading feature allows you to subscribe to successful trader signals, which will facilitate automatic reproduction of all trades on your account. Hundreds of free and paid signals are available for demo or live accounts.

The MetaTrader 5 platform supports the traditional netting system for exchange markets such as stock market and options market as well as the hedging option system for the forex market. It allows 4 execution modes: instant, request, market and exchange execution, and supports 2 market orders, 6 pending orders and 2 stop orders. The platform allows you to open 100 currency or stock charts at a time, and the 21 timeframes enable comprehensive and detailed analysis of even minor price movements. It also

offers 80 technical indicators and 44 analytical objects, including Gann, Fibonacci tools, geometric shapes and various channels.

MetaTrader 5 offers fundamental analysis which monitors various economic and industrial indicators. The platform carries news reports from international news agencies and also sports an economic calendar. MetaTrader's mobile trading platform is available for Android or iOS on your smartphone or tablet. The mobile version supports the full set of trading function, allows monitoring of account status and viewing of trading history, among other things. And also, it allows trading in forex and other financial instruments from any browser and operating system.

MetaTrader 5's Research Offerings

MetaTrader 5 offers financial news from international agencies and provides a daily broadcast of dozens of newsletters from global events. The platform also carries an economic calendar, which lists the time of an upcomingevent, forecast values, the previous period's values and more.

MetaTrader 5's Pricing

If you're a retail trader, you can do wnload the MetaTrader 5 platform for free either from your broker's website or directly from MetaQuotes' website and practice using the platform's demo account. MetaTrader 5 is available for brokers in three different options: an entry license, standard license and enterprise license. Entry license provides the capacity of 1,000 real accounts, the standard license offers 25,000 default real accounts and the enterprise license offers up to 200,000 default real accounts.

MetaTrader5's Compatibility

The MetaTrader 5 platform can run on Windows 2008, 7, 8 or 11 and requires a processor with SSE2 support; Pentium 4/Athlon 64 or higher. The platform can also be run on Mac OS using Wine, which is a free and open source software application that allows applications designed for Microsoft Windows to run on Unix-like OS. Here are a few more tech-necessary things to note: It's recommended that you use the open source software

PlayOnMac, Wine-based free software, which provides easy installation and use of Windows applications on Mac OS.

To run MetaTrader 5 on Unix OS, the trading platform can be installed and used on computers that run Ubuntu using Wine. To access the mobile platform, you can download MetaTrader 5 for Android from Google Play, connect to your broker and start trading. For iPhone/iPad, the mobile version of the platform can be downloaded on iTunes or from the AppStore. The application can run on iPhone 4S or a newer version, iPad 2 or a newer version and iPod Touch 5 or a newer version. iOS 8.0 or a later version of OS is required.

MetaTrader 5's Customer Support
The MetaTrader 5 platform offers a help page dedicated to help topics such as:

• Getting started
• Trading operations
• Price charts
• Technical and fundamental analysis
• Algorithmic trading
• Trading robots
• Trading signals
• Copy trading
• Market app store
• MQL5 cloud network
• Virtual hosting for 24/7 operation
• Mobile trading
• MQL5 communit
• MetaTrader 5's Ease of Use

MetaTrader 5 is an easily-downloadable platform. It provides a simple and user-friendly interface which facilitates accessing of all commands from the main menu with the most frequently used available on the toolbar. Stock market quotes and the quotes of other instruments are available on the Market Watch and algorithmic trading tools and managing technical analysis can be done from the Navigator.

Opening a demo account is also fairly simple and can be done by selecting a trading server and specifying the registration data. Since the MetaTrader 5 platform is based on distributed architecture, the platform is resistant to hacker attacks. Data exchange between the system components is routed through an encrypted connection. The accounts are protected by built-in advanced authentication and authorization systems. All system databases are securely encrypted and provided with backup and recovery options.

MetaTrader 5 vs. MetaTrader 4

Although MetaTrader 5 has not gained as much popularity as the MetaTrader 4 platform, it has gained wide recognition and acceptance. A major deterrent with MetaTrader 5 is that its default setting applies the principle of FIFO (1st in, 1st out) and thereby disallows hedging with exchange-traded assets such as stocks, options, futures and more.

