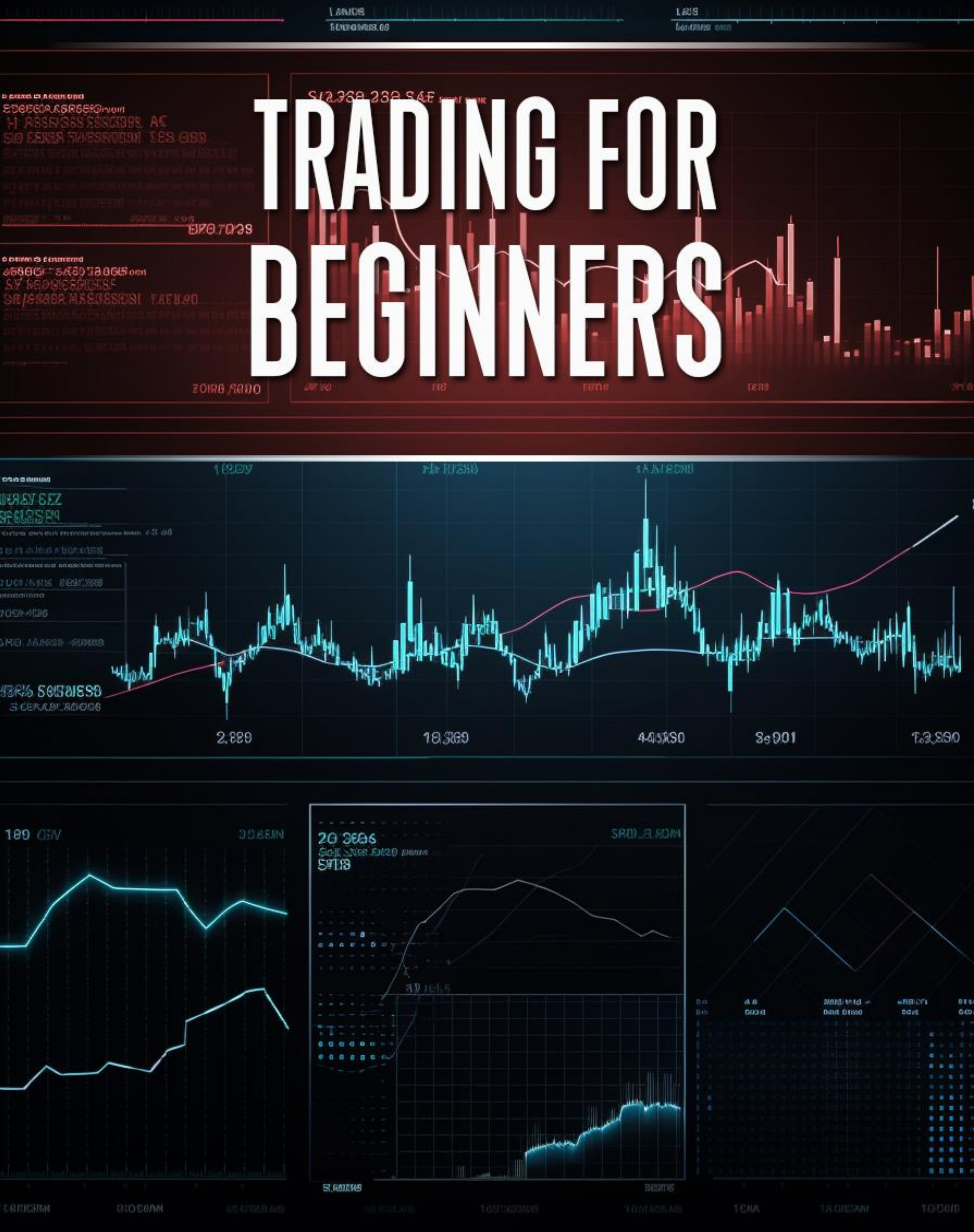
TRADING FOR BEGINNERS



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INTRODUCTION

Congratulations on your decision to learn how to trade Forex. This book will probably be the best investment you will ever make in your trading career.

The information you will find will equip you with all the fundamental aspects needed to become a successful trader. You will learn what to do and what not to do. We will cover all the basics that most people are too afraid to ask. We will also get into some advanced applications and we will approach this one step at a time.

I will not be promoting any service or institution, so I have no bias towards pointing you in any particular direction. But, I will help you make sound decisions on your own.

Very Important: This book is for educational purposes only. I am not suggesting anywhere in the book that you should invest your hard-earned money in any financial market hastily. In fact, you will learn how to trade with paper money without risking any of your finances first.

Never! Never! Never put your money into anything you do not fully understand. The internet is awash with bogus merchants and reputable firms alike. This is where this book becomes invaluable. All the basics you need to know are covered in the chapters ahead and we will not leave any stone unturned.

WHAT TO EXPECT FROM THIS BOOK

As the name implies, this book is designed for novice traders. But it has also been a reference point for many experienced traders. The concepts contained in the pages that follow can just as easily be adapted for the professional and novice traders alike.

My hope is to guide new traders through the complex terminologies and market jargon. Bring them to the other side more informed and better equipped to trade just about any market.

Because I am assuming that you are either new to trading or trying to further your education, the scope of this manual is fairly large and is intended for trading in general as opposed to a particular market segment.

New traders often are unsure of not only the best market to trade, but are also unaware of the variety of markets that can be traded.

CHAPTER 1: WALL STREET OVERVIEW

I. Trading – The Reality

The fact that you have purchased this book indicates that you have either decided that you would like to learn how to trade, or that you have started to trade and are still pursuing a better way.

If you are new to trading then I am glad you started with this book because there are a lot of misconceptions out there.

The first question I would like you to ask yourself is, why you decided that you wanted to trade in the first place?

Was it the dream of working at home and earning loads of money?
Was it the thought that you could beat the markets?
Was it the images of what you have seen on T.V. and the excitement of trading?

I ask these questions because for the vast majority of professional traders, life is nothing like what it is perceived to be.

II. . In The Interim Between Now And Then

As with any industry, there are many derivatives just as there are diverse market segments. And in trading, we have futures, options and forwards. In this manual, we will only be focusing on the main market, the spot Forex market.

The word Forex or FX is derived from the words “foreign” and “exchange”, also occasionally referred to as the spot or cash market. Forex is open all hours, Mondays through Fridays, and is by far the leading financial market in the world, with an average of $4 trillion (US) transactions daily. That‟s larger than the main world‟s stock markets combined! This makes the market very liquid and very desirable to trade.

Unlike many other securities (any financial instrument that can be traded), the Forex market does not have a physical exchange or central bureau. It is primarily traded through banks, brokers, dealers, financial institutions and private individuals.

In the past, trading was generally limited to a spectrum of financial institutions and their clients via telephonic communications. However, due to the increasing popularity of the internet, not to mention the steep competition among brokers, Forex trading has spread like wild fire! It is now available to every individual that has a desire to invest and earn a potential return on their investment.

Another word often referred to in the Forex market is interbank. “Inter” meaning between, and “bank” meaning any deposit-taking institution. Just like Forex, this is limited to financial institutions and their clients who exchange information about the market‟s price movements.

As days and nights passed, the market has completely evolved. Now, the term interbank refers to just about anyone ready to buy and/or sell any currency. It could be your friend or relative, money exchange firm around the block, your bank of choice, and so on.

By and large, the quotes used for currency exchanges originate from centralized feeds comprising of 300 or so large financial institutions, thus, ensuring reliability and confidence among the players.

III. Which Are You? Investor Or Speculator

A. Investor

An investor is an individual or organization that acquires assets with the intention of having financial returns over a period of time. This period of time may vary from a number of months or even years. Generally, after much research, an investor acquires a security when he is sure that it will go up in value after some time.

The primary concern of an investor is to minimize risks while maximizing his returns. An investor‟s portfolio may include stocks, bonds, real estate, commodities and collectibles that can generate regular income, funds for retirement, or any of these combinations.

One of the greatest investors of all time is Warren Buffet - ranked 3rd among the world‟s wealthiest in 2011. He is referred to as the “Oracle of Omaha”, a nickname given to him within the investment community as his views and comments are closely followed.

Let me share with you some of his famous sayings...

- Never invest in a business you cannot understand.
- Risk can be greatly reduced by concentrating on only a few holdings.
- Buy companies with strong histories of profitability and with a dominant business franchise.
- You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right.
- Be fearful when others are greedy and greedy only when others are fearful.
- Unless you can watch your stock holding decline by 50% without becoming panic-stricken, you should not be in the stock market.
- It is optimism that is the enemy of the rational buyer.
- The ability to say "no" is a tremendous advantage for an investor.
- Much success can be attributed to inactivity. Most investors cannot resist the temptation to constantly buy and sell.
- Lethargy, bordering on sloth should remain the cornerstone of an investment style.
- An investor should act as though he had a lifetime decision card with just twenty punches on it.
- Wild swings in share prices have more to do with the "lemming-like" behaviour of institutional investors than with the aggregate returns of the company they own.

- As a group, lemmings have a rotten image, but no individual lemming has ever received bad press.
- An investor needs to do very few things right as long as he or she avoids big mistakes.
- Is management candid with the shareholders?
- Do not take yearly results too seriously. Instead, focus on four or five-year averages.
- Focus on return on equity, not earnings per share.
- Look for companies with high profit margins.
- Growth and value investing are joined at the hip.
- It is more important to say "no" to an opportunity, than to say "yes".
- Always invest for the long term.
- Does the business have favourable long-term prospects?
- It is not necessary to do extraordinary things to get extraordinary results.
- Remember that the stock market is manic-depressive.
- Buy a business, don't rent stocks.
- Wide diversification is only required when investors do not understand what they are doing.
- An investor should ordinarily hold a small piece of an outstanding business with the same tenacity that an owner would exhibit if he owned all of that business.

B. Speculator

Investors and speculators are poles apart in playing the market. While the investor calculates his every move, a speculator takes more risks in the hopes of raking in more money than usual, without any bias or loyalty to any article of trade.

A renowned speculator in our day and age is George Soros. He was made famous for making US$1 billion in one single day in September of 1992. He speculated $10 billion (US) on a single short British pound trade. He laughed all the way to the bank when his profits reached almost US$2 billion ultimately. As a result, he was famously named as “the man who broke the Bank of England”.

„"It‟s not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong."‟, George Soros.

So, are you an investor or a speculator? The good news is that our approach suits both types of character.

IV. Who Trades The Markets

Let us just clarify what is meant by the term trader, sometimes called retail trader or day trader.

Traders are individuals who trade the financial markets, whatever market that might be, using their own money. They may or may not be dependent on the results of their trading for income.

This does not include professionals who work for institutions or who manage other people‟s money. It does not include anyone who gives advice that is charged for.

One of the reasons that I want to make this point clear is that many new traders that I have met fall into the trap of listening to too many people who have never traded their own money.

Many institutions have what they term traders working for them. The reality is that these people are often no more than individuals executing an instruction given to them by the client.

They do not have any analytical capabilities other than what is provided to them by their employer.

Unless you have experienced winning and losing your own money based on your own decisions, you will never fully appreciate what the retail trader goes through.

It is sort of the difference between being the manager of a company and being the owner of a company. For those of you have experienced the difference, you will know exactly what I am talking about.

I do not mean to take away anything from the many professionals out there who offer excellent services and have long and distinguished careers in the industry. I only wish to point out that there is a great difference between the mindset of the two groups.

Someone working for a large institution who is called a trader is very far removed from the guy sitting at his computer all day making decisions that affect his bank account.

You will only ever be successful as a trader if you rely on your own judgment to trade. At the end of the day, it‟s your money.

I would go one step farther and divide day traders into three groups.

Individuals who have a small amount of money and have read or listened to someone who has told them that there is lots of money to be made trading.

Individuals who have a fair amount of money and want to try something new. They may look at trading as another business venture and expect to have to invest for a return on their money.

Wealthy individuals who are looking for ways of increasing or diversifying their portfolio. They may be looking at ways of earning more money from their money with less investment, e.g. leverage.

Traders come from all walks of life, everything from company directors to bricklayers. Some trade full time and others trade part time whilst holding down full time jobs.

Generally, they would have taken some courses on technical analysis or some technique that someone was selling and founded their decision-making process on that.

They would then allocate a part of their house or office for this purpose, set up a computer and away they go.

Many, as I did, paid thousands of dollars for courses only to find out that the method they paid for didn‟t work.

The first course I paid for in London cost $10,000 for a two-day course, and I can honestly say you will get more information in this little book.

The problem is that when you start trading, you don‟t know any better. You will usually pay for the course with the best marketing not the best content.

V. Why 90% Of Traders Go Bust: The Seven Deadly Sins

1. **Greed**

This is the mother of all pitfalls in trading. Overtrading is typical among novice traders who are hoping to get huge profits fast. The excitement and novelty sets in quite early and a lot of them end up risking more than they can handle. Throw in some lack of technical know-how, coupled with poor money and trade management, and the novice will give up just as quickly as he started.

The opposite is true of skilled traders, who keep their risks to a bare minimum; they enter the trade with a ready plan. They cut their losses early on while focusing on staying in the market for the long haul.

2. **Sloth**

Traders who are too lazy to properly educate themselves are sloths. They believe that trading is a walk in the park. Worst, they search for a sprinkler to water the leaves and make believe that money will grow on trees.

Nothing has ever been accomplished with inactivity. Learn, strategize and armour yourself with weaponry before going out to the battlefield.

3. **Gluttony**

Gluttons indulge themselves with overtrading, putting themselves and their loved ones in grave danger - health and relationships are sacrificed and relegated to the sides. Every trader should get enough rest, go on a vacation, have a life. Go paint the town red! It will be good for you, your trades and the world around you.

4. **Envy**

There are also traders who are so envious of other people‟s wealth that they desire to get rich quickly! Traders who think that they can make a full time living by trading only for a few months will only end up with financial disaster. Learning to trade productively won‟t occur overnight. Teaching yourself to be a good trader takes a lot of patience, hard work, and diligence. As the famous maxim goes, nothing worthwhile comes easy.

5. **Lust**

   Jumping from one system to another – some traders are never contented. It is self-destructive and it causes them to continuously throw money after a string of losses.

   No matter what anyone tells you, trading is not, nor has it ever been, an exact science.

   There is no such thing as the Holy Grail. The point is, be wary of anyone telling you how great they are and how their method will make you rich because it is the Holy Grail. Would you sell something that made you that rich?

6. **Pride**

   It‟s the unwillingness to look at failures as part of a day‟s work.

   When you have made a mistake, it‟s best to swallow your pride. You win some and you lose some. You have only failed when you do not learn from the experience. Losses occur; it shouldn‟t define you as a trader.

7. **Wrath**

   It means acting in total exasperation and lack clear vision. There are traders who get too emotional after burning their fingers. They try to keep their heads above water, and do the unthinkable! Aggressively, they try to recover the losses in one full swoop, racing against time.

"By ignorance we make mistakes, and by mistakes we learn." unknown Proverb. When mistakes happen, take a step backward, analyze what went wrong, learn from it, and move on.

VI. A Peek At What People Trade

With today‟s information technology driven economy, you can trade with just about any market you please. Be it currencies, metals, shares, wheat, pork bellies and everything in between.

Not only can you trade the main securities, but in most cases, you can trade derivatives like forwards, futures and options. All these financial instruments are commonly referred to as securities, regardless of their names. Securities encompass everything that can be traded.

