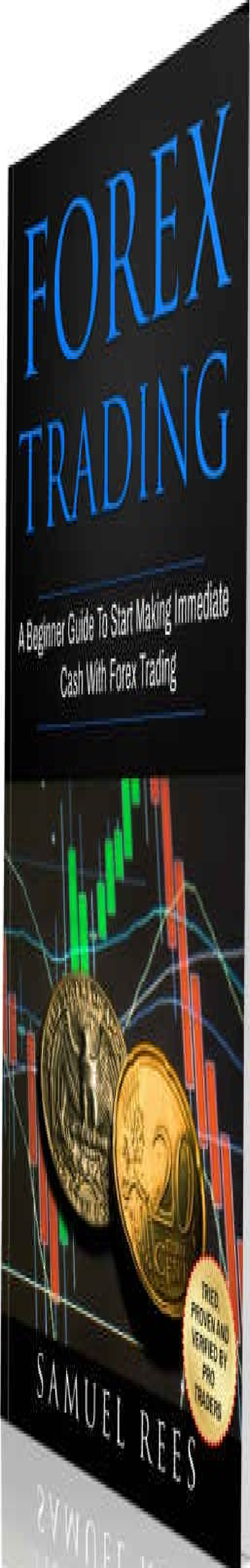
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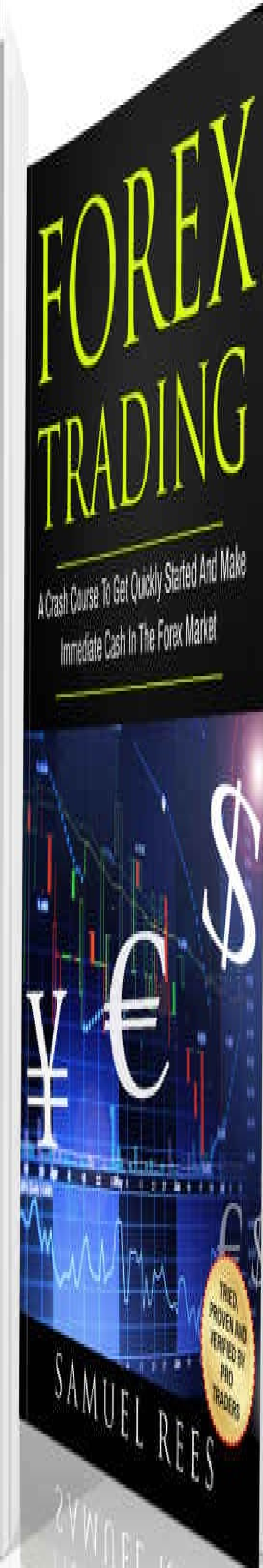
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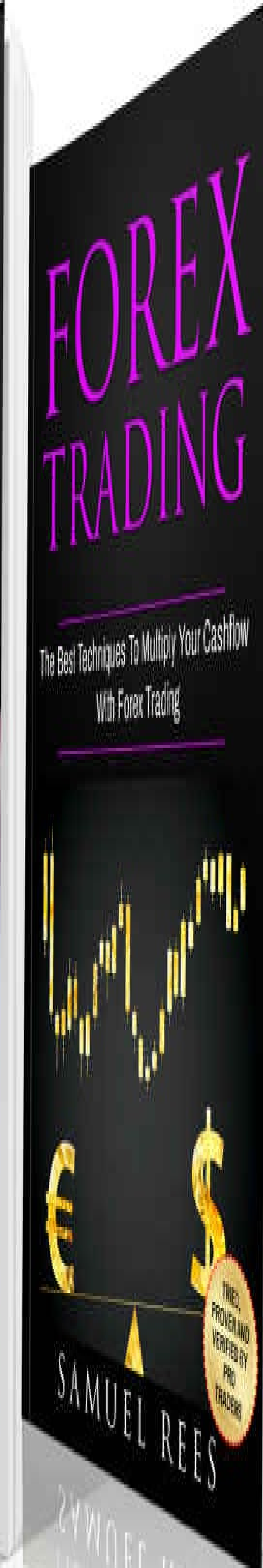
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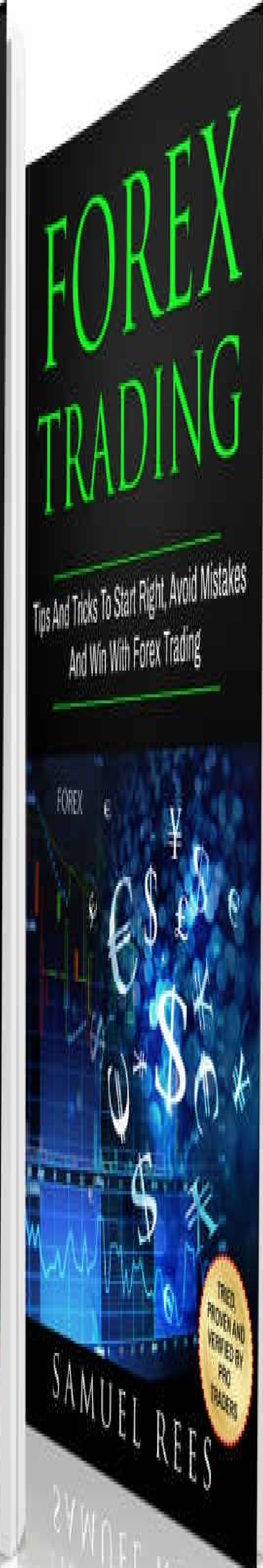
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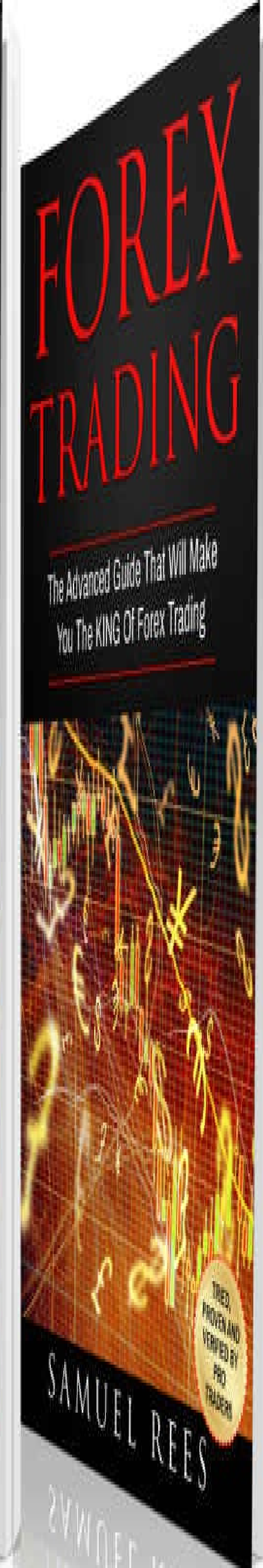
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FOREX TRADING

THE BIBLE

By Samuel Rees

This book includes:

FOREX TRADING: A Beginner Guide to Start Making Immediate Cash with Forex Trading

FOREX TRADING: A Crash Course to Get Quickly Started and Make Immediate Cash with FOREX Trading

FOREX TRADING: The Best Techniques To Multiply Your Cash Flow With Forex Trading

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FOREX TRADING

A Beginner Guide to Start Making Immediate Cash with Forex Trading

By Samuel Rees

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Introduction

Only one investment option exists where you can be a part of a $4 trillion a day market—Forex. Wouldn't you like to get your piece of such a large sum of money being traded on a daily basis? Of course, you would.

But, how? Even some of the savviest investment strategists stay clear of Forex because it is "too complicated and risky." Yet, hundreds of thousands of people around the world are taking their cut of $4 trillion dollars every day. People like you.

Wouldn't the statement, "too complicated and risky," be a myth then? You definitely cannot start investing without a step by step guide that explains everything about the forex market. However, you can learn how to trade in the place that large corporations, retail traders, and governments make money.

When you are half way through this book, you will have strategies to test in your paper money account. This book is not going to promise you the secrets to forex investing because the secret is simple—leave your emotions out of trading and practice before you involve real, hard earned cash in your investments.

You are going to be able to make cash immediately after reading this book all the way through, but that is only if you practice with paper money, follow the step by step information, and take a chance.

Investing is not gambling. If you want to lose money by making snap decisions based on emotions head to the nearest casino. This book is not for gamblers.

It is for people who will read, study, and practice before reaching the conclusion. Once you take your time, whether it is a week or a year, to learn the concepts and strategies in this book—you are going to be able to start making immediate cash with forex trading.

Any book that tells you a novice can make money in two minutes after looking at a forex trading strategy—is not telling you the truth. There are

complicated concepts to learn and understand. You have to know what you are trading, how the market moves, and the most common mistakes traders make, in order to avoid them and succeed.

You can do this. With this guide beside you, you can start making money immediately with forex trading. It will happen as soon as you discover a strategy that fits your trading style, practice it, and go in with your eyes wide open to succeed with a higher profit than loss over a series of trades.

Chapter 1: Defining Forex Trading

Forex trading uses currency as the trading vehicle. Forex is short for foreign exchange, also known as FX and currency trading. It is an investment market, where you trade money, known as currency, where you do not trade USD for USD, but USD for Euros, Yen, Australian dollars, and numerous other currencies used in countries around the world.

You make money trading in the forex market by determining which currency in a pair will move up or down in value faster or in the opposite direction from the other currency in the pair.

EUR/USD is the euro and US dollar currency pair. The EUR is called the base currency, and it is always equal to 1. The USD is the quote currency and it will change in value against the EUR. If you see 1 EUR/USD= 1.11967, it is read as for 1 euro you will receive 1.11967 US dollars in an over the counter trade.

If you walked into a bank and asked for 100 euros to be exchanged into USD, you would be given $111.99 dollars. If you walked into that same bank and said you need to exchange $100 USD for euros, you would be given 89.29 euros based on the exchange rate mentioned above.

This type of currency exchange is common and what travelers do each year, but it is not how investors make money in forex trading. The money is actually made based on the bid and ask price or the buy and sell price of a currency pair, and whether the currency pair is going to gain or lose in value.

Image 1: Bid/Ask Chart

EUR/USD	Time Stamp (in GMT)
1.11967 Sell	1.11962 Buy

The chart shows you the most typical way information is presented. You will see what currency pair the quote information is about and the time the quote is being provided. There are also boxes that show the low and high for the day, before giving you the sell and buy or ask and bid price for the currency.

Some charts just offer the currency pair and the bid/ask price.

It is your job as a trader to determine if you want to sell euros and buy USD because the USD will become stronger or if you want to buy euro and sell USD because the USD will become weaker, against the EUR.

The point that many traders become confused on is what strong or weak means in a currency pair. The easiest way to define this is to look at how far your base currency goes in an exchange.

In the EUR/USD pair, you can use fewer EUR to gain more USD. However, you need more USD to gain fewer euros. Now, let's look at the exchange above again. You gained 111.99 USD for 100 euros, but only 89.29 euros for 100 USD.

So, let's now answer the question of what has more value. You traded less euros to get more USD. You traded more USD to get fewer euros. In this equation your euros hold more value against the USD because the euro goes further when traded in for USD. When you travel, you want your domestic currency to hold more value, so you spend less of it. When you come back from your travels, you want your international currency to provide you with more of your domestic currency.

If you think in those terms, then it will be easier to understand why value is so important to the forex market and retail traders. You are considered a retail trader, but you are also not the only player in the market.

You can also remember these little hints:

1. The base currency is stronger than the quote currency equals a rising currency pair. (The price will be rising on a chart)
2. The base currency is weaker than the quote currency equals a falling currency pair. (The price will be falling on a chart)
3. The quote currency is weaker than the base currency equals a rising currency pair. (The price will be in an upward trend on the chart) *
4. The quote currency is stronger than the base currency equals a falling currency pair. (The price will be in a downward trend on the chart) *

*Upward and downward trends will be explained in technical analysis.

Why Do Currency Prices Change?

Understanding why currency prices change comes down to predicting how they are going to move under certain conditions. Once you, as a currency trader, are able to predict currency movements you are able to invest for a profit.

When you learn about strategies like fundamental analysis you are going to be able to answer the following:

- What drives currency prices? The simple answer is supply and demand, but it requires a more in depth discussion to fully grasp currency movement.
- Who drives the currency prices? You, big banks, corporations, governments, and the interbank system are largely responsible for currency price movements. Each has a cog to play in the wheel of forex.
- What are the individual personalities of the currencies? All currencies have their own general forces that drive them to move, which can vary due to economic situations and government involvement.
- How will currencies react to economic reports/announcements and news? Economic reports can change a pattern in currency movements depending on what they are, when they happen, and the scale of the news.
- Which indicators do you need to watch to succeed? Indicators are early warning signs that the market is going to change and you can begin to predict currency movement by watching proper indicators.

How Do You Profit from that Movement?

Once you have a grasp on why currencies move, you can develop strategies that help you profit from those movements. You will learn the following as you gain more understanding of forex trading:

- Where you invest your money—spot, ETF, futures, etc.
- How to execute short-term trades.
- How to invest for long-term.

- How to protect your investment.

Chapter 2: The Players and When to Trade

It will be important for you to learn a little about the history of forex trading, later on. For now, you should understand how the market works today and who the players are.

The Interbank Market is considered "The Market." It is the market where large sums of money will change hands. A minimum trade size in the Interbank Market is $1 million of the base currency. Large trades such as $10 million or $100 million will be processed by the Interbank Market in a matter of seconds. The good news for you is that the Interbank Market is huge, allowing investors to make their movements without the prices changing significantly. It is possible for an investment of one million dollars to earn money, while a half-billion-dollar hedge fund loses due to the wrong choice in position.

The Interbank Market was designed to facilitate trade and commerce. The commerce and trade happening between nations. International financial institutions act as currency exchange intermediaries in order to settle forex transactions.

Over several decades, the informal conglomeration of banks helping to facilitate trade and commerce evolved into a collective group called the interbank meaning between banks. The Interbank Market developed without any significant government regulation, and it still remains unregulated today. There are national and local banking regulations that are kept to and the banks do have to honor all trades made, in which one party must supply one currency and the other party must trade the other currency.

The Interbank Market deals with corporations and government agencies. They will also offer trading options for extremely wealthy private individuals. Forex transactions are done in an over the counter market (OTC). Most of the trades are considered spot trades, which are processed through electronic matching services. These services are mostly provided by two banks: EBS and Reuters Dealing.

Traders are able to enter their bids/offers or bids/asks into the market. But, these are the large players like other banks. Banks like Wells Fargo can request a currency trade, as well as the daily currency prices. The prices are set based on interest and volatility in the market. Furthermore, the prices you see quoted are going to have a spread. It is called the pip spread.

You, the trader, will contact a dealer or broker. You will see their price based on volatility and market interest. The bid will be five pips different from the ask price. We will come back to pip spread in a moment. For now, you can either contact a broker, dealer or market maker. These entities will contact a bank, which is usually in contact with Reuters or EBS. However, you can have multiple banks in the equation because the market is decentralized. This means there is no "one" entity offering trades.

As you can see there are a variety of players in the mix. Just remember, the players are:

- Commercial Banks
- Investment Banks
- Central Banks
- Corporations
- Fund Managers
- Online Retail Brokers
- Retail Traders (You)

The term Market Maker was used earlier. A market maker is a bank or broker

That will quote a two-way price, meaning they offer a buying and selling price to those who inquire about making a trade. Market makers are the ones that will establish the pip spread. It is the market maker's goal to reduce their risk of loss, and ensure a profit by setting up certain deals to hedge the trades of their clientele.

Governments and Central Banks are active in the forex market only to help the economy and manage their currency reserves. The USD is considered the international reserve currency for most countries because it is considered a strong currency. However, in light of recent troubles within the US banking

system, the EUR and Japanese Yen started gaining strength as a reserve currency to put one's faith in when things become troubling. The point is that governments and central banks have to maintain their currency reserves to maintain the economy when things are shaken up or even when they are steady. Later, you will learn more about this.

The important lesson here is which players are in the market, how you fit into the market, and thus why currency prices may move or remain steady. Depending on how large the player's trade is a price can fluctuate or depending on the day's interest in one currency over another you can see a change in price. It stands to reason that you need to watch what the major players are doing to be able to predict your next trade.

Furthermore, you need to know when to invest in this decentralized market. When are the players heavily involved in trades? Are there specific times? You might have heard the forex market is nearly a 24/7 market for you to trade. But, do you want to trade even if the market is open?

When to Trade

Time zones around the world determine when people are awake. New Zealand is the first country with an investment market that will open. Australia soon follows. The Japanese markets follow Australia, which are then followed by Singapore, Hong Kong, and the rest of Asia. Europe joins the waking world, with Switzerland, Germany and the United Kingdom. The Americas are the last to join the waking world, with the USA jumping heavily into the trading action. Typically, you are going to see Forex hours stated in GMT or Greenwich Mean Time.

There are also certain markets that are more popular than others. The top markets are:

City	Open	Close
Sydney	9pm	6am
Tokyo	11pm	8am
Singapore	12am	9am
Hong Kong	12:30am	9:30am
Zurich	7am	3pm

London	8am	4pm
New York	1pm	10pm

Some places shift times during daylight savings, so you will need to account for that. Knowing the times that each of the most popular markets are open is just the beginning of understanding when to trade.

You should be aware that half of the forex transactions will take place in the UK or USA. London accounts for 36.7 percent of the forex transactions, while the US accounts for 18 percent of the transactions. Now these percentages are based on the volatility and volume of trades, meaning this is when most people are placing orders.

Tokyo only sees 6 percent of forex transactions. Singapore, Zurich, and Hong Kong only do 5 percent of the forex transactions, and Sydney comes in last with only 4 percent.

When London and New York are both open between 1pm and 4pm GMT, is when most of the forex transactions take place. The transition between New York’s close and Tokyo’s open is a very quiet time in the market. You can expect the Japanese Yen pairs with other Asian currencies to be more active during the Asian sessions. Conversely the euro gains liquidity during the open European markets, while the USD has higher liquidity numbers when the USA market is open.

Placing a trade will, in part, be determined by the currency pairs you wish to trade. The other part of the equation is when you are willing to be awake and online to trade. If you are going to trade during normal working hours, then you will trade when your domestic market is open. You also have the option of setting up orders to enter the Asian-Pacific market when it first opens, since the market will open, while you are still up.

Be thinking about when you have time to trade, so you can choose the perfect strategy based on when you want to place trades.

Chapter 3: What to Trade

Didn’t this question already get an answer? In part, yes. You know you are trading currencies, but that doesn’t narrow down, which currencies you should be trading. Are you going to trade any currency that is available through your retail online dealer? Hopefully, you will not. Some brokers offer more than the currencies termed G-7. Currencies from certain countries are not going to have a high volume, liquidity, or profit. So, yes, you trade currencies, but you don’t want to trade every currency pair you could dream up.

Safe Haven Currencies

Safe haven currencies are places investors go when fear is driving the market berserk. During the 2008 subprime mortgage crisis, you can bet that investors started looking around for the best safe haven currencies to invest in and wait for the economic shake up to be over. There are three currencies that are considered safe havens; however, this can change. It all depends on what is happening in the global economy versus a safe haven currency economy. The USD, CHF (Swiss Franc), and JPY (Japanese Yen) have been the most consistent choice for safe haven currencies. Of course, you can also look at 2008 and the drop in value of the USD to know that it was not considered safe at all. Instead, the dollar lost a great deal of value against the GBP (Great British Pound) and euro (EUR).

The USD is considered a safe haven currency because people believe in the strength of the USA. Globally, this has changed due to high deficit, without questions about the USA gold reserves. Sentiment can change in favor of the USA again given how it bounced back and helped other nations, as part of the UN and EU. The USD often appreciates when there is a bleak outlook, but as history shows—not always.

The CHF is backed by gold. The other reason it is a safe haven currency is the stable Swiss economy and low inflation. The Swiss do not seem to have huge fluctuations, but rather a stable, steady, dependable economy.

The Japanese Yen became a safe haven currency due to the government debt

market. Japanese public debt is not held by foreign governments, but by individual Japanese investors. It provides more stability and less incentive for the Japanese government to use inflation as a tool to correct economic issues. Japan’s government does not need to use inflation to correct debt issues, which other countries have done. Currencies with less risk of an inflation tool are considered safer.

Safe haven currencies may be where you wish to begin your forex journey or at least where you will want to rest your money when you are not actively investing.

G-7

There are currency groups that are also considered more liquid and voluminous than others. The G-7 is the original group, but today other countries have caught up to be major global powers. This has led to the G-20.

The G-7 countries account for nearly two-thirds of the global GDP (gross domestic product). The G-7 currencies are:

1. Canada
2. France
3. Germany
4. Italy
5. Japan
6. UK
7. USA

The G-20 currencies include, but are not limited to the G-7 and the following countries:

- Brazil
- China
- India
- Russia

From these countries you have what are called major currency pairs and

major cross currency pairs.

The major currency pairs are:

1. EUR/USD
2. USD/JPY
3. GBP/USD
4. USD/CHF
5. USD/CAD
6. AUD/USD
7. NZD/USD

You need to know that there is a standard way of writing currency pairs. The standard comes from the International Standardization Organization or ISO. The above currency pairs are in the ISO format. If you see a site offering one of these pairs reversed, then you do not want to trade with that broker. The only time you should see a currency pair not in ISO form is when you go to a bank and ask to exchange your domestic currency for an international currency, for travel purposes. Some websites like currency converters will also tell you the current rate for non-ISO pairs to help you plan your trip. A broker, market maker, or other dealer should always have their pairs in ISO form.

Major Cross Currency Pairs

Major currency pairs involve the USD. However, there are times when you may not wish to trade the USD. For those instances you have the major cross currency pairs. Cross pairs do not include the USD.

You have euro, yen, sterling (GBP), and other cross pairs. As the name denotes, if you are trading euro crosses then the euro is involved in each pair like the USD major pairs. So, you would see these available ISO pairs:

- EUR/CHF
- EUR/GBP
- EUR/CAD

- EUR/AUD
- EUR/NZD

Japanese Yen pairs will always have the JPY as the quote currency. The JPY pairs involve six of the major country currencies: euro, GBP, CHF, AUD, NZD, and CAD.

When trading sterling crosses, you have four options, all of which have the GBP as the base currency:

1. CHF
2. CAD
3. AUD
4. NZD

Other crosses include the ISO pairs:

- AUD/CHF
- AUD/CAD
- AUD/NZD
- CAD/CHF

Just with the G-7 major pairs and the major crosses you have plenty to check on and determine if you wish to trade them. It is a good place to start when you are a beginner. Once you have mastered the G-7 and what to look for in a currency pair, you can move on to other currency pairs.

The aim of your trading plan needs to be a high profit with minimal loss. Your P&L statement at the end of 12 months should reflect a profit, with no lost capital.

Chapter 4: Pips and Pip Spread

To recap slightly, you have a definition of what forex trading is, the players involved, when to trade, and what to trade. Now, it is time to discuss how you calculate profit and loss, by understanding what a pip is, the pip spread, and how you determine your profit.

Most currency pairs are written in a format to the 1/100 or 1 percent. For example, 1.1167 is a quote price for a currency pair. You would not see 1.116 as a quote price. The smallest pip 0.0001 or 1 pip is where you can make a significant profit, depending on the size of the trade you place.

Asian currencies can differ in how they are written. If you see USD/JPY prices, it might read something similar to 101.3400. That was a closing price at the time this book was written. The JPY and certain other Asian currencies seem like they hold more value, but remember the base currency is 1, so 1 USD = 101.3400 JPY. For one of your dollars you gain over 100 yen. But, you have to understand what this means in terms of actual physical value. In a vending machine the price for a Coke is usually JPY 150. So, if you only have 1 USD and convert to 101.3400 you do not have enough for a Coke. You would need $1.50 in USD at least to make JPY 150, with a little change left over. So, while it seems that you gain more funds in Asian currencies, it is actually based on the true value of the Yen when purchasing items.

Now that you know 1 pip is represented as 0.0001 in a quote, then you can understand when you read there is a 5 pip spread between the bid and ask price. You will see a sell price of 1.1167, but a buy price of 1.1162. It is the 5 pips in between or the pip spread that makes a broker their money.

Since you don’t truly care how the profit is made for a broker, just know that you want to find a competitive pip spread or fee charged for your transactions. To do that you need to know the value of 1 pip in a currency you are trading.

First, we need to understand lot sizes. You are only able to trade in certain lot sizes: nano, mini, standard, large. A nano lot size is $1,000, mini lot size is $10,000, and a standard lot size is $100,000. The next size is 1 million in

your domestic currency.

For the example, let's say you are looking at EUR/USD. We will use a mini lot size or 10,000. Multiply 10,000 by 0.0001 and you will see that each pip is worth $1. This will not work for JPY pairs. If you do the same calculation with USD/JPY, a pip is worth 0.98689. If you trade with a lot size of 100.000, then the value of each pip, when the USD is the quote currency will be $10. If the USD is the base currency, then the value will change. For instance, the USD/CAD provides a pip value of 0.7619.

What you need to know is that whenever the USD is the quote currency the pip will be worth $1, $10, or $100 based on the lot size.   A mini size will not be worth more than 0.1, when the USD is the quote currency.

Given the low value of pips in a nano lot most brokers will not offer such a tiny option, but there are traders who do not have a lot of capital to begin and do not mind gaining a small profit with each trade as they work up to affording mini lots.

Calculating your Profit or Loss

Since you are now aware of the cost of a pip, you can start to determine the profit or loss on a trade.

The first thing to remember is that when you open a new position/trade, you are either buying or selling. You have to close that position/trade in order to make a profit. If it remains open, then you have not made a profit or loss yet. It is just like the stock market, where you purchase shares, then sell those shares and calculate the difference from the open trade and the close trade.

Let's say you invested in the decrease in value for the USD, meaning you bought in at 1.1162 and closed the position at 1.1172. You used 10,000 as your lot size. You can be really complicated in the calculation or since you know that each pip in 10,000 lot sizes, is worth $1, you can determine the difference in pips. 1.1172-1.1162 is 0.0010. You know that 1 pip equals $1, so if you saw a pip movement of 0.0010, then you gained 10 pips, so 1x10 means you have gained a profit of 10 pips.

Of course, there is the pip spread to account for, which pretty much means you break even when you place two transactions, and only earn $10. The

point is that with certain knowns, you can quickly see if you are making a profit, breaking even, or suffering a loss.

Your strategies should be designed around a profit of about 60 percent to 40 percent loss when you begin. As you gain more knowledge and test out different strategies to fit your trading style, you will increase the profit/loss ratio to 90/10.

**Disclaimer: it takes work. You will not immediately see an increase in your profit/loss ratio. You may not always trade with a 90/10 split either. There are many factors that determine if you gain a profit at the end of the year. Your overall outlook has to be for the year, not the month. You will soon learn there are mistakes new traders make that quickly sour their hopes of trading for a better retirement savings.

People who talk bad about investing in any area have been burned by their own mistakes. You can avoid these and save yourself a lot of psychological trouble by learning how to trade properly.

Chapter 5: Common Mistakes to Avoid

There are ten mistakes beginner traders tend to make. Of course, even the savviest traders can make some of these common mistakes from time to time. Part of avoiding them is by learning they exist, and gaining insight to how you can avoid them.

There are also ways you can consider trading forex like a second, part time job versus something you do when you have the time. If you wish to be successful, you will need these attributes:

- Dedication
- Resources
- Discipline
- Decisiveness
- Perseverance
- Knowledge

Dedication

Dedication is about the time and energy it will take you to trade. If you already have a busy life, where other more important factors take precedence, then you won't have the dedication you need to be a successful trader. Think of it as a second source of income or even switch to forex trading as a full time job like many day traders do. You have to say right now that you are going to be dedicated about saving the time and energy to trade in forex or you have already lost.