MetaTrader 5 allows hedging in currencies, as the forex market is a decentralized entity. Here are some of the differences between both platforms:
Factors Tradable instruments
Order types supported
Charting timeframes
Technical indicators Graphic objects

MetaTrader 5
Currencies, commodities stocks, bonds, options, futures
Market order, six pending orders (buy limit, buy stop, sell limit, sell stop, buy stop limit, sell stop limit), stop-loss and take profit 21 timeframes from 1 minute to 1 month
38
44

MetaTrader 4 Currencies

Market order, four pending orders (buy limit, buy stop, sell limit, sell stop), stop-loss and take profit
9 timeframes

30
31
Hardware requirement Uses up more memory space Consumes less memory relative to MetaTrader 5 Programming language MQL5 MQL4

Other trading platforms
3 cTrader

In recent years, Spotware has developed 'cTrader' as a competing trading platform for Forex traders. While the platform does offer advanced charting and trading features, similar to the MetaTrader platform there are some differences:

• As MetaTrader is one of the best-known platforms for auto-trading it has a large online community that share new strategies and indicators. It also makes it much easier to find support on the internet for the MetaTrader platforms, whereas support may be limited for cTrader's auto-trading capabilities.
• cTrader does not allow the customisation of indicators and has limitations to using third party programmes whereas MetaTrader is fully customisable.
• MetaTrader comes packed with additional features such as an economic calendar, real time market news and 'signal trading' functionality whereas cTrader does not have any of these features.

As this platform is available in a web browser, there hasn't been a strong emphasis placed on the development of mobile apps until recent times. At the moment, cTrader is supplied for Android and iOS devices only. Whilst this probably does cover the majority of traders, it does hinder those using a Windows phone. MetaTrader 4 and 5 are certainly the best trading platforms for Forex mobile trading.

4 NinjaTrader

The NinjaTrader trading platform has been around since 2004 and is designed for active forex, futures and stock traders. While the platform offers advanced charting, automated strategy development and trade simulation, those who wish to execute trades from their platform must purchase a lifetime licence or lease the platform on a quarterly or annual

basis. One of the main reasons MetaTrader platforms are so popular and commonly used is the fact they are free to the trader via their broker. And, in some cases such as with Admiral Markets, advanced trading tools like the Supreme Edition plugin also come at no additional cost.

Furthermore, NinjaTrader acts primarily as the trading platform and is not a market data provider. This means in order to receive end-of-day or real-time market data, users need to connect their platform to one of the market data providers NinjaTrader operates with, such as Google Finance or Kinetick.

5 eSignal

The eSignal trading platform is geared towards advanced traders who enjoy fully customisable features. While the platform offers all the standard features expected of a modern trading platform, users can create their own trading strategies or market screeners through the coding language. The platform offers advanced drawing tools such as time and price squares and Gann boxes, as well as the ability to view up to 500 symbols at one time. However, to access streaming and real-time data feeds, traders need to connect their platform with one of eSignal's supported brokers. This means users will have to lease the platform from eSignal for a monthly or annual fee.

5 ProRealTime

The ProRealTime trading platform is a technical analysis software developed in France by IT-Finance. The platform is unique as it is a web-based software that is backed up on the company's cloud network. The platform itself offers a wide range of advanced charting and analytical tools, as well as the ability to create customised market scanners and trading strategies using their ProRealCode language. However, users must pay a software licence to use the platform. On top of this, there are additional fees to access real-time market data.

PART FOUR

MONEY MANAGEMENT IN FOREX
CHPATER ONE

INTRODUCTION

Successful forex trading typically involves managing profits and losses wisely. Ideally, for most traders, these should be large profits and small losses. Having a sound money management component in a trading plan helps ensure this is the case, and hence an understanding of wellestablished money management techniques is essential for most, if not all, successful forex traders.

While having an effective trading plan may seem sufficient, a lack of money management in forex trading can be catastrophic for a trading account. A forex trader must be emotionally prepared to take losses, since if they are not taken sooner rather than later, they can result in the complete loss of funds in an account. Once trading losses have consumed their account, a trader's confidence tends to be shot as well. Exercising appropriate money management techniques when trading on a forex account cannot be stressed enough. Basically, a forex trader that pays no attention to money management is gambling and not trading. The management of risk for each trade as well as the trading account overall, helps lead a trader toward having a profitable trading business.

While money management practices may limit some of the potential profits on a given trade, sound money management is one of the forex trader's tools to being consistently profitable in the market. Trading in a volatile market such as the currency market requires the trader use all of the tools at their disposal in order to make profits and - above all - to limit losses.