Whichever you choose, what‟s most important is where your interest lies. You should not take part in anything simply because everyone else does. Don‟t just follow the crowd. Your interest and your passion should be your driving force.

When you want to trade, it is important to first decide if you are a speculator or investor.

If you are an investor, it makes sense for you to know all you could about what you are investing in. You may already be in that field or have a good knowledge base of what you are investing in.

If you are a speculator, who only intends to hold something for a few hours and are covering many markets, you will not have all the time to research like an investor. However, you should know something about what makes that market tick.

In the currencies for instance, when the dollar strengthens it can affect all the major currencies at the same time.

In technology shares, you might find that the whole sector is strengthening at the same time.

If the interest rates are raised in one country, how will that affect the market you are in?

The point in all of this is that I think it is a good idea for people to trade something they either like, have an interest in or at least are familiar with. For example, I would not feel comfortable trading oil because I don‟t know what drives the market or who the main players are.

A. Stocks

Simply put, a stock is a share in the ownership of a company. When you buy stocks, you essentially own a little share of the company you just bought. The more shares you buy the more of the company you own.

Whether termed stocks, equities or shares, all mean one thing – if you own a stock, you are one of the many shareholders with an interest in every asset and liability a company has. What you are looking for as a shareholder, is to get a portion of a company"s earnings, paid out in the form of dividends.

There are two types of stocks: preferred and common. Preferred stocks are usually superior to common stocks. Preferred stock holders are paid at regular intervals before common stockholders. In times of bankruptcy, all creditors, bondholders and common stockholders will not receive any payments, if at all, until after the preferred stockholders are paid out.

When acquiring stocks, you will need to open an account with a broker. You have three different choices, ranging in expense: the full-service broker, the discount broker, and the online broker. Their distinction lies in the advice or service they provide and relevant fees involved.

Full-service brokers will give you expert advice and full access to pertinent reports. They watch over your investments and inform you if changes are necessary. But, if you have searched the internet and done all the work yourself, the discount broker should do just fine - they would merely execute trades as per your instructions. Most of these full time brokers now have a full range of services online, at lower commission rates.

Brokerage service is progressing in such a way that traders are able to have one account that can access a full range of services with one firm, a one-stop-shop that has you need.

B. Futures

In finance, a Futures contract is a standardized contract between two parties to exchange a specified asset of standardized quantity and quality for a price agreed today (the Futures price or the strike price) with delivery occurring at a specified future date, the delivery date. The contracts are traded on a futures exchange.

Just like many other markets, you don‟t necessarily need to own the asset before selling it. Futures contracts can be sold just as easily as they can be bought. Because Futures have been around for such a long time, the Futures markets are extremely well regulated worldwide.

C. Options

An option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price. The buyer of the option gets the right, but not the obligation, to engage in the transaction, while the seller has the corresponding obligation to fulfil the transaction. The price of an option derives from the difference between the reference price and the value of the underlying asset, whether a stock, a bond, a currency or a futures contract, and a premium based on the time remaining until the expiration of the option. Other types of options exist, and options can be made for any type of valuable asset.

D. Forex

In this book, we will zero in on this market. The following chapters will teach you the basics of Forex trading before moving on to more advanced lessons.

♦ ♦ ♦

CHAPTER 2: THE WORLD'S LARGEST FINANCIAL MARKET

I. What Is Forex?

If you have exchanged one currency for another, for whatever reason, then you have participated in the largest financial trading market recognized as foreign exchange, Forex or FX in short. It is simply the buying and selling of various currencies. Some participants in this market, exchange the currencies they have for their own use, like travellers, remittances, multinational firms, etc. Speculators will buy currencies when they think those currencies will increase in value and sell when they decrease in value.

The Forex market is the oldest and largest financial market in the world. According to the Bank of International Settlements, average turnover in April 2010 reached US$3.98 trillion across the entire globe. This tremendous turnover is more than the major stock markets combined!

Yet, the larger part of the market is made up of retail traders or speculators like us, who take advantage of even the slightest fluctuations in exchange rates. We attempt to buy currencies when we think they will increase in value, and sell when they decrease. US$1.49 trillion is dealt on the spot market daily, making it a highly liquid market and very desirable to trade.

Global Foreign Exchange Market Turnover in April 2010*
(in billions of US dollars)

Foreign Exchange Instrument	1998	2001	2004	2007	2010
Spot transactions	568	386	631	1,005	1,490
Outright forwards	128	130	209	362	475
For exchange swaps	734	656	954	1,714	1,765
Currency swaps	10	7	21	31	43
Options and products	87	60	119	212	207
Turnover at April 2010 exchange rates	1,705	1,505	2,040	3,370	3,981

*Final summary table from the Bank of International Settlements.

Forex is considered an over-the-counter (OTC) industry, which means that it has no so-called central location. Instead, currencies are traded through a network of brokers and dealers. The market is open 24 hours a day throughout the work week. It opens on Monday morning in Asia, followed closely by Europe, and ends in the afternoon in North America. Forex traders can check the internet to get quotes of several currencies from brokers anytime, anywhere around the globe.

There are a number of factors that affect price movements. To mention a few, these include monetary policies, political stability, interest rates, and imports and exports.

II. Tricks Of The Trade, No Pun Intended!

Why is Forex so attractive over other financial markets? There are innumerable reasons why Forex is so unique; here are just a few of them:

1. 24-Hour Global Market

The market starts its week on Monday morning from the “Land of the Rising Sun” (Japan) and closes at dusk on Friday in the Big Apple (New York). Whether you have a full-time or part-time job, wherever you are located around the globe, night or day, you can choose your trading sessions at your own convenience.

2. Pay No Commissions

There are no government, exchange, clearing, or brokerage fees. In fact, Forex has the lowest transaction cost compared to other investment commodities. Brokers get paid for their services through the bid-ask spread, which is the difference in value when you buy or sell currencies.

3. Profit in Any Market Condition – Bulls, Bears & Sideways

You have the freedom to buy low (long position) or sell high (short position) currency pairs whether in bull, bear or sideways market conditions.

4. High Leverage

You have the flexibility to trade larger values even with a small margin deposit. This gives you the ability to make huge profits.

However, it is important to bear in mind that while this may allow for large profit margins, larger contract values can equally result in large losses, as well.

5. Highest Liquidity

This is the market‟s biggest advantage, its extreme liquidity. You can buy and sell anytime as there will normally be someone in the market willing to take your trade – you will never find yourself at a standstill. At best, you can set your online trading platform to automatically close your position once you‟ve reached your desired profit level; and/or close a trade, if it is going against you (using a stop loss order).

6. Free Offers Abound

Typically, brokers promote their products and services by way of a free demo or practise account. This allows you to test their platforms and to a degree, their services, before opening a live account (real money account). As a novice trader, a demo account is also the best platform to develop your trading skills.

There is also a prolific amount of information about the market, with many brokers and other sources providing different perspectives on how one can trade successfully.

Advantages of Forex Over Other Financial Investments

Forex	Stocks	Futures	Options
Largest and most liquid market	Relies on volume daily	Relies on traded account monthly	Relies on asset and expiry date
24-hour market	Less than 7 hours a day	Trading hours vary depending on the markets.	
100:1 leverage or higher leverages	Smaller leverage		Dependent on type of Options bought
Can profit in any market condition	Investors generally buy stocks as opposed to selling them	Has longer bearish market conditions	

III. Movers And Shakers In Forex

A. Central Banks & Governments

Policies that are implemented by governments and central banks can play a major role in the FX market.

Majority of the world‟s nations have a central bank as their primary monetary authority. The roles central banks differ from country to country, but their main function is to facilitate government policies to help even out fluctuations in the value of their local currency.

They also play an important role in the Forex market. They do, to a certain degree, influence the fluctuations of currencies. In spite of this, they should not be regarded as speculators. They can also affect the Forex market by controlling the supply of various bills and regulating interest rates.

As the need arises, central banks intervene in the currency market to adjust fluctuations and stabilize a nation‟s economy.

B. Commercial Banks

Commercial banks are certainly the major players in the Forex market. These well established banks trade in the billions of dollars daily, both for themselves and for their roster of clients.

Having no fixed exchange, these large banks worldwide determine the rates we keep a close eye on, the so-called bid/ask price. Though there is a huge difference in the volume that they trade compared to Forex retailers like us, our goals are precisely the same – to earn profits from trading Forex.

C. Investment Managers, Hedge Funds And Wealth Funds

Investment Managers, Hedge Funds, and Sovereign Wealth Funds, as a group, are considered to be one of the largest players in the Forex market. Investment managers handle huge accounts on behalf of their clients, such as funds and endowments. They participate in the Forex market when these investments occasionally require exchange of foreign currencies. Hedge funds carry out speculative trades, too.

D. Businesses And Corporations

Companies engaged in import and export indirectly participate in foreign exchange to sell or pay for goods and services.

Payment for these goods and services may be made and received in different currencies. Many billions of dollars are exchanged daily to facilitate trade. The timing of those transactions can dramatically affect a company's balance sheet.

Since the volume that they exchange is much smaller, they deal with the commercial banks to transact their business. At times, mergers and acquisitions can shake the market‟s price movements.

E. Retail Brokers

Retail brokers can be individuals or groups of several individuals. They control only a small size of the entire Forex market totalling an estimated 2%. Even so, these retail brokers trade an estimate volume of between $25 billion (US) and $50 (US) billion every single day.

F. Speculators & Investors

These are individuals or private investors who originate from all walks of life, from every corner the globe. All have one objective – to earn profits through trading Forex!

G. The Man On The Street

Although you may not think that the man on the street also plays a part in today's FX world, every time he goes on holiday overseas, he normally needs to purchase that country's currency and again change it back into his own currency once he returns.

Without knowing, he is in fact trading currencies. He may also purchase goods and services whilst overseas and his credit card company has to convert those sales back into his base currency in order to charge him.

IV. The 24/5 Market

The Forex market welcomes traders twenty-four hours a day, five days a week. This allows every trader around the entire globe to trade both day and night.

Although the market is open non-stop during the work week, there are times when price movements are most active and hours when very little action is seen. The Forex market is divided into three sessions, with each becoming more active as the major financial markets begin in its regional hemisphere.

A. Asian Session (Tokyo)

Tokyo is the financial capital of Asia and is home to the third most traded currency in the world, the Japanese Yen. As a result, the session is also commonly referred to as the "Asian Session" that begins at 12am GMT.

The Japanese Yen contributes to 19%[2] of all Forex turnovers as of April 2010. This percentage represents the turnover by the Yen compared to other currencies in the global foreign exchange market. Note, however, that since currencies are traded by pair, the maximum percentage is 200%.

The Asian Session overlaps with the European Session, which starts at 8am GMT, for one more hour ending at 9am GMT.

Here are some of the inherent characteristics and peculiarities of the Asian Session:

Commercial banks and export companies comprise the major contributors to the market movements.

Liquidity is considerably thin, so many traders would rather make short day trades during these times. This is also an excellent training ground for beginners as this session is normally less volatile.

Some of the best pairs to trade are the Asian currencies, i.e. USD/JPY, GBP/JPY, AUD/USD, and NZD/USD. With the strong influence of the Bank of Japan over the Forex market, the USD/JPY is a good currency to consider during the opening hours of the session.

Market movements during this session help traders decide the likely progress of the markets for the rest of the day. Action plans are formulated on how to approach succeeding sessions.

B. European Session (London)

The Forex market opens in Europe at 8am GMT. The United Kingdom dominates the currency market worldwide with London as its major player. London is recognized as the trading capital of the world, and the Euro accounts for more than 39%[3] of all Forex turnovers as of April 2016.

The European Session extends beyond the start of the North American Session at 1pm GMT for four hours, until European Session closes at 5pm GMT.

Some interesting facts about the European Session:

It has the heaviest overlaps with two major trading sessions, leading to high liquidity and plausible lower pip spreads. It is the most volatile session.

Most market trends are established during this session and continue in anticipation of the start of the New York Session.

Trends can at times reverse at the closing hours of the London Session, as traders may decide to retain profits.

C. North American Session (New York)

The North American Session begins at 1pm GMT. By this time, the Asian Session has ended for quite a few hours already, but the day is only halfway through with the Europeans. The Big Apple ranks as the second largest trading market, with the US Dollar accounting 84.9%[4] of all Forex turnovers as of April 2016.

Here are some points to ponder during this session:

Liquidity is at its peak in the morning as it intersects with the European Session, but usually dips at midday, as the European Session ends.

Potential market movements are anticipated as economic reports are released just before the start of the New York Session. Having the US currency pitted against most other currencies, any major US economic report could affect market movements remarkably.

With both of the major players intersecting with each other, you can trade practically any pair, but it would be best to trade the major and minor currencies, avoiding cross currencies if possible.

D. At A Glance – Get Ready For The Overlap!

The overlapping periods are usually the most liquid times for many currencies. Traders are moving quickly especially when they detect any changes in the market that are deemed profitable.

In the Asian/European overlap, liquidity is quite slim. It is best to take things slow, while preparing for the European/North American overlap.

The European/North American overlap is when things get interesting. It is the traders" busiest time of the day. It is during this overlap that large movements are seen.

V. How Do You Make Money In Forex?

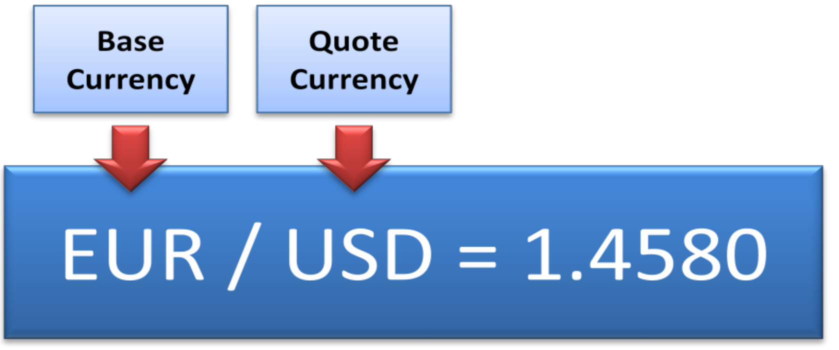
Simple really: by Buying Low and Selling High or Selling High and Buying Low.

Let us look at an example:

Thinking that the GBPUSD will soon rise, you buy GBP versus the USD at the current exchange rate of 1GBP = $1.96 (US). Later on, the exchange rate reaches $2.025, so you sell your GBP versus the USD. You have now made a profit!

VI. How To Interpret A Currency Quote

When a currency is quoted, it is made in comparison with another – the value of one is shown versus the value of the other. Below is an example of a quote between the US Dollar (USD) and the European Euro (EUR).