Resources

Resources are both technological and monetary. You need access to a computer for retail online trading, so you can see real time quotes, as well as news, economic releases, and charts. You also need the financial resources to be able to invest. If you are using money, you are saving for your children's college days, then you don't have the resources to invest. If you take out a

second mortgage to invest the money in currency—you don't have the resources to invest.

Investment money is something you can comfortably lose. There is still an unwillingness to lose it, but you won't lose your home or your child's college tuition.

Discipline

Discipline is another financial topic, as well as an emotional one. You need discipline to ensure you stick to proper investment strategies. You do not want to stop using an investment plan halfway through the plan being put into motion. On an emotional level, if you have fear, worry, or elation you can make huge mistakes.

Perseverance

Perseverance is a lot like discipline in that you are being asked to stick to a plan. It is also the heading given to the risk management and opportunism that you utilize to make you money.

Knowledge

This is a huge factor in starting to invest. You need proper economic, political, and market dynamic knowledge to start investing. If you lack pieces of information, you could find a detrimental monetary situation is your reward.

By now, you should grasp what many of the mistakes are that are made by beginning investors and even some professionals. But, together, we will go over the list of the top 10 to help you truly understand how detrimental the mistakes can be if you don't avoid them.

1. Cutting Winners, Running Losers: One of the worst things you can do is let losing trades continue. Many of us believe if we wait long enough the trade will reverse, allowing us to make our money back and the profit we should have had. The truth is rarely that simple. You could wind up losing a great deal. It is better to cut your losses to avoid bigger losses. The other side of this coin is ending a winning streak appropriately. You should have a plan to ensure you are making a profit on a profitable streak. It is okay to cut winners, but you don't

want to cut them before they truly take off either. For example, some people set up to take a profit at 10 pips, when they could have made 100 pips. There are orders you can place to ensure you sell out if things go awry, but also so you come out with the best possible profit.

2. Trading without a plan will open you up to significant losses. Without a trading plan in place, you are more likely to commit mistake number 1. You are also more likely to give in to “instincts” which are spontaneous emotions you decide to fulfil. If you go in with knowledge, a plan regarding that knowledge, and orders to protect yourself from losses, then you can let your trade ride without the emotional worry.
3. Emotions are a definite no-no. If you give in to your emotions, then it is like gambling in the forex market. You will be more apt to run losers in hopes you gain it all back on the trade, to trade without a plan, and to never use discipline. Emotions can be fear, worry, stress, or elation. Have you ever heard of someone who made $1 million on their first trade in forex? Then, this same person tells you they immediately placed a new trade and lost it all? There are many stories like this. Someone makes a great entry into forex making a killing and then they do not stop to let the emotional high leave. Instead, they use the emotional high to open a new trade without proper research and end up losing everything they made and their capital. It is far better to trade like a robot, than to let your emotions rule the trades.
4. Trading without a trailing stop loss or stop loss is a mistake. Stop losses prevent a disaster from happening. In a little bit, a longer discussion on orders will be made.
5. Moving the stop loss order you set. Stop losses are designed to protect your position. Moving it can cost you dearly due to a lack of trading discipline and missing the mark altogether. The idea of a stop loss is to ensure that you won’t lose money, so if you are making a profit, it is okay to move it to keep the profit you have already garnered—better still—set a trailing stop so it moves on its own.
6. Overtrading is another issue that many beginners have. They either

trade too many positions at once, making it difficult to keep up with what is happening or they trade too often in the market. Sometimes there is nothing to trade on. Sometimes the market is not providing a steady enough situation to be in. It is better to stand back and reduce your risk, than to keep trading and lose. There is also a possibility if you keep trading multiple trades at once that you will overlap your positions and cost yourself a loss.

7. Forex brokers offer leverage. Leverage allows you to gain a larger lot size without having the money immediately available in your forex account. The downside is when a loss occurs. If you lose money, you have to cover all that you have leveraged. If you make a profit, then it works out in your favor to have a larger profit than you would have had. Unfortunately, you can lose all of your capital plus money you never intended on investing if you use leverage. With leverage a broker is going to place a margin call if your position becomes overleveraged, which will require you to sell out at a loss and cover that loss in your account.

8. Your trading strategy needs to be flexible to fit market conditions. Market conditions are ever changing. There are a lot of pieces that make the market works, which is why the market adapts to fit those pieces. If you have a strategy that works under one market condition, and you use it for a different market condition you could lose. You want to be flexible with your trading strategy, but never vary on your trading plan once it has been established for a specific trade.

9. Ignoring news and events is another mistake many traders make. Often, online programs teach technical trading analysis and tell you that fundamental analysis is unnecessary. That is not true. What do you think would happen if the news announced a terrorist event? One, fear will cause the investors to pull out, so the financial markets generally close. Second, the country that was targeted will have a change in economic condition depending on the event. In 2001, the markets closed and then the travel industry stopped in the USA. Americans stopped traveling, preferring to stay home, where they felt safe. It didn’t last, but for over a year plane travel took a huge hit and many

who shipped their cars drove them from up North to the South. These snowbirds didn’t want to fly because of safety concerns. When the UK decided to leave the EU, the markets went still. People waited with baited breath and there was a significant change in the GBP value. So, news matters. It can totally change a chart pattern you see.

10. Trading defensively is when you start to focus on spotting winning trades to the point that you may not enter the market again. In some cases, traders who trade defensively research and research, enter the market, and they waited too long, suffering another loss. Know that you will not always have a profit. It is how you stack up your wins and losses at the end of the year that matters. As long as your trades even out to a profit, then you are succeeding.

Orders

Previously, it was mentioned that certain orders can protect your position if used correctly. Orders allow you to enter a currency pair whether you are at your desk or away taking a shower. Since the market is electronic, your order will fill when the right conditions are met. In the same vein, you do not want to open a position, unless you know you have also set up an order to lower your risk.

Orders are often used for the following:

- To implement their trading strategy from entry to exit
- Capture price fluctuations
- Limit their risk
- To preserve their trading capital
- Maintain their discipline in trading
- Protect their profits and minimize their losses

There are certain orders you need to be aware of in order to not make the mistakes listed above.

Take Profit Order

A take profit order lets you lock in any gains you have made. Let’s say you

go short or sell USD/JPY at 90.20. You will set a take profit order off of that price, since you went short you need a buy back position. You may set the take profit order at 89.80, so you are guaranteed to take a profit of 0.40 pips. If you decide to buy GBP/USD, at 1.5505, and sell to close at 1.5570, then you make a profit of 0.0065 pips. Your position will close so you get your profit. You also have the option of setting up a partial take profit order, where you remove the gains you have made, but leave your capital in the open position to make further gains. This can happen when you see a breakout in a currency pair.

Limit Orders

A limit order will help you enter the market in a more favorable position than the market price. For example, if you believe there is going to be a worthwhile profit to be made, you can say you will enter at a certain price versus going in at the current market value. A market order is the current market price, which fluctuates as people enter the market. You might see 1.1267 for an entry price in 1 second and in the next it is 1.1270. Yet, within 30 seconds, the price keeps going from 67 to 72, so you want to enter at 1.1267, thus you set a limit order that will fill when the price returns to 1.1267.

Stop Loss Orders

Stop loss enters were mentioned in the mistakes to avoid, in terms of changing your settings. A stop order will close your open position. It is set to limit your losses. Let’s say you enter the market at 1.1267 and for a while the price goes up to 1.1277. It is not a worthy profit and you want to stay in and see if you can make more money. However, the market starts to move against you. When you opened the position, you set up a stop loss order at 1.1257. Given the fluctuation in the price you didn’t want to have a tight stop loss, such as 1.1262 because you might have sold out within 1 minute of opening the trade. The market is not going in the way you expected with the new trend. It is now turning against your position. With a stop loss in place, your open position will sell when 1.1257 is reached. You lose 10 pips, but think what could have happened.

If you didn’t have a stop loss and the price fell to 1.1167 before you could

close your position, your loss would be higher. You can now understand that moving the stop loss in hopes that the losing position will reverse is a bad idea. It is better to sell and cut your losses. However, if you have made a profit, then you want to keep it, thus moving your stop loss to ensure you keep your profit is a valid move. Tight stops can also create losses because you sell out too soon. This is why you need a trading plan that you are not going to deviate from.

Trailing Stop Loss

Trailing stop loss orders are stop losses, with a better option. You might enter at 1.1267. You set a trailing stop loss at 1.1237. When the market moves in your favor, the stop loss will stay 30 pips off the current market price. For example, if the price rises to 1.1297, your trailing stop loss is now at 1.1267. If the market moves against you, then the trailing stop will be triggered and sell 30 pips off the market price. It provides you with a way to not lose money if there are gains or to sell if the currency pair reacts differently than you anticipated.

There are other types of orders, but they are not worth mentioning right now. As a beginner, you should be more concerned with using those listed here. Later, after you work your way up to becoming an intermediary forex trader, you can begin to learn about other orders.

*Remember, your main concern is to know enough to start trading quickly, with a profit, and later you can learn more ways to trade in forex. You want to have a realistic approach to your investments. Do not start believing that you can become financially secure from one trade. It takes patience and multiple trades to gain a sound retirement fund, millionaire status, or even a more comfortable life than you have right now.

Chapter 6: Strategy 1-Fundamental Techniques

Three schools of thought exist in forex trading: fundamental only, technical only, a mixture of the two. In this section, you are going to learn about fundamental techniques. You will also learn about the downside to trading only on fundamental information, without regard for technical data. It is mentioned, not as a strategy for you to use, but as a way to see why it cannot always work. There are times and places to use fundamental information more so than technical data, and times when technical data can rule. When you learn the difference, you are able to gain a better profit.

Fundamental analysis works based on the thought that currencies have personalities. These “personalities” determine, in part, how a currency pair will move. There are 12 questions you should be asking about your currency that will help you better understand why it moves the way it does.

1. Does the currency’s economy run a surplus or deficit?
2. What does the country export?
3. Who receives these exports?
4. What does the country import?
5. Where do they import from?
6. Is the government debt market attractive?
7. Is the equities market attractive?
8. How does the central bank work in the country? Are there certain mandates? How much gold and foreign currency is held in reserves?
9. Does the government “over-involve” itself in the forex market?
10. What economic announcements are most important to the country?
11. How can you trade the currency?
12. Is the currency a safe-haven?

To better understand why these questions are important to your strategy, let's take a look at two examples: USD and HKD.

USD

1. The USA has a trade deficit. It was near $561 billion in 2011 and has since changed. The CIA's World Factbook considers the USA's deficit ranking 190 out of 190 countries.
2. The USA exports a lot of manufactured goods and merchandise, around 75 percent. Other commercial services are also near 59 percent. Other exports include agricultural products, fuels and mining products, transportation, and travel.
3. The majority of export happens with the European Union (nearly 21 percent). They also export to Canada, Mexico, China, and Japan.
4. The USA imports a high level of manufactured goods and merchandise and other commercial services, nearly the same amount as they export. Crude oil and capital goods are among the highest imported goods.
5. The imports mainly come from China (nearly 20 percent), the EU, Canada, Mexico, and Japan.
6. The debt market is rated at Aaa by Moody. Due to the recession, the USA was in danger of losing its attractive government debt market due to long-term debt troubles.
7. One of the things that keeps the USA strong is its attractive equities market. The USA has $15.08 trillion in total market value for equities.
8. According to John Jagerson, the US Federal Reserve has $45,400 million in foreign currency reserves and $11,000 million in gold deposits (these are rounded numbers).
9. The US government and the Federal Reserve do not often interfere with the forex market. The last time they intervened in the market was in 2000.
10. There are several economic reports that can impact how the USD moves: Federal Open Market Committee federal fund rate, nonfarm payroll, unemployment rate, consumer price index, producer price

index, GDP, trade balance; Treasury International Capital, durable goods orders, Consumer Confidence Index, Consumer Sentiment Index, retail sales, factory orders, Institute for Supply Management Manufacturing Business Survey; housing starts and building permits, new home sales, and Standard and Poor's Indices. Some of these reports make a greater impact than others.

11. The USD is a safe haven currency.
12. You can trade the USD in the spot forex market, forex futures, and as part of exchange traded funds (ETFs). You can also trade the USD in the exchange traded notes (ETN), spot forex options, and exchange traded forex options markets.

HKD (Hong Kong Dollar)

1. Hong Kong currently has a trade surplus of $18.07 billion and a ranking of 18 out of 190 in the CIA Factbook.
2. Hong Kong mostly exports manufactured goods and merchandise.
3. They export to China, the EU, USA, Japan, and a small percentage to Taiwan.
4. Hong Kong also imports a high number of manufactured goods and merchandise.
5. They import goods from China, Japan, the EU, Taiwan, and South Korea, with most goods coming from China.
6. Hong Kong has the same Aaa rating as the USA for the debt market.
7. They equities market is $2.3 trillion in total market value.
8. Hong Kong has $258 million in foreign currency reserves and $94 million in gold deposits.
9. The HKD is pegged to the USD, which means the Hong Kong Monetary Authority intervenes in the currency market to keep the HKD strong. A pegged currency means a fixed exchange rate based on the value of another currency. A pegged currency may need to be bought or supplied to help keep the value where it needs to be. For example, Hong Kong might sell some of its foreign reserves to buy the

HKD as a way to remove it from the market and strengthen it.

10. Hong Kong’s main economic announcements are interest rates, employment, inflation, GDP, and trade balance.
11. The HKD is not a safe haven currency.
12. It can only be traded in the spot forex market.

You should already note some differences with both these currencies. You should also realize why the USD/HKD pair would never be something to trade. Also note that the HKD is separate from the Chinese Yuan. Hong Kong was established as a separate country from China several years ago. It was under a British government rule until the late 1990s. However, China still considers Hong Kong as a separate sovereignty from the People’s Republic of China.

Since the USD is more popular as a trade currency, the strategies will concentrate on the fundamental information provided about it. You have six different markets to trade in. For a beginner, concentrate on the spot forex market, since the trade is 1:1, meaning you trade right now, for the market or limit price set, and close the position when you make a profit or to cut your losses.

You already know about safe haven currencies, so you know the USD can be sought during times of turmoil. The deficit makes the USD look bad and has greatly impacted the last few years of trade. The EUR has been consistently more valuable compared to the USD, but this does not mean the USD has not regained some of its value. It just means that the USD has not gone below 1.0000 against the EUR. Remember the euro represents 1 to whatever the quote price is. If the USD was 0.9701, then the USD would be stronger than the EUR. The EUR/USD price is currently 1.1242, so the USD is weaker than the euro. Around the UK announcement to leave the European Union, the USD became stronger reaching near 1.0900. Since that announcement the USA has lost value getting closer to the second quarter high of 1.14086.

It means for a time the USD strengthened due to the news released by the UK, but eventually the euro bounced back decreasing the USD value.

Let’s say you were trading when the UK announced their move to leave the

EU. You decided the news would be in favor of leaving the EU, so you opened a position at the beginning of July when the price was 1.11837, and you waited until the last week of July to close your position. The price hit 1.09572. You sold EUR to buy USD. The change was 0.088 (rounding up). This means you made 88 pips. If you had a lot size of 10,000, then you made $88 on the transaction. If you had bought euros and sold USD, then you would have lost $88.

The savvy investor looked at the potential reaction to the news. It was easy to understand that the USD, as a safe haven currency, would be safer than the euro if the decision was to leave the EU by the UK. This is because the European Union trades in euros. The EU lost a partner in the UK. The UK cannot trade with the EU with the same benefits as before. It was worrying, so investors went to the safe currency, until the shock of the news was over. You should also know the GBP suffered a loss of value too, based on the news. Like the EUR/USA, the GBP/USD saw a downtrend, with the USD gaining in value when the news was announced. The Great British Pound has not bounced back from the approximate 0.200 fall it sustained in price.

Now, let’s imagine you didn’t pay attention to the news. Instead, you looked only at the technical chart for June. Based on the consistency of the GBP/USD around 1.4500, you figured you could buy GBP on a rise from 1.4000 to 1.4500, but then the news occurred and the drop from 1.4500 to 1.3000 occurred. You lost 0.1500 because you didn’t have a stop loss in place. As you can see, without watching the news and without a plan that would be a detrimental loss to your capital. Why suffer such a thing?

You shouldn’t. If you are going to ignore fundamental information to get a global and country perspective of currency and economic strength, then you should at least have protections in place. If you are not going to look at current trend patterns on charts, then you also need protections in place.

Economic Reports

To help you understand economic reports, let’s take a look at interest rates as an example.

Interest rates impact trade flow. A rising interest rate will increase the investment flow, which increases the demand for the currency, leading to an

increase in value of currency, but there are less competitive exports and a decrease in trade flows.

Falling interest rates lead to a decrease in investment flows, with a decrease in demand for currency, decreasing the value of a currency, but increasing the competitive exports, and increasing trade flow.

The impact on investment flows show a rising interest rate provides a more attractive investment return, thus increased investment flow. A falling interest rate has a less attractive investment return, thus a decrease in investment flow.

Since currencies move based on supply and demand for the currency, you have to understand the impact on trade flow and investment flow to understand the impact on the money supply. Rising interest rates will decrease the money supply, where as a falling interest rate increases the money supply. A decreased money supply means the demand is higher, and an increased money supply means the demand is low.

As an investor you also need to understand fear in the market. Rising interest rates means inflation is usually rising and investors are confident. This puts more liquidity in the market, thus there is more market movement for a currency.

If interest rates are not rising, but inflation is on the rise, investors tend to be nervous. They will lower the liquidity and volume of trades to protect their capital.

Lowering interest rates can mean a slowing economy, but investors can still be confident in investing in a currency pair. It is when interest rates are not being lowered, yet the economy is slowing that investors will be nervous and pull out.

As you can see, economic reports have an impact in volume and liquidity, based on the supply and demand of a currency and what investors feel about the economic situation.

Let’s talk about the UK leaving the EU. It had an impact. The euro suffered for a short time, and the GBP has not gained value against the USD that it lost, but it is also not losing anymore now that the news is older. One reason

for this is USA election year. The presidential election has the USA waiting to see what will happen. The expectations could be far worse and more fearful than investors believe or it may help investor confidence rise, so the USD gains more value against other currencies. As the election draws near, you will see the USD in a holding pattern, where investors make daily money, but do not want to speculate on the long term value increase or decrease of the dollar.

Here is a strategy to employ:

1. Examine the global outlook, is the global economy strong?
2. Examine the two countries and their currencies for the pair you are interested in trading?
3. Is there sufficient volume and liquidity in that pair to trade? If yes, start working on an entry strategy. If no, look at different pairs.
4. Determine if there are any economic reports, election news, or other event news that may impact the movement of a currency. Look at both countries. Is one report more important than another for the countries, where you would expect a change in price to occur? For instance, the labor reports in the USA tend to shift the price for the USD. Favorable results increase the value and unfavorable results reduce the value.
5. What are news projections by news reports on CNBC or other financial news sites/channels? News broadcasts can sway public sentiment with their expected and actual results. As a beginner, you want to trade on the actual results at first. Learn how the currency pair reacted to a news report and then determine an entry point.
6. Buy if the value of the quote currency will decrease, meaning the price will increase and sell if the value will increase/price will decrease.
7. Set a limit order for a certain price.
8. Let the order fill.
9. Set your trailing stop loss. Remember you do not want it too tight due to market fluctuations. If you are only 10 pips off the entry price, you might sell too early to make a profit.

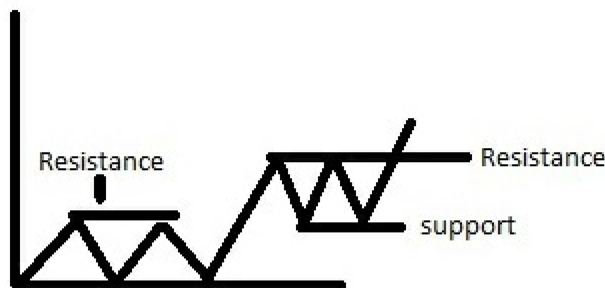
10. Let the trailing stop loss do its job. It will trigger if the market moves against you and follow the profit when it moves with you.
11. Calculate your profit.
12. Find a new pair to invest in.

Your exit strategy is the trailing stop loss. It ensures you either cut your losses or make a profit when the market moves with you and then turns around. While the currency market does work on supply and demand, you also need to remember the points mentioned above when you create a strategy for entry and exit. You also have to know which reports have more impact, when there are multiple reports coming out for the currencies in the pair you are looking to trade.

Chapter 7: Strategy 2-Technical Techniques

Technical analysis, for some, is considered the only scientific way to invest and avoid turning forex trading into gambling. Let's take a moment to look at an example.

A chart shows a support and resistance pattern.



You decide you are going to buy on the uptrend. An uptrend is when the quote price is increasing in number, such as 1.1167 to 1.1267. You know from the chart that the price usually tops out at 1.1267, so you decide to set your trailing stop loss 30 pips off that price, meaning 1.1237.

However, at the closing of the European session, a sudden news announcement occurs. The news announcement creates trouble for the European economy, so the euro loses value. You just placed your trade and it was filled. You did not set a trailing stop loss yet. The USD begins to gain value, so the downturn, it was in continues, instead of reversing like the support and resistance trend it was previously in.

You have now lost 100 pips and you invested 100,000 in a lot size, thus you have lost $1,000 on the trade. Ouch. Next, time you will have the news on, check it before you place a trade and immediately set your trailing stop loss.

You cannot rely solely on fundamental or technical analysis because you never know when market sentiment in either analysis camp will sway the numbers. Technical analysis does have a science to it, rather a mathematical concept, but it is also about self-fulfilling predictions.

An investor with $1 million in a lot size can sway a pattern into their favor

because of the lot size increasing the volume and liquidity for their position. In the same vein, if you have three investors with half a million, a million, and a billion investing against the investor with $1 million, then the trend is going in favor of the three investors. You cannot overlook things like a corporate trade to pay off their debt for the imports they received.

But, let's just focus on technical analysis for now.

Support and Resistance

This is the easiest trend to see on a currency pair chart. This is because you have a concrete data chart showing you that the price hits a certain "high" that it cannot breakthrough for a period of time. It may only be a four-hour trend, but it can also last for months, even years depending on the currency pair. It can also have a short breakout trend to establish a new support and resistance level, as you saw in our image above.

The support is the lowest the downtrend will go, until a breakout happens. Again, there is a "low" the currency pair will hit that has the price bouncing back into an uptrend. Unless a breakout occurs, the support will be hit each time, with a reversal to an uptrend. We will discuss breakout trends in further detail in a moment.

Strategy for Support and Resistance

1. Assess the chart for five years, a year, six months, a month, and narrow it to the day's trend.
2. Determine the time for your trade. Are you trading for 10 minutes or an hour? If you want to leave the trade active for an hour, then you need to know the day's trend. If you are trading for 10 minutes, look at the four-hour chart after you assess the day's pattern.
3. Get the long term picture and then narrow it down. In this way, you will not miss any indicators that the pattern will change or reverse from what has occurred in the last hour, four hours, or eight hours.
4. Pick a starting point, either to follow the uptrend to the resistance or the downtrend to the support.
5. Enter with a limit order.

6. Place a trailing stop loss. It should not be tight, but provide a tidy profit. If the price for the support to resistance line is a difference of 100 pips, set a trailing stop loss 30 to 40 pips off the trend line. You still gain 60 to 70 pips.
7. Let the position exit on the trailing stop loss or close it out when you see a higher profit. If, for example, you are sitting at your computer and you see the price reach 80 pips, create a sell order and take your profit.
8. Calculate the profit.
9. Find another entry point and repeat the steps.

There is no rule that you need to wait for a trailing stop loss to be activated. If you see the price continuing to 90 pips profit, you can place a sell market order to close the position on an uptrend to gain a little higher profit than your trailing stop loss.

The only reason, most traders wait for the trailing stop loss to be activated is to avoid going with a market order to close the position and having a sudden drop in price that is lower than the trailing stop loss.

Here is a good rule to follow:

1. If the price is not going back and forth from 10 to 20 pips as it heads to the resistance line, close out and take a higher profit.
2. If the price is fluctuating to the point that it could suddenly head back to the support line, let the trailing stop loss close your position and take the profit you planned for.

Breakout Trend

A breakout trend is when the currency pair rises above the resistance line or goes lower than the support line. It means it has broken the current trend in one direction. Now, a new support and resistance can be established or the breakout may rise and rise, with a sudden drop back to the support it broke from. In other words, you might see a rise from 1.1167 to 1.1367, with a sudden drop back to 1.1168. This sudden drop usually occurs before your fingers can sell out at the 1.1367 mark. As you set up the sell order, the price

drops, so when you hit send, you sell at no profit. Of course, it could be that the price rises to 1.1367 and then goes to 1.1267. The drop is sudden, but you make a profit. The pattern, then starts rising from 1.1267 to go to 1.1370 before it travels down to 1.1269. This is a new support and resistance pattern.

Follow the steps above for this strategy.

The only difference is that you do not take your profit early.

You let your trailing stop loss follow the breakout trend until it peaks, selling to close your position, when you are 30 pips off the highest point the currency price reached.

Chapter 8: Strategy 3-The Best Technique

You are going to employ both fundamental and technical analysis to trade. This strategy is about utilizing all of the information that is at your fingertips to decide on a proper trading plan. You are still going to need to lay the groundwork for the currency pair you will trade; however, you will have steps to follow to ensure you are not opening yourself to more risk. Your goal is to have a net profit for the year, not each week or each month. As long as your yearly P&L statement shows a profit, you have been successful.

1. Determine your risk aversion. Are you a low, medium, or high risk taker? If you want to make modest money, but do not care to lose any money, then you need to place trades based on low risks.
2. Study the pairs you are interested in trading, whether it is the major currency pairs or major crosses. Understand the personalities of all the currencies in the pairs you are most likely to trade.
3. Assess when economic reports will be released. There are trade calendars that offer this data. Mark the most important economic reports on your calendar. If two countries have reports coming out on the same day, find out which report is more likely to affect price movement. USA labor reports will have a greater impact than Polish labor reports, particularly in the USA session.
4. Watch the news. Find out what news was released in other countries and what has happened in your own country since you went to bed. Are there any important events? For example, reports of fake bombs in the London Underground would have affected the European session, but three bombs, with one detonated in New Jersey, would have more of an impact on the USA session and the world.
5. Assess the charts for the top 3 currency pairs that have proper liquidity and volume for the day. Which charts are offering a clear pattern?
6. Based on your research, determine an entry point for one of the currency pairs.

7. Set the entry order.
8. Place a trailing stop order to protect your position.
9. Let the trade plan play out.
10. Calculate your profit.
11. Check for another entry/exit opportunity.
12. Follow the above steps and start a new position, if the market provides an opportunity.

*Remember, you do not have to trade 365 days out of the year. You may find there are no currency pairs you are comfortable trading based on economic or technical market conditions. It is okay to not place a trade. You want to place trades based on the likelihood of success—not just to trade.

You have worked hard for your capital. You want to keep it. Make sure your emotions stay out of the mix. If you need to walk away from your computer and trading for an hour or several days, until a loss or significant profit is only a memory. The minute you let your emotions in and you start trading without a plan is the minute you will over leverage your account and lose all your capital, perhaps even more than that.

Conclusion

You have been given the best strategy to start trading forex. You still need to do the legwork to determine which currency pairs are actively moving right now and in what direction they are moving.

Please do not use this book as a “magical” investment solution. Yes, you can invest and make money right now. But, it all depends on the amount of research you have conducted to learn the currency pairs, while you read through this book.

You know whether you are a low, medium, or high risk investor. You have to establish your strategy and entry/exit plan based on your risk aversion. If you have a high risk aversion, then you want to trade with low risk of your capital.