Principles of Money Management in Forex Trading

Incorporating a comprehensive set of important money management principles into a trading plan is strongly recommended for any forex trader strategically approaching the oftenunforgiving forex market. Such well-established money management guidelines might include:

1 Do not trade with money you cannot afford to lose.

One of the basic rules of thumb of money management is that trading capital should not consist of grocery money, money for the mortgage or rent, or

money intended for any other basic necessity of life that needs to be met financially. When trading, remember to only use risk capital, which are funds that can be safely put at risk of a complete loss.

In essence, risking funds that would otherwise be used for basic necessities could cause the trader to undergo undue emotional stress when facing a losing trade. Trading under such stress can severely affect a trader's judgment and impede them from making sound trading decisions.

2 Determine optimal risk reward ratios.

Knowing how much risk you are willing to take with each trade is another basic principle of money management. A forex trader should be able to assess how much they can risk and how much that risk is expected to pay off. For example, some traders use a risk reward ratio of 1:2, in other words, they are willing to risk one unit in order to make an anticipated two units of profit. Other traders may wait for an opportunity to make three units by risking only one unit, which would be a risk reward ratio of 1:3.

Looking for trades with a higher expected risk/reward ratio can help a trader filter out less attractive trading opportunities. The trader can then concentrate their attention and capital on initiating trades under better trading circumstances. Also, depending on the level of margin and leverage the trader might have in their forex account, they can choose to establish a larger position when a better opportunity presents itself.

3 Determine your optimal position size.

Knowing what the proper trading unit size should be in relation to the size of a trading account can help safeguard the remaining funds in the account. By keeping the trade unit size in a suitable relation to the amount of money in the forex account, only a certain percent of the account will be at risk at any given time.

For example, many successful forex traders only put twenty percent of their account at risk at any given time. Even if the entire twenty percent is lost, the trader still stands a decent chance of recovering the loss quickly with the remaining funds in the account, versus if they typically put more at risk.

Some forex traders will adjust their position size based on how high they calculate the probability of the trade being profitable. Such a trader will generally increase the size of a trade depending on their estimated probability that the trade will be a winner.

4 Enter a stop loss order on each trade.

Once the size of each trade is determined, along with the percentage of the account that will be at risk at any given time, the trader can then establish a position in a currency pair based on their forex analysis. Before initiating the trade, it is strongly recommended that the trader determines an exchange rate level where the maximum tolerable loss should be taken and the position liquidated.

Many traders enter their stop loss orders immediately upon initiating a forex trading position to help them remain disciplined. By entering a stop loss order, the trader automatically exits the position in the event that they are wrong on the direction of the market. Trading with stop loss orders is an important component of forex money management that can save the trader a considerable amount of money in the event of an extreme adverse move in an exchange rate.

Some traders will also use a trailing stop loss as the initial position becomes profitable. After the exchange rate has moved in a favorable direction for the trading position, the original stop loss order is moved up in the case of a long position, or lower in the case of a short position. This trailing stop technique ensures that the trader does not ride a profit into a loss in the event of a significant market reversal.

5 Enter a take profit order on each trade.

While this s trategy may conflict with the “let your profits run” adage, having an idea of where to exit a trade is almost as important as when to initiate a trade. Once the trader has established an exchange rate position, entering an order to exit the trade at a realistic (but still attractive) level of profits, allows the trader to take a profit without having to see their profit diminish or even turn into a loss.

This strategy may seem to be counterproductive for some traders, especially in a strongly trending market. Nevertheless, often the market will reach a certain level before hitting resistance or support, and then will, in many cases, react significantly in the opposite direction like an overstretched rubber band snapping back into shape.

A trader with a take profit order in the market can exit the trade at their target level, and then seek to re-establish the position once the market has corrected. The disadvantage of course, is that the market may continue to move in the direction of the trade without a pullback, leaving the trader either side-lined out of the market or having to initiate a new position at a level which might not be optimal.

In addition to incorporating the basic principles of money management cited above, a successful trader will often customize their money management techniques to fit their trading plan. An example of how a trader might develop their trading plan by incorporating sound money management techniques is illustrated in the section below.

CHAPTER TWO
HOW TO USE MONEY MANAGEMENT IN FOREX TRADING

To employ money management, the first objective consists of developing a calculated approach in strategic forex trading and then applying the techniques detailed above to positions established using the trader’s analysis of current market conditions. Initially, the trader should recognize that forex market is typically either trending in a general direction or trading within a limited range.