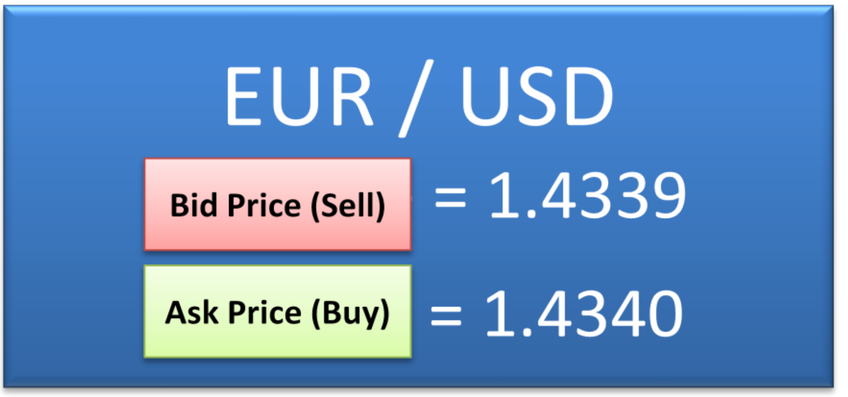
The EUR/USD is called a **currency pair**. The currency to the left (EUR) is the **base currency**, while the currency to the right (USD) is the counter or **quote currency**. The base currency is equal to one unit all the time, and the quoted currency is the equivalent value with respect to the other currency. In short, the exchange rate shows you the value of the quote currency when buying one unit of the base currency. In the above example, the quote means that 1 European Euro is equivalent to 1.4580 in US Dollars.

A. Long And Short

When you decide to buy, in other words, you buy the base currency and sell the quote currency, you expect that the base currency will appreciate in value so you can sell it at a higher price. In Forex lingo, this is known as taking a “long position”.

Alternatively, when you decide to sell, in other words, you sell the base currency and buy the quote currency, you expect that the base currency will depreciate in value so you can buy it at a lower price. This is known as taking a “short position”.

B. Bid And Ask



Forex quotes are always expressed in pairs, the bid price and ask price. The bid price is usually lower than the ask price. The bid price is the value that you will sell to the market, and the ask price (or offer price) is the value that you will buy from the market. The difference between these values is called the spread.

On the example above, the bid price is 1.4339 and the ask price is 1.4340. This means that if you sell the EUR/USD, you will sell it at 1.4339. On the other hand, if you buy the EUR/USD, you will buy it at 1.4340.

The difference between 1.4339 and 1.4340 is the spread, which is 0.0001.

C. Pips And Pipettes

A “Pip” is the abbreviated term used for “Percentage in point”. It refers to the smallest price movement that a currency can make. A Pip is defined as a “point” in calculating profits and losses; it is the unit of measurement used to define the difference in value between two currencies.

For example, if the EUR/USD moved from 1.4339 to 1.4351, that equates to twelve pips.

In all currency pairs relating the Japanese Yen (JPY), a pip is quoted to the second decimal or 1/100th place to the right of the decimal point. In all other currency pairs, a pip is quoted to fourth decimal or the 1/10,000th place to the right of the decimal point. Nowadays, there are numerous brokers that quote currency pairs using "5 and 3" decimal places instead of the typical "4 and 2" decimal places. The 5^{th} and 3^{rd} (for Yen pairs) are generally known as fractional pips or pipettes.

Simple Formulas in Calculating Pip Value

For JPY currency pairs:

0.01 divided exchange rate = pip value

Example:

USD/JPY is at 81.27

0.01/81.27 = 1.2304

For all other currency pairs:

0.0001 divided by exchange rate = pip value

Example:

USD/CAD at 0.9587

0.0001/0.9587 = 0.0010430

When the US Dollar is not quoted first, it will be computed as follows:

(0.0001 divided by exchange rate) x exchange rate = pip value

Example:

AUD/USD at 1.0761

(0.0001/ 1.0761) x 1.0761 = 0.00009999 or rounded off at 0.0001

Calculating pip changes help determine gains and losses, including transaction costs involved. While calculating the pip value for currency pairs and lot sizes is a function of trading platforms, it‟s still good to learn the precise calculation required if this is not available.

D. Lots, Leverage And Margins

1. Lots

A Lot is defined as an average size of a trading transaction. As shown below, the different types of lots are standard, mini, micro and nano, including the average pip values. Some brokers offer to trade in as little as one unit.

Lot	Number of Units	Average Pip Value
Standard	100,000	$ 10 (US)
Micro	10,000	$ 1 (US)
Mini	1,000	$ 0.10 (US)
Nano	100	$ 0.01 (US)

Calculating the pip value in relation to lot size may vary from broker to broker. Whatever formula is used, the broker will be able to provide the pip value of what is being traded.

For beginners in Forex, it is best to remain with the smaller lot sizes. Keep in mind that $1 (US) may seem to be a small amount, but when the market moves 50 pips against you, that is a hefty $50 (US) loss. Worse, you stand the chance of depleting your account when you lack a proper game plan and emotional control.

Decide your maximum risk tolerance, keep your lot size within your boundaries, and lay the groundwork for the long journey ahead.

2. Leverage & Margin Basics

Leverage and margins refer to the same theory, but come from slightly different perspectives. In the Forex language, leverage simply means the percentage amount of investment you are allowed to borrow when you open a position. This investment, as required by a broker, is called margin. Your broker will also determine the minimum requirement per lot size. Once you have deposited your money, you are now ready to trade.

Margin is the amount of money that must be maintained in a trading account to keep a position open. This acts as a good faith deposit by the trader to ensure against trading losses. A margin allows traders to open positions with almost a hundred percent leverage as against the total amount they have deposited in their accounts.

The amount of leverage available to a trader varies from broker to broker. It is popular to get a leverage of 100:1 or more. These kinds of high levels of leverage only exist in this market essentially because Forex is the largest and most liquid of all financial instruments globally. However, just because a broker offers you a high leverage, it does not mean that you have to use the maximum leverage. If you are a smart trader, you will only capitalize on maximum leverage when you are certain that the market will move in your favour.

Using the example as per the chart below, if your broker allowed a leverage of 400:1, and you choose to trade in a position worth US$ 100,000 but you only have US$ 500 in your live account, your broker will set aside US$ 250 as margin and let you borrow the rest of the amount.

Margin Required	Leverage	Position Size
$ 100,00 (US)	1:1	$ 100,000 (US)
$ 50,000 (US)	2:1	$ 100,000 (US)
$ 2,000 (US)	50:1	$ 100,000 (US)
$ 1,000 (US)	100:1	$ 100,000 (US)
$ 500 (US)	200:1	$ 100,000 (US)
$ 250 (US)	400:1	$ 100,000 (US)

As a rule of thumb, losses should never exceed 2% of your total investment. Whenever a position is over-leveraged and you are predisposed to risking more, leverage should be adjusted back to 2% at once.

Forex trading exposes a trader to many lucrative trading opportunities. Capitalizing on leverage can magnify the results of good trends just as much as it can play against you should the market move against you.

To avoid the pitfalls associated with high leverage, it is best always to utilize proper risk management in place, avoid over-capitalization, and set an accurate stop-loss on your trades.

You will learn more about leverage and stop-loss in the succeeding chapter.

F. Rollovers

A rollover is an interest earned or paid for holding a position overnight. When the interest rate on the currency you bought is higher than the interest rate of the currency you sold, then you will earn rollover. When the interest rate on the currency you bought is lower than the interest rate on the currency you sold, then you will pay rollover. Rollovers can add significant profits to your trade.

Most deals in Forex are done as Spot deals. Spot deals are nearly always due for settlement two business days later, known as the value date or delivery date. On that date, the counter parties theoretically take delivery of the currency they have sold or bought. However, in Spot FX, delivery does not really occur. At the end of the day, the positions are rolled over to the new value date.

Majority of the time, the end of the business day is 21:59 (London time). Any positions still open at this time are automatically rolled over to the next business day, which again finishes at 21:59. This is necessary to avoid the actual delivery of the currency.

Remember, the broker will automatically rollover your position unless you close the position on the same day.

In Spot FX, you are normally trading on margin, which means you have, in effect, got a loan from your broker for the amount you are trading. If you had a 1 lot position, your broker has advanced you the $100,000 even though you did not actually have $100,000. The broker will normally charge you the interest differential between the two currencies if you rollover your position. If you open and close the position within the same business day, you will not be charged.

To calculate the broker's interest, he will normally close your position at the end of the business day then reopen a new position almost simultaneously.

Supposing you open a 1 lot ($100,000) EUR/USD position on Monday, the 15th at 11:00 at an exchange rate of 0.9950. During the day, the rate fluctuates and at 22:00, the rate is 0.9975. The broker closes your position and reopens a new position with a different value date. The new position was opened at 0.9976 - a 1 pip difference. The 1 pip deference reflects the difference in interest rates between the US Dollar and the Euro.

In the same example, because your are long the Euro and short the US Dollar, and the US Dollar has a higher interest rate than the Euro, you pay the premium of 1 pip. On the other hand, if you had the reverse position and you were short Euros and long US Dollars, you would gain the interest differential of 1 pip.

Basically, if the first named currency has an overnight interest rate lower than the second currency then you will pay that interest differential if you bought that currency. However, if the first named currency has a higher interest rate than the second currency then you will gain the interest differential.

♦ ♦ ♦

CHAPTER 3: FUNDAMENTAL VS. TECHNICAL ANALYSIS

What do traders use to analyze market movements? Is it technical or fundamental? Which of the two is better? Is it best to concentrate on just one, or a combination of both? As a beginner in Forex trading, you might wonder which analysis will gain you more profits – technical or fundamental.

A Forex trader who employs technical analysis depends on three basic presumptions: price charts, market trends and history. In short, a technical analyst uses chart patterns to analyze market movements that generally repeat themselves.

Technical analysis is based on:

- Chart patterns
- Price movements or trends
- Historical price and volume data

On the other hand, fundamental analysis focuses on key underlying economic and political factors to determine the direction of a currency's value. Fundamental analysts predict price movements by gathering a wide variety of economic news, such earnings and consumer reports, and interest rates etc. Political news is also considered in determining the trades.

Fundamental analysis is based on:

- Interest rates
- Economic reports
- Political and social news

While academic individuals may debate which analysis is more superior, a smart Forex trader simply learns to see different views of the same picture, adapting a complementary approach to one‟s own advantage.

This scenario may happen when considering technical analysis exclusively in making trading decisions.

A technical analyst with full confidence on his studies believes that he does not need to pay attention to any political of economic news. Several indicators he has employed showed a great opportunity unfolding so he strongly believes a huge uptrend on a currency is about to take place. But instead of an upswing, it took a quick drop of 100 pips.

With much disappointment, he turned off his computer and decided to watch his favorite TV series instead. Normal programming was interrupted with a news flash broadcasting political unrest in the government, causing instability and resulted to a depreciation of the currency.

The same holds true when applying fundamental analysis exclusively. Fundamental analysis shows the general trend of a currency, but it does not reveal where to enter and exit the market.

Technical analysis seeks to answer “where”, while fundamental analysis attempts to answer “why”. If you believe that a currency will increase based on fundamental analysis, you will arrive at a better decision by also knowing where your entry and price levels will be.

Fundamental analysis and technical analysis may seem to be very different from each other, but the best approach is to combine both methods. You can study the fundamental aspects of a currency by identifying economic factors that can affect future price movements. This is further strengthened with a technical approach by viewing the charts to determine the best time and place to enter a trade, to take the profit and to place the stop-loss.

I. Fundamentals You Can Depend On

A. Trade And Capital Flow

Supply and demand are key elements behind all price actions in any market, and two of the basic marketing indicators of supply and demand are capital and trade flows.

1. Trade Flow

Trade flows are the buying (import) and selling (export) of goods and services among various nations. In order to purchase a foreign good or service, you must use a country‟s foreign currency. All these foreign transactions affect demand, supply, and valuation of currencies.
Countries that are considered net exporters sell more to other countries than they import from foreign manufacturers. Net exporters operate a trade surplus because they sell more goods to foreign markets than they buy. This results in an increase in demand for the country‟s currency because foreign buyers must use the country‟s currency in order to purchase their goods, which causes the value of the currency to rise.

On the other hand, countries that are considered net importers buy more from foreign manufacturers than they sell. Net importers operate a trade deficit because they purchase more foreign goods than they sell. To be able to purchase foreign goods, importers must sell their local currency and buy a foreign currency, which causes the value of the local currency to fall.

While import activities demonstrate the strength of an economy, export activities show its competitive standpoint.

2. Capital Flow

Capital flows are funds invested in a foreign country. Capital flows calculate that net amount of a particular currency that is bought or sold for capital investments.

A positive capital flow shows that foreign investments coming into a country exceed the investments that are leaving. This causes the value of the local currency to appreciate because the foreign investor must change to the local currency where he is investing.

Meanwhile, a negative capital flow shows that investments leaving a country surpass investments coming into the country. This causes the value of the local currency to depreciate because the local investor must change to the foreign currency in order to invest.

Economies with high interest rates, economic development, and increase in domestic financial markets attract foreign investors the most. Then again, this causes the increase in demand and value appreciation of the country‟s currency.

Finally, mergers and acquisitions fall in the category of capital flows. Mergers and acquisitions can greatly affect the Forex market when large institutions converge.

Trade Balance is the balance between capital flows and trade flows. As a Forex trader, it is important to have a good understanding of the overall economic activity of a country.

Take for example the economy of the United States. As a net importer, US trade imbalance (trade flow) is neutralized by investments in US treasuries (capital flow) by Asian central banks. Without the investments of Asian central banks in US treasuries, the US dollar would weaken and exporting goods would be more expensive.

A Nation that faces a significant trade balance deficit has a weak currency as a result of constant selling of that country‟s currency. Still, a country can maintain a strong currency if it counters the deficit with financial investment inflows, like the US economy.

Generally, various governments release trade reports on a regular basis. Trade reports provide a clear understanding how an economy is doing. The most relevant sectors in understanding the growth and health of an economy are employment, manufacturing, retail sales, inflation, gross domestic product, and consumer confidence. As mentioned previously, higher interest rates are synonymous to a strong economy.

There are numerous factors that can affect both trade and capital flows for any particular country. Economies sustained by positive trade flows are often stronger than those sustained by capital flows. Oftentimes, trade flow economies are independent countries that strongly dominate currency trends worldwide. We keep a close watch on what these economies are doing because their activities directly affect the strength and value of their currencies.

Unless you find an economy like the US, where trade imbalance is compensated by capital flow, currencies of countries sustained with positive trade flows are worth investing on.

As Forex traders, it is important to have a good understanding of an economy‟s trade balance so as to gain useful insights on currency movements.

B. Interest Rates

Changes in interest rates made by any of the eight central banks worldwide create the biggest impact in the Forex market. These shifts in interest rates hold the power to move the market enormously. Profound understanding on how to assess and react to erratic movements can lead to quicker responses and high profitable gains.

What is an interest rate?

Interest rates refer to the percentages of money paid versus the amount of money that was borrowed. An interest rate is the cost that is paid by those who borrow money. Without interest rates, services rendered by banks as money lenders would not be advantageous to them.
Generally, interests are applied as an annual percentage of the borrowed amount. In Forex, interests are credited on a daily basis.

Interest Rates Table of Major Central Banks (as of August 2011)

Central Bank	Current Rate	Last Changed
Bank of Canada	1%	08 September 2010
Bank of England	0.5%	03 May 2009
Bank of Japan	0.1%	19 December 2008
European Central Bank	1.5%	07 July 2011
Federal Reserve	0.25%	16 December 2008
Swiss National Bank	0%	08 March 2011
The Reserve Bank of Australia	4.75%	02 November 2010
Reserve Bank of New Zealand	2.5%	09 March 2011

Importance of interest rates in the Forex Market

Interest rates play an important role in moving the prices of currencies. When central banks change interest rates, they cause the Forex market to move, which reinforces a trader‟s chances for a profitable trade.