You learned that you do not want to invest without looking at:

- The global economic perspective
- Both countries’ economic situation
- Technical data to see current trends

As long as you know the big picture, narrow it down to a specific set of currencies, and establish the market trends and potential change in that trend, you can make a profit. It may only be a few dollars or whatever your currency is at first, but it is better to make a small profit over a long period of time than to lose big and try to get it back in a panic.

You have been given suggestions only. You are going to narrow down what works best for you as you get more comfortable with all the information. Once you reach that point, you still need your due diligence and discipline, but you will start to see the profits you have worked hard for.

Nothing comes easy in life. Nothing is magic. You just need to follow the steps outlined in strategy 3 to determine the proper and comfortable entry/exit point for each trade based on the current market conditions.

FOREX TRADING

A Crash Course to Get Quickly Started and Make Immediate Cash with FOREX Trading

By Samuel Rees

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Introduction

Congratulations on downloading the e-book *Forex Trading: A Crash Course to Get Quickly Started and Make Immediate Cash with Forex Trading* and thank you for doing so. This book is chalk-full of information regarding how forex trading works and the processes involved. It's my greatest hope that after reading this book, you'll be able to call yourself a forex stock trader. You'll have the tools that you need to start working as a trader on the stock market, and over time you'll hopefully be able to make profits that matter for your future. Forex trading can be considered a niche market within the broader stock trading industry, and everyone knows that becoming an expert in a niche is one of the best ways to become successful at something.

The following chapters are guaranteed to provide you with the information that you need to become a successful forex trader. You'll not only learn the basics of forex trading, but you'll also learn about how the forex market works in its entirety, the mistakes that you should be avoiding because many forex traders who have come before have made these mistakes in the past, and success stories of other forex traders who have proven that they know the market like the back of their hand.

There are plenty of books on this subject on the market, so thanks again for choosing this one! Every effort was made to ensure it is full of as much useful information as possible, please enjoy!

Chapter 1: What is FOREX Trading?

The term “FOREX” is essentially an abbreviation for the phrase “foreign exchange market”. It is often stylized as “FX” as well, and may also be referred to as simply “the currency market”. That last one may have you wondering. You see, the foreign exchange market, while similar in many ways to the stock market, does not involve the trading of equities or commodities. Instead, the FOREX is for the trading of *currencies* worldwide. It is by far the largest and most dynamic global market in terms of sheer volume, with an average of over $5 trillion traded each day. It is a disseminate market, meaning there is no central marketplace where currencies are traded, neither is there a single governing entity overseeing its activity. Currency trading is instead handled “over-the-counter” via online computer networks, and the standards for trading are set by several different financial agencies, both governmental and independent, within each of the major markets for FOREX activity (the Commodities Futures Trading Commission in the United States, the Financial Conduct Authority in The United Kingdom, and the Financial Services Agency in Japan, to name a few). Since there is activity in nearly every time zone across the globe, there is very little down time on the foreign exchange market, only 36 hours per week in fact, making it one of the most exciting and fast-paced markets to participate in.

The concept of trading currencies may seem abstract and hard to grasp, but it is actually quite simple. In fact, most people have participated in the foreign exchange market without even realizing it. If you have ever traveled to another country or purchased something internationally, you have most likely had to navigate around an exchange rate. It is incredibly rare for two different currencies to have the same relative value. As such, whenever there is to be an exchange of goods or services, the purchaser must account for the difference in value between the currency they will use to pay, with the currency used by the providing entity. It is for this reason that the FOREX is used to aid in international trade by facilitating money conversions.

Currency exchange systems are nearly as old as trade and currency

itself. When coins were still made of gold or other precious metals, they were often not of equal weight or content. Even if one country's money was of uniform value, they were rarely comparable to another's. Most major trade hubs in the ancient world had resident currency exchangers to help foreigners establish a bartering value for their money; for a commission, of course. Eventually, most governments had their currencies backed by a known amount of gold or silver to catalyze their circulation. Eventually, international banking systems became the gatekeepers of currency exchange, until privately owned companies started trading on the market in the late 1800s. Through the mid-twentieth century there were a few attempts by world governments to limit the degree of fluctuation in currency exchange rates, but these were ultimately ineffective. By 1973 most governmental control of the FOREX was relinquished, which gave way to the fully dynamic and open market that we use today. This would essentially eliminate the gold standard, and foreign exchange rates are about as free floating as they can get.

There are foreign exchange market hubs all around the world. New York, Paris, London, Tokyo, Zurich, Hong Kong, and Sydney are just a handful of examples of these. Throughout its history, the predominant players in the FOREX have been the largest international banks, giant corporations, hedge funds, and the wealthiest individuals. Nowadays, through the power of the internet, even the most modest of us can become an expert FOREX trader. Since there is no central marketplace, much of the leg work can be done at home on your computer or even your phone. Again, since the FOREX is open twenty-four hours a day for almost the whole week, you can buy and sell on your own time. Since the market moves in trillions of dollars every day, with so many players involved, the FOREX has unparalleled liquidity. This makes it incredibly easy to buy and sell at any time. This level of liquidity also allows significant leverage margins to be used in the trading of currencies, allowing you to increase your gains (and losses). There are, however, many things to learn before you can make your foreign exchange trading profitable.

Chapter 2: Learning the Basics

As with any financial trading endeavor, things can get pretty technical and the jargon can get confusing. It helps to get a grasp of what one is actually trading, and what buying and selling on the FOREX entails in concrete terms. First of all, the world's currencies are not of equal value. As was previously discussed about international travel and shopping, there are exchange rates that are reflective of one currency's value when compared to another. These exchange rates also fluctuate fairly rapidly, often no more than fractions of a percent, but these tiny variations can become significant over time. For example, from January to May of 2011, the Euro went from being worth $1.33 in U.S. dollars to $1.48, an increase in value of ten percent. These exchange rates change in the same way that commodity values change, through basic supply and demand principles. There is a finite amount of money in the world at any given point in time, after all, and there are several factors that influence the demand for a particular country's currency; which we will get into later.

How to Read a Quote

So, basically, the projections that are made on whether to buy or sell currency are not far removed from comparable projections on the stock market. If the U.S. dollar is expected to decrease in value relative to the Japanese yen, a FOREX trader will look to sell dollars and buy yen. If the yen in turn increases in relative value, the trader can then buy back more dollars than they originally sold and make a profit off of this exchange. Foreign exchange trading deals with currency pairs like this constantly. As

such, the market values are quoted in pairs to make this type of research easier.

Any particular currency is always quoted relative to another. The first currency in the quote is known as the “base currency”, while the second is known as the “quote” or “counter currency”. If you read a quote that looks like this: EUR/USD = 1.3111, the euro is the base currency and the dollar is the counter currency. The base currency always assumes a value of one, and the quote shows how much a single unit is worth in the counter currency. In this case, one euro is equivalent in value to 1.3111 U.S. dollars. Now, there are two different types of quotes that FOREX traders encounter, direct and indirect. The two are simply mirrored versions of each other. A direct quote considers the domestic currency to be the base, and the foreign currency to be the counter. An indirect quote is the opposite, considering the foreign currency to be the base and the domestic one to be the counter. Both types of quotes report the same information, the difference is merely in how it is read.

Bid and Ask Prices

Similar to trading on the stock market, every currency pair has a bid price and an asking price. Both of these prices are relative to the base currency of the quote. The ask price is used when buying a currency pair, and reflects the amount of quoted (or counter, remember) currency that should be paid for a single unit of the base currency. The bid price is used when selling currency pairs, and reflects the amount of quoted currency that will be netted for one unit of the base currency. Again, you will notice, the two are simply mirrored versions of the same data.

Let’s look at an example of these prices: USD/CAD = 1.2000/05. The first value is the bid price, and the second value represents the last two digits of the full ask price (a common quoting convention). Assuming that the U.S. dollar is the domestic currency, this would be considered a direct quote. It is crucial to stress once more that the bid and ask prices are always reflexive of the base currency, U.S. dollars in this case. It is also key to realize that the bid price is always lower than the ask price. This means that to buy this currency pair, you would be buying U.S. dollars, and would have to pay 1.2005 Canadian dollars (the ask price) for a single unit of U.S. dollars. If instead you intend to sell this pair, selling U.S. dollars, the bid price tells you

that the market will pay out 1.2000 Canadian dollars for a single U.S. dollar. When buying a currency pair you are said to be “going long”, while you are said to be “going short” when selling a currency pair.

This can be a confusing concept at first, since the ask price is the trader’s buying price and the market’s selling price, while the bid price is the trader’s selling price and the market’s buying price. It will become second nature with some time and practice reading quotes, and it is recommended you do so before doing any serious trading to avoid any amateur mistakes. For future reference, buying a currency pair is also known in market lingo as “going long” and selling a pair is also known as “going short”. We may be using these terms again later on.

Spreads, Pips, and Lots

The spread is simply the difference between the bid and asking prices. In the example we used above, the spread of this currency pair would be 0.0005. The spread can also be reported in “pips”, with a single pip being the last significant figure a currency unit is reported out to, and also the smallest amount the price can increase in any currency pair. For U.S. dollars, a pip would be one ten thousandth of one dollar. For Japanese yen, however, one pip is one hundredth of a single yen, since yen are reported out to two significant figures after the decimal point (2.01, for example, would be one pip for yen). A pip is also referred to as a point. For the example we are using, the spread would be five pips, or five points.

These tiny pip fluctuations may seem inconsequential at first, but most currency pairs move within one hundred to one hundred fifty pips in a single day. When you factor in leverage and the scale at which a market player may be trading, this can equate to thousands of dollars being lost or gained with just a single pip change. Another important value to learn when reading FOREX quotes is the lot. The lot is the smallest amount, in units, that can be traded at one time. This is usually dependent on the level of access the player has to the market, and the broker they are using. Often, the lot is one thousand, meaning you must buy or sell a thousand units of a given currency at one time. This also means that you may trade with larger sums of currency as long as they are in one thousand unit increments.

Leverage

Leverage is a financial term used often in trading markets of many kinds. You will need to enact some leverage of your own if you want to get serious with foreign exchange trading. When you use leverage, you are essentially using borrowed money to trade. It allows you to buy and sell with more money than you initially set aside in your account. The scale of the leverage you will be able to use is dependent on a few factors, including the financial institution you are borrowing from, and what kind of credit history you have. Leverage is usually indicated as a ratio; 50:1 leverage for example, means you can trade with fifty times the amount you set aside as a security deposit. So if you put down one thousand dollars as a security deposit, you can actually trade on the market with up to fifty thousand.

The assumption behind the use of leverage is that the return from whatever asset is acquired will exceed the borrowing cost after tax and appreciation. Its use allows you to multiply your profits in a financial market like the foreign exchange. It also can multiply your losses, however, and there is dramatic risk involved when using leverage. With savvy trading and good market conditions there are equal parts risk and reward with the application of leverage.

Interest Rates

If you are familiar with the concept of interest when applied to a savings account or repaying a loan, interest rates when applied to currency trading is a simple adjustment. Every major currency of the world has a set interest rate attached to it, which is established by the bank of that currency's issuing government. Whenever you make a foreign exchange transaction, you are simultaneously purchasing units of one currency while selling units of the other currency denoted in the quote. As such, you are subject to the effect of the interest rates set by either currency.

Let's look at an example of this effect, and look at the USD/CAD pair. Say the interest of the U.S. dollar is 4% while the interest of the Canadian dollar is 0.8%. If you go long with this pair you will earn 4% interest on the U.S. dollar, but have to pay 0.8% for the Canadian dollar. This means you will have a net return of 3.2% interest for this transaction. When you factor in

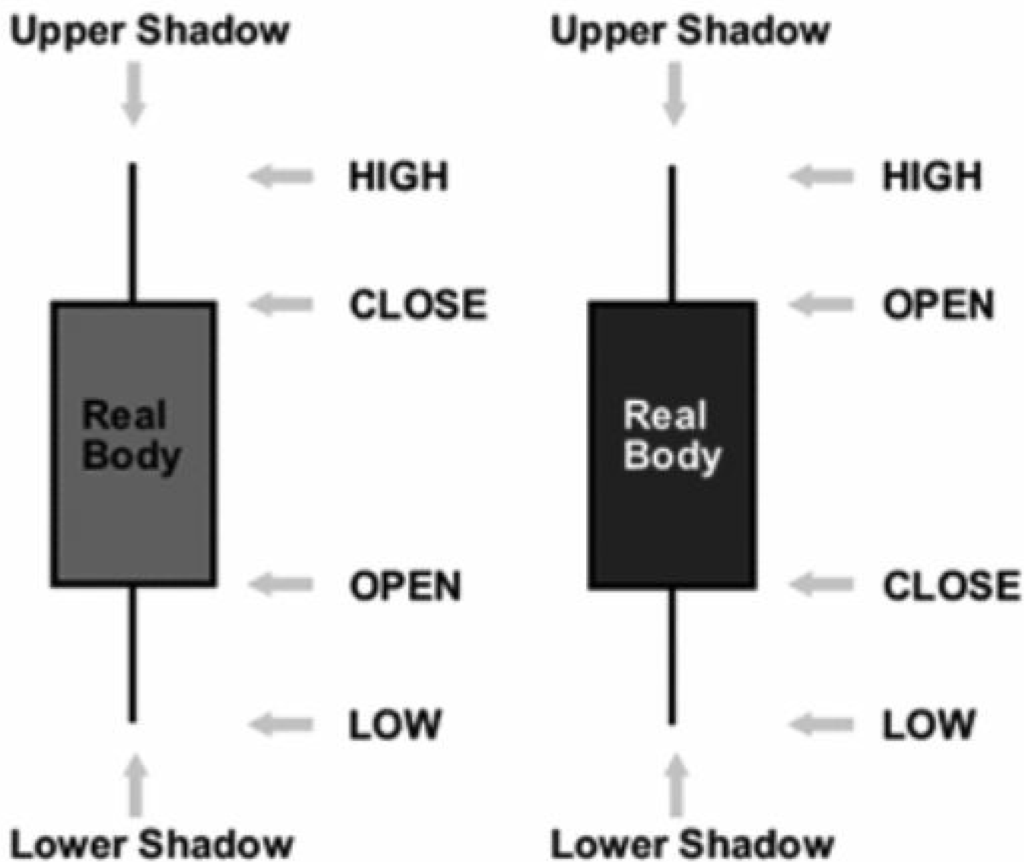
leverage, you start to see how these interest points translate to earnings over a yearly period. Let’s assume you have a leverage ratio of 50:1; that 3.2% interest return then becomes 160% annually towards your investment capital. One of the fundamental strategies for trading on the FOREX involves utilizing the “carry trade”, which aims to capture the interest rate differential between two currencies to yield higher returns. We will get into the carry trade more a bit later.

Candlestick Charts

The foreign exchange market is every bit as volatile as the weather, and it helps to have visual aids to get a sense of what the market is doing. The most basic of which is the candlestick chart. It conveys lots of data in a simple manner, and is the basis from which many important extrapolations can be made.

This is an example of a FOREX candlestick chart; in particular, it is depicting the USD/CAD activity from December of 2010 to August of 2011:

This may look like a lot of information to take in, so let’s look more closely at what a single data point within a graph is indicating.



Each data point represents a single day of activity. The margins on either end of the box indicate the price of the currency pair at market opening and closing, with the range within the box known as the “real body”. The ends of the thin lines are the highest and lowest prices the quote achieved over the course of the day. In most graphs, net positive and negative growths are differentiated by the color of the real body. Here, a green body indicates an up day, while red indicates a down day. During an up day, the price at closing was higher than the price at opening, while the inverse is true for a down day. On an up-day’s candlestick, the upper margin of the real body is the closing price, while the upper margin of the real body on a down day is the open price.

If we refer back to the first graph of USD/CAD, we see that when looking at a large collection of candlestick points, the chart begins to look like a traditional line graph. It is clear to see that this particular chart indicates a downward trend for this time period, despite the occasional upswing. On a

downward trending graph, a line is often drawn across the peaks of each short-term uptrend, as shown here:

This trendline is known as a “resistance” because it represents a quote’s failure to sustain an upward trend. On an upward trending chart, a similar line can be drawn across the lows of each intermediate downtrend. This line is known as the “support” and represents a price at which a quote has not been shown to drop below, and the ability of the price to bounce back from downward swings. These two trendlines are important to certain trading strategies, and helps to think of resistance as a ceiling, and support as a floor for a currency pair.

Chapter 3: Understanding the Three FOREX Markets

While the foreign exchange market is a single "entity" there are actually three different ways that market participants can trade. These are colloquially known as the three FOREX markets: the spot market, the forwards market and the futures market. The first of these is the main one, and the one people are referring to as the foreign exchange market most of the time. As such, the spot market has always boasted the largest volume and it is also the concrete basis that the forwards and futures markets are compared. This hasn't always been true however, the futures market used to be more attractive since it was more widely available to individual traders for much larger periods. Since the dawn of foreign exchange trading over the internet, the spot market has dramatically increased in volume since standalone speculators and traders can access it so much more readily. Both the forwards and futures markets are more popular with larger investors and traders that need to speculate further into the future to justify their financial risks.

The Spot Market

The spot market can be considered to be what the state of the market is "on the spot". In other words, in this place in time. The prices of currency pairs on the spot market do reflect projections of future performance of the currencies, but the individual transactions are performed in real time. Once a trade has been agreed upon, the buying entity distributes the amount of

currency that is reflected by the price quote to the selling entity, who in turn delivers the amount of counter currency at the established exchange rate. This is known as a "spot deal" and these trades are settled in cash. These deals can be made through a couple of different methods. Either directly between two trading parties, or through an electronic brokering or trading mediator. While the spot deal is made based on current price quotes, it does take time for the settlement to officially be paid out. The standard timeframe for most currency pairs is two business days, however some currency pairs such as USD/CAD, USD/RUB, and USD/PKR are settled within a single business day.

The Forwards Market

Rather than trading currencies, both the forwards and futures markets work with contracts. These contracts specify an agreed-upon price of a currency to be paid at some future date. The price of these contracts does not necessarily match the price of the currency at the actual date of settlement. It is a speculative contract and similar to a derivative, a term you may have heard used when describing other types of financial markets. A forward contract is agreed upon over the counter between two parties, either individuals or through brokers. The parameters of this agreement are established between these two parties alone without intermediate standardizations or partial settlements.

The way this is implemented is to alleviate the risk of fluid exchange rates over a period of time. By setting the price at a specified date before any of the market factors can affect the rate, the forward contract allows larger profits to be made from the acquisition of the counter currency while also hedging the risk of depreciation. It may help to compare this to a different type of forwarded contract. Say a homeowner with a $150,000 house agrees with a seller to sell the house for $155,000 at a later date. Within that timeframe, the house may appreciate in value to $159,000. The buyer has then made a profit of four thousand dollars, while the seller has incurred a potential loss of nine thousand and an actual gain of five thousand. From the seller's perspective, in signing the contract they have hedged their risk of the house depreciating by the settlement date. If the house depreciated to $148,000 then the seller has just made five thousand dollars as opposed to losing two thousand. This same basic principle can be applied to currency

forwards and exchange rates. From the buyer's perspective, you are agreeing on the forward contract in the hopes that you will have saved money in buying a more favorable exchange rate in the future by paying less in the present. From the seller's perspective, you are agreeing to the forward contract with the hopes that you will negate your losses should the value of the exchange rate go down.

The Futures Market

The futures market deals with contracts the same way the forward market does, but these contracts are established through intermediaries and standardizations. Futures contracts are made through futures markets and involve more than two parties while negotiating the deal. The terms of these deals are often set and standardized by these futures markets. The National Futures Association is the regulatory body for futures contracts within the United States. Unlike a forward contract, futures cannot be customized by the trading parties, and instead have standardized details regarding the settlement dates, unit volume, and unit pricing. There are often interim settlements to be made over the course of the contract, eliminating the need for collateral that may need to be agreed upon between parties in a forwards contract.

Both forwards and futures contracts are implemented in much the same way; the futures market are more often utilized by large participatory bodies since settlements and transactions are more streamlined and standardized. Both types of markets have a speculative as well as a loss-hedging function. Speculators use them to increase their potential profit margins while the sellers enter these deals to minimize any risk they may incur through normal market fluctuations.

Chapter 4: Factors that Affect the Foreign Exchange

There are several complex economic theories behind why the foreign

exchange market exists, and how it works. Entire books can be written on these, and several have, in fact. These theories are beyond the scope of this book, but they are of less importance to the fledging trader, and have less of an impact on the market in the short-term. Economic data, however, can have a significant effect on the daily movements of the market, and are valuable concepts to grasp before you start trading. The relative value of a given currency is affected by a large variety of factors. These can be concrete monetary values as well as more abstract variables.

The aforementioned interest rate of a country’s currency is a major market influence. The country's central bank can, and often, changes this interest rate in order to accommodate its financial supply and regulate the country’s fiscal policy. The central bank’s interest rate is indicative of how much the federal treasury will allow commercial banks to borrow from it as well as lend to it. Every country has their own regulatory commission that meets several times each fiscal year to determine if the interest rate will change, and by how much. Generally, an interest rate will climb when the economy is strong to mitigate the effects of inflation, and fall during times of stress to try to attract more lenders. The three main factors that market traders can use to forecast which way the interest rate will move are the inflation rate according to the consumer price index, consumer spending reflected in retail sales, and employment levels. These factors will be discussed in more detail here.

A country’s employment rate is useful in assessing its overall health. Times of rapid employment growth are often indicative of a strong economy, while drops in employment numbers may signify economic shrinkage. Generally, rising employment rates will drive the currency value upwards, especially following an economic downturn or recession. However, a high employment rate should be considered along with the currency’s inflation, since elevated employment can bring inflation up with it. Inflation changes are indicative of price changes for the country’s domestic products. As a currency inflates its overall buying power decreases, as does its demand. This in turn decreases its relative value against those currencies whose inflation rates are lower or are decreasing.

The gross domestic product (GDP) is another critical factor in determining a currency’s relative value. The GDP is the main variable in determining the overall power of a country’s economy. It is a reflection of the

sum total of a country's domestic output of products and services, minus the costs of intermediate consumption over a set period. The higher the GDP, the better the general strength of the economy, and therefore the more valuable its currency becomes in the eyes of foreign investors.

Retail sales are another marker used to determine economic strength, and is reflective of consumer spending. The large total amount of money that retailers of various types make in sales over a given period is indicative of a healthy economy. A similar data marker is the amount of "durable goods" a country produces. Durable goods are defined as products with more than a three year lifespan that are manufactured domestically, such as automobiles. This number reveals to economists the overall strength of a country's factory sector.

Import/export activity is an indicator of a country's ranking amongst international traders. Trade of goods and services generates large amounts of currency flow between countries, and therefore fluctuations in relative currency value. Trade deficits occur when a country is importing more than it is exporting. This means that it is dumping its currency off to other countries in exchange for their products, and their currency is therefore depreciating. On the reverse, a country that is exporting large volumes means that foreign governments are investing in them. A country that is enjoying a high degree of foreign investment will usually see its currency appreciate in value. The measure of the capital flow due to asset trade is known as the balance of payments data, and incorporates the flow of product, the flow of money for capital assets, and the flow of money for investments.

Large scale geopolitical and macroeconomic events can potentially generate the most significant movements in the foreign exchange market. Elections, for example, can dramatically change a country's fiscal policy if there is a regime change. If the rise of a financially conservative political party is imminent, for example, that country may see an upswing in its currency's purchasing power. International conflicts create massive economic stress on all of the countries involved as well as increase tension in the neighboring regions. It is usually easy to stay on top of these types of events since they generally are covered on mainstream news outlets outside of the financial sector.

As you can see, there are many factors that can affect FOREX movement, and the amount of relevant information to consume can be

overwhelming. With some time and experience, you will be able to distinguish which data will have the most significant impact at any given time. For starters, however, it is important to realize that the more nuanced an economic and political perspective you can attain, the better equipped you will be to handle the movements of the foreign exchange. Take in as much data as you can balance at first, and you will become more efficient in absorbing the pertinent information over time.

Chapter 5: First Actionable Strategies

Now that we have a grasp of the basic concepts and jargon used in foreign exchange trading, and an understanding of some of the factors that affect the rise and fall of a currency's relative value, it's time to learn some beginner strategies for trading. There is nearly an endless number of trading strategies that can be discussed in a guide like this. This should only be taken as a jumping-off point for introductory traders. We will cover only a few of the basic strategies that have been shown to be successful and easy to apply.

The Carry Trade

No FOREX starting guide would be complete without discussing the carry trade. It is one of the oldest strategies to be applied to the foreign exchange, and it remains one of the most popular types of trading among amateurs and professionals alike. It is also one of the easiest plans to understand and incorporate into a trader's overall plan. The theory and goal behind the carry trade is to profit from the difference in interest rates between two currencies. Forecasting a rise in the value of the currency with the higher interest rate is also part of this strategy. The basic principle is to sell a currency with a lower interest rate than the currency you are buying. As we briefly covered in the interest rate section above, trading a currency pair in this way allows you to capture the interest rate differential. Say the USD/JPY differential has a net increase of 4.5%. When you account for even a modest leverage ratio of 20:1, this interest rate becomes 90%. To further extrapolate this, let's say the trader is going to use fifty million yen to purchase U.S. dollars while the exchange rate is USD/JPY = 150.00. The trader would then have $333,333.33 USD (50,000,000/150 = 333,333.33), which they would then invest in a government bond. If the interest rate of the U.S. dollar is 5%, that sum would amount to $350,000 (333,333.33 X [1+0.05] = 350,000) by the end of the fiscal year. For the initial trade, assuming that the interest rate for the Japanese yen is 0.5%, 50,250,000 yen is owed (50 million units X

[1+0.005] = 50.25 million units). Now, assuming the exchange rate for USD/JPY remains at 150.00, the amount that is owed in U.S. dollars equates to $335,000 (50.25 million yen/150 = 335,000). This means the trader has now profited from the difference in the ending balance versus the amount that is owed to the magnitude of $15,000 USD (350,000 – 335,000 = 15,000). This can be cross-checked against the initial forecast of a 4.5% profit, since $15,000 equals 4.5% of that starting sum of $333,333.33 USD. If we further account for the leverage ratio of 20:1, this trade would yield $300,000 in market equity, which again reflects the forecast of a 90% return, as $300,000 is ninety percent of $333,333.33

Remember that all of the math we just did was calculated with the assumption that the exchange rate between the U.S. dollar and the Japanese yen would remain the same throughout the year. However, it is rare for exchange rates to stay stagnant over the course of a full year. Part of the carry trade is projecting that the currency with the lower interest rate will either stall or depreciate against the interest rate of the long currency. The example we used above is appropriate when discussing carry trading because the Japanese yen is among the most commonly borrowed currencies since it has historically held low interest rates and has been consistently stable. The cost of holding a debt in yen is therefore quite small, and it can often be assumed that the long currency's interest rate will appreciate relative to the yen. A real-world occurrence of this took place in 2005. During that year, the United States Federal Reserve hiked the interest rates up two full percentage points, while the yen's interest remained at nearly zero. On top of that, the yen depreciated against the U.S. dollar by a whopping nineteen percent. This created very favorable conditions for the carry trade in which even a leverage ratio of 10:1 yielded 220% returns to investors. Below is a chart representing the USD/JPY exchange for that year.