Recognizing the trend, or making a determination of the limits of a trading range, gives the trader much better probabilities for being profitable by either following the trend or trading within the parameters of the trading range. Selecting the optimal entry and exit points could, for example, be determined by using technical forex analysis for the currency pair to be traded.

For example, if the market is trending, a trader could plan on following the trend on a majority of their trades, generally about 80 percent. In this case, a

risk reward ratio of 1:2 would be acceptable, with a stop loss order placed at a considerable distance from the initial trade, maybe 150 or more pips. The take profit in this instance would be twice as much as the stop loss, or 300 or more pips.

In the event that the forex trader decides to make a trade contrary to the trend during a correction, then a risk reward ratio of 1:1 could be used, although a much tighter stop loss and a lower take profit objective of around 50 pips would be appropriate.

Alternatively, if the market is trading within a range, the trader would then initiate positions at the extreme points of the range, perhaps covering short positions and going long at the low end of the range, or taking profits and shorting the market at the high end of the range. In this type of market, the trader might use a risk reward ratio of 1:1.5, placing stop loss orders around 100 pips away and with a take profit level of 150 pips or so.

Notice that in both types of market conditions, i.e. trending or ranging markets, the estimated risk reward ratio of trades taken is ideally kept to 1:1.5 or 1:2, with the exception of trading corrections. A trader that makes money more than half the time using the above model would be exceptional, but even if only half of these trades were ultimately profitable, then the above model should give positive returns over time. In addition, adhering to this type of money management strategy helps eliminate some of the emotional problems that can arise when trading and which can be extremely counterproductive to success.

Additionally, understanding the basic money management principles and using sound techniques for limiting risk in a forex trading account can make the difference between being consistently profitable and having your forex broker terminate your trading positions when your losses exceed margin requirements. Basically, forex trading can be a serious long-term business for a good money manager or a temporary whirlwind that can completely consume a person’s risk capital quite quickly for those who do not manage their money wisely. Maintaining a realistic handle on profits and losses by using established money management principles, allows a forex trader to be relatively impartial and not let their emotional reactions sabotage their trading efforts.

PART FIVE

HOW TO USE FINANCIAL LEVERAGE
CHAPTER ONE
FINANCIAL LEVERAGE IN FOREX Leverage in Forex Trading Defined

Leverage is the use of borrowed money (called capital) to invest in a currency, stock, or security. The concept of leverage is very common in forex trading. By borrowing money from a broker, investors can trade larger positions in a currency. As a result, leverage magnifies the returns from favorable movements in a currency's exchange rate. However, leverage is a double-edged sword, meaning it can also magnify losses.

It's important that forex traders learn how to manage leverage and employ risk management strategies to mitigate forex losses. In general, leverage enables you to influence your environment in a way that multiplies the outcome of your efforts without increasing your resources. In the world of trading, it means you can access a larger portion of the market with a smaller deposit than you would be able to via traditional investing. This gives you the advantage of getting greater returns for a small up-front investment, though it is important to note that traders can be at risk of higher losses. In finance, it is when you borrow money, to invest and make more money due to your increased buying power. Once you return what you borrowed, you are still left with more money than if you had just invested your own capital.

Financial Leverage in Forex defined

Financial leverage or simply leverage is a tool that increases the purchasing power of the trader’s deposit. The mechanism is funded by the broker, or rather the liquidity provider working with the broker. The leverage mechanism is very simple. The higher the leverage is, the more funds we can invest in trading. Simply put, leverage is kind of a bank loan. But it is much cheaper, and the borrowers usually risk only their own funds on the account.

It pertains to the use of debt to buy assets. This is done in order to avoid using too much equity. The ratio of this debt to equity is the formula for leverage (debt/equity ratio) whereby the greater the proportion of debt, the

higher the amount of margin. If a company, investment or property is termed as 'highly geared' it means that it has a greater proportion of debt than equity. When this type of debt is used in such a way that the return generated is greater than the interest associated with it, an investor is in a favourable position. However, an excessive amount of margin is risky, given that it is always possible to fail to repay it.

Financial and operating margin is quite different from each other, with the latter consisting of a business entity and is calculated as a sum total of the amount of fixed costs it bears, whereby the higher the amount of fixed costs, the higher the operating leverage will be.

So, what does leverage mean for a business? It is the use of external funds for expansion, startup or asset acquisition. Businesses can also use leveraged equity to raise funds from existing investors.