For example, Michael is a Kiwi (New Zealander) who wants to deposit US$500 into a savings account with either a local or a foreign bank. In New Zealand, the interest rate is 2.75%. In Australia, the interest rate is 4.50% and it is 2.25% in the US. Based on these interest rates, opening an account in Australia would yield the highest return of investment for Michael. This investment decision made by Michael illustrates that higher interest rates attract capital investments.

When interest rates are higher, the currency is often viewed as a stronger currency than the others. Investors will want to capitalize on high returns and will want more of the country‟s currency to gain more profit. In short, the higher the interest rate, the higher the return on currency invested, and the higher the profit gained.

However, when interest rates have been on a downtrend over a period of time, interest rates will undeniably rise at some point in time. You can almost be assured that speculators will second guess what happens next, gaining more momentum as changes in interest rates approach.

A single news report can change the sentiment of the market that can cause the interest rate go the opposite direction as originally expected.
Buying currencies with high interest rates is not often a wise decision due to erratic fluctuations. Like news reports, investing solely on interest rates should be handled with great vigilance.

Interest Rate Differentials

The interest rate differential, as the term implies, is the difference between two interest rates. The spread between these two currencies can help determine movements that might not be recognizable.

Many Forex traders use this method of comparing interest rates between two currencies as a starting point to determine whether a currency will strengthen or weaken.

An interest rate differential that is wider strengthens the currency that has a higher interest rate; while, an interest rate differential that is narrower strengthens the currency with the lower interest rate. When these two interest rates proceed in opposite directions (meaning, the interest rate of one currency increases while the interest rate of the other currency decreases), this often yields some of the market‟s biggest movements.

How are Interest Rates Calculated?

Interest rates change at the end of a monetary cycle, or depending on a country‟s monetary policy. Central banks may raise interest rates to help control inflation and lower interest rates to reinforce lending and infuse money into the economy.

Generally, interest rates are based on economic indicators, such as Consumer Price Index (CPI), consumer confidence, housing market, and unemployment rate. Aside from these economic indicators, announcements from central bank leaders and analyzing the subsequent plan of action are other means to predict interest rate movements as well.

Expecting the Unexpected

Following the news and analyzing the actions of central banks should be greatly considered by Forex traders because they tend to show when currency exchange rates move, thereby maximizing profits to its full potential. Thorough research can help a trader identify erratic movements and react properly to avoid any unexpected rate movements.

However, no matter how completely you have researched, central bank leaders can still decide to go the opposite direction unexpectedly, leaving you overwhelmed and bewildered.

When this happens, you need to have a ready plan and make decisions fast. During these times, the market tends to move rapidly. Forex traders will attempt to buy or sell beforehand to gain huge profits.

C. Consumer Price Index: An Important Measure Of Inflation

Fundamental analysis in Forex trading considers economic conditions that affect the value of a currency. This section will explain how Consumer Price Index affects the Forex market.

What is Consumer Price Index (CPI)

Consumer Price Index, also known as the Cost of Living Index, is the measure of price movements for a number of baskets of goods and services, such as food, energy, housing, clothing, transportation, medical care, entertainment and education. In short, Consumer Price Index measures price changes that are merely relevant to the consumer, including relevant items that are required in creating them. The methods in calculating the Consumer Price Index differ from country to country.

An economy is in inflation when the consumer price index is on the rise, making consumers want to purchase basic necessities impulsively in the premise that the prices of goods and services will go higher. An annual increase of 1-2% is normal for the Consumer Price Index. Monthly changes can be due to irregularity of data collected, so it is best to review yearly adjustments to acquire an accurate view of any future variance.

Importance of Consumer Price Index to Forex

Since economic indicators such as the Consumer Price Index measures a country‟s financial state, changes in economic conditions directly affect the price and volume of a currency. Central banks view the inflation rate as the primary contributor in formulating monetary policies. Thus, the Consumer Price Index serves as an indicator of the central bank‟s directions. Higher interest rates are considered bullish for the country‟s currency.

Useful tips when using Currency Price Index

Know when economic indicators are released. This will give you a glimpse of what will happen in the future as the market moves in conjunction with an economic indicator or expecting any news release.

Learn which economic indicators affect the markets the most. These indicators stimulate the market‟s biggest price and volume movements.

Know what the market hopes for and whether these expectations are met or not. At times, there will be a massive difference between how the market feels and the actual results; be perceptive of any conceivable reasons for this disparity.

Pay more attention to subsequent changes rather than reacting to news hastily. A number of times, data is released then modified afterwards. This provides a more reliable representation of underlying trends.

There are a number economic indicators and third-party reports that can be useful in evaluating the Forex market fundamentally. Aside from figures, it‟s important to understand what they mean and how they affect an economy. When used properly, the Consumer Price Index can be an invaluable method for any Forex trader.

D. Geo-Political Events

The term Geo-political is described as everything that is going on in the world at large. Since Forex is a twenty-four hour market, the foreign exchange market reacts very quickly to news and events. These events include all that could have not been predicted such as political, military, natural disruptions, or anything that causes uncertainty in an economy.

Unlike other fundamental developments that we have covered earlier, geo-political events happen unannounced, unscheduled and unpredicted. Since money detests uncertainty and indecision, these events may contribute significantly to the market‟s biggest swings.

Though events and news in a country do not directly make the market move, it is the underlying factor that is the major contributor at play. For example, the 9/11 terrorist attack upon the Unites States was a major global crisis that was followed by unusual geopolitical repercussions – retaliation on Iran and Afghanistan, increase on war budget and higher fiscal debt by the US. During that time, the EUR/USD was one of the pivotal points in trend reversal from a bearish to a bullish one.

Now that you understand the impact of the unpredictable nature of world events in the Forex market, a trader can never be too secure and certain. That is why it is very important for currency traders to monitor related news and make keen decisions based on them. A protective stop loss level, strategically placed, is very crucial during unpredictable periods that can affect the Forex market tremendously.

E. Non-Farm Payroll

The Non-farm Payroll (NFP) is a report released by the US government every first Friday of the month, which covers the total number of US paid workers of any non-farm business establishments. The monthly report includes unemployment rate and average hourly and weekly earnings.

Since employment is a leading indicator of consumer spending and consumer confidence, Forex traders closely watch out for the Non-farm Payroll announcement, which can cause irregular price movements.

Like other economic indicators we discussed, the difference between the actual report and expected figures will determine the overall effect in Forex trading. An increase in Non-farm Payrolls suggests that the economy is growing, which means that the demand for the US dollar is also rising. Meanwhile, a consistent decline in Non-farm employment suggests a slowing economy that makes the demand for the US dollar to drop, as well. When the actual data comes in lower than what was expected, Forex traders will usually sell US dollars in anticipation of a weakening currency.

For example, the Non-farm Payroll figures were expected to be plus 100,000 new employees. In the days leading up to the release of the report, the markets will have priced-in something closely related to that expected number, but then the numbers come in at an additional 250,000 more new employees; the traders that had already bought US dollars will make big profits, as everyone else rushes to just follow suit.

Because the US economy is so important to the overall global economic health, big changes in the Non-farm Payrolls are often looked upon as a precursor for the rest of the world's economy. If the numbers are really poor, Forex traders from around the world may retreat to gold or other commodities that may provide safer shelter in times of distress, instead of trading with the dollar.

II. . Introduction To Technical Analysis

Regardless of how traders want to trade the markets, they need an approach. However they trade, even though they may not think so, they are implementing one.

Majority of traders will eventually use some form of technical analysis, and they are also known as chart traders, market technicians and chartists.

Before we begin, it is very important to discuss both sides of the argument that technical analysis works. For every book there is on Forex trading, there is probably an opposite book explaining why it cannot be done. But before you dismiss the last statement out of hand, let us explore the argument that no matter what you do, you cannot beat the market.

A. Random Walk

The Random Walk theory dictates that a security‟s price changes randomly, with no predictable patterns. Now that‟s quite a statement, but there are a number of respected statisticians who have a very convincing argument to prove it.

It all started in London with a man called Maurice Kendall who presented a paper to the Royal Statistical Society in 1953.

The subject of the paper Kendall presented was the behaviour of stock and commodity prices.

Ref. M. G. Kendall, „‟The Analysis Of Economic Time – Series"‟ Journal of the Royal Statistical Society (1953)

Kendall started out looking for predictable price cycles in stock and commodity prices. The problem was he could not find any.

Regardless of how he approached it, the price of a stock was just as likely to go up or down on any given day despite what happened on the previous day, which is where the term Random Walk started. Prices seemed to follow a random walk as he observed them.

The best way to demonstrate this is with a game. Let us say we are going to make a bet on the toss of a coin. You start with $100.

We will toss this coin once per day. If it comes up heads you win 3% and if it comes up tails you lose 2.5%.

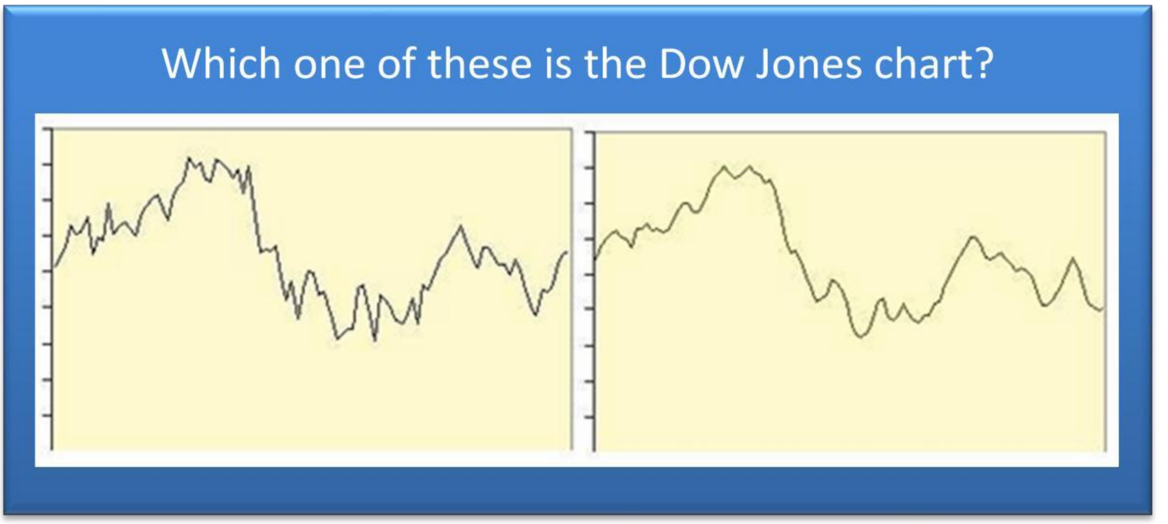
At the end of the first day, you will either have $103 or $97.50. At the second day, we repeat the process and at the end, we eventually have something like the table below.

The probability of the coin landing heads or tails is exactly 50%. This is because regardless of how many times the coin is tossed, each event is independent. The coin has no memory of what happened from the toss previously. This means that the results will be totally at random.

Kendall's paper implies the same effect in the stock or commodities market. If each day is an independent event then the markets must be random.

Taking this idea slightly farther, if the markets are random then the history of the price of a stock or commodity has no bearing on the future price. It wouldn"t help to look at charts or data, as each day there would be a 50% chance of the market going up or down.

You may be thinking by this stage that this theory is nonsense. Try this simple test. Have a look at the two charts below. One is a chart of 100 daily closes of the Dow Jones Industrial Average and the other is a 100 random coin tosses.



The chart on the left is the chart of the Dow Jones. Any succession of independent events can have varying movements. This is what kills the trader. If each day in the market were in fact an independent event, then it would be impossible for you to make money consistently.

B. The Dow Theory And Other Things

Now that we have had a look at the argument against using some form of technical analysis to help gain an advantage in the market, let us have a look on the bright side: the argument for using some form of analysis to help make buy and sell decisions in the Forex market.

I have two main arguments about why technical analysis works when applied correctly to trading any financial market and they are simple.

1. I know of many professional traders who consistently year after year make money in the market. There are also thousands of traders across the world that makes a profit in the market consistently.

   If it were not possible to make money trading because the markets are inherently random, then why do so many traders make money?

2. One of the main reasons I believe technical analysis works is the human element. When a market is in a raging bull trend, traders know this and can exploit it.

> When a major support level is about to break there are normally thousands of traders with some technical training who are aware of this and exploit the situation.

Technical analysis is the science of human behaviour. If you are in tune with the market sentiment then you can trade this knowledge effectively.
This is the reason why technical analysis is not an exact science. It is an art. Regardless of the kind of indicator you use, what you are really studying is the science of human behaviour.

C. Mr. Charles Dow And Edward Jones

Charles Dow was born in 1851and spent most of his adult life as a newspaperman. His particular area of expertise was reporting on the financial markets.

This eventually brought him to New York where in 1880 he found a job reporting on mining stocks. He was regarded not only as a financial reporter but also as a financial analyst.

It was around this time that he met with Edward D. Jones and established Dow Jones & Company. The main business was delivering financial information to those who needed them. The first news was printed in 1883 and was the forerunner of what we now call “The Wall Street Journal”.

Dow has then joined the New York Stock Exchange in 1885 where he remained a member until 1891.

Furthermore, it is important to know that Mr. Dow is considered the father of modern technical analysis and his observations of the markets are considered some of the most important writings relating to technical analysis.

Ticker Tape Machine From Around 1890

The Dow Theory

You will hear a lot about the Dow Theory as you advance in your trading career. Dow himself never actually used the phrase. This came later as analysts began to use the term.

Back in 1884, Dow published his first stock market average of 11 stocks. From the original 11 stocks, there were some changes and rearrangements of the average until finally in 1928, he settled on 30 stocks which are now known as the industrial average and that is where we get the term, “Dow Jones Industrial Average”.

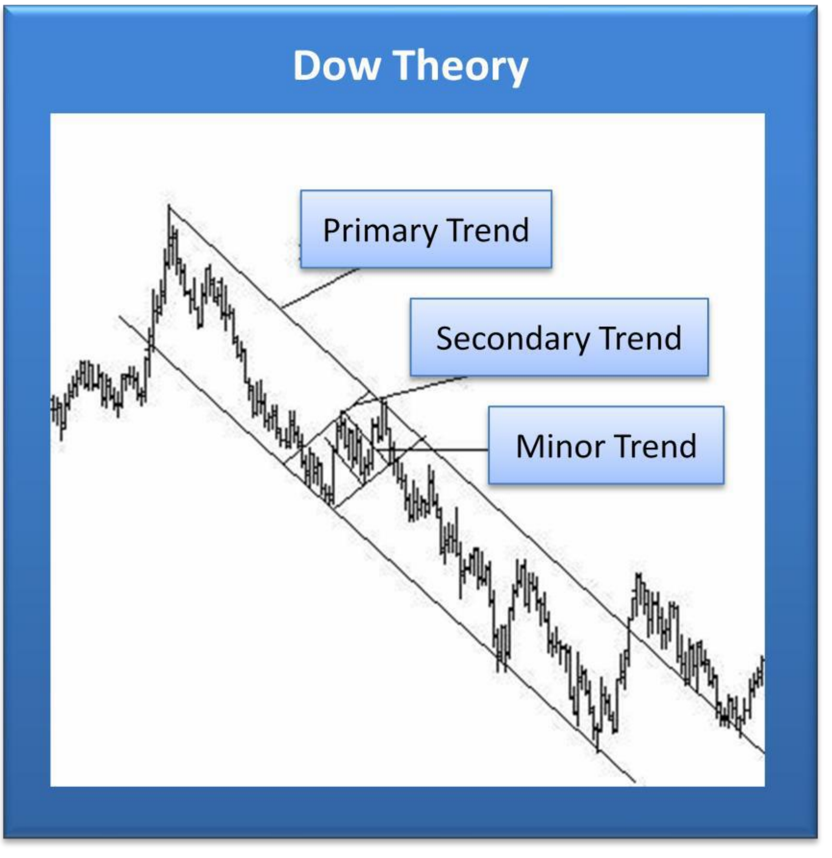
The actual theory is fairly straightforward to explain and sensible if you take the time to think about it. I shall simplify it slightly, as we have not covered some of the terms yet.