As simple and effective as the carry trade can be, there is always some risk involved. In the above example, if the USD/JPY quote went down, and the yen appreciated, the trade would generate a net loss. Leverage would of course intensify this loss. In addition, if the short currency's interest rate falls, your profits are mitigated. Respecting market trends and inertia will help you pick the right pairs to trade. The general rules of thumb are as follows:

1. Match a base currency carrying a high interest rate with a quote currency carrying a low interest rate.

2. Narrow your focus to currency pairs with low volatility.
3. Go short on currencies with upward trends in interest rate

Consolidation and Breakout Strategies

As previously mentioned when discussing candlestick chart trendlines, quotes usually fluctuate within levels of support and resistance. Together, these boundaries are known as consolidation. The usual assumption is that the market will continue to operate within this consolidation. The boundaries are typically the points where the long and short positions converge, and it is usually an indicator that a short-term trend will reverse. Every time the price nears the consolidation boundary, the support or the resistance level is tested. Either the trendline is confirmed, and the price reverts back toward the long-term trend, or the consolidation limit is broken, and a new trend may emerge. More often than not, the consolidation channels will be upheld, and short-term trends towards this barrier can be used to dictate your position. If the quote is approaching the resistance barrier, a trader can expect the trend to reverse and the price of the quote to drop. The trader would then be wise to close their position and go short. Conversely, as a quote approaches the support barrier, it is expected for the price to rise back towards the long-term trend. Therefore, the trader should open their position

and go long on this currency pair. Whereas the carry trade is the simplest strategy for a long investment time horizon, trading within the consolidation boundaries is the simplest version of a strategy for a short or intermediate time horizon.

Sometimes, when a quoted price tests the boundaries of consolidation, the boundary is falsified and the price extends beyond it. When this happens, it is referred to as a “breakout”, and the ensuing peak or trough on the candlestick chart will reach a new short-term high or low, respectively. Breakouts can signify the start of a new trend if the quote manages to sustain its momentum. At these points, the market volatility increases as traders adopt their positons to reflect the breakout. It might be tempting to enter the market at these times and milk the trade until activity stabilizes.

While this can be intriguing to a day-trader with a very short time horizon, the reality is that breakouts don’t necessarily predicate new trends. Oftentimes, a breakout ends up being a “fake out”, and the market volatility remains high while the price reverts back towards the original trend. If a trader isn’t careful with their position when they see a breakout emerging, they may find themselves on the wrong side of a fake out and incur losses. A more secure strategy is to wait and see what the price does after this initial breakout. If a new trend is imminent, the price will usually revert back towards the original breakout level before rebounding to create a new peak or trough to confirm the new trend.

By waiting out the spike to assess its indicative power, you increase your

chances of adopting a more sustainable long-term positon on a particular trade. But of course, you may have passed up on highly profitable trades during the volatile period in the process. This type of tradeoff usually occurs in most risk management strategies. Implementing a stop-loss order can help you uphold your plan for dealing with breakouts. You can set these stop-losses to react as rapidly to developing trends as you wish.

The SMA Strategy

The next forex strategy at which we're going to look is known as the SMA strategy, or the Simple Moving Average. This type of strategy usually uses data that is a bit other than the other types of beginner strategies that exist, and it's also a lagging indicator which means that it is often moving slower than the market price in real-time. As should be obvious from its name, the SMA is an average number. It is calculated pretty simply by using the following equation:

Closing Security Price + Closing Security Price / Total Number of Time Periods

This might sound confusing initially, but this concept is actually pretty straightforward. For each period that you want to measure the average for, simply add each closing security price together and then divide by the total number of time periods for which you're measuring. The most important reason why investors are interested in using the SMA strategy is because of the fact that averages can often reveal information regarding market trends and future changes within the market as a whole. Because this average is considered to be "lagging", you're not going to be able to look at this number and figure out real-time information regarding the forex market; however, you should be able to see market trends within these numbers based on trends that already exist within the market. Some of the types of trends that are often seen through SMA averages include upward and downward trends. Another extremely useful tactic that many forex investors employ is comparing these SMA averages to one another for a given period of time. This too can help the investor to see trends that he or should would be less likely to see if they were not using the SMA averages. This technique influences the way in which these investors trade their money.

Chapter 6: Starter Tips for New Traders

Now that we understand the basics of foreign exchange trading and know the initial strategies we should be focusing on, let's cover some minor tips and tricks that can be used to help maximize your gains.

Look Before You Leap

You have already covered this one by reading this book, basically. As with any new endeavor, it's imperative to take the necessary time to study the ins and outs of the business before investing your own money. For the foreign exchange, that means thoroughly researching the most common currency pairs and what affects their rising and falling before starting your own trading. Know what kind of leverage you can afford before diving in. Learn everything you can about the different aspects of the market so you won't encounter any unwanted surprises, or be hampered in your potential success by lack of knowledge. Taking the time to research and read books like this is a valuable investment for yourself.

Make a Plan

Formulating a plan for trading is a crucial aspect of any successful financial market endeavor. This plan should include your goals as well as how much risk you are willing to tolerate. It helps to simplify your approach to reflect your level of experience. You may only want to focus on a handful of currency pairs you are familiar with at first. Once you have created this plan, try to make every trade you consider work within these parameters you have set for yourself. The more you stray from your plan, the more risk you take in encountering unforeseen difficulties that may derail you.

Practice Makes Perfect

You've done your research, you have formulated your trading plan, and you feel confident to start trading. It is time to put your knowledge and foresight to the test! Try out your strategy in real market conditions. There

are a few outlets and brokers that will even let new traders try out a risk-free trial account. These are incredibly useful as they will give you a chance to see what it's like to buy and sell currency pairs with your established plan without taking any risks with your own real money. Once you are comfortable navigating the market, you can branch off with your own account and start making some real returns. It's important to start small. Practice trading with only the smallest amounts, and with the currency pairs you are most familiar with. It is ok to keep it slow and steady. If your initial plan does not seem to working out the way you intended, this is the time to make small adjustments to fine-tune it. Once you start taking bigger and bigger risks it becomes much harder to back out and recover any losses.

Think Like a Market Meteorologist

The foreign exchange market can be as volatile as the weather. If you are going to have any real success in trading, you will need to become a good prognosticator. Most individual traders prefer to trade based on data from financial and political news outlets. This can come from television news to a myriad of online resources. Most social media platforms allow you to tailor your news feeds with topics you prefer to focus on. Keeping your finger on the pulse and listening to the experts will help ease the transition to more technical trading. The more advanced and technical traders will use market analysis tools such as Fibonacci retracements and financial forecasting software to plan their next moves. Some of these strategies may involve more specialized economic and mathematic knowledge to properly implement and may take some time to fully grasp. Most successful traders use a combination of these approaches. It is really up to you to decide which tools you like to use to find as many potential trading opportunities as possible. What is important is that you stay on top of it and use these tools constantly to take advantage of the fact that the FOREX never really stops moving.

Set Some Boundaries

This is such a simple concept that too many fledgling traders either underestimate or choose not to implement. It is paramount to your trading

future that you know what your financial (and personal) limits are. Even star athletes know when pushing themselves too far will become more of a detriment. Not only should you know how much financial risk you are making on each individual trade, but also where you are going to set the bar for when to stop. You should be setting your leverage ratio to accomodate your needs and goals. Most importantly, you should never risk more than you can afford to lose. This might sound obvious at first, but once small losses start to accrue, it is often quite difficult to resist the urge to take bigger risks to take those losses back. It is crucial to try to silence this urge. There is no shortage of examples of people who have lost significant sums of money this way.

Know When to Pack it Up for the Day

Yes, it is true the foreign exchange market never sleeps (at least for five days each week), but people have to sleep. Nobody has time to pay full attention to the market trends each and every hour it's open. This goes hand in hand with setting your financial limits. Stop and limit orders are ways in which you can protect your gains and manage the risk involved in trading. These can be easily established and implemented with your broker. You should look to get yourself out of the market once you have reached a specific milestone you have set. If your account stays open while you are asleep or working, and there are no checks put in place to monitor the account's activity, you may see some surprising results when you log back in; both good and bad. Trailing stops are another useful tool for this purpose. As the FOREX fluctuates, they trail your financial position at a predetermined distance and help you know when to close and secure those profits before the market has a chance to reverse. Don't think of this strategy as a timid approach, think of it more as a way to save your profits and pick up where you left off each day.

Keep Calm and (Don't) Trade On

Sometimes the chips are simply not going to fall your way, and the market is not going to fit your projection models. This is going to happen

inevitably, and it may happen often. As was stressed before, it’s times like these where many traders think they can “revenge trade” to beat this adversity. But frankly, this type of trading rarely works out the way it’s intended. You cannot let your emotions and frustrations affect your trading plan. When you make a losing trade, you can’t just double down and think you can make that loss back with one other trade. In the long run, it is much safer and smarter to stick with the initial plan and earn your losses back one small piece at a time. As the saying goes, a bird in the hand is worth two in the bush. It’s better to hang on to your capital than end up with not one, but two harsh losses.

Slow and Steady Wins the Race

Consistency is important for any market trading enterprise. You are going to lose some money at some point. The key is to be patient and stick with the plan. As mentioned before, keeping things simple is going to pay off in the end. Start your initial forays slow, and work your way to larger and larger goals. Long-term, sustained success is more reliable than the risk involved with an overly confident and sped-up approach.

Don’t Be Afraid to Experiment

While all of these tips so far have been about staying modest, that’s not to say you can’t re-evaluate your trading strategy as you go. If the winds aren’t blowing the way you thought they would, you may need to reassess to achieve the goals you have set. You should also try out your strategies with new and unfamiliar currency pairs, or apply some new diagnostic tool to your already familiar pairs. When trying out a new aspect of the market, the same rules of modesty should apply; keep it simple. As your knowledge and expertise improves, your goals may change to reflect that. If your financial standing or overall goals change, your trading plan should follow.

Choose the Right Trading Partner for You

Like with any other broker, it is imperative to choose the right trading

partner to help you along on your forex market endeavors. This doesn't simply mean one who works with your financial standing and gives you good leverage. Good customer service goes a very long way, and can make quite a difference in your experience on the foreign exchange market.

Chapter 7: Common Mistakes to Avoid

It is obvious that foreign exchange trading is a risky business. Because of the leverage involved, the potential for dramatic gains as well as losses is significant. There are several instances where a trader may adopt a strategy that is perceived to positively affect their profits, when in actuality they are incurring more losses than are necessary. Let’s take a look at some of these common pitfalls that you should be aware of as a novice trader.

Overconfidence in Leverage

As has been covered ad nauseam, leverage can magnify your potential losses as well as your gains. It is easy to get starry-eyed when given high leveraging power. Keep in mind that small fluctuations impact your real capital at the same ratio as your leverage. A 100:1 leverage ratio means only a one percent dip in the wrong direction is all that’s required to drain the initial capital. Don’t base your projections and calculations on your leverage, base them on your available capital.

Not Utilizing Stop-Loss Orders

Holding on to Losing Positions

Not all trades will be made at a profit; simple truth. What defines an effective trader as opposed to an ineffective one is the ability to stay fluid through losses and move on to more prospective trading options. Many new traders can be shaken by a bad trade and continue buying pairs at a rate lower than they started out. This trend is colloquially known as “averaging down”, and is done in the hopes that a trend will eventually reverse and reclaim any losses. What you are essentially doing when you average down is maintaining a losing position, which is detrimental for a couple reasons. First of all, the trend may not reverse any time soon and the losses may accrue to a point far greater than can be reclaimed. Also, you are sacrificing time by tying up your capital in a losing position versus giving it the chance to grow in a more favorable one.

While the foreign exchange market is extremely fluid and dynamic, no single player, no matter how large, can match its liquidity. Sustaining market trends will inevitably drain an investor’s capital, and clinging to declining trends is a fast-track to an empty account. The faster your trading

frequency, the more susceptible you are to this phenomenon. If a trade is in the negative, a high-frequency trader must back out as soon as possible.

Trading Before News Breaks

After some time on the foreign exchange market, you will begin to realize what kinds of events will impact trends. They may think they can predict these events before they actually occur, and oftentimes they can be correct in their assumptions. However, an important thing to consider is that *what* affects the market does not always correlate with *how* the market will be affected. When a news story hits, there will undoubtedly be other extenuating circumstances that may push the trend in an illogical direction. For example, limit orders will be enacted on both the buying and selling sides of the market once an event inspires an increase in trade orders. This can often hamstring any potential trend before it even starts, or possibly even reversed the trend that was originally hypothesized. It's for this reason that one's own prognostication of the news should not be used to influence their trading practices before the news actually breaks.

Trading After News Breaks

The mirrored side of the above mistake can also have unwanted consequences on a trader's profits. An aggressively mobile market may look like a juicy opportunity to gain some percentage points, but oftentimes this is done in a sloppy fashion that makes the trader susceptible to a whip-sawing effect that can easily follow a big news announcement. There may be a perceived liquidity in the market that is not actually there, which can also turn your stop orders against you and magnify your losses. It is much more effective to avoid trading during times of volatility and wait for stable trends to formulate after real-world events. As with anything on the FOREX this is done to hedge the risks associated with high liquidity and keep profits consistent. It's important to let the dust settle on a news development before impulsively buying or selling.

Risking Too Much Capital

A crucial concept to understand is that investments and returns do not follow a linear pattern. This means that the volume of your investment risk

will not translate to the volume of your returns. One trend that can be counted on with near certainty is that a trader will end up losing in the long run for taking large risks on a trade-by-trade basis. The rule of thumb that has been tried and true by professional traders for decades is the 1% rule: never risk more than 1% of your capital on any single trade. This is often done in accordance with a conservative stop order so that if the price of a quote drops, you only lose up to 1% of your account's total. If the price increases, however, you may end up making an extra percentage point or two on the trade. This can also be applied to a daily or monthly timeframe to establish a maximum loss limit for that period. Traders who don't implement this rule into their strategies open themselves up to large swings in account value on a single trade or period of trading. This can easily generate losses that can not be made back over the next period of trading.

Inadequate Research

Especially as a beginning FOREX trader, the perceived pressure to make a trade can force someone to bypass the necessary homework that should be done beforehand. If this book should teach you anything, it's to thoroughly vet your position and strategy before making any moves. As you gain knowledge and experience, you will become more aware of the ebbs and flows of the market and be able to move accordingly. Much of this takes some practice, however, and there is much more security in making sure your research is sound before making a trade.

Unrealistic Expectations

One of the big-picture philosophies that a new trader must realize is that the market is far bigger than ourselves. It will not yield to our own expectations of how it should perform. Not only does it not represent our individual projections, it often will behave in seemingly random and unconventional patterns. This might lead to unexpected downturns which can create a lot of discouragement and frustration in novice traders. On the flip side of that, many new traders experience a form of beginners luck, and become more aggressive and take greater risks with their strategies. As you may imagine, this overconfidence can lead to large losses very quickly.

The prophylactic method of choice for this is to stick with the trading plan you've designed. There is little reason to alter a strategy that is yielding

positive returns. You can expand your position as you increase your capital to further sustain the trend, but be modest. Try out new trades and strategies with small amounts before fully incorporating them into your overall plan. As with many other things in life, there is a fine line between confidence and hubris.

Chapter 8: This Could Be You!

You should understand by now that there is incredible potential for large financial gains on the foreign exchange market. With such high liquidity, leverage availability, and the relative ease with which one can enter the market, even individuals of modest means can turn small initial investments into substantial profits. There are a number of success stories out there to motivate a would-be foreign exchange trader. There are also horror stories that could discourage one just the same, but that can be said of any speculative trading enterprise. These stories can not only be used as fire-starters and inspirations, but also as lessons in how one can properly navigate this tumultuous arena.

One investor, who would like to remain anonymous, started with an initial investment of only six hundred dollars, and turned it into over six hundred thousand in just six years. His turnover is over sixty billion and still climbing. He has won numerous awards and been nominated for others over the course of his foreign exchange marketing career. He has been trading currencies since 2006, and made his first few thousand percent return with just few hundred-dollar initial investment. He had worked with, and managed to gather some returns with FXOpen. As he freely admits, there were a lot of gray areas and vague concepts that he struggled to understand at first as a novice, but he was able to power through these with the help of his

broker. At the time, there was competition between independent algorithms designed to combat manipulation by large regulated brokerage firms. The algorithms were the ultimate victor in this battle. When this happened, the broker would often force the trader to stop trading and withdraw all of their profits. This dynamic showed our investor that these giant forex regulators were indicative of a shadow banking system in which the smaller non-regulated companies were just as credible as the regulated ones. There was also rampant fraud in the forums he was visiting, both in the form of paid content from posters to outright blackmail. He claims that this type of thing happens to this day, which goes to show that extensive care should be taken before getting information from any particular forum.

After these initial disappointments, the investor backed out of the market for a while and began conducting and publishing his own research. Eventually, he came back on board with an FXOpen ECN account through the contacts he gathered during his early days. He also developed an algorithm for his trade projections. His broker was going through some growing pains, as this type of account was rather new and they were dealing with a very large amount of trade volume they were not used to. They also had some technical problems that created some initial losses. He did not let these setbacks stop him, however, and eventually was able to sustain long-term success.

His general strategy is to identify market inefficiencies and trade on them. And yes, he does use some statistical models to aid his research. He often makes over one thousand trades per day, and can make over a hundred thousand more trading orders. He also prefers to employ limit orders in his daily plan. This allows him to protect his profits and secure his place in the market in a rolling fashion. He can act as a market maker in this way, and offer better prices than even the banks can. He acts quickly when spotting an opportunity to obtain ECN liquidity, and does without the stop-gates of standard trading platforms to minimize any dips into the negative. He uses both the bid and ask histories when looking for these market inefficiencies to take advantage of. Every part of his process is done to minimize trading costs and maximize his gains.

His position as an algorithmic trader gives him some advantages, since it allows him to dedicate more of his time to market research and

analysis. He had to build his way up to that level, however, and he encourages like-minded traders to not become completely beholden to their own strategies and tools. On the topic of which currency pairs he trades, he claims that since many pairs are closely related to each other, there is tremendous potential in dealing with sets of three or four pairs, as opposed to only one. When asked if there is a specific formula for success on FOREX, he simply says he does not know. What he does know is that finding the right broker is crucial. One that is competent with securing their clients' funds and legal consul, keeping up their technical infrastructure, and resistance to liquidity providers' manipulation of the market. If you can secure a solid broker who will work with you and take care of the small headaches that may arise, he says, then you only have to battle with the market.

He also claims that success is a relative term. Just because he made a fortune trading FOREX does not mean that he should be the benchmark of success. He had to go through his own share of trials and tribulations to formulate his own effective strategy, just as you will have to do. He still feels overwhelmed at times which leads to inactivity or poorly managed activity. We all have bad days, but what is important is to set an ultimate goal for yourself and keep it in mind every day you trade. He claims the most difficult concept in his career was to try to think independently.

There are other investors who trade foreign exchange as a means of supplemental income. Take one senior systems engineer for an undisclosed software company. They have been trading for over a decade and enjoy their full-time job. They have a more modest goal and strategy, to play with what the market gives them, and trade "swing trades", those with short-term price momentum (days to a couple weeks) that aim to achieve a greater price move than is obtainable within a single day. This investor had burned themselves in the past with overconfidence after making successful trades. They would average close to one hundred pips per exchange, and even claimed over a thousand pips within a single currency on one particular exchange. This led to some greedy trading and a very sobering lesson after all those gains were suddenly lost. Now, they have set more modest goals, opening small accounts for less than one hundred dollars. Their leverage affords them to buy two thousand lots for just over one hundred dollars, and their strategy is to increase the size of their lot purchases once their account surpasses five

hundred dollars. They adhere to the old mantra of “patience is a virtue” and accepting small profits with their limit orders to stay as risk-free as possible. This has lead them to see sustained long-term success on the market to help them cover their living expenses in addition to their full-time income.

One other trader, Vladimir, stresses the value of socialization with other traders and developing as much of a self-sustaining strategy without the aid of expert advisors before seeing stable profits. Like many novice traders, Vladimir took a hasty approach to starting his career and lost his two-thousand-ruble investment in a mere two days. He used this loss to fuel his curiosity and considered FOREX as a hobby and a craft long before considering its earning potential. His first profit came six months after he started trading, and it came during the financial crisis of 2008 when the conditions were ideal for competitive trading and profit-making. It wasn’t until a few years later where he saw what he would call a stable profit.

Vladimir claims he would not have gotten to a position of stable gains without the help of some FOREX forums and the opinions of other traders when he first started. He quickly learned his initial research was inadequate and networking with other people in these same circumstances helped him learn the hard lessons. This goes to show you that when starting out your FOREX trading career, it helps to be humble and accept as much tutelage as you can. However, Vlad is of the opinion that the market changes too fast for many of the larger advisors to be able to adapt to the situation. He claims that you will eventually see the most profits by controlling as much of the process as possible on your own. He also stresses a never back down mentality and accept the inevitable losses with strength and a good attitude. He has seen a single month return over a year’s worth of losses, and today FOREX is his primary income source.

Conclusion

Thank you for making it through to the end of *Forex Trading: A Crash Course to Get Quickly Started and Make Immediate Cash with Forex Trading*, let's hope it was informative and able to provide you with all of the tools you need to achieve your goals whatever it may be. As you move forward with your forex-trading goals, it's important to keep in mind that the learning process should never end. While the exact process for learning might be different depending on who you are and what your learning preferences are, a commitment to bettering yourself throughout the entire forex trading process should remain consistent. Even when you finally begin to actually make forex trades, you should still be trying to learn in the form of experience. If you become complacent once you enter the market and forget the fact that you should never be done learning, it's likely that you will ultimately fail at trading funds on the stock market and you'll end up losing money. While this may be a harsh fact to discuss, it's a reality that cannot be avoided.

The next step is obviously to keep the learning process alive. This might mean that you hire a mentor, or find someone who is close to you who can show you the ropes and take your forex trading endeavors to the next step. If you don't know anyone who is already trading forex stocks, then perhaps a different yet still viable idea would be to start trading on a simulated market. These types of markets do not actually trade real money, but they do allow you to feel as if you're actually making trades. When you participate on this type of platform, you are able to feel as if you are gaining real-time experience without losing any money. For practice purposes, it's safe to say that it doesn't get much better than that. Of course, for any of these various methods that were just mentioned, there is certainly going to come a point in time where you will need to let go of your training wheels and jump into the market. It might be scary and intimidating at first, but it's safe to say that hardly anyone has begun to forex trade with complete confidence. Remember, mistakes are inevitable; however, it's how you go about handling this types of mistakes that truly matter at the end of the day.

Finally, if you found this book useful in anyway, a review on Amazon

is always appreciated. Thank you!

FOREX TRADING

The Best Techniques To Multiply Your Cash Flow With Forex Trading

By Samuel Rees

Intro
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Intro

The Foreign Exchange market offers one of the most fast-paced, exciting trading options available today. Because it runs 24 hours a day, 5 days a week, it moves very differently than the stock market. Instead of relying on one centralized headquarters, there are markets around the world. This means that during the trading week, fluctuations are happening constantly. Forex traders take advantage of that constant movement to profit from the differences in currency prices. It's not just the constant movement that makes the forex market so profitable. Forex brokers offer extremely high amounts of leverage to traders, meaning that traders are able to make much larger investments than they would on traditional markets. Of course, leverage works both ways, meaning that investors stand to lose exponentially on trades that don't go in their favor. More than possibly any other type of trading, currency trading requires a deep knowledge of the market and an incredible amount of discipline.

It is important for the individual trader (also called a "retail trader") to know what other players on the market they'll be competing with. Hedge funds, banks, and companies that engage in international trading make up about 90% of the actors in the forex market. These are professional money managers with extensive support from data analysis systems to advanced software that allows them to make trades with incredible speed and alacrity. In order for a retail trader to flourish in this environment, they'll need to apply the same strategies that the professionals use. Because you may only hold a position for a few minutes, and that position is likely to be highly leveraged, the ability to quickly analyze market trends and momentum is crucial. In order to gain this ability, you'll need to understand why the market moves the way that it does. In other words, why do currencies flex and wane against one another, and how can you use that information to make money on foreign exchanges?

Markets

The forex market is divided into three parts: the spot, futures, and forwards markets. Historically, the futures market was the most attractive to individual traders. The futures market tends to support positions held for longer periods of time, which was necessary before the advent of digital training. Now that anyone can make the high-paced trades that the spot and forwards markets frequently consist of, the spot market is the most widely traded of the three.

Spot

The spot market is where currency trades are made in “real time.” (This isn’t strictly the case, but we’ll get into the details of how it works more specifically later on.) The trades that occur on the spot market are the simplest trades. They are also the trades upon which the other two markets are based. In this sense, they are the asset that underlies the forwards and futures market trades, much in the same way that companies underlie trades on the stock market.

The trades that occur on the spot market are called spot deals, and they consist of a simple bilateral trade. One trader delivers a currency to another trader at the current market price and receives a different currency in return, again at the specified price. The current price is dependent on a lot of factors, such as supply and demand, interest rates, and the political and economic pressures and opinions of the market.

Once a spot trade is closed, the deal is said to be “in cash,” even though really the transfer of assets won’t be completed until two days following the closing of the deal.

Futures

If you are familiar with options trading, futures are fairly easy to understand. Like options, they spell out a future trade to be made, including price and a date by which the option should be exercised. The main difference is that in a futures contract, unlike an option, the purchaser is obligated to buy the underlying asset by the expiry date. Futures are traded in real goods as well as currencies. You may, for instance have heard of “oil futures.” If a trader

expects the price of oil to rise sharply, they could buy a futures contract that promised to buy X number of barrels for a specified price at a certain date. The thinking here is that they actual value of that oil at that time will be higher than the price specified in the contract, leaving the trader with an asset that can be resold on the spot or as a future for a profit. It works in a very similar way in currency markets. A futures contract will be bought specifying an amount of currency to be bought and a rate for it to be bought at. The trader will only buy a contract that specifies a price that the trader believes will allow them to resell the asset on the spot for a profit.

Options can be purchased on futures contracts. This might seem confusing at first, since the securities are so closely related, but it's not complicated at all. Just as when buying a stock option, the purchaser is buying the option to buy an asset at any point during the duration of the contract. The difference is that in this case the asset is the futures contract instead of a stock. If the purchaser chooses to exercise the option, they then enter into the contract. In the case of a contract to buy, they would then be in the long position and the future would move forward as would any other. If the contract is one to sell, they are in the short position and the usual futures contract protocol applies.

Forwards

The forwards market trades contracts that represent agreements between two traders to buy or sell an asset at a specified price in the future. They are custom agreements, drawn up by the concerned parties each time, with the specific prices and dates decided upon each time anew. Because of this highly customized nature, they are used frequently by hedge funds. The hedging and speculations processes are not simple, and if you're interested in them, it's best to start trading in the spot market in order to become familiar with the movements of the underlying market. Because the contracts are so deeply customized, the risk of default is higher. Without the structure and restrictions that futures contracts have, forwards contracts can be written in ways that expose them to greater default liability. For this reason, most retail traders stay in the futures or spot market.

The forwards contracts traded on this market are not openly reported to the public, so it's difficult to know exactly how many trades or how much money are represented there. Since it's mainly used by large corporations for

hedging purposes, the contracts typically represent very large sums of money.

Both the futures and forwards markets also allow contracts to be bought and sold before their expiration dates. This provides an entire secondary market to the primary trade market. The commerce in contracts

Forex Quotes

Quotes look quite a bit different on the forex market than what you're used to seeing on the stock market. Currencies are quoted in pairs. These pairs explain their relationship to one another. The first part of this chapter will explain what quotes look like on the spot market, which is how you will generally see them. The futures and forwards markets have slight but important differences in how quotes are displayed. If those are the markets you intend to trade on, you'll need to pay careful attention to the last section that details the differences.