Why Use Financial Leverage?
This is very popular among traders and is most commonly used for these three basic purposes:

• To expand a firm's or an individual's asset base and generate returns on risk capital. This means that there is an increase in ROE and Earnings Per Share.
• To increase the potential of earnings.
• For favourable tax treatment, since in many countries, the interest expense is tax deductible. So, the net cost to the borrower is reduced.

Leveraged Equity

When the cost of capital debt is low, leveraged equity can increase returns for shareholders. When you own stock or shares in a company that has a significant amount of debt, you have leveraged equity. Therefore, the stockholder experiences the same benefits and costs as using debt.

Trading Leverage

Day trading leverage allows you to control much larger amounts in a trade, with a minimal deposit in your account. Leveraged trading is also known as margin trading. You can open up a small account with a brokerage, and then

essentially borrow money from the broker to open a large position. This allows traders to magnify the amount of profits earned.

Remember, however, that this also magnifies the potential losses. Stock market margin includes trading stocks with only a small amount of trading capital. This is also seen in Forex leveraging, wherein traders are allowed to open positions on currency pairs larger than what they can afford with their account balance alone.

It should be remembered that margin does not alter the profit potential of a trade; but instead, reduces the amount of equity that you use. Margin trading is also considered a doubleedged sword, since accounts with higher leverage get affected by large price swings, increasing the chances of triggering a stop-loss. Therefore, it is essential to exercise risk management.

Understanding Leverage in the Forex Market

The forex market is the largest in the world with more than $5 trillion worth of currency exchanges occurring daily. Forex trading involves buying and selling the exchange rates of currencies with the goal that the rate will move in the trader’s favor. Forex currency rates are quoted or shown as bid and ask prices with the broker. If an investor wants to go long or buy a currency, they would be quoted the ask price, and when they want to sell the currency, they would be quoted the bid price.

For example, an investor might buy the euro versus the U.S. dollar (EUR/USD), with the hope that the exchange rate will rise. The trader would buy the EUR/USD at the ask price of $1.10. Assuming the rate moved favorably, the trader would unwind the position a few hours later by selling the same amount of EUR/USD back to the broker using the bid price. The difference between the buy and sell exchange rates would represent the gain (or loss) on the trade.

Investors use leverage to enhance the profit from forex trading. The forex market offers one of the highest amounts of leverage available to investors. Leverage is essentially a loan that is provided to an investor from the broker. The trader's forex account is established to allow trading on margin or borrowed funds. Some brokers may limit the amount of leverage used

initially with new traders. In most cases, traders can tailor the amount or size of the trade based on the leverage that they desire. However, the broker will require a percentage of the trade's notional amount to be held in the account as cash, which is called the initial margin.

Types of Leverage Ratios

The initial margin required by each broker can vary, depending on the size of the trade. If an investor buys $100,000 worth of EUR/USD, they might be required to hold $1,000 in the account as margin. In other words, the margin requirement would be 1% or ($1,000 / $100,000).

The leverage ratio shows how much the trade size is magnified as a result of the margin held by the broker. Using the initial margin example above, the leverage ratio for the trade would equal 100:1 ($100,000 / $1,000). In other words, for a $1,000 deposit, an investor can trade $100,000 in a particular currency pair.

Below are examples of margin requirements and the corresponding leverage ratios.
Margin Requirements and Leverage Ratios

Margin Requirement	Leverage Ratio
2%	50:1
1%	100:1
.5%	200:1

As we can see from the table above, the lower the margin requirement, the greater amount of leverage can be used on each trade. However, a broker may require higher margin requirements, depending on the particular currency being traded. For example, the exchange rate for the British pound versus Japanese yen can be quite volatile, meaning it can fluctuate wildly leading to large swings in the rate. A broker may want more money held as collateral (i.e. 5%) for more volatile currencies and during volatile trading periods.

Forex Leverage and Trade Size

Financial leverage is essentially an account boost for Forex traders. With the help of this construction, a trader can open orders as large as 1,000 times greater as their own capital. In other words, it is a way for traders to gain access to much larger volumes than they would initially be able to trade with. More and more traders are deciding to move into the FX (Forex, also known as the Foreign Exchange Market) market every day. Trading currencies online is an exciting experience, and is accessible for many traders, and while each person will have their own reasons for trading in this market, the level of financial margin available remains one of the most popular reasons for traders choosing to trade on the FX market.