1. The market discounts everything. The price you see is the true market value. If you are following a particular stock and it is trading at $10 then that is a fair value of that stock. It assumes that all the known information about that stock has been taken into account by the market and is reflected in the price. If new information were introduced, it would change the price of the stock but it would still be reflected in the price.

2. The market has three main trends. Dow‟s interpretation of a trend was that each rally high should be higher than the previous rally high; and each rally low should be higher than the previous rally low. The three trends were primary, secondary and minor trends. Now, this is important because later on as we discuss this, it will play a major role in our analysis.

The primary trend is the main force behind the trend and is like a river flowing in a particular direction. The secondary trend is like a tributary to the main trend. It may diverge for a time but eventually it will come back in line with the main river. The minor trend is like a small stream, which runs this way and that way but is headed in the general direction of the river.

The primary trend may take years to come to an end and may develop over time. The secondary trend can take anywhere from a few weeks to a few months in duration and the minor trend may be in the opposite direction of the primary trend. Minor trends, such as the daily trend, last a few days or so and are of little significance.



3. In addition to the three types of trends, Dow then went on to qualify the trend further by saying that the trend has three phases: accumulation stage, public participation stage, and distribution stage.

4. As the original Dow average was composed of shares from different sectors, the next part of the Dow Theory was that the average of the different sectors must confirm each other.

5. Dow also considered the effect of volume on a trend. He stated that volume should expand in the same direction as the trend.

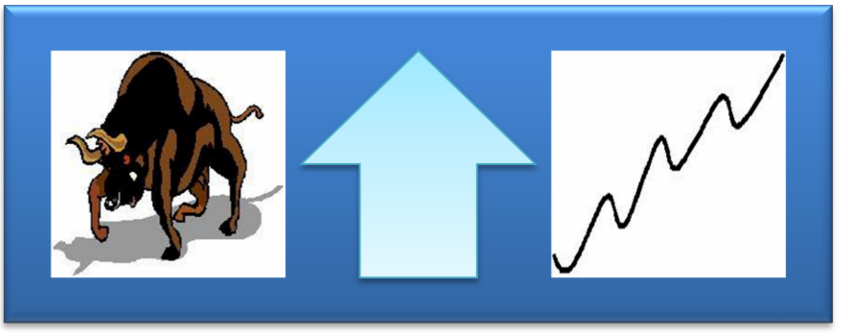
6. The last major part of the theory is that the trend is assumed to still be intact until there is a definite indication that the direction has, in fact, changed.

The interpretation of the Dow Theory above gives you a broad idea of how the markets work and how to incorporate them in trading Forex.

♦ ♦ ♦

CHAPTER 4: FINDING TRADE OPPORTUNITIES

You need to understand the basics of how the market works before going to more advanced concepts such as trading methods and systems. So let us go over the basics.

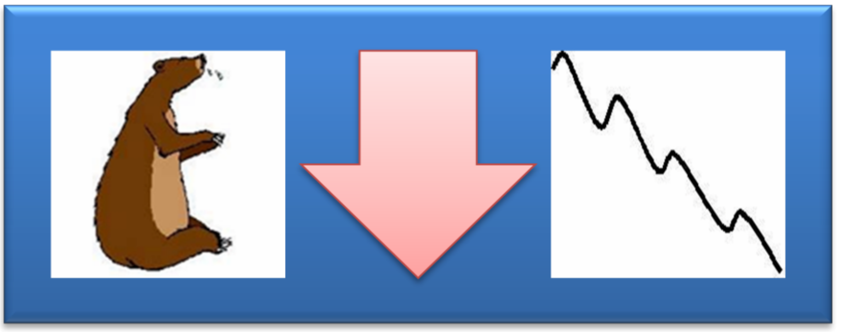


I. Bull Market

The language of the markets can be confusing in the beginning so the following explanations may help.

When the BUYING market is more predominant than the SELLING market, here are some expressions commonly used:

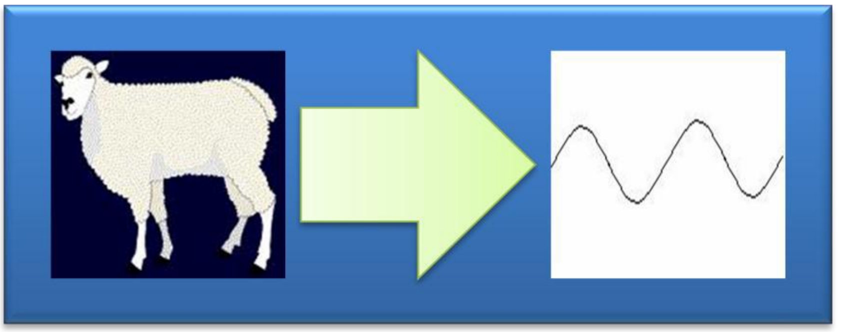
BUYING
BUYING LONG
RALLY - UP
GOING UP
HIGHER HIGHS
HIGHER LOWS
NORTH
TRENDING UP DAY
BULLISH



II. Bear Market

When the SELLING market is more predominant than the BUYING market, here are some expressions commonly used:

SELLING
SOUTH
TRENDING DOWN DAY
SHORT
SELLING SHORT
SHORTING THE MARKET
DOWN
GOING DOWN
LOWER LOWS
LOWER HIGHS
BEAR
BEARISH



III. Lamb Market

When the market you are looking at is not in a state of massive buying or selling, the market may be basically oscillating from one point to another point and repeating the process.

This may happen for many hours or even days. This is often referred to as a Lamb Market or a Trading Day.

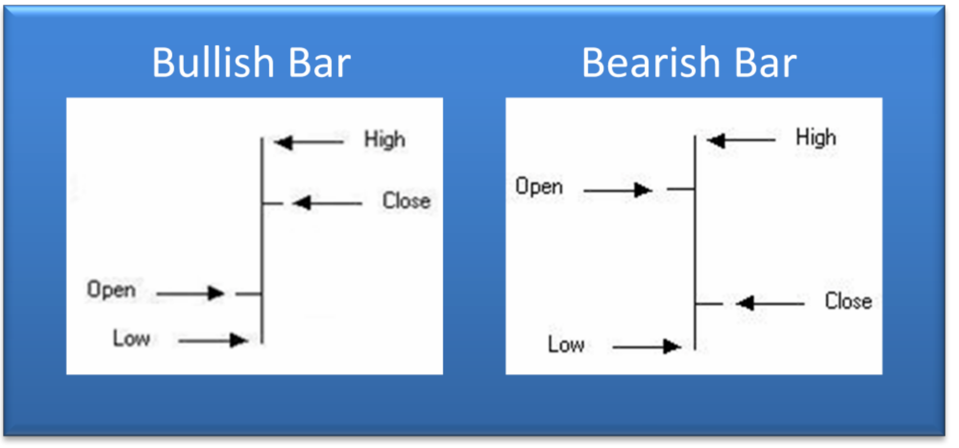
The language for this day might be:

CONSOLIDATION
ACCUMULATION
NOISE
BRACKETING
ON THE FENCE
LAMBS
FLAT
TRADING DAY

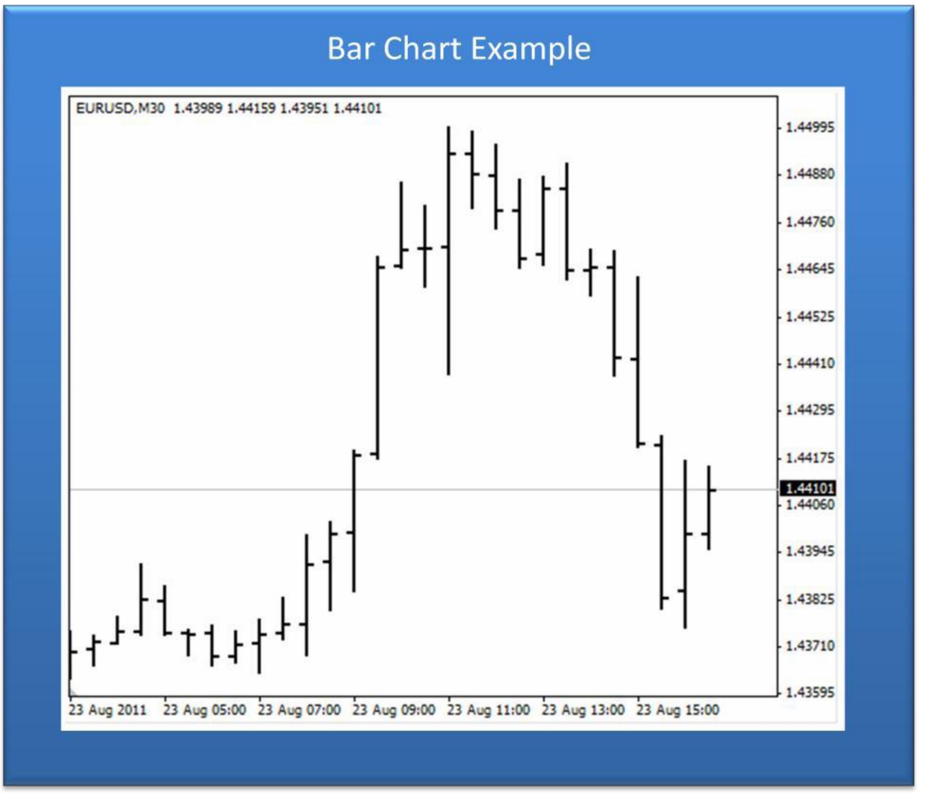
IV. Visual Recognition

A. Bars

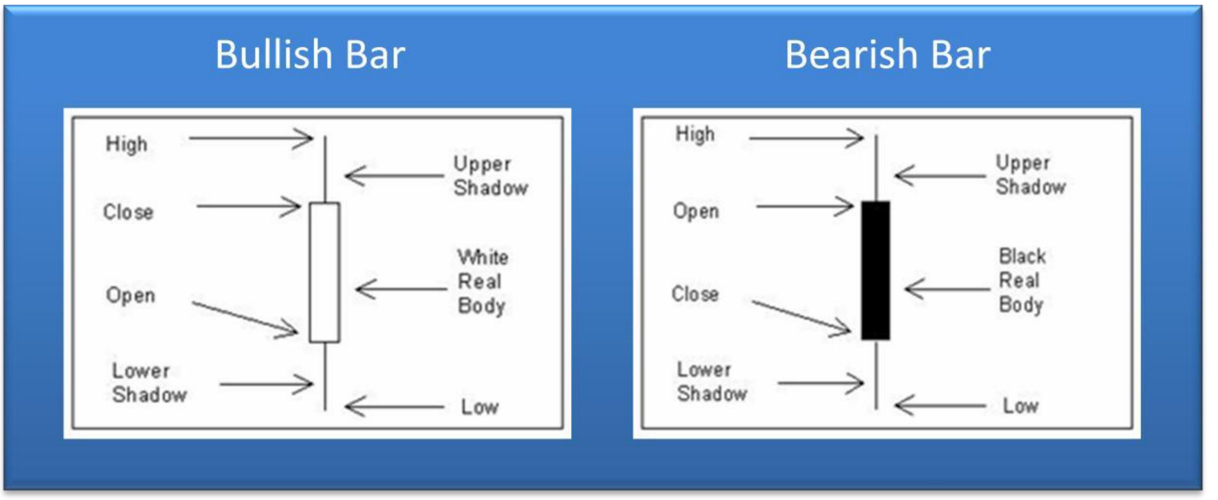
A bar represents one period of time. It is a means of measuring the duration of buying or selling within the market. The time intervals may be 1 minute, 5 minutes, 10 minutes, 30 minutes, 1 hour, 2 hours, 4 hours, 1 day, 1 week, and even one month if desired. You can use any time period you want.



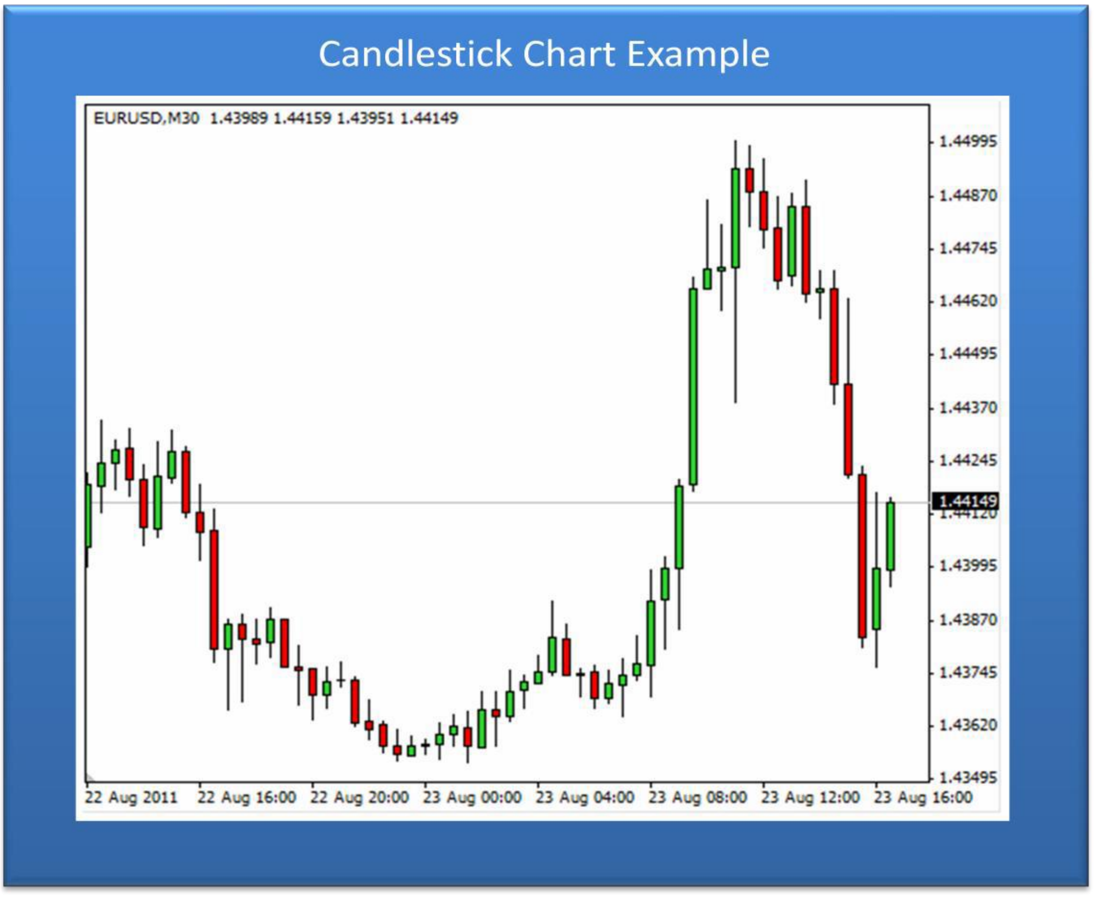
Bar charts are amongst the most widely used charts in the world today and during this course, we will be using them a lot.