How To Read

When you see a forex quote, it will contain two currency codes and a number, like this: COUNTRY CURRENCY CODE/COUNTRY CURRENCY CODE=100. The first country is the base currency, the one the other currency is being measured against. It is always in the value of one unit. So if the base currency were United States currency, it would represent one dollar, if it were English currency, it would represent one pound, etc. The second country represents the "quoted" or "counter" currency. This is the currency that is being measured against the base currency. The number that follows is the value of the quoted currency. A real world example can help clarify this:

USD/SGD=1.41

Let's decode that. USD is obviously United States Dollar, and SGD is the Singapore Dollar. What this quote means is that each United States Dollar is worth 1.41 Singaporean Dollars.

Direct vs Indirect Currency Quotes

This is a very simple concept that many traders are confused by at first, but there is no need to be. A direct quote is a quote in which the base currency is the foreign currency. An indirect quote is one in which the base currency is the domestic currency. Here is a clarifying example:

If you were looking at United States currency as the domestic currency, and Japanese Yen as the foreign currency, an indirect quote would look like this:

USD/JPY=100

A direct quote would look like this:

JPY/USD=.01

In both examples, the value of one dollar is equal to the value of 100 Japanese yen. The only difference is which of the currencies is being measured against the other. They are two ways of expressing the same thing, which is useful depending on what currency is being purchased. In spot trades, for instance, one trader is buying and the other selling, so it may be useful for the parties on either side of the trade to have the information measured in opposite ways.

In the spot market, most trades are made against the United States dollar, meaning that the base currency is USD. In the currency pair from our first example above, USD/JPY=100, the USD is the base currency, and this is referred to as a direct quote because the yen is treated as the domestic currency in the pair.

Note that it is only most trades that use the United States Dollar as the base currency. The “Queen’s Currencies,” those that have been historically involved with Britain are frequently the base of their currency pairs. So, the British Pound, the Australian Dollar, and the New Zealand Dollar may frequently be used as the base currency. The same is true for the Euro. In these cases you’ll usually see an indirect quote that describes the value of the Queen’s currency in terms of its value in dollars. Typically, it looks like this:

EUR/USD=1.33

This means that one Euro is worth $1.33.

Cross Currencies

Sometimes the Unites States Dollar is left out of the equation altogether, and two other currencies are the ones being compared. These are referred to as “cross currencies.” The most frequently traded cross currencies are the Euro traded against the Franc, the Pound, and the Yen. Even those, though, are so much less frequently traded than are pairs that include the United States Dollar, that they are typically only traded by extremely specialized traders. We’ll include more information about cross currency trades in their own chapter, so if that is a type of investment you’re interested in, make sure to research it carefully and decide whether it’s appropriate for your portfolio.

Bid, Ask, and Spread

These are concepts you are no doubt familiar with if you’ve done any trading at all up to this point. Just as in stock trading, the bid refers to the buy price, the ask refers to the sell price, and the spread refers to the difference between them. Let’s take a look at how those terms apply to a currency pair, because that’s where things get a little different from a traditional stock quote. Let’s look at an example pair to explain

USD/AUD=1.0500

In this case, one Unites States Dollar will buy you one and five hundredths of an Australian dollar, or $1.05.

Now let's look at what that pair would look like with a bid and ask price.

USD/AUD=1.0500/10

The first number there is the bid price. It will always be lower than the ask price. The two numbers following the slash are shorthand for the ask price. The actual ask price in this scenario is 1.0510. The first numbers are traditionally left off if they're the same, and only the digits from the first one that changes in the ask are included.

So, if you were looking to buy the pair above, you would be paying 1.0510 Australian dollars in exchange for 1 United States dollar. If you wanted to sell the pair above, you would look at the bid price and see that the market is willing to pay 1.0510 Australian dollars for your 1 United States dollar.

Another way to say this is that it is always the base currency that is being bought or sold. The quoted price determines the price for either the sale or purchase of the base currency in terms of another currency. Currency pairs are used to find the value of one currency in terms of another, and the bid and ask price are used to find out what the market will pay or accept in exchange for the base currency.

As we said before, the difference between the bid and ask price is called the spread. This is just the same as the stock market. The spread is often expressed in what are known as "points." In the example above, USD/AUD=1.0500/10, the spread is .0010, or 10 points. Points are also often called "pips."

Keep in mind that for all currencies except for the yen, the values are expressed to the fifth decimal point. For yen, they are expressed to the second decimal point. That might seem strange, but remember that yen are much smaller units, so the additional decimal points don't add any meaningful

value difference.

A pip is the base unit for measuring change in value between currencies. These tiny increments show the natural stodginess of forex markets. In any given day, any given currency may only move a few pips, and rarely will one move more than 150. Because of the huge amounts of leverage in play here though, those tiny movements can represent very high dollar figures to traders and brokers.

Forwards and Futures Quotes

Possibly the most important difference in the way these pairs are quoted is that they are always measured against the USD. More specifically, foreign currencies are always priced in U.S. dollars. This means there are no cross currencies and U.S. currency will never be the base currency. Because of that, the spot market will not always move with the forwards and futures markets.

Liquidity and Leverage

The liquidity of forex markets is something we've discussed in passing throughout this book up to this point, and it's something that you'll hear about frequently when researching the market. What exactly does it mean and why are foreign currency markets so liquid? These are important questions to be able to answer because you'll need to understand how liquidity affects your ability to enter and exit positions when you need to. Leverage is another concept you're probably familiar with. In forex trading, leverage plays an even more key role than in other markets. Simply in terms of volume, leverage rules forex markets, but there are many other aspects you'll need to understand before you jump in.

Why Are Currency Exchanges So Liquid?

The short answer for why forex markets are so liquid is because they are simply enormous. Every dollar spent in international trade passes through forex markets. Which, as you can imagine, means a truly huge number of trades. When we talk about liquidity, what we're talking about is the ease or difficulty of moving into the positions you want when you want to. Imagine a market that only trades a few commodities, say, commodities X, Y, and Z. Not only that, imagine that only a handful of brokers operate in that market. If you went to that market hoping to sell some of your commodity Y, you may find someone willing to buy it, but you are much more likely to find lots of commodity Y just sitting in the market along with both the other commodities. A handful of brokers can only use so much, so there's likely to be a strong lack of demand, leading to oversupply and low prices that drive broker's away. The forex market is the exact opposite of this imaginary market. There are hundreds of currencies and many, many more brokers. There are trades going on around the clock, five days a week. If you go to the forex market with your commodity Y (in this case, it's currency) you'll find a dizzying number of commodity Y trades going on. You're very likely to find someone to buy when you are looking to sell and someone to sell when you

are looking to buy.

This size is important for another reason. In a smaller market, buying a large amount of any one currency would affect the exchange rate of that currency drastically. Because the forex markets are as large as they are, they can withstand massive trades without damaging the integrity of the market. This brings us to the next factor, leverage.

Leverage In Forex

If you are familiar with trading equities, you are familiar with the concept of leverage, even if you haven't used it yet. In forex markets, leverage is used much more frequently and heavily, so it's important to fully understand the it. Leverage is basically money that a broker loans a trader to invest. It is expressed as a ratio that represents the total amount with leverage and the amount you brought to the broker initially. So, for example, if you invested $100 leverage of 100:1, you would control $10,000. If things work out in the way that you hope, this allows you to make many times more than you would with just an initial stake of $100. Let's take a look at an example of what that might look like.

If you have an initial investment of $5,000 and your broker offers 100:1 leverage, you would control $500,000 to invest. If you put that money into a trade and the market moves in your favor just 1%, you will have made a profit of $5,000. That's a 100% return on investment, which is remarkable for any type of security investment.

Obviously the inverse is also true. If the market moves that same 1% in the other direction, you will have lost your entire investment. Leverage rates of 100:1 are not uncommon with forex trading, and rates even higher are not unheard of. Plenty of brokers offer 250:1 and even higher. It is important to respect the power of leverage to make the market as profitable as it is, but also to exercise care when using it.

Another important note about the forex market is that while the size of the

total market is huge, most of the trading happens on just seven currency pairs. This offers some distinct advantages over equity trading, but has a few potential pitfalls as well. Because of the focus on just a few currency pairs, there's much less research to do when choosing an investment. Instead of a dizzying number of stocks to look at, you can see the shape of the market at a glance. The flip side of this is that in order to understand the value of a currency pair, you have to understand the political and economic health of an entire country. With an equity, it's enough to research the company that underlies the security. Countries are, needless to say, much more complex than companies are. Another big difference is the way that short selling is treated. The equities markets have many regulations on how and when investors can adopt short positions. Since every currency pair has a long and short position built into it, you are selling short every time you make a trade. This makes it much easier to profit off of a contracting market.

Lastly, consider the 24 hour nature of the market. When U.S. markets are closing, Eastern markets are just opening. While this is great for traders who need the schedule flexibility, it can also mean that the markets move quite a bit while your back is turned.

As you can see, each aspect of the forex market offers a new set of advantages and disadvantages. Successful forex trading is about minimizing the effects of those disadvantages while fully utilizing the potential benefits.

Exchange Rate Systems

After the gold standard was dropped after World War 1, new standardized rates of valuation had to be adopted. Without a way to measure the value of a currency, after all, it's impossible to measure that currency's value against another one. Valuation rates are the most fundamental of data points because they are literally the way that value is maintained within currency. After all, a slip of paper doesn't have any real monetary value unless we as a society assign it one. These exchange rate systems are the methods by which that value is assigned. You may wonder why you need to know this. After all, as long as the value is assigned, why would it matter to you how it is assigned? The answer is that the different systems carry vastly different connotations about the value of the currency. Think of it like the three little pig's houses. They were all about the same size and shape, but they were made of very different materials, and that difference made them much more or less stable.

A lack of stability in a currency isn't necessarily a reason not to invest in it. Because of the nature of currency trades, each position includes both a sale and a purchase. This means that a volatile pair, or even a weak pair may be a great investment depending on how the spread shakes out. So while it may be a good idea to get into a currency that is valued by a system that leads you to question its stability, you need to understand the instability. You'll have to make different leverage decisions based on risk, and that's just the beginning. You'll also need to make sure that risk level fits within your predetermined investment strategy. A clear picture of the currency valuation strategy allows you to do this accurately.

Dollarization

When a country's financial infrastructure is not able to maintain a reasonable rate of inflation or for some other reason is not able to maintain a currency with a reasonable value, dollarization can stabilize the currency. This is the most drastic option because it removes the country's ability to print money or do anything else to affect the value of their own currency in world markets. This is most often a choice made by countries in periods of great transition.

For instance, the Zimbabwean dollar (Z$) was subject to such extreme rates of inflation that values were changing hourly, at times even minute-to-minute. Since this was not a tenable position, the Zimbabwean government opted to demonetize the Zimbabwean dollar and fully adopt the United States dollar.

Dollarization does not have to literally mean an adoption of the United States dollar. The Euro, Franc, or any other stable currency can be adopted in dollarization.

Dollarization isn't an all-or-nothing process, however, and it's important to understand what amount of dollarization, if any, is in use if you're looking to invest in transitional government's economies. In many cases, the U.S. dollar is used in most private and public transactions, with the native currency used in name only. Investing in a currency at this state is highly risky and inadvisable. When a currency becomes demonetized, anyone holding it is suddenly no longer holding a valued currency, but a slip of paper.

After dollarization, a country's economy frequently strengthens. Dollarization is for all purposes a permanent move, so it is a signal to other countries and to investors that the government of that country is serious about providing economic stability.

One of the main disadvantages to a country of fully adopting the dollar (or other stable currency) is that the country loses its ability to protect itself against a run on the banks. They may have sizeable reserves of their adopted currency, but without the ability to print money those reserves may be depleted. There are other disadvantages as well, such as loss of GDP that is usually gained from the difference between the cost of producing money and the value of the money. Because of these disadvantages, a country that has dollarized their currency is probably not in the greatest of financial health.

Countries on the verge of dollarizing their currency can be ripe investment potentials. Because forex markets allow you to take short positions with a large amount of leverage, you may be able capitalize on the falling value of a pre-dollarization currency.

Pegged Rate

When a country attaches the value of their currency to the value of a foreign currency, it's called a pegged rate. When a currency is very unstable, but the country does not want to make an irreversible choice like dollarization, tying their money's value to a more stable currency can provide stability. Currencies do not need to be pegged to a single currency. In some cases a group of foreign currencies can be used as a peg. With a pegged rate currency, the value will rise and fall with the peg. This has been used to great effect throughout history. China pegged the yuan to the dollar for nearly a decade while its economy recovered from a downturn, and was subsequently able to de-peg and regain its economic free agency after the recovery.

While a currency pegged to a more stable one is a lot safer from wild fluctuation, there is a downside to the country. Take the example of China, above. While the yuan was definitely stabilized by its attachment to the U.S. dollar, its value no longer reflected the desires of the Chinese central bank or the reality of the Chinese economy. The yuan rose and fell with the dollar, which wasn't always the best outcome for the Chinese banks. De-pegging from the dollar gave China the ability to control the value of the yuan in order to best meet the needs of its banks and people.

Another clear disadvantage of a pegged currency is that it can no longer be traded on foreign currency exchange markets against the dollar. Since so much speculative and hedging trading is done on futures and forwards markets, and those markets always trade with the USD as the base currency, a pegged currency can no longer be traded there. The spread would clearly be 0, because pegging requires the currencies to match in value. This means the trade would be worthless.

Managed Floating Rate

A managed floating rate is the type of valuation system that most large and stable countries employ. This means that the markets determine the value of currency, with occasional influence from the national banks, federal reserve, or other governmental economic organizations. The markets determine value based simply on what buyers are willing to pay. In times of great turmoil or when the currency is appreciating or depreciating in a way that could damage the economy, the central banks may interfere with interest rates or other economic levers. The biggest part of the stabilization inherent in these markets comes from the sheer size of the economies. Similarly to how the size of the forex markets insulates them from volatility, large economies are also shielded from rapid and drastic fluctuations.

Who Trades On The Forex?

This is the aspect of forex trading that is more likely than any other factor to push new investors off of the idea. There is no reason to be intimidated though! Understanding the other market actors does not have to be a reason to fear the market, but can instead be a motivator to expand your investing knowledge in order to play with the big dogs.

Governments/ Central Banks

These are possibly the biggest influencers in the market. Governments and central banks don't always work in lockstep, but most of the time they work in tandem to determine economic policy and influence the markets in a way that suits that policy. For instance, a country that has pegged its value to the U.S. dollar might buy huge amounts of dollars or treasury bills in order to have a reserve of the currency that its currency is valued by. This is an example of the currency market being influenced by the governments that use the currency. These instances are a little like time travel movies, in that if you think about them too long they'll give you a headache. They're also very, very common. Because central banks hold such a huge amount of currency the moves they make ripple throughout the market. Luckily, they tend to telegraph those moves at every turn. They file reports and make announcements about what efforts they are undertaking to sway the market. It's in their best interest to do so because stability doesn't only affect their banks, but their entire countries. So you see, the presence of these huge entities is not a reason to be intimidated. Their presence is stabilizing, and just needs to be understood.

Banks

If you have ever traveled internationally, you've used banks to act on the forex market. When you exchange your money for the currency in the country you're traveling to, that is an individual trade. Business use banks in the same way to make the currency exchanges necessary for exporting and

importing goods from country to country. These trades are small potatoes, though, next to the huge amount of trading done between banks.

Banks are given ratings based on the amount of credit they have with other banks. Older, larger institutions tend to have better credit ratings than newer, smaller banks because they have more of a financial history to draw upon. These credit ratings determine the interest rates available to the banks. This matters on the forex market because banks since banks do such a large amount of currency trading, they help set the price of currency pairs. How? Because they are the market, and in floating market valuation, remember, the value of a currency is simply what the market will pay for it. Looking at the credit ratings given to banks and even countries is a quick way to take the temperature of a country's economy.

Hedgers

The forwards and futures markets are vital to companies that do international business. To understand what hedging is and why people need it, it is helpful to look at an example. Imagine an American construction company wants to use a million tons of British limestone to build its new condominiums. At the time the construction company decides to buy, the exchange rate between the pound and the dollar is very favorable. Obviously the American company would like to buy its limestone now, and lock these rates in, but it doesn't have the cash available to do so right now. What it can do in this situation is to go on the forwards or futures market and purchase a contract that allows it to lock in the current rates but also to pay at some point in the future.

Speculators

Speculators are, in a way, the opposite of hedgers. Instead of using the market to avoid the dips and contractions that currencies are susceptible to, speculators use those contractions to profit. Because the forex market does not have the same restrictions on short selling, investors can make huge profits off of economic downturns. For example, on the equities markets, an investor can only enter a short position after there has been an uptick in stock price. On forex markets trades can be made the whole way down, which is

often very lucrative.

While speculators have great opportunity, they also have a huge amount of risk. Speculators shape currencies just as surely as central banks do because of their massive investments.

Interpreting Economic Data

Much of the work of speculation and hedging is the interpreting of data. Since at their heart, currencies are reflections of the countries they are used in, so it's important to be able to examine the national economic factors in play. When something as small as a shift in wording from the Federal Reserve chair can have dramatic effect on markets, you'll need to be able to sift through the mountain of information and influences and find what matters. The following list is the bare bones structure of information upon which the total picture of a country's economic health hangs. Keep in mind always that every other actor in the market is looking at this same information. It's not enough to know the data; in order to be successful you'll need to be able to interpret it correctly. In this chapter we'll look at methods for doing that, but the key to intelligent analysis is to know your history. When market shifts happen, it is usually because of a significant event somewhere in the world. By studying past shifts and the events that set them in motion, you'll learn to predict the direction in which upcoming events may push the market. Think of it a little bit like traffic flow. When you first started driving, it was probably completely confusing how traffic would jam up and then clear, seemingly for no reason. After a couple of decades behind the wheel though, you probably have an idea of what it looks like when the traffic is about to let up, or what kinds of intersections and events tend to cause a jam. Looking at the history of the market will give you this same kind of sense about how the market is likely to act under specific circumstances.

Obviously, you can't spend a few decades on the market just to get the feel of it. You need to jump in with both feet if you plan on making money. One great tool that helps you gain experience in interpreting data is an investment simulator. Spend a few hours trading with imaginary money and you'll get a feel for the tools available. Think of this as the process of getting comfortable with the steering wheel, gas, brakes, turn signals, etc. After a week or so, you'll be able to sense those traffic patterns and see the factors that affect the market. Spend as much time as you can with a good simulator to develop

your instincts as quickly as possible.

Employment

A country's employment rate is a shockingly good measurement of the health of its economy. When unemployment rates are rising, it is a good sign that economic confidence is taking a hit, which in turn affects the confidence of the market in the country's value. Make sure to access employment rates from neutral sources. Generally, the government is the most invested in providing accurate statistics, but in certain circumstances it may pay to look at more than one source to verify that information.

GDP

Gross Domestic Product is, as you probably know, the total market value of all the goods and services sold in a country in a given period of time. To use the equities markets as an example again, GDP would be equivalent to a company's gross yearly earnings, in terms of how an investor should consider it. It is important to consider this number in context. Compare it to historical GDPs, and the GDPs of other countries with similar economic strength. Getting a sense of the context this number fits into will give a more complete picture of economic health than considering one factor at a time.

Inflation

A certain level of inflation is reasonable and should be expected. As the value of goods and services rise, the value of the currency used to purchase them necessarily decreases in value. This is an easy concept to understand if you simplify it. Imagine, for a moment, that the only valuable good in the world is grapefruits. Grapefruits are the only thing you can buy, ever. If a grapefruit costs $5, than a dollar is worth ⅕ of a grapefruit. If the price of grapefruits rises to $6, the new value of a dollar is ⅙ of a grapefruit. As you can see in this example, as prices rise, currency value goes down. In a healthy economy,

a small and steady amount of inflation is expected. It is a sign that the economy is growing, and people are able to demand more money for their goods, services, and grapefruits. The problem arises when inflation balloons out of control. Prices skyrocket, leaving the currency value extremely low and unstable. Banks can attempt to strengthen the currency by changing interest rates, but this is a limited tool.

Interest Rates

In terms of national economies, we are not talking about just any interest rates. These specific interest rates are the ones banks charge one another to maintain reserve balances. The federal reserve maintains a certain level of reserve money, and that is done by borrowing between banks. The federal reserve specifies the allowable interest rates on these loans. Federal interest rates are a good marker of economic health because in times of turmoil the fed is likely to drop them to boost a struggling economy by encouraging lending.

Consumer Pricing Index

This is an estimate of an economy’s general health measured by the prices of a given group of goods. This group of goods is called a “market basket” and it contains things like groceries, alcohol, tobacco, housing, and other commonly purchased consumer goods and services. The purpose of this estimate is to provide a window into how the general consumer is experiencing the economy.

Durable Goods

These are items like planes, cars, large appliances, and any other investment item that isn’t disposable. A lot of experts feel that durable goods purchases are one of the most accurate weathervanes for economic confidence. When durable goods purchases drop, it is generally because people worry that they won’t have the money to pay off the loans that frequently fund those purchases. Durable goods orders are tied to secure debt in this way, and that is the measurement that an analyst is actually seeing when they look at this number.

Balance of Payments Data

BoP, as it is usually written, is the sum of all of the transactions every entity in the country. That sounds like a dizzying amount of data, and it is. It includes all purchases, sales, loans, and debts between all of the people, companies, and banks inside the country as well as the transactions between entities within the country and entities outside of it. An analogy would be if you lived in a house with several roommates, and you all gave each other money to cover various household bills and expenses. Your personal BoP would be all the money you spent on your roommate obligations and all the money you spent out of the house as well.

This is incredibly important to forex traders because it shows the balance between imports and exports in a complete and detailed way. If a country is importing more than it is exporting, its currency will pile up in the market and likely lose value against other currencies. The opposite is true as well. If a country is exporting more than it is importing, more things are being bought with that currency so less of it will be available, strengthening it against other currencies because of increased demand.

Geopolitics

This is the most difficult of all the data points that affect the markets to parse. History is helpful, because we can look for similar situations and their market effects, but this is not an exact science. One lifetime of learning can’t possibly be enough to truly understand everything that influences the world’s markets. This isn’t a reason to ignore current events and worldwide political undercurrents. Following the news from multiple sources and diligently researching to get a clear picture of world events is very helpful in understanding the events that shape markets and thereby economies.

Forex Trading Strategies

Now to get into the brass tacks of actually making trades. You understand how to evaluate pairs and what the interest rates mean, so now it's time to use that information to get started. The following list of trade options and strategies is meant to be a primer on trade types, not an exhaustive list. Many of these can be combined or stacked in order to make more complex investment products that may suit your portfolio goals.

Carry Trade

This strategy uses differing interest rates to generate a profit. A trader buys a currency with a very low interest rate (using leverage, of course) and then converts that currency to purchase bonds or other bills with a higher interest rate. The U.S. dollar offers a good example of this in the form of Treasury Bills. These often have a coupon rate of 4-5%. If the trader purchased a currency with an interest rate of 1% and the bills gave a coupon of 4%, over the course of the year the trader would have made a 3% return. While that may seem low, when you factor in the power of leverage, it is really pretty significant. Say that the trader purchased $100,000 worth of the currency and then bills, but they were leveraged 200:1, so their own actual investment was only $500. The 3% return from the transaction above gives a total profit of $3,000. This is a return of a little over 16%, more than five times the return the trade would have earned without leverage.

Because these positions are held over a long period of time, they are obviously susceptible to fluctuations in currency prices during that time. If the interest rates rise substantially, closing the position will not be as profitable. Carry trades require a long view into the probable futures of the currencies involved.

Buying and Selling Currency Pairs (simple trades)

This is the most simple trade available on the forex market. When you go long on a currency pair, you are placing a bet on the base currency to rise in value against the quoted currency. When you short a currency pair, you are doing the opposite: betting that the base currency will sink in value compared to the quoted currency.

Options

As with equities markets, options are contracts that grant the opportunity to buy an asset for a fixed price at some point in the future. In the case of currencies, this means that if a particular currency pair reaches a set price within the time frame of the contract, you will be given the option to purchase the pre-specified number of units of that currency.

Futures

Futures work, for the most part, just like options. The key difference is that instead of the opportunity to buy, futures contracts create the obligation to buy if and when a set price is reached. The futures and forwards markets have some additional difference to the equities markets though, so we'll go into the particulars of those markets in their own sections. Remember, options and futures can be combined currency markets to create more customized securities.

Currency Crosses

These are pairs that do not contain the U.S. dollar. The reason that traders are attracted to non-dollar trading options is that they provide a shelter from a volatile dollar. The dollar is a steady investment the vast majority of the time, but it does happen that it becomes unstable relative to the rest of the market. Since the seven major currency pairs are all tied to the dollar, trading in them relies on the strength or lack of strength of the dollar. If the dollar isn't moving in the direction that you need a currency to move in order to make your trade, currency crosses may be the solution.

Take-profit and Stop-loss Orders

These are the basic orders that you'll be placing on the exchanges. Your broker's site will provide the tools for actually placing the trade, but you'll need to choose what order to give them.

Just like in equity trading, you will place market and limit orders to buy and sell your currency pairs. Market orders trigger a trade at the current market rate, limit orders specify the rate the market should reach before the trade is executed. So far, so familiar.

Take-profit orders are similar to a stop loss, but in the opposite direction. If you have a pair that you don't think will reach above a certain point before pivoting, a take-profit order will sell the pair once it reaches that level. The same methods of determining pivot points are applicable in the currency market as in equity markets. Fibonacci sequences, resistance and support points, etc, give the trader a way to predict pricing behavior.

Stop-losses work just the same way in currency trading as in equities. If an asset reaches a lower limit beyond which you do not wish to hold it, a stop loss will trigger an automatic sale of that asset. In equity markets, there are times a stop loss cannot be executed because there is no available buyer for the security. In forex markets this is much less of a concern because of the incredibly high liquidity.

Choosing a Broker

Spreads

Unlike equities brokers, forex brokers don’t charge commission. They make their money on the spread, those “pips” we talked about earlier. Low spreads mean lower fees, but they also mean less opportunity to profit. The bottom line here is that because the fees are tied to the spread, most brokers will charge the same rates. Because of that, you’ll need to use other characteristics to choose between them. This doesn’t mean you should ignore the spread or fail to ask questions about any other fees that might apply.

Backing

Most forex brokers are backed by large financial institution, and with good reason. In order to provide the enormous amounts of leverage required to make the market, brokers need access to an equally enormous amount of capital. When choosing a broker, make sure to thoroughly research the backing institution. They need to be stable enough for you to rely on their ability to make good on promised leverage and payment of profits. Remember, trades settled for cash actually take two days to be paid out. Nothing is instant. Brokers should be registered with the Futures Commission Merchant and the Commodity Futures Trading Commission.

Analysis and Tools

This is the area where brokers really distinguish themselves from one another. Like equity brokers, forex brokers offer many trading platforms that include a trading interface, market data, analysis, and other information traders need. You will need to find a broker that offers tools and analysis that you are comfortable with and that align with your investing goals. Brokerages do extensive amounts of research into the national economic health of the countries whose currency they are trading and make that available to their traders. An important thing to remember is that research and

analysis are not simply straght reported facts. There is at least some interpretation of data involved in. It is important to make sure that the data you are basing your trading decisions on align with your goals and values.

Leverage

Hopefully by this point you have seen the importance of leverage in forex trading. Many beginning traders simply look for a broker who offers the highest level of leverage, but this isn’t always the best way to make that decision. If the amount of capital you have to invest is low, you may need to find a broker who offers high amounts of leverage, but there will also be times in your career that you’ll want to invest with lower leverage. For most investors, looking for flexible amounts of leverage is key. If you are investing in more volatile currencies, you’ll want to choose a less-leveraged position in order to minimize the risk inherent in the trade. With a more stable currency pair, you can adopt a much more heavily leveraged position with confidence. Remember, the spot market requires a minimum of 100,000 units of the base currency to enter into a trade, so you’ll need to make sure your broker offers enough leverage to get you into those positions. Many new traders make the mistake of entering into the market without enough capital to allow them any flexibility or leeway in choosing a broker. They need so much leverage that they are limited to only the ones that offer the ratios that they need. It is much smarter and more stable to wait to enter the market until you have the capital you need to work with the broker you want to work with.