When visiting sites that are dedicated to trading, it's possible that you're going to see a lot of flashy banners offering something like "trade with 0.01 lots, ECN and 500:1 leverage". While each of these terms may not be immediately clear to a beginner, the request to have Forex leverage explained seems to be the most common one.

Many traders define leverage as a credit line that a broker provides to their client. This isn't exactly true, as margin does not have the features that are issued together with credit. First of all, when you are trading with leverage you are not expected to pay any credit back. You are simply obliged to close your position, or keep it open before it is closed by the margin call. In other words, there is no particular deadline for settling your leverage boost provided by the broke.

A broker can require different margin requirements for larger trades versus smaller trades. As outlined in the table above, a 100:1 ratio means that the trader is required to have at least 1/100 = 1% of the total value of the trade as collateral in the trading account.

Standard trading is done on 100,000 units of currency, so for a trade of this size, the leverage provided might be 50:1 or 100:1. A higher leverage ratio, such as 200:1, is usually used for positions of $50,000 or less. Many brokers allow investors to execute smaller trades, such as $10,000 to $50,000 in which the margin might be lower. However, a new account probably won't qualify for 200:1 leverage.

It's fairly common for a broker to allow 50:1 leverage for a $50,000 trade. A 50:1 leverage ratio means that the minimum margin requirement for the trader is 1/50 = 2%. So, a $50,000 trade would require $1,000 as collateral. Please bear in mind that the margin requirement is going to fluctuate, depending on the leverage used for that currency and what the broker requires. Some brokers require a 10-15% margin requirement for emerging market currencies such as the Mexican peso. However, the leverage allowed might only be 20:1, despite the increased amount of collateral.

Leverage in the forex markets tends to be significantly larger than the 2:1 leverage commonly provided on equities and the 15:1 leverage provided in the futures market. Although 100:1 leverage may seem extremely risky, the risk is significantly less when you consider that currency prices usually change by less than 1% during intraday trading (trading within one day). If currencies fluctuated as much as equities, brokers would not be able to provide as much leverage.

The Risks of Leverage

Although the ability to earn significant profits by using leverage is substantial, leverage can also work against investors. For example, if the currency underlying one of your trades moves in the opposite direction of what you believed would happen, leverage will greatly amplify the potential losses. To avoid a catastrophe, forex traders usually implement a strict trading style that includes the use of stop-loss orders to control potential losses. A stop-loss is a trade order with the broker to exit a position at a certain price level. In this way, a trader can cap the losses on a trade.

How Does Forex Leverage Work?

Let's assume a trader has 1,000 USD in their trading account. A regular lot of '1' onMetaTrader 4 is equal to 100,000 currency units. As it is possible to trade mini and even micro lots with Admiral Markets, a deposit this size would allow a trader to open micro lots (0.01 of a single lot or 1,000 currency units) with no leverage put in place. However, as a trader would usually be looking for around 2% return per trade, it could only be equal to 20 USD.

This is why many traders decide to employ gearing, also known as financial leverage, in their trading - so that the size of the trading position and profits could be higher. Let's assume a trader with 1,000 USD in their account balance wants to trade big and their broker is supplying a leverage of 1:500. This way a trader can open a position that is as large as 5 lots, when it is denominated in USD. In other words, 1,000 USD * 500 (the leverage), would equal a maximum size of 500,000 USD for the position. The trader can actually request orders of 500 times the size of their deposit.

This way, if 1:500 leverage is used, a trader would be making 500 USD instead of 1 USD. It is of course important to state that a trader can lose the funds as quickly as it is possible to gain them. Now, as we have understood the definition and a practical example of leverage, let's take a more detailed look at its application, and find out what the best possible level of gearing in FX trading is. Admiral Markets offers varying leverages which are dependent on client status via Admiral Markets Pro terms.

For retail clients, leverages of up to 1:30 for currency pairs and1:20 for indices are available. For professional clients, a maximum leverage of up to 1:500 is available for currency pairs, indices, energies and precious metals. Users can also participate in futures trading leverage on currency, stock and commodity CFDs. Both retail and professional status come with their own unique benefits and trade-offs, so it's a good idea to investigate them fully before trading. Find out today if you're eligible for professional terms, so you can maximise your trading potential, and keep your leverage where you want it to be!