B. Candlesticks

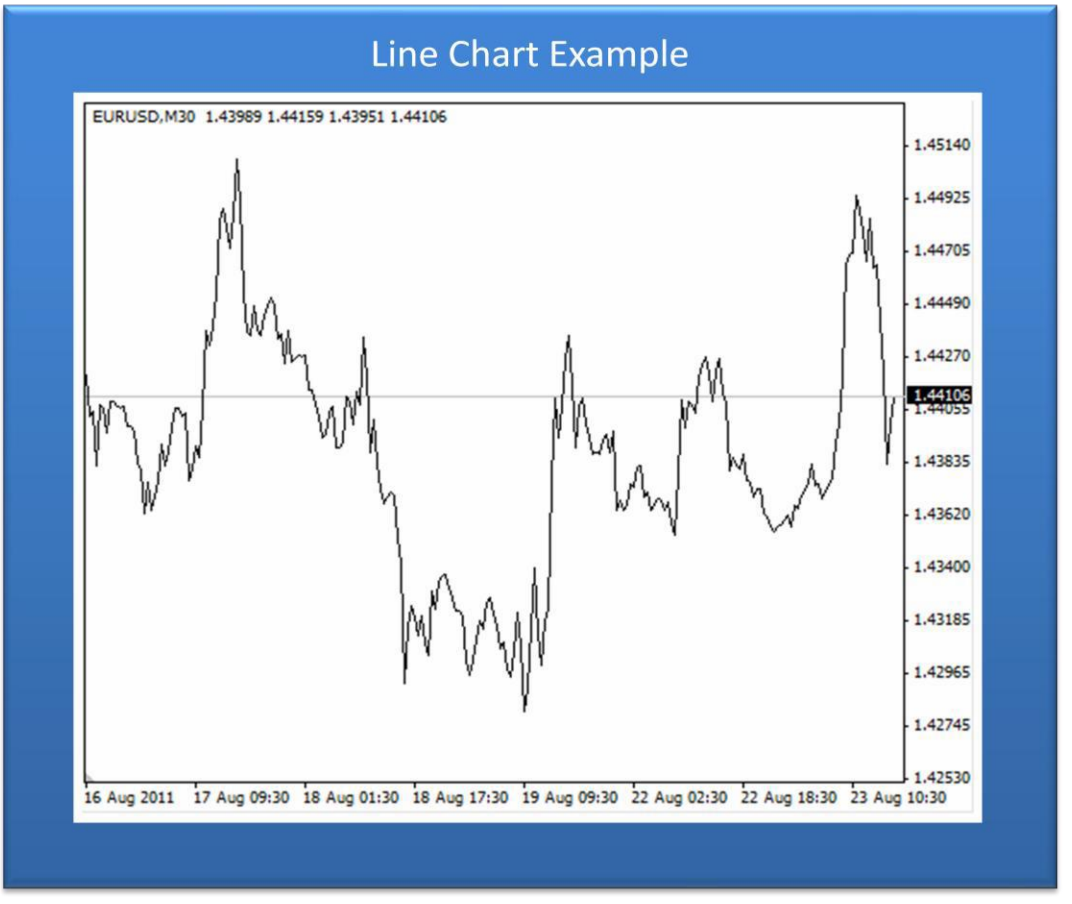


Just like the bars, a candlestick represents one period of time, and it serves as a means of measuring the duration of buying or selling within the market. The time intervals may be 1 minute, 5 minutes, 10 minutes, 30 minutes, 1 hour, 2 hours, 4 hours, 1 day, 1 week, and even one month if desired.



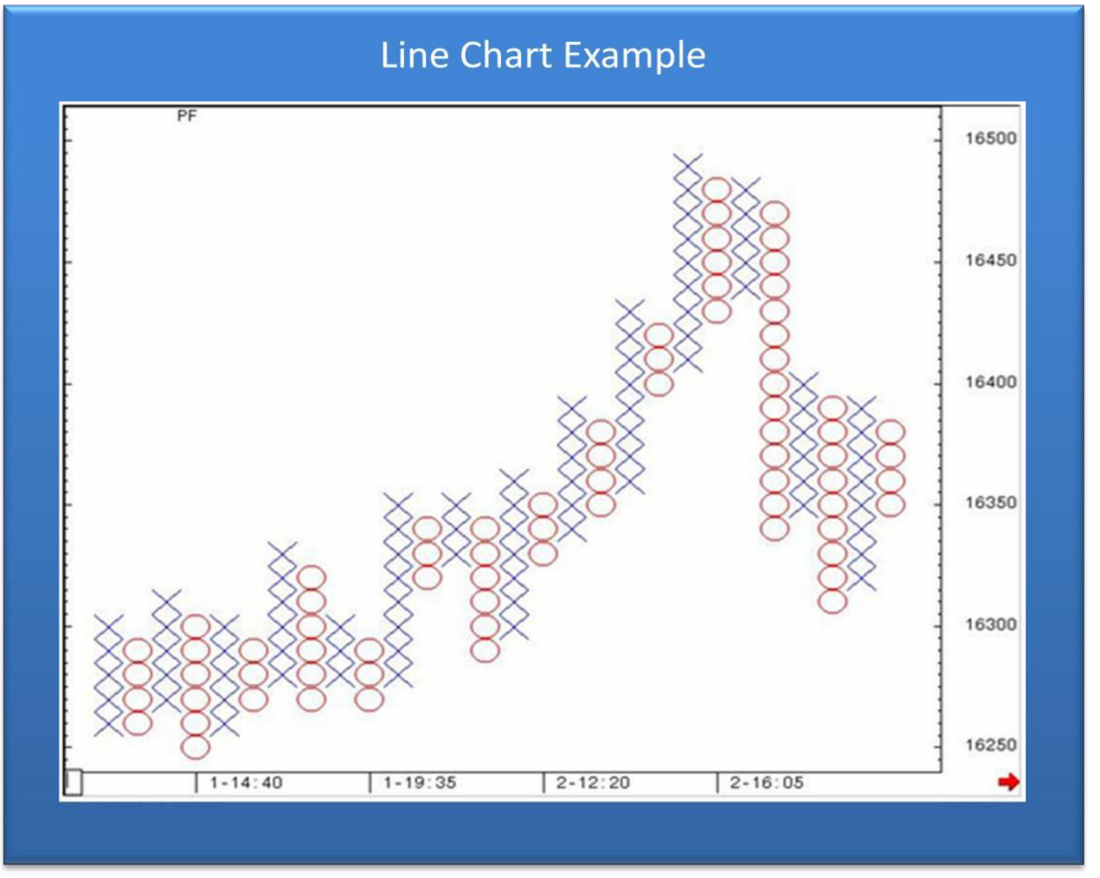
C. Line Chart

Line charts are made up by plotting the closing prices of given periods. Here is an example of a line chart.



A line chart is the simplest type of chart. A line chart's strength comes from its simplicity. It provides an uncluttered and easy to understand view of the price.

D. Point & Figure Chart



A line or a bar chart is two-dimensional. The vertical spaces measure price. The horizontal spaces measure calendar time, whether hourly, daily, weekly or monthly.

A point-and-figure chart, however, is one-dimensional. Both vertical and horizontal spaces measure price. There is no measurement of arbitrary calendar time. Each successive horizontal space on the chart represents a change of direction in the price, from up to down or from down to up.

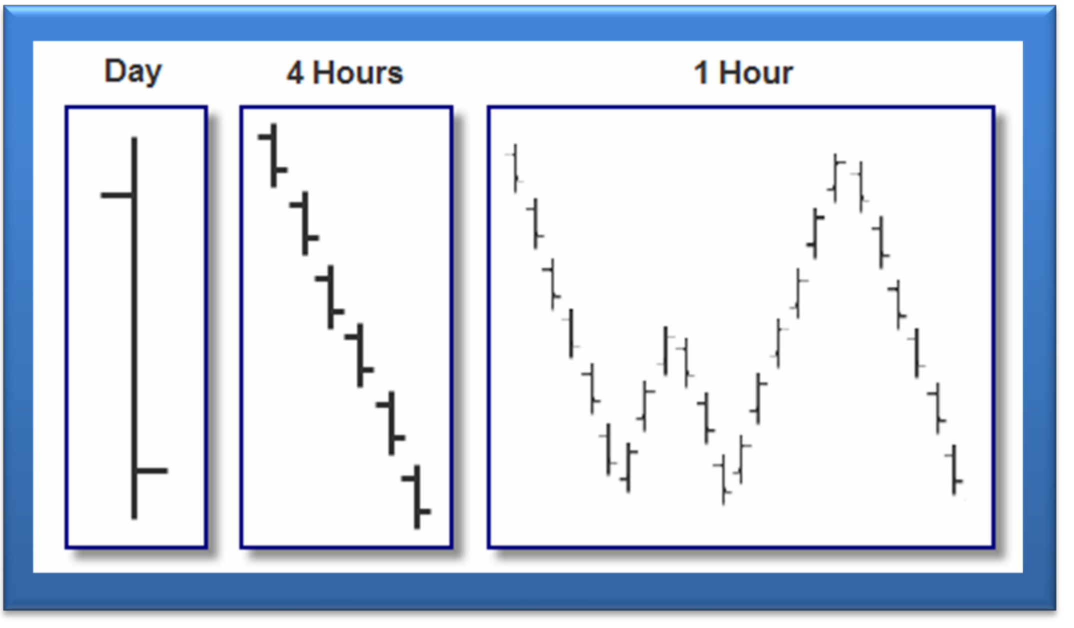
F. Time Periods

Very important: Know where you live!

There is no correct time period to trade, only the time period you feel comfortable in.

If you ask someone to tell you where the trend is in the S&P market, they would first have to find out what time period you were talking about. For a daily trader, the trend may be up but for an hourly trader, the trend may be down.

Let‟s discuss this a little further. Most of the charts we will be looking at are day charts; that is to say if you are looking at one bar, it encapsulates everything that happened during that day. It would have a high for the day, a low for the day, an open and a close for the day.



If you were looking at a chart made up of 4-hour bars, there would be six times as many bars as there are in a Daily chart. Each bar would have its own open, high, low and close (OHLC). These may be different from the Daily OHLC bar as the bar is measuring all the price changes inside that particular time period, as in this example.

The same can be said for any other time period whether it is thirty minutes or one minute, e.g. it would take five one-minute bars to make up one five-minute bar.

This is why it is impossible for someone to tell where the trend is in a particular security unless he knows what time period you are trading.

It is also why if you were looking at a daily bar and noted that the bar closed at five hundred, it does not tell you what happened during the day.

If you were trading 5 minute bars, you might have seen it rise most of the day and made money only to see it close much lower later in the day.

For the sake of simplicity, I recommend you start with daily bars only for the first few months. This will give you plenty of time to make your analysis and plan for the next day‟s trade.

I often see people with little or no experience trying to trade one minute bars only to find the decision making process is far too much for them as they have to make decisions every minute.

Also worth noting is that there is no one time period that makes more money than another. The reason you would trade a weekly bar as opposed to a five-minute is purely a matter of choice and circumstance.

One of the secrets of trading is to trade in the time period you feel comfortable in. It is also a function of time and money.

V. The Trend Is Your Friend

The price chart of a security may appear like a random distribution, but this is not so.

About 30% of the time, a security will be in a definite trend. The rest of the time, prices will trade more or less in a sideways range. Our job is to recognize trends early, as they emerge from non-trends or as reversals of prior trends.

We then buy/sell early in these new trends and exit the trade profitably when the trend ends. This identification of a trend, its beginning and end, is the most important thing we have to do. This is how great fortunes are made.

A. Trends

The trend can be both the easiest and the most difficult thing to understand. The difficulty arises because of the time factor. Whenever we talk of the trend, it has to be related to the context of time.

An intraday (relates to action on that particular day only) price chart may show a significant trend, which is contrary to a trend recognizable on a daily price chart, which may be contrary to a trend on a weekly chart.

Success depends on recognizing and trading the appropriate trend. Successful investing depends on recognizing the short, medium or long-term trend and their corrections (Rallies and Dips) inside the larger trend.

We will usually be trading when at least the short-term and intermediate-term trends are in the same direction.

It will be ideal when all three trends are in unison, but this is not a prerequisite, as intermediate trends can be substantial in both time and price.

It would be too exclusive a trading strategy to ignore these opportunities and only trade when all three trends are in harmony.

A simple definition of trend is basically the general direction of price movements.

An uptrend is present when prices make a series of higher highs and higher lows.
A downtrend is present when prices make a series of lower highs and lower lows.

When prices move without such a discernible series, prices are said to be trading sideways in a range or trendless.

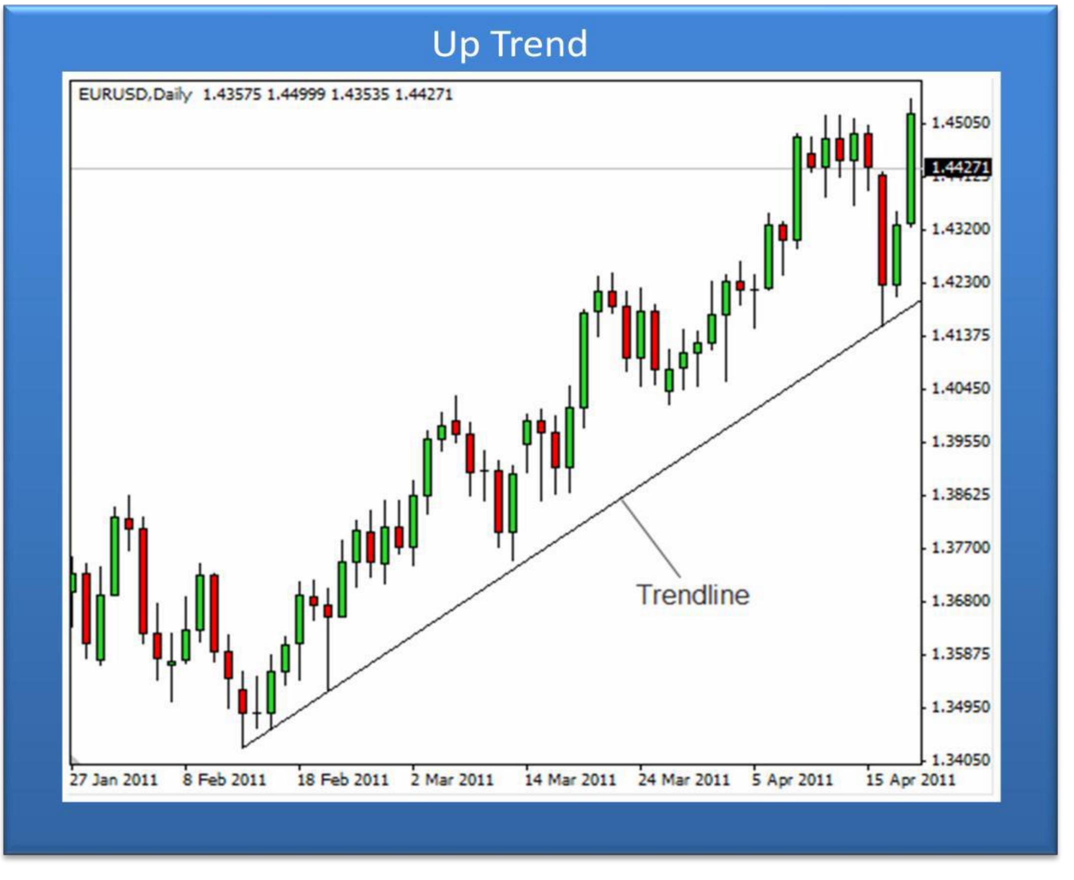
B. Trend Lines

Once a trend is discernible then trend lines can be drawn to define the lower limits of an uptrend or the upper limits of a downtrend.