Many brokerages offer “mini accounts,” which are highly leveraged accounts you can enter into with as little as $250. These are wonderful for some investors, frequently as a part of a much larger investment portfolio. For many investors though, these mini accounts are simply a blind step into an over-leveraged and under-supported position. Standard accounts usually require a $2,000 minimum and offer more flexibility in leverage amounts. When you have this type of account, you can take on a wider variety of currency pairs because you’ll have the ability to tailor your leverage to the risk inherent in the trade.

Margin Call History

A margin call is when a brokerage moves to protect itself from market volatility by liquidating your position when the market plummets. While this can protect you from loss in certain cases, it takes the control out of your hands and puts your investment under the control of the brokerage’s money managers. In many cases a contraction of the market is followed by an expansion, something that most traders know and rely on. However, your risk tolerance may be different from that of your broker, and they may bail out on an investment that you would have happily stayed in and ridden out. When choosing a broker, look at the history of margin calls the broker has made. Examine the levels that the market reached that triggered the margin call, and ask yourself if you would have made the same call. Margin call history is a good indicator of whether your goals and values align with the brokerage’s. A broker with a hair trigger may not be the right match for you if you have a more free-wheeling, confident approach to investing. On the other hand, if you tend to take a more cautious approach, a broker that shares that value may be the perfect match for you.

Top Tips For Forex Traders

Let's review the most important aspects of forex trading and then take a look at some expert tips for beginning forex traders. These maxims are collected from years of collective experience and designed to help you avoid the pitfalls that new traders often fall into.

- Markets shift with world events, and a successful trader will have to build up the instincts to predict the directions of those shifts. This means staying on top of global and economic news. Many traders make the mistake of thinking that simply watching the market and paying attention to banks is enough to understand currency. This couldn't be further from the truth, though. In fact, because understanding how other world events influence the markets is the key skill of a currency trader, looking at the markets alone will only serve to form a giant blind spot in your instincts.

- Define your trading style early on and find a broker who suits it. You'll need to know your tolerance for risk, your ability to make quick decisions, and how much hands on time per day you can afford and stomach. You'll also want to know which tools are going to be necessary for you to be comfortable making trading decisions. If you like to use Fibonacci numbers, make sure you have a broker who has a tool to draw Fibonacci lines. If you use pivot points and candlesticks heavily, your broker will need to have clear graphs that display these factors.

- Similarly to the advice above, you'll want to decide carefully on your account type and the amount of leverage you're comfortable with at first. This isn't set in stone. You can always go back and change these things later, but that doesn't mean you can avoid making real decisions in the beginning about them.

- Narrow your strategies and focus on just a few, at least in the beginning. If you spread your focus out too much, not only will you probably not see the results you're looking for, you won't be able to recognize what is working for you because you'll simply be too scattered. In order to be successful in the forex market you're going to need to keep close record of what is working for you and what isn't. Once you've decided say, on a price action strategy, give that strategy enough time to play out before moving on to the next thing.
- Keep a cool head. When you set up a trade, you do so with a stop loss for a reason. That reason is not so you can walk away and not think about it again, it's so when things get down to the wire you don't lose your senses and pull out before you need to. Remember, risk is built into this system on purpose, and if currency pairs never moved at all, there wouldn't be any money to be made in the forex market. Frequently pairs will rebound at a point only a few pips away from the stop loss you've set and go on to make a lot of money. Getting emotional and pulling out early would be a mistake in these situations.

- At least in the beginning, focus on making fewer, better trades instead of more frequent ones. It can be hard to force yourself to slow down, especially when you're just raring to get started, but you don't want to burn up too much of your initial capital at once. Wade in and get a feel for the market, and then when you're a little more seasoned feel free to take up a few more positions.

- This is related to the advice above- don't start off too big. You want to make your first trades somewhat limited in size and with low leverage until you've developed the instincts and knowledge that only come with experience.

- Spend as much time as you can on a forex simulator site. These sites allow you to make "paper trades" that give you a feel for the market without putting any real money at risk. Not only that, but your broker may offer one which would give you the opportunity to get comfortable with their particular investment platform before you jump in.

- Focus on one or two currency pairs, and try to make at least one of the currencies involved your home currencies. It isn’t always possible to trade in your home currency, but you should aim to trade, at least at first, in a currency that you’re very familiar with. Focusing on only one or two pairs lets you really, deeply learn their movements in a way that you wouldn’t be able to with more pairs. That knowledge is going to be incredibly useful when you start trading.

- Use automation to avoid emotional mistakes. When things don’t look like they are going your way, or when you actually do have an investment that doesn’t pan out, it’s easy to get emotional. You might chase losses because you don’t want to believe that your decision was a poor one. You might be skittish and exit a position too early because you are scared. Automation can be a big help in these situations. The more decisions you make with a cool head, the more successful you will be, there’s no doubt about that.

- Trade the trend. There will always be stories of those one-in-a-million traders who shorted the trend and won. Even in the cases where they’re true (not most of them) those were lightning strikes, not imitable plans. The market is moving in whatever direction it is moving for good reasons in 99% of cases, so don’t bet against those reasons.

- Do your homework, but don’t get caught in the “analysis paralysis” loop. Forex trading absolutely requires a mountain of research, a willingness to spend a lot of time in the facts and figures. At a certain point, though, you have to pull the trigger or you’ll never get your career started. Once you’ve made a decision, don’t over-question it and second guess yourself. If you’re the type of person who has made it this far in this book, you clearly value research and aren’t going to make up your mind with no evidence. If you think it’s a good bet, it probably is.

Closing

Forex trading has an intimidating image, but it isn’t difficult, just complex. It takes ongoing study, but it doesn’t take an advanced economic degree. You’ve taken the first step to building a profitable forex trading career just by reading this book. The next step is to immerse yourself in world news, economic and otherwise. Make sure you seek out diverse news sources so you don’t allow yourself to develop blind spots that can hamstring your ability to spot trends before anyone else knows they’re coming.

Remember that forex trading is a numbers game. Not every trade is going to be a winner, and that’s okay! Not every trade has to be. All you need to shoot for is most of your trades making you money. Choose strategies that give you the ability to maximize wins and minimize losses, and that will happen naturally. If trading was as treacherous as the movies make it out to be, no one would do it! In reality, there are time tested ways to be a successful trader. With some patience and a sound strategy, that will add up to a great income over time. When you reach points in your trading career where it seems like you can’t catch a break, rely on the careful records you’ve kept of your trades and use your successes to bolster your confidence. Trading isn’t the least stressful career choice to make, but it is definitely one of the most rewarding, so it’s worth keeping yourself inspired so you don’t quit.

Beyond just the income aspect, one of the most exciting things about trading in foreign currencies is that you become an active participant in world economies. This is an exciting prospect in a time when international trade, digital communication, and worldwide news coverage have made the world seem smaller than ever. Trading forex just reinforces how connected we all are by our economies, and that’s an exciting prospect for anyone, investor or not.

FOREX TRADING

Tips and Tricks to Start Right, Avoid Mistakes, and Win with Forex Trading

By Samuel Rees

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Introduction

You already know what forex trading is. You have been trying for a short while to navigate the online investment system to test out your knowledge and make money. Perhaps, you have even made a tidy profit. OR, you read a book and it gave you background information, technical and fundamental analysis concepts, but you are still looking for a guide that will tell you how to start right and avoid the mistakes everyone else you know has made.

In the tips and tricks, you are going to learn about specific issues in forex trading that can make it easier for you to invest. You may discover that some of these topics are already known to you, but now you have a step by step guide for how to make sure they do not affect you or at least provide a better profit.

Your ultimate goal is to gain a better profit. You won't always have a winning trade. Let's not even use "winning" as a concept. The minute you start to think as trading as winning or losing, you turn it more into gambling. A better word would be "successful." You won't always have a successful trade, but you will always have a trade you can learn from.

Mistakes in your trading plan, trading style, or no mistakes at all can offer you a learning experience. This learning experience is how you assess what you could have done better, what you should never change on any trade, and what works for the exact situation you were in.

Allow this book to be your guide, but not the "Holy Grail," to trading. There are too many variables for a comprehensive trading guide to ever be made. In Camp A you can have a risk taker, who has $100,000 capital. In Camp B you may have a low risk trader with $1 million to trade. Camp C may be a mid-risk trader with only $1,000 to trade. What works for Camp A is not going to fit Camp B or C, nor will the plans for B work for C.

You have to always remember that you are trading based on your preferences, knowledge, and risk aversion. The minute you start adopting someone else's step by step "this is how I trade," philosophy is the minute you are adopting their preferences, knowledge, and risk aversion.

If the steps look like this: “Set your order to open at 5 pips below the market price,” the writer is being too specific about their trading plan. You want advice that tells you steps such as “set a limit order, versus a market order when you open a trade.” It does not tell you a specific amount, but lets you make that decision based on market factors. You will see more information just like this throughout this book. Keep reading to learn the tips and tricks that will help you be a better trader.

Chapter 1: Market versus Limit Order

A market order is placed for the current market price, but this price fluctuates nearly every second because more forex investors are setting up their trades. Traders are, especially, active during the morning in the USA and the afternoon in the UK.

Open your trading platform. Watch a currency pair, such as the EUR/USD for 30 seconds. How many times did the price change anywhere between 1 to 5 pips, maybe even 10 pips?

There is a rule in any trading investment:

Rule #1: Buy low, sell high!

Let's say the price for the EUR/USD is currently 1.1185. You set a market order and the price goes up to 1.1195, but drops to 1.1165 after your market order is filled. Already, you lost 0.0020 pips on the trade, and although the market decides to return in your favor, you are only making 20 pips on the trade after you close out of the position.

Knowing the market is fluctuating, with day traders and other investors opening and closing their trades, you can be smarter and set a price that presents the best profit for you.

You might be thinking, "But, what if I miss out? What if I don't even make the 20 pips?" There is that possibility that will not be denied. You could set a limit order that will be "rejected," rather than filled.

This is where experience and planning are imperative. You have to be able to make a decision, fairly quickly, based on the information you are seeing.

For example, if you watch the numbers for 30 seconds and there is only a pip change each second, you know you can set your limit order close to the current market price or below it by a few pips and get the order filled. If the pip change is over a few pips, then you will need to adjust your target to capture the "filled" order versus finding it rejected.

The key is to make sure the market price is bouncing a little and not actually taking off in any given direction for a breakout.

What would happen if you decided to enter with a market order and the dip of 20 pips occurred, but rather than rallying in the direction you want, the price continues to lose pips?

So the price goes from 1.1185 to 1.1165, rebounds to 1.1175 and then heads to 1.1115? The currency pair moved against what you thought. Now, you have lost 0.0070 or 70 pips.

However, if you had a limit order that went unfilled because you set a price that was never reached, then you would have saved yourself from an excruciating loss.

These are the kinds of things you want to be thinking of as you decide when to enter the market, as well as whether to use a market order or a limit order to open a position.

By using a limit order, you can buy or sell a currency pair based on a trading plan, where you have more control of the entry, and limit your losses.

Chapter 2: When to Enter the Market

Entering the market, at the right time, matters because it will determine whether you experience a profit or loss. "Yes, but how do I know?" The answer to your question is a step by step process. You might, also, wish to think of it as an "if, then" process.

1. **If there are economic reports due out the day you want to trade, then wait until the results have been announced.**

Economic reports, at least certain ones, have a huge impact on how the market will move for the day. Let's say the Federal Reserve is going to announce whether they are going to increase the interest rate.

The interest rate plays a key role in forex trading due to supply and demand of imports/exports. There are certain things that will happen when the interest rate decreases, remains the same, or increases based on market sentiment.

1. A decreasing interest rate means economic troubles, thus unsure investors.
2. An unchanged interest rate can mean a stable economy without a troubling inflation, therefore there is market confidence.
3. An unchanged interest rate can also mean the economy may become unstable soon, therefore market confidence is low and investors are not willing to invest.
4. An increasing interest rate in times of a stable economy or recovery economy is seen as a positive factor; therefore, investors are going to jump into the market.

Your job as an investor is to understand the confidence other investors have, from governments to retail investors like you. Usually, when an announcement is made, you will see three things happen.

1. The price will rise.
2. The price will remain the same or in a similar support/resistance trend.

3. The price will decrease.

If the results are as expected, people are already to jump in with a trade. If they are not as expected, then the closing trade is in place and activated. If the news does not provide a feeling of confidence for investors, but it doesn't take away from their current feelings, then investors are going to wait. They will remain in the currency pair, until something makes them change their position. The price can remain in the same pattern or with less volume, when investors have elected not to move on the news. For example, whether the results were expected or not as expected, investors may remain out of the market and those in the market will hold their positions.

So, first you need to check the news, economic reports, and determine if there are any giant "fundamental" related factors that will influence a drastic change in the market. Some individuals trade on the "expected" results versus the actual results. It is a dangerous game, and not something a beginner will want to tackle, at least for their first year of trades. You want to see a steady month to month increase in profit versus loss before you try to read the market based on potential results.

2. Examine the charts, then determine if the pattern will change.

As you should already know, economic reports can change a pattern you see in the technical charts you assess for indicators. Other factors include whether or not, there is enough volume to push for a change in pattern. Sometimes, a news expert may say "The EUR/USD is going to break its trend and gain/lose." This statement gets every trader thinking they should be on the breakout trend and thus they fulfill the "expected" results the news experts spoke about.

Let's say the price is 1.1100 and the news expert says the EUR/USD will hit 0.9900 for the day. Well, it sounds good. The USD is going to become stronger than the EUR, so let's jump on that wagon. Yet, indicators in the chart say the price is actually going to move from 1.1100 to 1.1200. You have indicators, but you have an expert contradicting those indicators. Who is going to be right?

Well, let's say there is another factor. The news expert knows there is going to be a giant buy of USD, limiting the supply available in the market. It is

happening because Pakistan has a huge bill to pay off for the aid they were supplied by the USA. They need USD to pay the bill, so they exchange local currency for USD to make the payment. Now, there is less supply, but the demand for the currency is also rising with corporation in the EU needing to buy USD to pay their bill to a USA manufacturing company. Now, you have two big players, with two fairly large transactions. The supply is going down, but the demand increased.

The chart indicators are not showing this information instead the chart information is only based on the last eight hours. If, one pays attention to the chart, while the rest of the world is paying attention to the news expert, then there can be a loss. This is why, in step two, after you have reviewed any potentially ground breaking news you want to see if the indicators agree and if they do not, why?

Along these same lines, you need to look at more than the current few minutes or hours' worth of data. The global picture is imperative. What happened while you slept? What happened as markets around the world opened? Now, what has occurred in the last few hours and going to happen soon? From these answers, you can derive, whether or not to get on the bandwagon or follow the indicators you see in the charts.

3. Is there volume in the market?

Sometimes, there is nothing happening in the market. Sometimes, no one wants to lose money or make a move because reports are about to be released. Sometimes, an event in the world has rendered the market stagnant. You are going to care more about a specific currency pair's volume; however, along those same lines you do need to know whether other investors are actually investing at all.

If there is a lack of volume because traders are holding out making trades, then there is no one to make the currency price change. It goes back to watching the bid/ask screen for 30 seconds.

Are you seeing hours upon hours, where the price fluctuated between 1.1185 and 11.86? Or, is the price going up and down with enough pips for you to make a profit? If the currency price is moving, then there is usually volume in the market. Also, you don't have to guess or even watch the charts depending

on the trading platform and service you have.

Some dealers/brokers provide a “volume” number on the screen, telling you that there is enough interest to trade or not.

4. **Does the pair have liquidity?**

It is also important to look at a currency pair’s liquidity. If, there is a high liquidity, then the pair is easily bought and sold in the market. There is also sufficient activity for that pair, meaning it is being traded, actively, in the market.

While liquidity is not as important as the other three concepts, if you were to rate them, it does help you solidify the indicators you are seeing.

For when to step into the market, remember you need other people to trade to make a currency price change, so you can make a profit. If no one is trading, then there is no price change to gain a profit from. If people are trading, then you need to assess the direction the majority of traders expect a currency pair to go in, up or down trend, in order to make a profit and not a loss.

Entering the market is all about making sure you gain a profit and do not suffer a loss. There are times when the market is not conducive for trading. So, learn when you should or can trade based on an actual worthwhile profit, not hopes and dreams of a profit.

When You Shouldn’t Trade:

- Stay out of the market when no one is trading
- When the majority of traders are waiting for results
- When there is a news event creating too much fear
- When the market indicators are not clear

If you follow those four rules, and the above tips about assessing the market for entry, you will see a profit more often than a loss. If you ignore the rules or miss an indicator, and enter the market, you are more than likely to see a loss versus a profit.

Chapter 3: When to Let It Ride

One mistake traders consistently make is to cut winners and hang on to losers. After you determine an entry point, you have a new step to take—protecting that position. You may consider this your exit strategy. It depends on how involved and in control of your forex account you wish to be.

- If you are going to be away from your computer for several hours, then you need to set a secondary order, and allow this to be your exit strategy.
- If you will be placing several trades throughout the day, then you can use a secondary order to protect your position, but also monitor a better exit point.

There are certain types of orders that help protect your position. These orders will close your position if certain conditions are met to reduce the losses you sustain. However, in certain market conditions, you may wish to let your trade continue for more profit.

You start a trade based on the support and resistance trend you see. Only new indicators come in five minutes after you start your trade. These indicators show that a breakout trend will occur, in your favor.

You were about to enter a stop loss order to protect your position if the market moved against you. Instead, you want a trailing stop loss so you can let your trade "ride" the new trend.

Your trailing stop loss is keeping you protected should the market move against your position, but also keeping you from closing the position to gain on the increased profit.

In this situation, you want to let your trade ride, with an order in place to take a higher profit, than trying to sell out when the market turns against you or to gain the very last pip of profit you can.

You also have the option of setting a taking profit order, where you can remove the profit you have thus far, but leave your capital to make more money.

Rule #2: Ride Winners, Cut Losses

Anytime there is a breakout trend in your favor, you want your orders to work for you. You want to ride the winners to the new high for the day, week, or even year, but not without putting some risk protection in place.

You also want to protect any profit you have made on the trade, thus far. With order types, you have the option of ensuring you protect your position and your capital.

In the same context, you do not want to let losing trades continue to lose your money. You only want to "let it ride," when the trade is in your favor. It is painful to cut losses. It is also something you must do. If you let losses continue, you will only start to frustrate yourself and put yourself in a position to lose all the capital you have.

The answer to this tip is easy. ***Let winners ride, with risk protection in place***. All the losing trades need to be closed using risk protection order types.

Chapter 4: When to Exit a Trade

You might be seeing the theme of these first four chapters now. It is all about the trading plan you need to have to enter the market and make a profit, while minimizing losses, and closing trades properly.

You have the option of closing a trade by entering a new order and keeping the control for when the trade is closed. This option is not highly recommended, unless you are placing the closing order within a few minutes of opening the trade.

How you enter a closing trade can be the difference between a profit and a loss.

- Sitting and choosing the time you close a trade can mean a significant loss.
- Setting a risk protection order to close the trade can mean a significant profit.

Why do you think you can see a significant loss if you sit at your computer, enter a closing trade, at a time of your choosing?

If you said, because the forex market movement can be quicker than your ability to close your position—you would be correct.

For example, you decide to open a trade at 1.1185. You don't use any trailing stop loss, stop loss, or taking profit order to protect your position and lower your risk. You have decided to sit and watch the currency pair. It is edging up to what you believe is the high point of the currency price before the market will move against your position. You enter a closing trade.

Before the order is rejected or filled the price drops. It was up to 1.1285, but before you entered a sell point of 1.1280, the pair went from 1.1285 to 1.1155. It happened in a split second.

You ended up losing 0.0035 or 35 pips of your capital and gained none of the profits the pair reached.

In the time it can take you to place an order, confirm, and send, a pair can

move against your position and end up as a loss.

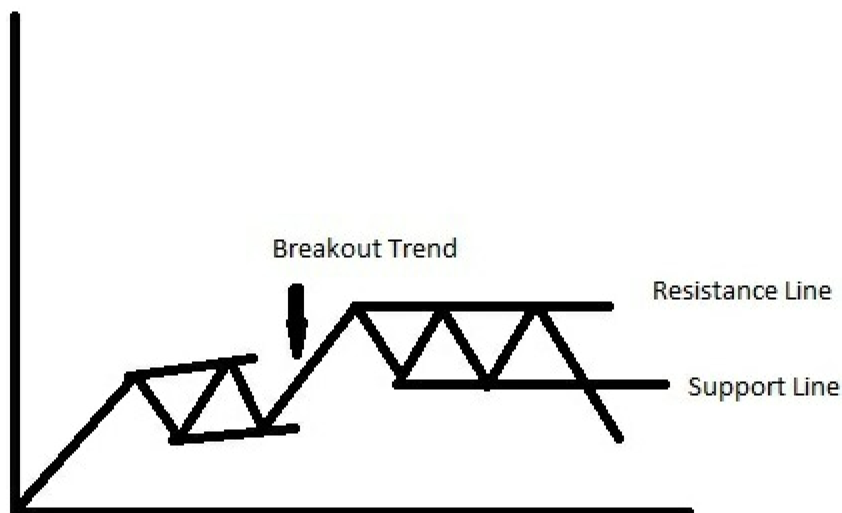
Instead of facing this fear inducing situation, you have the option of setting an order to protect your position, which allows you to choose a specific exit point based on market movements and indicators.

But, you ask, how do I know when to exit a trade with a trailing stop loss, stop loss, or taking profit orders?

The answer is all in the trend you are capturing your profit from.

The easiest way for a beginner to make a profit is to assess the support and resistance trend. Charts have a clearer low and high point in a support and resistance trend, then in other trends you may have learned about.

Image 1: Support and Resistance Example, with breakout trend highlighted



While this graph is of no specific currency pair, it does offer you an example of the support and resistance concept. The support line is the “low” currency price for the period. It can be for an entire year, a few months, or four short hours. It depends on what you are looking for and the time you intend to spend in that currency pair to make a profit. The resistance line is the “high” currency price for the same period. The idea is that unless there is a breakout trend, then the low and high are not reached each time the currency pair is in an up or down trend.

You may see 1.1185 for the high. The next time the pair is in an uptrend the

pair might stop at 1.1180. However, it may go a little higher to 1.1190, but it always turns back into a downtrend. When a currency pair is going to break out, there is generally a start and stop in the uptrend.

For example, the pair might fluctuate between 1.1180 and 1.1190 for 10 minutes before it decides to go to 1.1285 and then sail back to the support line.

Your exit strategy is to make a profit, but not to be greedy.

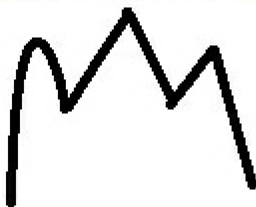
Rule #3: Greed equals losses!

Greed is a downfall in many aspects of life and particularly when dealing with money. Plenty of people have chosen incorrect paths because of their greed for more money. You don't want to follow suit.

It is also the reason that a support and resistance trend can be the best option. It keeps you from trying to make the big bucks and losing. You know there is going to be a topping out point. You also know what that will be, or at least close enough to it to make a decision on when to set your exit up.

Steps for Exiting

1. Monitor the charts to find a support and resistance trend.
2. When you see a currency pair with this trend, determine the high and low points.
3. Watch for any indicators that the next up or downtrend will be a breakout trend. Typically, a head and shoulders pattern will illustrate a reverse in trend.



Although, a little crude in looks, you can see there is an uptrend that turned down a little, a new peak (head), and then a drop to create a third peak before going into a downtrend. It started with an uptrend, but bounced three times before turning around. Now, it does not mean a

breakout will happen, but it is more likely with this bounce in the uptrend that a reversal trend for a new low will begin.

4. Once you have established if there are indicators of a new trend, you can pick your entry point and exit point.
5. For ease, we will state that you want the lowest possible entry point to gain from an uptrend. You don't want to miss the entry, but you still want to have a limit order. You can set the limit order as close to the market price as your dealer system will allow.
6. As soon as the order is filled, set your trailing stop loss. The trailing stop loss allows you to set a fixed number of pips from your entry rate. When the price moves in the direction of your trade the stop loss will move with it. When the market hits a new high, your trailing stop loss will be x amount of pips below the "top" price and that is where you will close your trade.

You are probably asking, "How do I know where to put the trailing stop loss?"

It comes from the research you have conducted for the currency pair and your "greed."

Tight stops can close your position before you have made a profit. Let's say we are looking at the EUR/USD for the day. The price started out at 1.1206. It reached 1.1194 before going to 1.1204 again. Later in the day, it went from 1.1204 to 1.1175 before climbing back to 1.1185. It dipped to 1.1154 before nearly reaching 1.1170 and then headed to 1.1153. There were several times it hit a new support and resistance.

If you started out in the wee hours of a Monday morning when the market first opened, you might have entered a sell bid at 1.1206, rode the price to 1.1195 and closed with a buy order. You might have entered again at 1.1204 and rode the downtrend to 1.1193.

These are tight positions. You cannot enter with a trailing stop loss at 30 pips off the entry price. However, if you have a trailing stop that is only 5 pips off the entry point, you could close the position without making a profit or breaking even.

So, the answer to your question is that you need enough market movement to use a trailing stop loss to prevent it from being too tight. Let's say you decided to enter the market at 9am and stay in for four hours. You set a trailing stop loss 30 pips off the entry point.

You chose to enter with indicators showing there would be a new downtrend starting with a new resistance line lower than the 1.1206. When the price reached 1.1160 and turned back to 1.1170 your trailing stop loss was activated. You sold 15 pips off the lowest point the pair hit. In other words, you sold your pair at 1.1175.

Your profit would be 1206-1175= 31 pips or 0.0031. It is not the 60 pips you could have had, but you did not lose by missing the exit point. The bounce at the new low was quick, within a few seconds, and you could have missed out completely if the slight reverse in trend was actually a return to 1.1200.

It is up to you to determine where you want the trailing stop loss to be set. Each day, even each hour can be different. You cannot look for a strategy that will tell you to enter and exit at certain points, with a stop loss or trailing stop loss at a certain point each trade. It won't happen.

Market conditions change too often. You need to assess the current market data, how much it is moving from the market price when you are ready to enter, and set a risk aversion order to protect your position.

Remember, it is not a loss if you break even or make a profit. It is only a loss when you pay the transaction fee and end up with less capital. For example, if you enter with $1,000 and needed to pay $1,005 to cover the $5 transaction fee and then another $5 for the exit, thus placing $1,010 in the trade, you need to ensure you have at least $1,010 at the close to break even. If the profit/loss calculation provides only $1,000, then you are out the $10 in transaction fee, thus you had a loss in terms of the capital you put up.

The loss of the transaction fees for the trade is really why you need to study the market, practice, and check that you have enough movement in the market to set a stop loss or trailing stop loss that will not be too tight. You could wind up selling out too early to recoup the transaction costs.

Chapter 5: What Currencies to Trade

You are looking for tips and tricks, so the details of what the G-7 and G-20 currencies are will not be repeated. You should already know what these mean. They are the currencies you are going to start researching for trades.

It is best to start with the major currency pairs and major cross currency pairs. As you learned in when to enter a trade, you learned to check the charts, to assess the news, and determine what is happening.

Yet, you may still have a small question on what currencies are truly best to trade. It is going to depend on several factors.

- The volume
- The liquidity
- Market sentiment/news/economic reports
- Global economic outlook
- Your risk aversion

Already, volume and liquidity, as well as economic discussions have occurred. You know you need to look at these factors to determine the trends in a currency pair.