Which Leverage to Use in Forex

It is hard to determine the best level one should use, as it mainly depends on the trader's strategy and the actual vision of upcoming market moves. As a rule of thumb, the longer you expect to keep your position open, the smaller the leverage should be. This would be logical, as long positions are usually opened when large market moves are expected. However, when you are looking for a long-lasting position, you will want to avoid being 'Stopped Out' due to market fluctuations.

In contrast, when a trader opens a position that is expected to last for a few minutes or even seconds, they are mainly aiming to extract the maximum amount of profit within a limited time. What is the best Forex leveraging in this case? Usually, such a person would be aiming to employ high, or in some cases, the highest possible margin to assure the largest profit is realised, while trading small market fluctuations.

From this we can see that the margin ratio strongly depends on the strategy that is going to be used. To give you a better overview, scalpers and breakout traders try to use as high a leverage as possible, as they usually look for quick trades. Positional traders often trade with low leverage or none at all. A desired leverage for a positional trader usually starts at 5:1 and goes up to about 20:1.

When scalping, traders tend to employ a leverage that starts at 50:1 and may go as high as 500:1. Knowing the effect of leveraging and the optimal leverage Forex trading ratio is vital for a successful trading strategy, as you never want to overtrade, but you always want to be able to squeeze the maximum out of potentially profitable trades. Usually a trader is advised to experiment with leverage within their strategy for a while, in order to find the most suitable one.

In general, leverage enables you to influence your environment in a way that multiplies the outcome of your efforts without increasing your resources.

In the world of trading, it means you can access a larger portion of the market with a smaller deposit than you would be able to via traditional investing. This gives you the advantage of getting greater returns for a small up-front investment, though it is important to note that traders can be at risk of higher losses. In finance, it is when you borrow money, to invest and make more money due to your increased buying power. Once you return what you borrowed, you are still left with more money than if you had just invested your own capital. Let's look at it in more detail for the finance, Forex, and trading world.

How to Change Forex Leverage

Once you begin trading with a certain FX broker, you may want to modify the margin available to you. This depends on the broker. With Admiral Markets you can use an industry standardised procedure that includes authenticating to the Trader's Room, selecting your account, and changing the leverage available. This action takes immediate effect, so be careful if you have open positions when you attempt to reduce your margin level.

Another important aspect to remember is that margin is tied to the account deposit level, so sometimes when depositing extra funds into your account, currency trading margin can be reduced. For example, a broker may offer margin trading of 1:500 on the deposits below 1,000 USD, and margin of 1:200 on the deposits between 1,000 and 5,000 USD.

Once a trader has 950 USD, and opens a 3-lot position on EURUSD, they may decide to deposit a bit more to sustain a required margin, yet when the deposit occurs, the leverage will be changed, and the position might close when the Stop Out level has been reached.

PART SIX

CONCLUSION

CONCLUSION This brings me to the end of this book on Forex Trading. I hope it has helped you gain a good understanding of how the whole Forex market is set up and how it works.

Nobody is a born trader, so you don’t have to worry if you can’t make it on the first attempt. Besides, every professional trader once was a beginner who was struggling to win! You are in the stage of trying, so give your best to get things done correctly. If you are planning to trade, but you don’t spend time learning, then I don’t think it will work. If you want to make money from trading, you must do your part! Generally, the failures faced by naïve Forex traders are just like the mistakes made by traders of other asset classes. However, certain mistakes happen repeatedly because of negligence.

So, as a beginner, it is your responsibility to decide that you are not going to make such silly mistakes that’ll cost your account. If you research the stories of successful traders, most of them might share the same story. The most

successful trader would have started their journey without knowing the market. And this is why successful traders try to promote Forex education to the ones who are entering the market. However, most people who enter the Forex market have the assumption that this market is a money-generator.

To make things clear, let me tell you. There is a thin line between Forex trading and gambling, and you must understand the difference if your goal is to become a successful trader down the line! Meanwhile, you must understand time management, money management, risk management and much more. Only then will you be able to get a clear understanding of the market. Also, you shouldn't forget the importance of trading psychology because it is one of the main tools that help you trade successfully.

Nevertheless, I have already discussed a lot about Forex trading. I guess they are more than enough to place the basement for trading perfectly! Once you have a solid basement, the rest of the journey will become simpler, but not easy!

"If you get it easily, you wouldn't know the value"
(*Warren Money*)

Anyway, I hope **Forex Trading:** *The beginners guide to invest in market, using financial leverage, master money management and get financial freedom* is an incredible guide to kick-start your journey!