It is essential that trend lines be drawn correctly. It is the recognition of the trend line and the violation of this trend line that is your key to successful trading and fortune building.

1. Uptrend Line

As you can see on the diagram below, the trend is moving up. To draw a trendline, draw a straight line from the lowest low of the period to the next lowest low. Make sure the line does not pass through any bars.

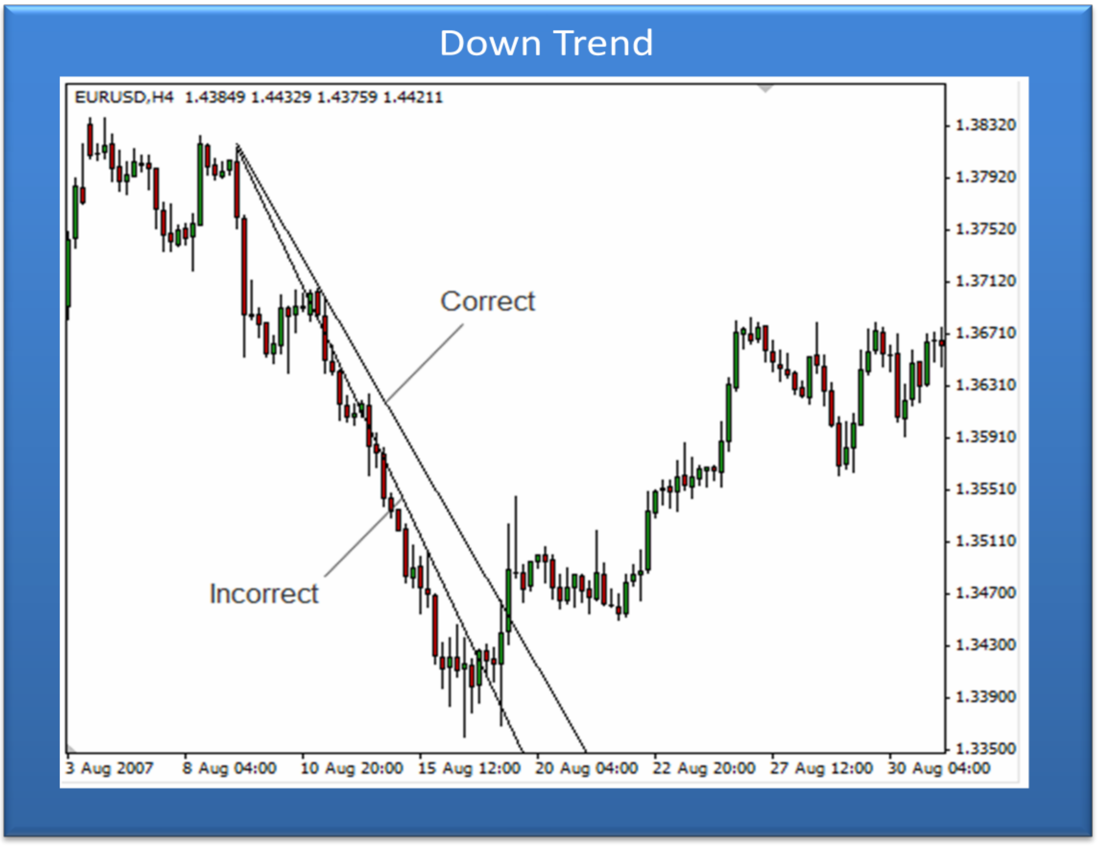


2. Downtrend Line

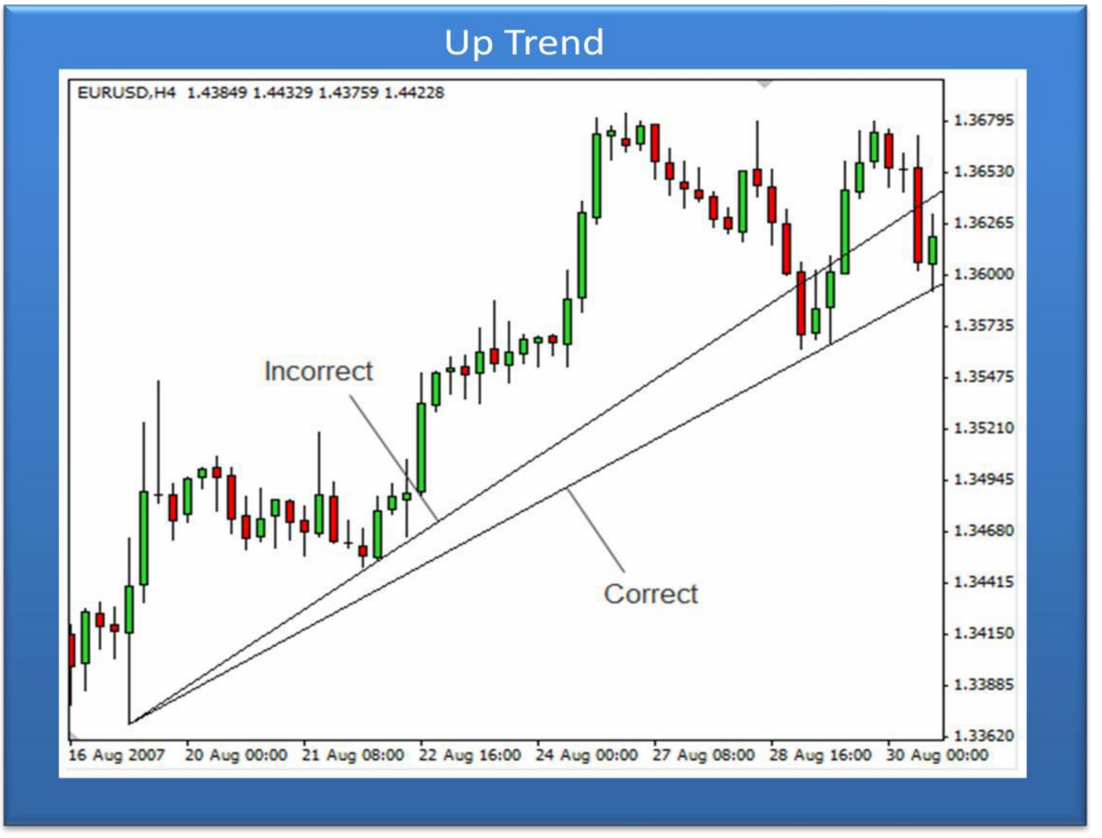
On the diagram below, you can see that the trend is moving down.

To draw a trendline, draw a straight line from the highest high of the period to the next highest high. Make sure the line does not pass through any bars.

The following are examples of the correct way to draw a trend line.



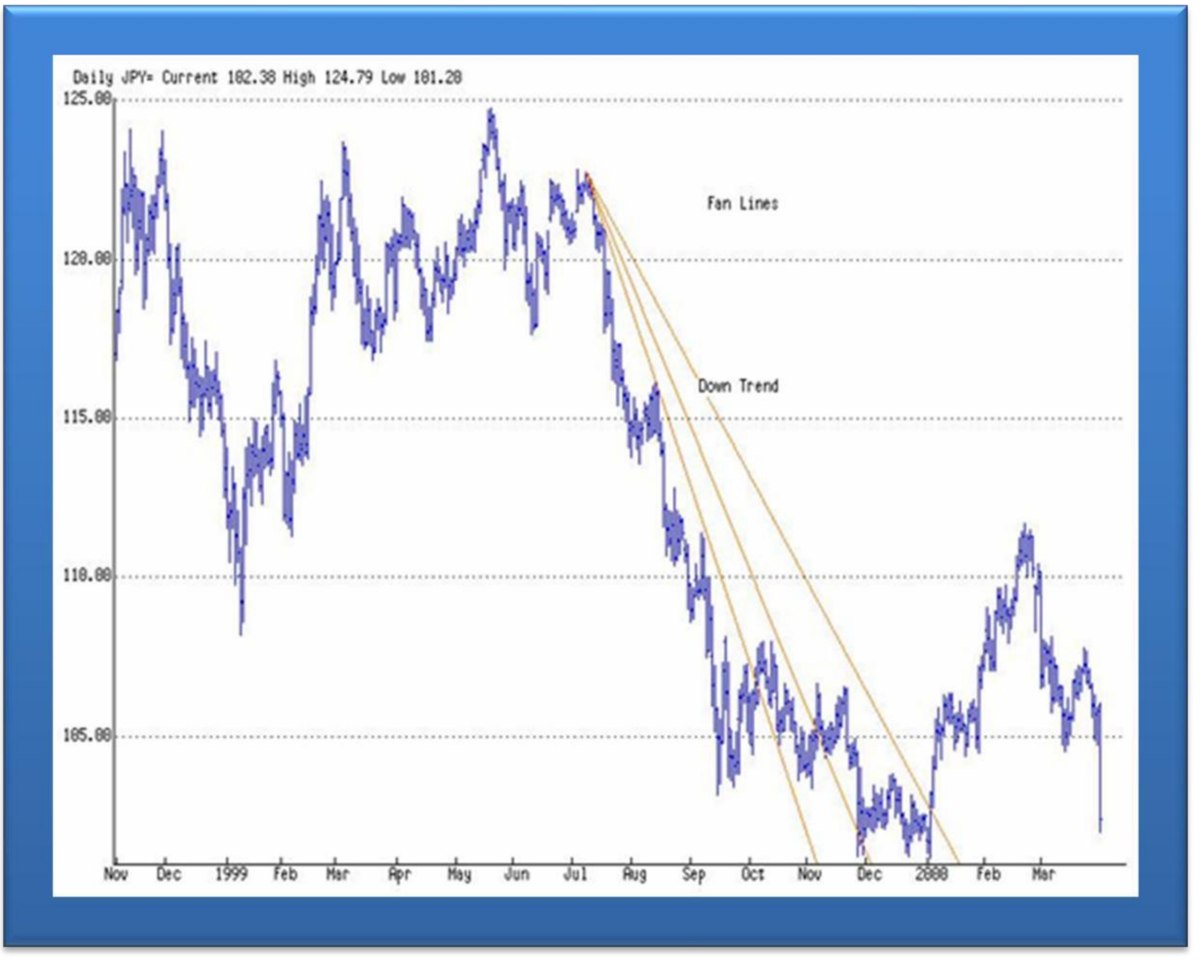
A break in the trend line is the first indication that the market may be changing course.


Up Trend
EURUSD,H4 1.43849 1.44329 1.43759 1.44228
Incorrect
Correct
1.36795
1.36530
1.36265
1.36000
1.35735
1.35475
1.35210
1.34945
1.34680
1.34415
1.34150
1.33885
1.33620
16 Aug 2007
20 Aug 00:00
21 Aug 08:00
22 Aug 16:00
24 Aug 00:00
27 Aug 08:00
28 Aug 16:00
30 Aug 00:00

C. Fan Lines

During development of a trend, the growth of the trend proceeds at different rates, and at different times.

A frequent sequence is the following - a short initial explosive breakout and advance from a previous prolonged period of range trading, a much longer period of steady progression at a lower rate of change and, finally, a shorter period of noticeably slower rate of progression.



Each phase of trend advancement is followed by a period of retracement and consolidation. The initial growth phase is too rapid to be sustained and the ensuing correction is often quite deep.

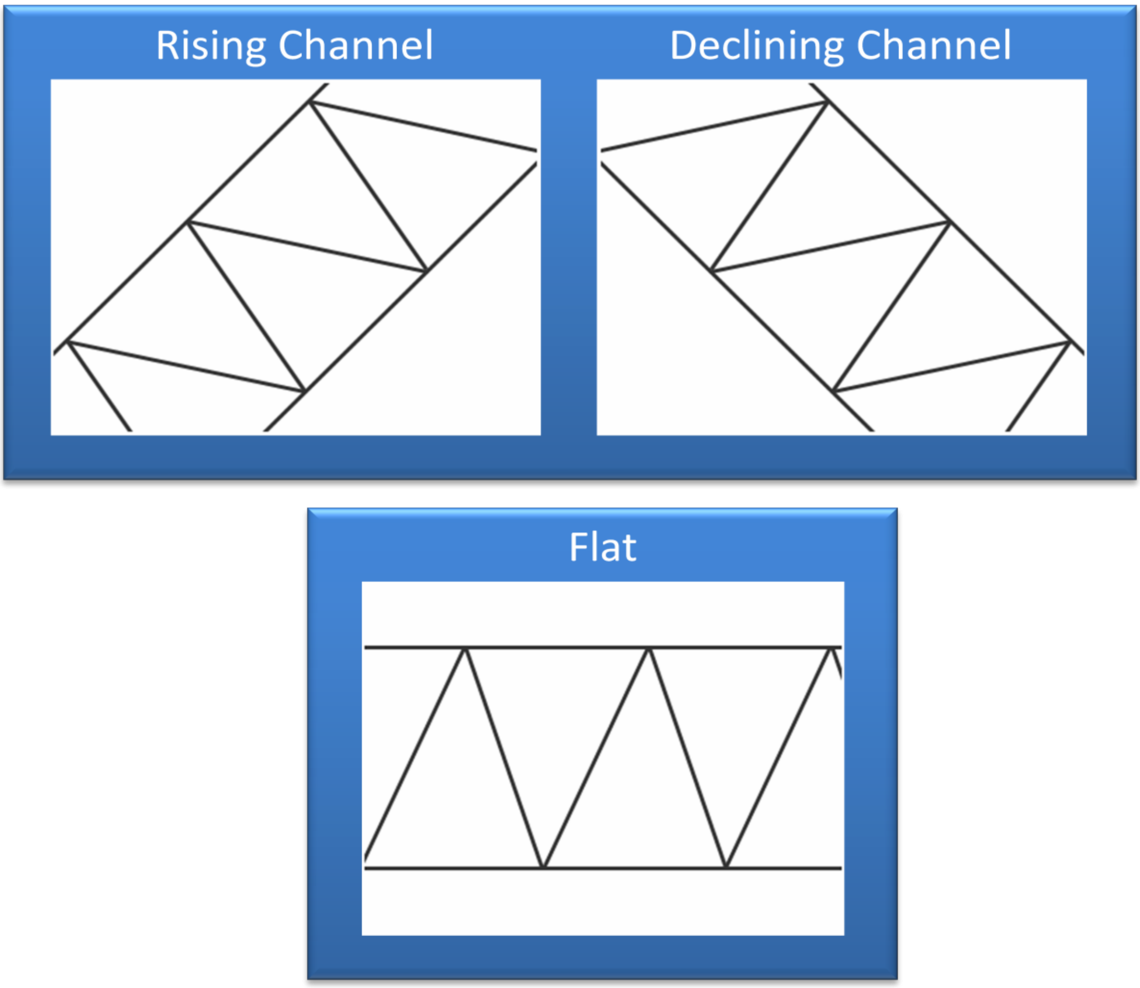
The second phase of advancement is one of steady sustainable growth and often persists for some time. Inevitably, this too ends and a period of retracement follows but usually not as deep as the initial correction.