Risk aversion has also been touched on in terms of setting a stop loss, trailing stop loss, and taking profit orders. The key now is to look at individual currency pairs for their current movement.

Sometimes even the EUR/USD is not moving with enough volume to make a difference to you. If you are only making $1 on a pip movement, then a transaction where the price moves 1 pip and you close the order is not going to make you a profit. It won’t even cover the fee for placing the trade.

If you have 1 million to spend on a standard lot, then you are at least making $100 for each pip movement. In this instance, it is worth the small pip movements a pair might be making.

Let’s go back to chapter 4’s example of EUR/USD, with the currency price

going from 1.1206 to 1.1194. With a one million lot size, this 12 pip movement would provide a profit of $1,200. However, if your lot size was nano, where each pip is worth $1, then you only made $12.

When you are looking for a currency to trade, you have to consider the movement of the currency pair based on your risk and the potential profit. A market movement of 5 pips for a support and resistance trend, with $100,000 invested is not a huge profit. It is not worth the time it would take you to try to enter and exit with for a profit.

It comes down to the profit and loss, and tight stop losses. You don't want a tight stop loss that could close the position early or create a loss because you tried to enter a close at the 5 pip high.

It is not necessarily about the major currency pairs or major cross currency pairs being better than the other. It is about the stability of the currency movement and whether there is enough movement in the pips to actually gain a profit. If you can assess the currency pairs with these thoughts in mind, then you are going to have an easier time finding when to enter the market, where to set your trailing stop losses for the maximum profit, while maintaining your risk preference, and making an overall profit.

Chapter 6: Time Frames

How do you know what time frame to look at to place a trade? This is one of the tricks you can learn quickly and early on to trade with more success. There is a linear progression that best fits your time assessment for currency pairs.

1. Start with five years.
2. Reduce to 1 year.
3. Reduce to 6 months.
4. Reduce to 1 month.
5. Examine a daily chart.

Like you begin with global economic data, when assessing economic stability and other information, you need to know how the currency pair has reacted over the years. Historical data are what the currency charts are all about.

They show you the prices currency pairs hit at certain points, such as a look at 2008 to 2012, when the recession was going strong in the USA. If you look at those charts, then you have an idea of what “bad” economic news can mean to the USD’s strength and other world currencies.

From this early data, you can also determine if there was anything out of the ordinary or a trend that is actually still in effect.

Take the EUR/USD chart for 5 years. Starting in 2012, the chart shows a price of 1.1400 for the EUR/USD, where you could trade 1 EUR for 1.1400 USD. Now, as 2016 draws to a close, the price is closer to 1.1150. In five years, the price reached 1.1200 towards the end of 2012, rose to 1.1350 in 2013, nearly reached 1.1400 for the first half of 2014, and started a downtrend in the latter half of 2014 to finally reach below 1.1060 in the beginning of 2015 before running sideways between 1.1100 and 1.1200.

Of course, if you change the 5-year chart to a 1-year chart, the pattern looks a little different. There was a high in November 2015 of 1.1474 and a low of 1.0593 just before December 2015. Now, when you looked at the five-year

chart, it showed a downturn with a sideways trend in the last year. However, the one-year chart is showing an uptrend since 1.0593 was made. On February 2016, the price was close to 1.1256. It has only recently fallen again to 1.1148. If you draw the support and resistance lines you can clearly see where you could have traded between 1.1200 and 1.1100 to make a profit.

If you look at the month chart, you will see a new pattern emerge that fits within the year pattern. At the beginning of the month, the pair dropped from over 1.1230 to 1.1152 and then rose to 1.1254. In the latter part of September, the pair reached a new high and started heading below 1.1160. It hit the lowest point traders felt it would reach, rebounded to 1.1200 before dropping below 1.1160 again.

The daily chart gives a downtrend image, with a resistance line just below 1.1200. The downside is that the daily chart is not providing enough movement in short time frames to enter and exit the market multiple times. In the space of an hour, the pair has lost or gained 10 pips, as it moves in a downtrend for the day. Yes, if you entered when the market opened in New Zealand, with a price of 1.1206 and stay in it as the UK hits afternoon, then you would see a profit of 53 pips, given the current price, for the day being explained here.

So, what have you learned?

You need to assess the time frames to see the overall pattern, know the news and economic data for the global economy and currency pairs economies, and enter with an order to protect your position. For this day, it was better to let your trade ride from the open till your order is enacted for the close. For instance, if you had your trailing stop loss set at 15 pips from the entry price, then you might have sold out at just after 11 GMT because that was the lowest point for the pair before the price moved back towards 1.1160. In fact, the low for the day was 1.1148.

As long as you assess the situation, and the charts, you will have a good idea of what the pattern is for the day and how you can trade a currency pair. You may discover that there are only a couple of currency pairs worth trading after you look at the broad charts and then the narrowed view. The point is to know, absolutely, what others are trading, how the currencies are acting, and

if you can find a way to make a profit based on the trend.

Chapter 7: Paper Money Practice

I know you want to get started trading today. You want to make money because life is uncertain. You never know when you will run out of time to have retirement money or your bills paid off. But, do you truly want to rush into the market with the tips and tricks you are learning and put your own money at risk?

Are you sure you understand the ways to invest in forex trading, without any practice at all?

I will tell you a couple of stories.

First, we have a person that read a couple of books for beginners, assessed the images within the books, and placed a trade. This person got lucky. The person gained one million in profit on their first trade. The next trade this person made, ended in a loss of not only the profit, but the capital.

Second, we have a person that read the books, took training courses, and practiced with a paper money account. This person waited to invest their money until they were seeing a 60:40 profit for the year, meaning 60 percent of their trades were successful. This person worked out the fear, anxiety, and confusion on some of the hardest to learn concepts. While the person did not make one million in the first trade, the individual has slowly amassed two million in profit over five years.

Who do you want to be? Do you want to be the person that has a great first trade and no success and a bad review of forex trade or the person that steadily makes a profit?

You would choose the profit correct? Of course, you would. You are in this for a profit. So, yes, there are books which will promise you that you can start trading and making money today. But, what about the next day? What about a year from now? Are you taking someone else's strategy that they developed for themselves and their knowledge, capital, and risk aversion? Or are you going to trade with your own plan that is devised for your situation and one that you have worked hard to perfect before you risked your capital?

The smart investor is going to practice, perfect their strategy as much as possible, and then risk their capital. How long this takes depends on you. If you have hours and hours to devote to your trades, then you can probably start investing your capital in a few days, weeks or months.

If you continue to be confused about certain forex concepts, then you want to hold off until that confusion is answered.

Only you can determine what is best for you. But, whatever you do, start off with a paper money account. Check your knowledge. Check to see if the market is going to move in your favor or if you would have lost on the trade you wanted to make.

What is the harm in seeing if you are right, studying why you were right or wrong, and learning from your mistakes?

If you say, “I’ll lose potential profit,” then I have a response.

Yes, if you were right in the trade, then you lost a chance at profit, but what if you were wrong? What if that trade was leveraged with 3 standard lots, meaning $3 million and you lost it all? How would you feel?

Isn’t it better to know that you have a good strategy in place that you have left nothing to chance, and you trust in your trading plan enough to avoid the most common mistakes discussed in this book?

Profit happens when you are:

- Not greedy
- Not hurrying
- Not emotional

It is when you let your emotions rule that you will start to lose more and more capital. Do you think Warren Buffet places a stock market trade because he woke up and said “today I’m going to buy X,” without doing the research beforehand? No, by his own interview statements, Buffet reads for nearly 8 hours each day, researches new potential investments, and has earned the status as being one of the best investors in the world.

Taking a little time to gain knowledge and test your investing habits and emotions is going to earn you a steadier profit in the end.

Chapter 8: Never Stop Learning and Watching

A mistake many investors in the forex market make is that they stop learning and they stop watching the market when they have an active trade. You do not want to be this person.

Your trade is not over simply because you have set a risk management order to close the position. It is the mistake many investors have made. It is one you should avoid.

1. Place a trade when you can watch the news.
2. Place a trade when you can monitor how the currency pair is trading.
3. Do not place a trade, if you are going to be away from computers and television.

I'm going to tell you a little story. One trader was in front of his computer working, with the TV turned on low to the investment channels like CNBC. A huge event occurred and suddenly all investors watching that channel acted. They closed their open positions and bailed out of the market because the news was something that shook the investment markets. A second trader was in a boardroom with no TV, no access to market updates. Someone came running into the boardroom when the news announcement was made, shocking everyone about what had just happened in the world. The boardroom trader could not close his position.

The moral: the news in this "story" was so shocking that the markets had to be shut down almost immediately to prevent a market crash, but those who withdrew their money made a profit. Those who could not close their positions, suffered significant losses and are only now regaining what they lost. Thus, you want to be able to keep your finger on the news and the market movements to avoid losses.

It is hard if you are a part time trader or trade as a hobby. However, you can set up your own schedule to trade. You are investing in a market that is nearly 24/7. You can choose times to trade when you are at home, on your

computer with the TV running.

Even if you are at work, you need to be in a position that you can check on the markets and have alerts sent to your phone that you can act on when necessary.

Beyond watching how the market is progressing during the trading day, as you are doing other things, you need to continue learning new tips, about mistakes others have made, and new strategies and trends that you can trade on.

There is a host of patterns and trends in technical analysis that beginning books do not go into because of the complicated explanations required. You can start to pick up more advanced trading knowledge to help increase your profits.

If you can understand what the Fibonacci trend is, how to predict retracement indicators, and the MACD, then you can potentially increase your profits beyond those found in support and resistance trends and breakout trends.

You definitely want to start with what you know, trade on those concepts, watch the market, and yet still learn more. Knowledge is power. It always has been. This last tip is to make sure you keep up with the information and expand your knowledge.

To be successful with forex trading, it comes down to knowing yourself, having a trading plan, and continuing to learn as much as possible.

Conclusion

You have had a lot of information to learn and assess. You have hopefully been writing down some key points based on research of the market, you have conducted while reading this book. It is imperative that you have taken these tips and lessons to heart and found your own path.

It is not easy. Nothing in life that involves money will be easy. You are going to have some successes and failures.

The last rule that can be given is this:

Rule #4: It is the percentage of failures and successes that is calculated with an overall profit that means you are succeeding in forex.

It is not about the individual successes and failures you are seeing as you make trades. It is all about the overall profit you have for the year. You can place three trades, where you lost $1,000 in the first, gained $5,000 in the second, and lost $2,000 in the third. You still made $2,000 for the overall profit and loss assessment.

Let the failures go. Strive to make a successful trade each time, learn from your mistakes, and go after a new profit.

Only when you can be unemotional and distance yourself from the individual profits and losses, can you truly see your way to a successful career, a part time career, or hobby in the forex market.

You can do this. You have the knowledge you need. Now, you just need to apply it, gain a trading plan based on your needs, and make that first trade.

Don't let the jitters hold you back. You have what it takes!

FOREX TRADING

The Advanced Guide that Will Make You the KING of Forex Trading

By Samuel Rees

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trademark holder.

Introduction

Congratulations on downloading *Forex Trading: The Advanced Guide that Will Make You the KING of Forex Trading* and thank you for doing so. This book promises to enhance your forex trading goals in irreversible ways. Moreover, it promises to do so in a way that is comprehensive and lighthearted, rather than bog your brain down with boredom. It's safe to say that no one is interested in dragging themselves through the pages of a book with no joy. That is something that you definitely won't find here.

Instead, the following chapters will launch its starting point by taking off where the beginner's guide left off. This book will discuss more advanced forex trading strategies that are available to you, as well as the advantages and risks that are involved when you decide to trade on the forex market. You'll also be learning some information regarding the history of the forex market and how the major players within the market found success and their current positions today. The takeaway from this book should be a feeling of further enlightenment, and you should be able to use this book as a guide for your forex trading endeavors in the future. If you have already purchased my previous book, it might be useful to use both of these books side-by-side, so that they can complement and work off the information that is contained in each one. Having all of this information in one place will help you to grow now, and will provide a reference guide for you far into the future.

There are plenty of books on this subject on the market, thanks again for choosing this one! Every effort was made to ensure it is full of as much useful information as possible, please enjoy!

Chapter 1: Everything That You Need to Know Regarding Quotes

Although we went over the process of how to read a quote in the beginner's guide to forex trading, we only briefly discussed how they should be read. We already know that the base currency is typically to the left of the slash while the quote or counter-currency is positioned to the right of the base currency; however, there are two types of quotes within the forex trading market that are equally important in understanding. In forex trading, there are two ways that you might see a quoted pair appear to you. They are known as direct currency quotes or indirect currency quotes. These two types of quotes can offer various options to you as a forex trader, and you are going to be taken through the parameters of each one for this chapter. Knowing how to read these two different types of quotes will help you to understand what you should do with the information that is provided within each respective format.

The Direct Currency Quote

Also known as a price quotation, a direct currency quote can be best described as the complete opposite of the traditional quote about which we have already discussed. In other words, with a direct currency quote the domestic currency is the currency that is variable, while the foreign currency is the currency that is kept intact and valued against the domestic currency. For example, this would mean that if one Australian dollar was the equivalent of $1.25 American dollars, then the quote would read US$1.25/A$1.00. It's also important to note that the quote will appear differently depending on who is looking at it. In the example at which we're looking, if an American were looking at the quote it would read the same as the way that it appears above, while if an Australian were to look at this quote it would instead read A$1.00/US$1.25. You see in this particular situation, perspective is important. Lastly, it's important to understand how to ready currency appreciation and depreciation for a direct quote. Generally speaking, if the exchange rate is relatively low, this means that the domestic currency is doing well. It's important to keep the implications of the exchange rate in mind anytime that you are reading a quote, because this will likely determine

whether or not you end up trading on the foreign market.

The Indirect Quote

Also known as a quantity quotation, the indirect quote is the exact opposite of the direct quote. This means that it is probably the quote that you're familiar with seeing. For example, let's say that you decided that you want to trade foreign Canadian currency. This would mean that your quote would read US$1.00=C$1.75, if this were the exchange rate for Canadian currency. To put a formal definition to it, an indirect quote is when the domestic currency is expressed in the terms of the foreign currency. It should be pretty obvious at this point that whether or not a quote is direct or indirect in nature is largely going to depend upon where you're residing when you're trading the international currency.

Direct and indirect quotes are two of the most basic quote types. It's important to understand that a quote is going to be either indirect or direct in nature as long as one of the currencies that is being compared to the other is in American dollars. The reasoning behind this is that the American dollar is the dominant currency not just domestically, but globally as well. Now that you're largely familiar with two of the most basic quote types, it's time to dig a bit deeper into other types of less prevalent but still relevant quotes. This means that we need to talk about cross currency.

A cross currency quote is one that does not use the American dollar as one of its working parts. Obviously, you will typically see a cross currency quote come into play when there is an investor interested in trading currencies that does not involved the American dollar at all. The development of the cross-currency quote came to be after many investors became tired of having to first convert their currency into American dollars prior to converting it again into the final currency that they ultimately were seeking. This revolution for foreign exchange quotes made foreign exchange trading happen faster, and everyone happier as a whole. Below is a list of the most common currency that will use cross currency quotes to meet their specific foreign trading needs.

EUR	GBP
EUR	CHF
EUR	JPY

As you can see from the table above, most of the cross-currency quotes that exist are for trading European currency with some other form. "GBP" stands for the British Pound, "CHF" is the abbreviation for the Swiss Franc, and "JPY" is the abbreviation for the Japanese Yen. In the instances that are presented above, the Euro is typically the base currency, and the foreign currency is the currency that is calculated against one euro. One other important point to make about cross currency pairs is that they are definitely not traded as often as direct and indirect quotes. Cross currency quotes are also sometimes referred to as the "minor leagues", which means that direct and indirect currency quotes are known as the majors. Generally speaking, cross-currency trading is not done frequently, and certainly not as frequently as direct and indirect quotes.

The Exchange Rate

It may seem pretty obvious by this point, but the exchange rate within a quote is the value of one type of currency in relation to another. This is what any type of quote is demonstrating through its numbers. Moreover, an exchange rate is always going to have a domestic currency as well as a foreign currency component to it. Generally, the exchange rate can be fixed or floating. When the exchange rate is fixed, this means that the currency is always going to be valued against either another type of currency or a tangible commodity such as gold. Sometimes, the currency may even be valued against a few different currencies instead of just one. Contrastingly, when an exchange rate is floating this means that the value of the currency is determined by factors within the forex market itself. This valuation is typically in conjunction with the principles of supply and demand. The currencies are compared to one another based on these principles, and this is what largely determines the value of currency on the global stage. Floating exchange rates are more common than fixed exchange rates, and they're also quite a bit more volatile. What this means is that while it's possible to see the strength of a currency over the long-term, the short term can also influence how well the currency is doing. There have been times within the foreign exchange market where simple rumors about a currency's performance has led to central bank intervention.

Currency Conversion

The last topic about which we're going to discuss regarding quotes in this chapter is how to convert currency. These days, it's super easy to find free currency converters on the internet. It's extremely easy to find a currency converter on the internet, especially if you already know what type of currency you wish to trade. If you're paying for this type of information, you're doing it incorrectly. When you're looking at quotes and figuring out which type of currency that you should be using, it's pointless to pay someone to do this legwork for you. When you use the internet, you're creating a free forum for yourself. This should not be underestimated.

Chapter 2: How to Use the Purchasing Power Parity Properly

Now that we've completed the discussion on all of the types of quotes that you will likely come across as you become an experienced and competitive currency trader on the foreign exchange market, the next few topics that we're going to discuss are some of the theories that surround the forex trading market. As you are already aware, the foreign exchange trading market is the biggest one in the world, so it's safe to say that experts in the field have spent their time going over and contemplating the various economic theories that are primarily moving the market. Understanding these theories can be beneficial to you in the sense that if you have a better idea of the theories that are potentially helping the market to operate, you'll be able to work with these parameters in mind. This chapter is going to focus on the economic theory of the purchasing power parity and how you can use it to advance your forex trading investments.

The Purchasing Power Parity

The purchasing power parity (which from here-on-out will be referred to as simply the PPP), is an economic theory that compares currencies directly through their respective abilities to pay for the same product. This theory states that two currencies are in congruence with one another when a certain good is priced the exact same amount in each country. This determination includes the exchange rate between the two currencies. It's not good enough to simply compare one good to another if you are looking for the calculation to be as accurate as possible. Instead, this equilibrium between currencies should be calculated by looking at a "basket of goods" rather than just one or two. If you are looking to calculate the PPP between two different currencies, the equation below can be helpful:

$$S = P1/P2$$

For this equation, S is the exchange rate between the two currencies. P1 represents the cost of the good in currency 1, so that means that P2 represents the cost of the good in currency 2. This process, while it might

seem straightforward, is actually a quite complex one. This being the case, sometimes it can be difficult to make clear and distinct comparisons. If you are looking at a wide variety of goods, it's going to take some time before you can see patterns and trends that makes clear comparisons between the two. To counter this complexity, you actually don't have to do all of this calculating yourself. Instead, you can look to the International Comparisons Program (ICP) for answers regarding the equality or inequality that exists between currency. The ICP was created in the 1960s by the United Nations and the University of Pennsylvania. The ICP will create PPPs that are based on a global price survey of hundreds of goods. Additionally, the World Bank also publishes reports every three years that compares countries in terms of PPP via American dollars. Lastly, the International Monetary Fund and the Organization for Economic Cooperation and Development (OECD) actually recommend global economic policy based on PPP principles. These are big and influential organizations that are using the PPP in ways that predict as well as influence market trends and forecasts. Now can you see why knowing about how the PPP economic theory works is potentially important for you to understand?

In addition to figuring out the equilibrium between currencies with the PPP, another reason why forex investors will look to the PPP is to find currencies that exist that are under or over-valued. By investigating this, these investors who are holding foreign bonds and stocks are able to predict for themselves and their money how exchange rate fluctuations will impact the economy of a particular country.

The Inflation Rate and the Cost of Living within the PPP

When the PPP is measured, it is basically comparing the inflation rate and cost of living of different countries. Both the inflation rate the cost of living are taken into account when determining how much purchasing power the currency of that locale has. Additionally, it's important to understand that these factors are what the keep the PPP from being able to be used by investors in place of researching exchange rates. As an investor on the foreign trading market, understanding that the cost of living and the inflation rate in a particular country influence the PPP can help you to see your currency investments as more tangible and micro rather than macro in nature. In this way, the PPP is perhaps better able to conceptualize your

money that is going into an investment. Rather than seeing your money as merely numbers on a screen, you are able to better see it as the goods that people purchase in a particular location.

The PPP and the Big Mac

Yes, you did read that headline correctly. In order to really hit the concept of the PPP home, we are going to discuss one way that the PPP is used in a bit of an unconventional way. The Big Mac PPP is a type of survey that's done by the magazine known as *The Economist*. This type of parity looks at the exchange rate for a particular country against the American dollar based on the amount of money that it takes to purchase a Big Mac in that respective country. To calculate this amount for each country, *The Economist* simply takes the cost of the American Big Mac and divides the foreign price of the Big Mac into it. For example, let's say that the price of a Big Mac in Japan is 667 Yen. This means that the price of the Big Mac in the United States is $5.67. In order to figure out the purchasing power through these numbers, you would need to divide 667 by 5.67. Once you get the total for the PPP, you can determine whether or not the Yen is overvalued or undervalued in comparison to the American dollar. Overall, the Big Mac PPP serves as a lighthearted way to compare currency. Of course, in order for it to be as lighthearted as possible, you also have to try to forget the nutritional facts that surround the Big Mac as well, but that's a completely different topic entirely.

The Advantages to Using the PPP Philosophy in Your Trading Strategies

One of the biggest advantages that are possible for investors who keep track of the purchasing power parities for different countries is that these investors are typically better at recognizing the weight that a currency holds on a global scale, especially if the country is developing or relatively new. Due to the fact that there are so many reasons that go beyond trading on the foreign exchange market, it's not easy to say what the ultimate correct way of measuring prices should be. Another huge advantage that the PPP can provide to an investor that someone who is looking at market exchange rates is unable to receive is the reflection of the economic reality that the PPP is able to give you. With PPP, you are able to make currency comparisons over

the short-term, and this is a bit harder to do with the comparison of exchange rates. When you compare exchange rates, volatility and the potential for quotes to change frequently make it largely impossible to look at the market exchange rates over the short-term. Instead, it's more useful to look at exchange rates over the long-term. Depending on your personal forex investment strategy, using the PPP might prove to be more beneficial than using the market exchange rate to compare currency rates if you are someone who is tailoring their strategy more for the short-term than the long-term.

The Limitations of the PPP

There wouldn't be PPP advantages without PPP disadvantages, and there are certainly risks involved as you move towards using the PPP as a way to calculate how you're going to make your investments and add the PPP to your overall trading strategy. Firstly, if you choose to use the PPP, you should make sure that you are using this type of calculation for a relatively long period of time. You also need to make sure that you're comparing the same goods over this period. This makes sense when you think about it. If you are constantly changing the types of goods in which you're comparing, then it's likely that you're never going to find an accurate estimate across all of the currencies.

Chapter 3: The Implementation of the International Fisher Effect

In order to understand this type of trading mechanism, you first have to discard the thinking that the purchasing power parity makes a whole lot of sense. This chapter is going to focus an *alternative* to that type of strategy, rather than something that should be used in conjunction with it. Of course, while it's useful to think about forex trading from multiple perspectives, there is going to come a point where you're going to have to pick a specific trading strategy for yourself. Anyway, it's important to realize that there is no one specific trading strategy that should be used in any type of stock trading; however, this is even more obvious in forex trading. There various trading strategies that you can gravitate towards when you engage in forex trading, with none of these strategies being one-hundred percent correct in terms of the way that you should be conducting yourself within the market. Let's take a look at what the international fisher effect is all about, and then you can compare the purchasing power parity to the international fisher effect and figure out under which one you'd prefer to operate.

What is the International Fisher Effect?

The international fisher effect is also known as the IFE. The IFE is an economic theory which can best be defined as a mode of thought where an expected change in the exchange rate between two currencies is similar to the difference the nominal interest rates for these same two currencies and countries. It should be obvious that you will need to know about certain terms that exist within this economic theory so that you'll be able to understand it properly. The most obvious, of course, is the nominal interest rate.

The Nominal Interest Rate

The nominal interest rate is a currencies' interest rate before inflation has been accounted for. To make this more tangible, let's look at an example of how the nominal interest rate is sometimes used beyond its use within the International Fisher Effect. For example, you may or may not realize that

come companies will advertise in a nominally-inclined way. Loan companies and mortgage companies will sometimes advertise their services as being at an overall cost, and they are able to do this by not including the interest rate into these types of packages. It's also important to note that the federal funds rate is also referred to as the nominal rate. The federal funds rate is the interest rate that is determined by the Federal Reserve. Lastly, the nominal interest rate is the type of interest that is often used for fixed income investments, because it is the guaranteed rate that is given to an investor who might want to use this interest rate at a different period of time. If you've ever bought a house, you might already be familiar with this concept. If you sign your mortgage with your mortgage broker and are using a fixed interest rate so that your mortgage payment will be the same each month, you are using a nominal interest rate to lock in what you are going to be paying. In this situation, the interest that you will be paying will not be subject to varying levels of inflation. This fact should bring any homeowner a sigh of relief.

The Difference Between Real Interest Rates and Nominal Interest Rates

From an investor's perspective, the real interest rate is extremely important to investors because this is the interest rate that does in fact take the inflation rate into account at a given point in time. This is important for both lenders and investors to know. The equation that connects the real interest rate to the nominal interest rate is the following equation:

Inflation Rate + Real Interest Rate

Another way to look at this equation is to think about it as the nominal rate, so not considering inflation, minus the inflation rate. This will equal the real rate for a given amount of interest. It's important to understand that the nominal interest rate will be higher than the real interest rate when inflation is more than zero. This is typically the case. Contrastingly, the real rate will exceed the nominal interest rate when deflation is rippling throughout the economy. This means that the inflation rate will be a number that is in the negatives. Lastly, it's commonly understood that the inflation rate for the economy works positively with the nominal interest rate over

time, instead of working against one another. This is important especially for the investors who are interested more in the long-term rather than the shore-term, because he or she is better able to accurately calculate their returns on investments throughout a given period of time.

The Effective Interest Rate

The last type of interest rate about which we're going to discuss before we head back to learning more about what the International Fisher Effect is the effective interest rate. The effective interest rate relies heavily on a concept known as compounding. Compounding is basically money that is accrued because of the fact that there is interest being earned against this money over the tenure of the investment. The primary advantage that an effective interest rate can offer an investor is the idea that this money accrues more and more interest against it, rather than only a small principal amount each month. For example, let's say that you initially invest a small amount of $100 into some nondescript investment. Let's also say that at this particular banking institution, you have made a deal where you earn ten percent on this money each month. If you were simply earning interest on this money, this would mean that you would be earning ten dollars each month. That doesn't sound all that bad, right? When you think about the way in which banks hardly give out any type of interest today, three dollars might even seem like a bargain to you.

Anyway, let's take a look at a different scenario. Instead of making a deal with the bank where you are only making ten percent of your original investment, you instead cut a deal where you are making ten percent off of not only your original investment, but also the subsequent money that you earn each month. This means that instead of making ten percent of your *original* investment, you are able to make ten percent off of your investment over the entirety of the investment. For example, if your original investment is one-hundred dollars, an effective interest rate would allow you to earn ten-dollars at first, but then eleven dollars the next month instead of ten. Think about it. If the first month you're able to generate ten-dollars in interest, then the next month you are able to earn ten-percent interest from one-hundred and ten dollars instead of merely one-hundred dollars. It should be obvious to see that over time, an effective interest rate would allow you to generate larger and larger sums of money because you are accruing interest on larger

and larger sums of money, rather than the original investment amount. This is what an effective interest rate can offer the advanced and conditioned investor.

Back to the International Fisher Effect

Now that you have become well acquainted with the different types of interest rates that you might be able to negotiate for yourself and your investments, let's get back to the International Fisher Effect and how interest rates play a role in this overall trading philosophy and strategy. The equation that best represents the International Fisher Effect can be seen below:

$$\mathbf{E = i1\text{-}i2/1+i2 = i1\text{-}i2}$$

This equation may seem a bit complicated at first glance, but it's really not that difficult to figure out. Here, the "E" at the beginning of the equation is the equivalent of the percentage that the exchange rate has changed. Remember, the International Fisher Effect primarily looks at the rate of change between the difference that can be seen in the two nominal interest rates between two currencies. "i1" can be best described as one countries' interest rate, so it should be fairly obvious that "i2" can be defined as the other countries' interest rate. Let's take a look at an example so that the overall concept of the International Fisher Effect can be more tangible to you. For this example, we'll say that country A is Spain and country B is France. At the point at which you're comparing the currency to one another, Spain's currency has an interest rate of ten-percent, while country B (France) has currency with an interest of only five percent attached to it. Along the thinking for the International Fisher Effect, the higher inflation rate that Spain is seeing as compared to France means that Spain's relatively high interest rate is also going to yield relatively higher levels of inflation over-time. When an investor can see that one country has a higher rate of inflation than the other, than he or she can also ascertain with high levels of certainty that Spain's currency is going to *depreciate* in value in comparison to France's currency, even though there is more money involved in the overall currency levels that Spain is appearing to have attached to it. This right here is the basis of the International Fisher Effect.

The Advantages and Limitations of the International Fisher Effect

The primary advantage of the international fisher effect is that it can provide insight into which currency is going to do the best for you and your investment over the given period of time. This means that after you take the time and do the math regarding this equation, you should be able to see which currency would be the better one in which you should be investing. Of course, every advantage has a disadvantage attached to it as well. In terms of the International Fisher Effect, its primary disadvantage is that it is a tad outdated. That's not to say that it's totally out of fashion and that it won't be helpful to meet your forex trading needs, whatever they are; however, there are more modern tools that investors are using these days. The primary reason for this shift towards different types of tools and techniques is that interest rates do not shift as wildly as they did in the past. When these interest rates were shifting rapidly from one day to the next, it made sense that an investor would feel motivated to track the changes in it. These days, a more significant and relevant type of tool seems to be the Consumer Price Index (CPI). The CPI is an index that looks at the changes in the price level of goods and services. Instead of having to do math, the CPI is already a statistical tool in and of itself, which saves an investor copious amounts of time in the short and long run. It is published by the United States Bureau of Labor Statistics, and if you have never seen one than it is highly advised that you do so soon. Below is a chart documenting the consumer price index:

As you can see from the chart above, the static line is able to track the fluctuation of price over a given period of time, while the steadier line is able to point to the average consumer price index for a particular

product. If you look to the right side of the chart, the percentage to which a price fluctuates begins at zero at the center of the chart, and moves either positively or negatively depending on what the price of the product is doing. The United States Bureau of Labor Statistics publishes this information periodically, as the price of a particular good is typically changing constantly and without much notice.

Chapter 4: The Forex Trading Strategy of Scalping

Now that you have two distinct types of trading strategies under your belt that have actual economic theories behind them, we will now turn our attention away from economic theory and focus only on what strategies can offer to you. It is hopefully obvious that economic theory is important, especially when you are trading on the foreign exchange market because economic theories are the way in which advanced foreign exchange investors see the market operating at a macro-level. These investors fit their personal trading strategies into the market based on these theoretical backings. Of course, there are also investors who are making transactions with currency who are successful but who do not really spend their time thinking about economic theory. This book hopes to present a wide variety of information to you so that you can choose for yourself which strategy is best for your own personal investment style. The first of these is scalping.

What is Scalping on the Stock Market?

On the foreign exchange market, scalping can be best defined as a particular type of short-term trader. Typically, this type of trader will buy and sell shares dozens and in some cases hundreds of times throughout the day. The overall goal of a stock market scalper is to make small profits throughout the day during each trade, so that there is a big lump sum of money for the invest to reap the benefits of when the day is done. This differs largely from an investor who has long-term aspirations with their money, because these types of investors are hoping to be profitable over a longer period of time. Investing over the long-term is generally considered to be safer than investing over the short-term.

How Much Does It Cost to Become a Scalper?

Similar to any type of investment strategy, it's going to cost you some money up front if you want to trade in the Big Leagues. The first aspect that is related to cost is the concept of time. It costs a lot of time when you are scalping, because if you want to be good at it you have to be willing to spend time watching many stocks simultaneously. For example, it's not uncommon

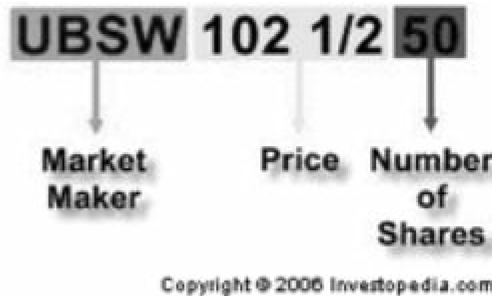
for an investor to hardly move away from his or her monitor throughout the day if he or she is scalping, because if he or she is to miss one transaction it could be highly detrimental to the investor's trading strategy throughout the day. This hardly gives an investor time to use the restroom! Moving away from the idea of time costs, another cost that is associated with scalping are high transaction costs. This makes sense. If an investor needs to buy and sell stocks at a moment's notice, then he or she is going to need to make sure that there are adequate funds available and at hand for any trades that are going to occur. Lastly, one of the biggest costs that can burden the scalper is not that or transaction costs, but that of commission fees. A scalper on the forex exchange market has to deal with the average brokerage fees that are associated with any type of trading on the stock market; however, he or she also has to deal with the exchange rate. This makes this type of trading extremely costly, and if you don't have the funds to cover these types of transaction fees, you might want to stay away from scalping altogether and focus your attention instead on long-term strategies.

Tools and Techniques That Are Used in Scalping

Now that you what you are getting into when you decide to invest in scalping and you are aware of the costs that are associated with this type of trading, we are going to now look at the tools, terms and techniques that you will need to know as you begin to deepen your knowledge of scalping on a more intimate scale. Let's take a look at some of these terms now.

Scalping Term 1: Level II Quotes

Most succinctly, a level II quote attempts to organize the different quotes into a logical order. A level II quote will provide an investor with a list of the stock transactions that have been completed for a particular day. In addition to providing the investor with a comprehensive list, a level II quote will also order these transactions in a way that goes from the best ask and bid prices to the worst ask and bid prices. It should be obvious as to why a level II quote would be useful for a scalper who is trading larger amounts of shares throughout the day. When there is a list available that chronicles the transactions throughout the day, it is faster for the scalper to access information that is useful.



If you are at all interested in using a level II quote for your investment strategies, understanding the photo above will be helpful to you. In the example above starting from the left-hand side, you can see that the first indicator is the name of the stock that is in question. UBS stands for the Union Bank of Switzerland. It's important to note that this is a rather outdate photograph, because the Union Bank of Switzerland ceased to be known as the UBSW after the bank's merger with the Swiss Bank Corporation in 1998. Anyway, after the name of the stock share, the next indicator that exists on a level II quote is the price of one share of the stock. In this case, one share of UBS will cost $102.50. Instead of showing the cents of a stock price in terms of currency as we know it today, the cents of a stock will be shown in fractional form. The last section of the level II quote that we'll look at is the number of shares that were purchased by the highest bidder and is located all the way to the right. In this example, the number fifty does not mean that merely fifty shares of stock; rather it means that the highest bidder purchased five *hundred* shares of the stock. This would mean that if an individual purchased only fifty shares of the stock, then the level II quote would read instead point five shares of the stock.

Scalping Term 2: Trading Session

A trading session is generally known as simply being the beginning and ending of the stock market day. From the scalping perspective, it is important that you know when the market is closing and opening, so that you can maximize the amount of time that you're going to be trading within a given period of time. It's important to understand that while in the past the trading session has been generally known as only the period of time between the daily trading hours, the hours that investors are used to today are quite longer than that due to the notion of after-hours trading. It's important that

you understand as a scalper that you need to figure out what hours you are going to be focusing on as a trader. It is largely a losing strategy to think that you can be watching and trading on the market during all hours of the day. The best advice for a scalper who is just starting out is to rotate the hours that you're looking at and watching the market, so that you can pick out the times during the day that work best for you. For example, maybe you decide that you're going to trade for eight hours out of the day, but you are going to break up your day so that you're trading between the hours of nine A.M and noon every day, and then you go back and finish your trading day between the hours of four P.M and eight P.M. The best advice to give when you're figuring out how many hours a day that you're going to be trading as a scalper is to not burn yourself out. Of course, everyone wishes as an investor that he or she could neglect sleep and still trade well, but this is one the biggest mistakes that a beginning scalper can make.

Scalping Term 3: Decimalization

While we have already looked at level II quotes, another way that you can look at stock market bidding and prices is through decimalization. In decimalization, the stocks are portrayed in decimal rather than fraction form. As a trader, it is beneficial to think about all stocks in the form of decimals due to the fact that the United States Securities and Exchange Commission mandated that all American stock markets to only use the decimal system starting in 2001. Of course, on the forex market there are also going to be systems that are still using a fraction-based system because of the foreign-quality of this type of trading. This is why, as a forex trader, you really should know how to trade using both the decimal and the fraction-based system. Lastly, another huge reason why the United States decided that the fraction-based system should be replaced by the decimal-based system is because decimals can be broken down into much smaller increments than can fractions. For example, prior to the use of the decimal-based system, the smallest amount that could be expressed by a fraction was one-sixteenth. This means that a dollar could not be broken down lower than six-cents. With decimalization, of course, it's possible to get all the way down to $0.01 cents. This provides all investors within the United States market more accuracy and a better sense of detail with all of their transactions. Again, it's important to reiterate that as a forex trader you should ideally know how to

trade using both the fraction-based and decimal-based system. If you only know one but not the other, you're going to be at a disadvantage from a global investment perspective.

Scalping Term 4: Market Making

Market making is a specific type of scalping strategy that focuses on buying and selling stock in large volumes. An investor will make an offer and post a bid on the same stock, in an attempt to capitalize on the spread that is seen between the bid and asking price for a specific stock. It's important to understand that this type of strategy takes a lot of practice, and it is more than likely that you are going to lose money on this type of transaction. The reason behind this is that when you trade on the foreign exchange market in this manner, you are competing with the "market makers". Market makers are typically lucrative companies (or in some cases they're individuals), who buy and sell a financial stock in the hope that they will see profit in one way or another. These market makers are often highly influential on the overall trading market. They are not simply individuals who buy and sell, they are much larger entities.

Scalping Term 5: Umbrella Trading

The final way in which we are going to look at how the scalping strategy can be beneficial to the entirety of your foreign exchange trading portfolio is through the concept of the umbrella. We have mostly talked about scalping from the short-term perspective, but the notion of the umbrella allows an investor to diversify his or her portfolio from a long-term perspective. The process of the umbrella is pretty straightforward. What happens is that you as the investor will begin the process of starting a long-term trade on the market, with the intention of trading within this broad "umbrella" within the long-term spectrum. For example, this would mean that once you have the long-term ball rolling for this particular stock, you would then engage in smaller trader within it. These smaller trades would happen more quickly than the big long-term trade in which you're interested. The biggest advantage to using the umbrella-focused strategy for trading is that you have the potential to find bigger profits than you would if you were simply sticking to the strategy of long-term currency trading.

A Final Thought on Scalping

Broadly speaking, many investors see the biggest advantage of scalping to be that it can provide a way to manage risk in a way that's comprehensive and easy-to-follow. The use of level II quotes, for example, is a great way to keep track which stocks you should be spending your time and money on, without the added hassle of sifting through the successful stocks on your own. The short-term nature of scalping is one of the reasons why it is seen as a way to manage risk, and combining short-term investing with your long-term engagements is a great way to keep your portfolio honest and exciting. This is important to keep in mind as you grow your portfolio and try to make it as diverse as possible without exposing yourself to too much risk.

Chapter 5: Some Various Types of Forex Trading

While the previous chapter talked about the short-term options that scalping can provide for you, this chapter is going to focus on different types of forex trading that vary in length. These different types of forex trading include day trading, swing trading, and positional trading. It's important to understand that all three types of forex trading differ and should be considered based on your own personality type. For example, maybe you're a person who lives more on the conservative side of life instead of an unapologetic risk-taker. The different types of forex trading complement both the conservative investor and the investor who likes to spend at the seat of her pants. This is why knowing these types of trading parameters are important for you to know. Let's take a look at what some of these types can offer you.

Trading Type 1: The Day Trader

The first type of forex trader about whom we're going to discuss is the day trading type. These investors try as hard as they can to avoid holding onto any shares for more than one day. In addition to holding onto their shares for only one day, a day trader also typically chooses to trade stocks in a high volume so as to hopefully make the most amount of money when the day is completed. The primary goal of a day trader is to find the largest amount of profit from the smaller swings that prices see throughout the day. In fact, the most frequent time intervals that day traders will use when they're trading shares is to only keep them for between five, ten, or fifteen-minute intervals. Another tactic that day traders will often use is to trade shares immediately after they see even a small window of profit. This helps to keep day trading typically a fast-paced endeavor. If there is anything that you should take away from the strategy of day trading from the forex perspective, it is that these types of investors are strongly looking to make a profit in the short rather than the long-term.

From an emotional perspective, the type of investor who is going to excel at day trading is not one who is interested in being all that conservative. Instead, he or she is the type who feels as though their money

is going to be both won and lost within the stock market, and they're not afraid to make a few mistakes along the way. Additionally, when you're participating in day trading, it is useful to make sure that you are not emotionally invested in the stocks that you're trading. If you know that you are someone who typically feels invested in the stocks that you purchase and sell, then it's likely that you are not going to do a good job at being a day trader. Think about it. Let's say that you acquire certain shares throughout the day and you are rather weary in selling them because you really like the company that you now own shares of. When the time comes and you see a small profit, your emotions of greed and likability for the company that is being traded might come into play. You end up getting cold feet at the moment when you're supposed to trade the stock, and at the end of the day you lose money instead of win money. Lastly, you need to make sure that you have the time to invest in day trading as well. It's not always about *only* having the adequate funds available. If you are a busy person who can't sit at a computer for a majority of the day, then this day trading thing is probably not something from which you will benefit. On the other hand, if you find that you have a bunch of time on your hands, or you can access the stocks while you're at another office job throughout the day, then this is probably a business venture that will become quite lucrative for you if you learn how to trade currency on a daily basis.

A quick note on day trading for forex traders in particular

As has already been stated, day traders are interested in short-term investments. One type of currency pair that is often used by many day traders in the forex market in particular is the Japanese Yen and the British Pound. The biggest reason why day traders are typically using this currency pair on the foreign exchange market is because of the fact that this currency pair is extremely volatile in quality. For example, on average this type of pair is often traded at a whopping one-hundred pip per day. To put this in perspective for you, the currency pair of the United States dollars and the European Euro typically trade at a rate of between ten to twenty pips per day. As should be obvious, one-hundred pips per day is a relatively high amount, and if you are interested in day trading on the forex market, then the currency pair of the Japanese Yen and the British Pound should probably be your starting point.

Trading Type 2: Swing Trading

The next type of trading type at which we'll look is known as swing trading. Swing trading is trading that occurs over a longer period of time than day trading; however, this does not mean that the investor will hold onto a share for longer than a day. This means a swing trader might trade a share within an hour or at the end of the trading day. As the name might suggest, a swing trader is looking to profit from a situation where the market is going to change directions over a given period of time. This being the case, timing is perhaps more important for a swing trader than it is for a day trader. A day trader has to worry about time less than a swing trader does because of the fact that they are often trading in a much higher volume and at a much faster pace than is a swing trader. A swing trader is looking for more patterns in the forex market than is a day trader, especially if the strategy of a day trader is to sell a share as soon as the price of the share rises even a tiny bit.

Fundamental Analysis and Swing Trading

Fundamental analysis is type of research tool that many investors use. Its application goes beyond the forex market; however, for swing traders in particular fundamental analysis is considered to be of great importance. Fundamental analysis is a type of research methodology that goes beyond the numbers that exist on charts, tables, and the like. Instead, fundamental analysis seeks to answer some of the following questions about the company whose shares are being sold:

Question 1: Has the company historically been able to pay back its debts?

Question 2: Is the company currently enjoying profit? Or is it struggling to break more than even?

Question 3: Does it look like the company's revenue is growing? Or has it reached its plateau already?

Question 4: Looking into the future, does it look like there is a large amount of competition that is going to potentially strain the company? Or is the professional entity going to be potentially threatened by a

different company at some point in the future?

Question 5: Does it seem apparent that the managerial staff of the company is trying to hide a degree of fraudulent activity? This may seem farfetched, but it's actually somewhat common for companies who participate on the stock market to publish illegitimate numbers on their accounting publications.

For example, this is only an extremely short list of questions that an investor will ask when he or she is using fundamental analysis. There are other hundreds of questions that an investor can ask when he or she is trying to figure out whether or not a company is reputable; however, the questions that were presented above are a great starting point. While it was a rather short list, the questions themselves are still quite complex in nature.

Qualitative Versus Quantitative Fundamental Analysis

It's important to understand that fundamental analysis is more qualitative than quantitative in nature. What this basically means is that qualitative analysis focuses on the characteristics of a business rather than logistical factors surrounding it, such as size or its profitability for a particular period of time. One of the most accessible and easy to understand forms of quantitative fundamental analysis are financial statements. Within these financial statements are numbers that you can measure, and profits that make sense. On the other hand, qualitative fundamental analysis includes technology that is unique to the company itself because it is the one who originally discovered it, the patents that a company has, and the marketing recognition that the company has because of "who it is" to the public.

It's also important to understand that neither quantitative nor qualitative analysis is better than the other one. Both have their own advantages that can provide you with unique and of course useful information. For example, if you were to do a fundamental analysis on a company such as McDonald's, you might at one point decide to compare how many cheese burgers that it's sold to other fast-food companies around the globe. To do this comparison properly, you would obviously compare the profits from the cheese burgers that exist between each company; however, your fundamental analysis would simply not be comprehensive enough if it

did not weigh McDonald's brand recognition with it. McDonald's world-renowned history is a factor that tells an investor that this company is likely to stay in business and outperform its competition for years to come. You don't need numbers to prove that because the proof itself is in the popularity of the brand as a whole.

The Two Assumptions that Fundamental Analysis Makes

There are two broad assumptions that fundamental analysis makes about the stock market. The first assumption is that the prices that value each share of a company within the stock market is not an entirely sound reflection of how much the company is worth. This assumption is known as the principle of intrinsic value. Let's look at an example to make this point clearer. Let's say that you are looking to find out the true price of a share of McDonald's. The stock market is pricing this share at $123.14. After doing some research of your own (research that includes conducting some fundamental analysis), you come to find that the true value of the company known as McDonald's is actually worth about $150 per share. This is important information, because it can be argued that any investor is looking to purchase shares of a stock at a lower price than the true value of the company. In this way, when you find out the intrinsic value for the price of one share of a company, you are able to find out whether or not you are making a deal or if you're investing in something that isn't worth it for you.

The second assumption that fundamental analysis believes is that the fundamentals are always going to play out in the long run via the stock market. This means that even if the share of McDonald's in our previous example is price lower than what the company is truly worth, the price of the share on the stock market is going to reflect the intrinsic value of the company at some later point in the future. What's interesting about this assumption regarding fundamental analysis is that no one truly knows when the "future" is. This imaginary future could be months or it could be one day. This assumption contains two of the biggest unknowns about fundamental analysis. There's no true way that you can tell whether or not your estimated intrinsic value is correct, and you can never be sure as to how long it's going to take for the intrinsic value of the company to actualize itself. Lastly, it's important to note that there are plenty of critics out there who are skeptical of the validity of fundamental analysis. Technical analysis

is a type of research where *only* the movement of the shares and the price of the shares are considered when an investor is making decisions. He or she believes that there is enough information to be had in the numbers surrounding a company, and this will tell enough of a story as to whether or not a particular type of share should be bought or avoided.

Back to Swing Trading

It's important that you understand the importance of both fundamental and technical analysis as a forex trader because of the fact that both of these types of tools can be useful to you when trading on the foreign exchange market. Fundamental analysis in particular is a type of analytical tool that is often not discussed when talking about how you tell when the market is going to shift, so it's important that it is discussed here. Both technical and fundamental analytics can be useful to you when noting whether or not the market is shifting in a preferable direction for you. Let's get back to swing trading now.

A swing trader will use both types of analytical tools when he or she is deciding whether or not a particular share is worth their time. Obviously, figuring out this type of information takes some time, much more time than can be had when day trading. For this reason, a swing trader would be interested in currency pairs that are not as volatile as the one that we were discussing in the previous section, the Japanese Yen and the British Pound. Instead, many foreign exchange swing traders are interested in the currency pair of the British Pound and the United States dollar. This currency pair is much less volatile than the relationship between the Japanese Yen and the United States dollar, and this is why a swing trader would be interested in it.

Trading Type 3: The Position Trader

The first thing that you should know about a position trader is that he or she is likely going to hold onto their stock longer than would a day trader or a swing trader. A position trader is looking for a long-term position in the stock market, rather than one that only lasts for a day or a month. Of course, the position trader will sometimes trade through only days, weeks, or months, but they are also known to purchase shares that keep them for years into the future. A positions trader is also going to look at fundamental analysis more than a day trader or a swing trader probably would. This primarily means

that a position trader is going to spend time really looking at and considering economic models and modes of thinking that are dominating the market over a particular period of time. Especially from the perspective of a forex trader, he or she will likely take the time to think about who is in power in a particular country, and how that power is going to influence interest rates in a positive or negative manner. For the reason that a positions trader is not interested in any volatility or rapid change, he or she is most likely going to be interested in investing in shares of the G7 currencies or currency that is emerging on the market as a favorite from a popularity perspective.

The G7 Currencies

From an emotional perspective, you might be interested in positions trading because positions trading can offer you stability, conservatism, and a sense that you are doing large amounts of research before making a choice about as to where your money should go. As has already been stated, one of the ways to keep your money safer on the foreign exchange market is to consider investing in one of the G7 currencies. The G7 is a group of industrialized countries that are regulated and recognized by the International Monetary Fund. The currencies that are traded publicly with the delineation of being G7 include the following:

Currency 1: The Euro
Currency 2: The Japanese Yen
Currency 3: The British Pound Sterling
Currency 4: The Canadian Dollar
Currency 5: The United States Dollar

The G7 currencies might be changing due to the recent "Brexit" and other changing factors; however, these are the G7 currencies for the time being. There's a chance that you may also have already been trading G7 currencies without being aware of it. There might even be a chance that you are a positions trader, or a swing trader, or a day trader, without even knowing it. Wouldn't that be something? Another way to look at this chapter is to consider the possibility that you can combine these different types of strategies for yourself. You don't necessarily have to commit to one specific type of strategy; however, it's also important that you make sure that

you know the ins and outs of each one if you're going to combine them. Otherwise, if you only know the rough basics of each type, you're more likely to become confused and make mistakes more easily than you would if you were a clear expert in one particular field.

Chapter 6: Advanced Tips That May Have Slipped by You

Each chapter in this book has been pretty specific in nature thus far. This chapter is going to be a bit different in the sense that it's going to focus on a variety of information rather than one specific topic. Let's take a look at some of the factors that you may have missed and are more advanced in nature than some other tips about which you already may be aware.

Advanced Forex Trading Tip 1: Choose a Lower Leverage Level

We have already discussed the concept of leveraging in the beginner's guide that I wrote on the topic of forex trading. If you have not yet purchased and read that book, I suggest you do so soon. Otherwise, there is no point in discussing the ins and outs of leveraging because you should already have a pretty good idea about what it's all about. However, for forex trading, it's important that you find a broker who is going to keep your leveraging ratio as low as it can be for the foreign exchange market. Generally speaking, if you're a more advanced trader, then it might be an okay idea for you to expose yourself to some risk through leveraging. When you're first getting your feet wet on the forex market, it's a better idea to keep leveraging as low as you can. This is the first tip because a broker can sometimes be a bit pushy and it's important to stand your ground and know what you want if this is the case.

Advanced Forex Trading Tip 2: Keep Your Account Small

When we say, "Keep Your Account Small", this does not mean that you should actively seek to keep your profits low. It's safe to say that no one wants that. Instead, what this means is that you should try to invest as little as you can in the beginning of your forex career, and work your way towards a larger account as you can put more money in it by winning money on the forex market. Basically, you don't need a large account in the beginning in order to be successful on the forex market. This is what attracts so many people to the market in the first place.

Advanced Forex Trading Tip 3: Don't Rely on Automated Processes

There's a chance that you may have heard about products within the forex trading market that are all about automating the forex trading process to make things easier for you. These applications promise you large fortunes in exchange for fortunes of your own, and once you provide them with the funds that they seek they typically will never fulfill their end of the deal.

Advanced Forex Trading Tip 4: Keep It Simple

While some of the concepts in this book may seem complex, you need to make sure that the unique trading strategy that you develop is simple and straightforward in nature. If you find that you can hardly understand your plan for your money, how are you ever going to be able to translate this into a winning strategy for yourself? If you are having trouble understanding the technical analysis that is involved in forex trading, this is a reason why we took time to discuss the concepts of fundamental analysis. There are multiple ways that you can interpret the foreign exchange market, but keeping it simple is essential to your overall success.

Advanced Trading Tip 5: The Importance of Probabilities

At its core, foreign exchange trading is mostly about probabilities. These probabilities are all about understanding risk. Of course, even if you are highly skilled at analyzing risk, the stock market typically presents itself in a way that makes it so no one can be profitable one-hundred percent of the time. If you can learn to position yourself and your investments in a way that ensures that you won't lose a lot of money even when you do technically lose, then you'll be able to secure a good position for your money over the long-term. For these reasons, an understanding of risk management and probability are essential to the overall foreign exchange trading process.

Advanced Forex Trading Tip 6: Don't Underestimate the Importance of Money Management

Investing in the forex market is not only about making profits. More importantly, forex trading is also about keeping your money safe after you've earned it. Understanding how to manage your money is often what determines whether an investor is good at trading or great at trading. To

ensure that you're in the latter category rather than the former, you should try to make sure that you know how you can make your money last for as long as possible.

Advanced Forex Trading Tip 7: Automate Your Trading as Much As You Can

Tip three and tip seven may seem similar in the sense that they both involve the word "automate", but these two tips are not at all similar. When I say "automate", I mean that in the sense that you should be making the same choices for yourself time and time again, in a patterned way, so that you can eliminate the likelihood that emotions will influence your trading decisions. If you're doing the same trading behavior over and over again regardless of the particular situation, you're less likely to make hasty decisions that are based in subjectivity rather than logic.

Conclusion

Thank for making it through to the end of *Forex Trading: The Advanced Guide that Will Make You the KING of Forex Trading,* let's hope it was informative and able to provide you with all of the tools you need to achieve your goals whatever it may be.

The next step is to get out there and get to trading! You might be in a position where you're already trading stock on the forex market. If you count yourself in this type of category, then you should take the information from this book and use it in a way that will hone your forex trading skills even further. If you have not yet started to trade forex options, then it's time to get the ball rolling! There is only so much learning that you can do. At one point or another, you have to cast your doubt off to the side and conjure the courage to invest in the currency market pool. The time is now, not later.

Finally, if you found this book useful in anyway, a review on Amazon is always appreciated!