This second correction often takes more time than the first to complete the corrective process. When the correction is complete, the final phase of trend advancement occurs usually at the slowest rate of change for the whole progression of the trend and then this too corrects.

The three trend lines that can be drawn from the initial point of the trend through each of the retracement extremes are known as Fan Lines.

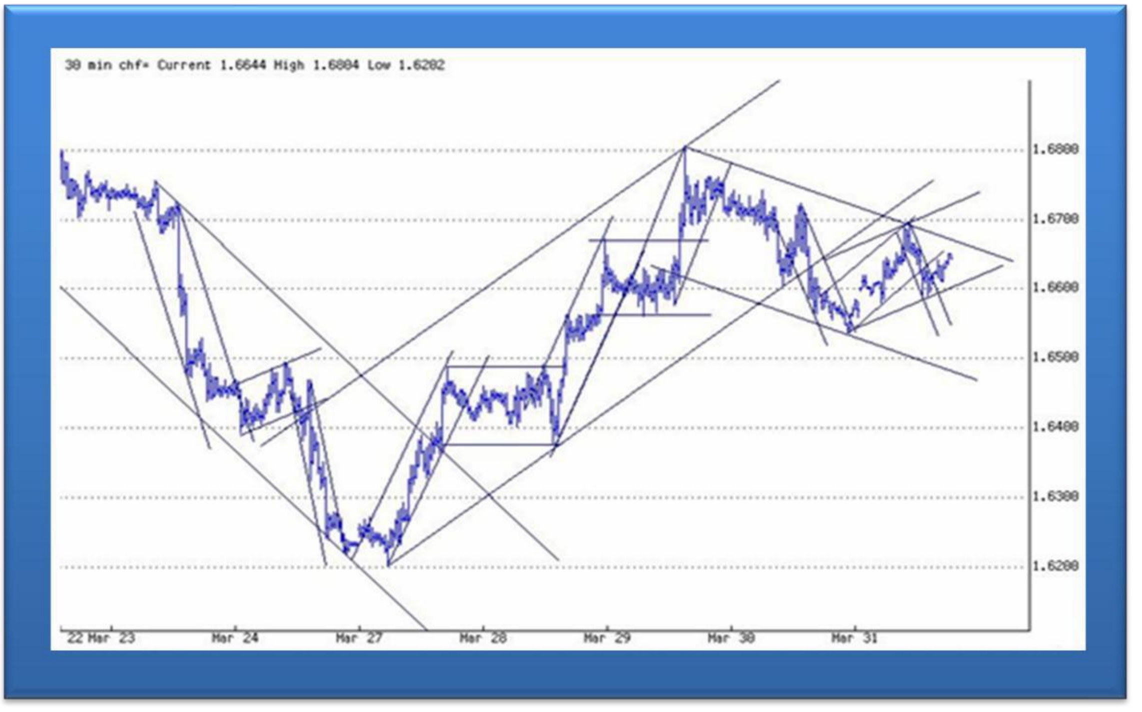
They illustrate the decaying rate of progress of the trend. When finally prices violate the third fan line, it invariably means the trend so monitored has finished and a reversal of the trend is underway.

D. Channels



Channels are a good visual representation of the struggle between buyers and sellers. It is important to realize that you must know the time frame you intend to trade.

Examples Of Channels The Dollar/Swiss Chart:



The channel on a 4-hour chart may be different from that on another time period. Once you are committed to a particular time frame, we can then define trend and emphasize the importance of drawing correct trend lines within the context of the time frame.

Now we will combine these insights to maximize the efficiency of trading. This we will do by establishing channels in the particular trend we are working with.

We learned that the trend line acts as underlying support to uptrend lines and overhead resistance to downtrends. We also can observe that prices, once finding support or resistance, will move ahead and away from the trend line then return to the trend line.

Over time, we can recognize that this movement of price to and from the trendline forms a channel, which once identified, can be traded.

In an uptrend, as prices come back to the trendline, new increased buying comes into the market and overwhelms the sellers. These buyers are made up of previous buyers in the market adding to their positions, and intending buyers who missed earlier opportunities and are now buying the dip.

The buying that stops the selling at the trendline impresses some of the previously uncommitted who, now convinced that the buyers have the upper hand, buy. This new buying takes prices up and away from the trendline, and the further it moves up the more impressed the uncommitted become, and more buyers come into the market.

The previous short sellers become frustrated and buy to cover their short positions, and prices move up further. After a while, buying becomes exhausted and is overwhelmed by selling and profit taking.

As buying is overwhelmed, more profit taking occurs and nervous recent buyers will have their close trailing stops (to be discussed later) triggered as market orders and so price retreats to the trendline again.

This starts the whole cycle off again if the uptrend is to continue. This to and fro, buying and selling in the direction of the trend plots out a recognizable channel of dynamic flux of the trend.

Recognizing the trendline and the opposing parallel channel line (channel return line), and understanding the human dynamics that account for its structure, increase the efficiency of profit making by initiating, or adding to, one's position at trendlines and profit taking at the channel return line.

Though I don‟t, one can trade the retracement. For those who do not wish to trade the trend so aggressively, one can use the trendline for placing and moving stops and to initiate new trades.

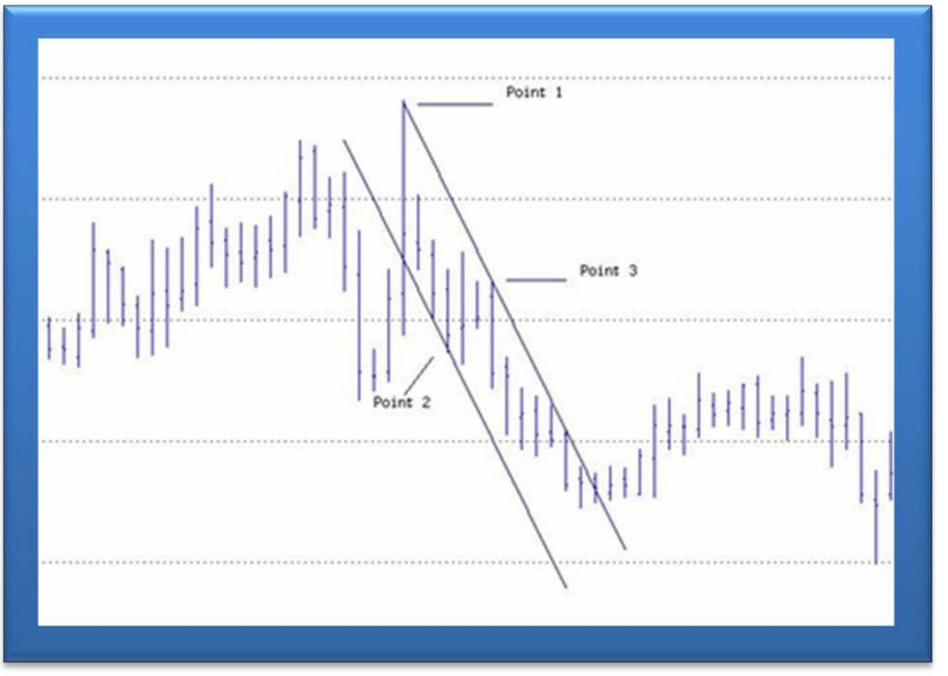
When a channel is in force, we can respond to trend violation by having a recognizable entry level to trade the new trend.

Also, as the trend progresses, one can recognize support and resistance levels, which can also be used for further trading on the placement of stops.

As you can clearly see from the diagram, the trendline can change slope as the trend may move at different rates, and it is mandatory to adjust the trendline as necessary.

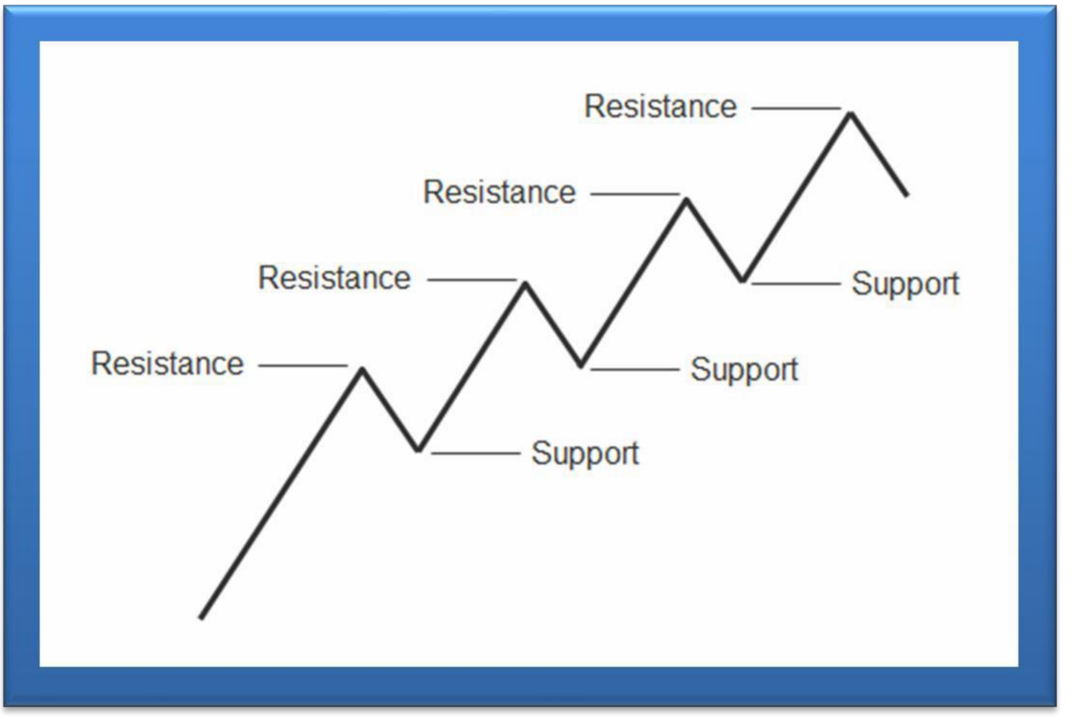
So it is with channels, as these too must be adjusted as the trend accelerates or decelerates.

Also, it can often be recognized that channels can exist within channels. These channels within channels are plotting the short, medium and long-term trend.



When drawing your initial channel line, you need three points. Point 1 is your starting point. Point 2 is the initial width of the channel and point 3 is when it first returns to its trend line.

VI. Support And Resistance



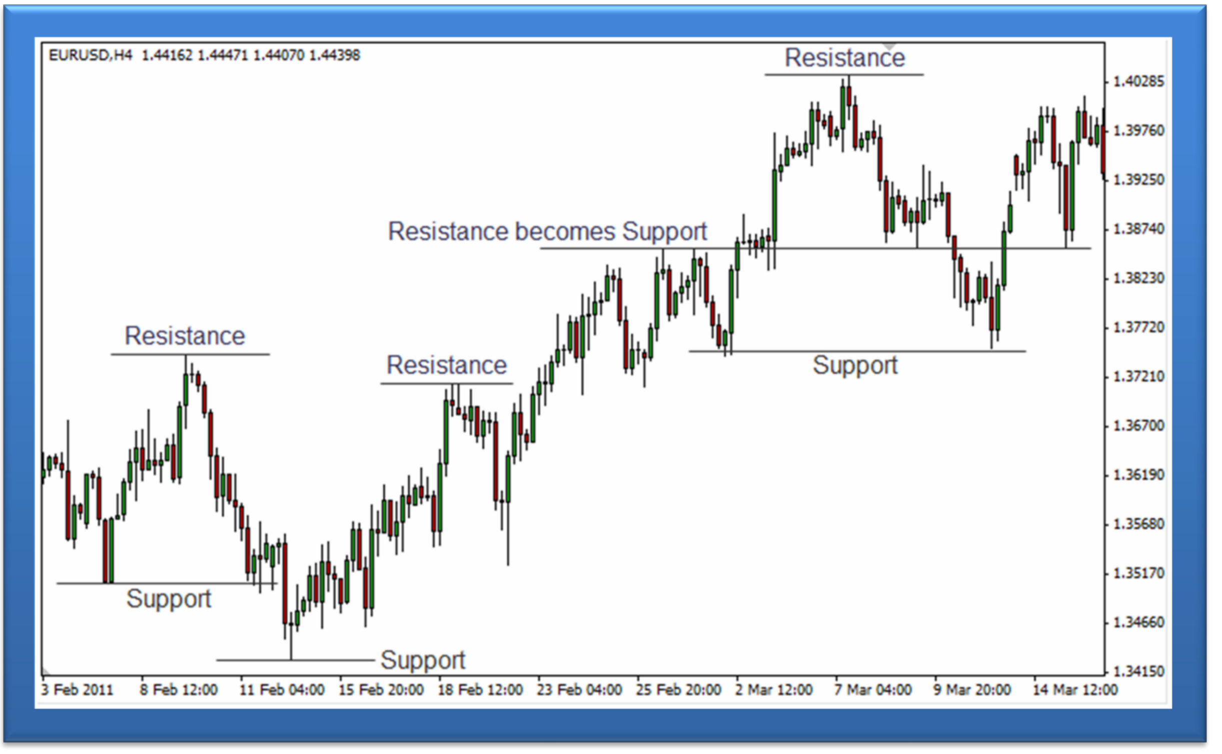
It is very important to understand the concept of support and resistance.

In uptrends, every time price drops to the up trendline and then resumes its advance, the trendline has acted as support to the price uptrend. Support can also be found at prices of previous support or resistance.

In downtrends, every time price rises to the down trendline and then resumes its decline, the down trendline has acted as resistance to the upward move of market prices.

Resistance can also be expected at prices of previous support or resistance. Once levels of support or resistance have been violated then, invariably, these reverse their roles so that previous support becomes resistance, and previous resistance becomes support.

Consider the following. When price action drops to a certain level, the bulls (i.e., the buyers) take control and prevent prices from falling further. Similar to support, a "resistance" level is the point at which sellers take control of prices and prevent them from rising higher.



The price at which a trade takes place is the price at which a bull and a bear agree to do business. It represents the consensus of their expectations. The bulls think prices will move higher and the bears think prices will move lower.

Support levels indicate the price where bears no longer are willing to take shorter positions. And resistance levels indicate the price at which bulls are no longer willing to place longer positions.

Let me explain this. The rule of thumb is this: for the bulls, “Buy low, sell high.” And for the bears, “Sell high, buy low.”

So, what would prompt a bull to buy at a higher price? If expectations are stronger than the “Rule”, in other words, if they believe the market will exceed itself by moving considerably higher, the bulls are willing to sacrifice the lower prices for what will be gained at the higher end; in so doing, they drive the price a lot higher, sometimes with great volatility.

Once reality (or fear) begins to out-weigh greed, the bulls begin to dump their long positions taking their profits. The level at which the bulls stop buying becomes a “resistance” level.

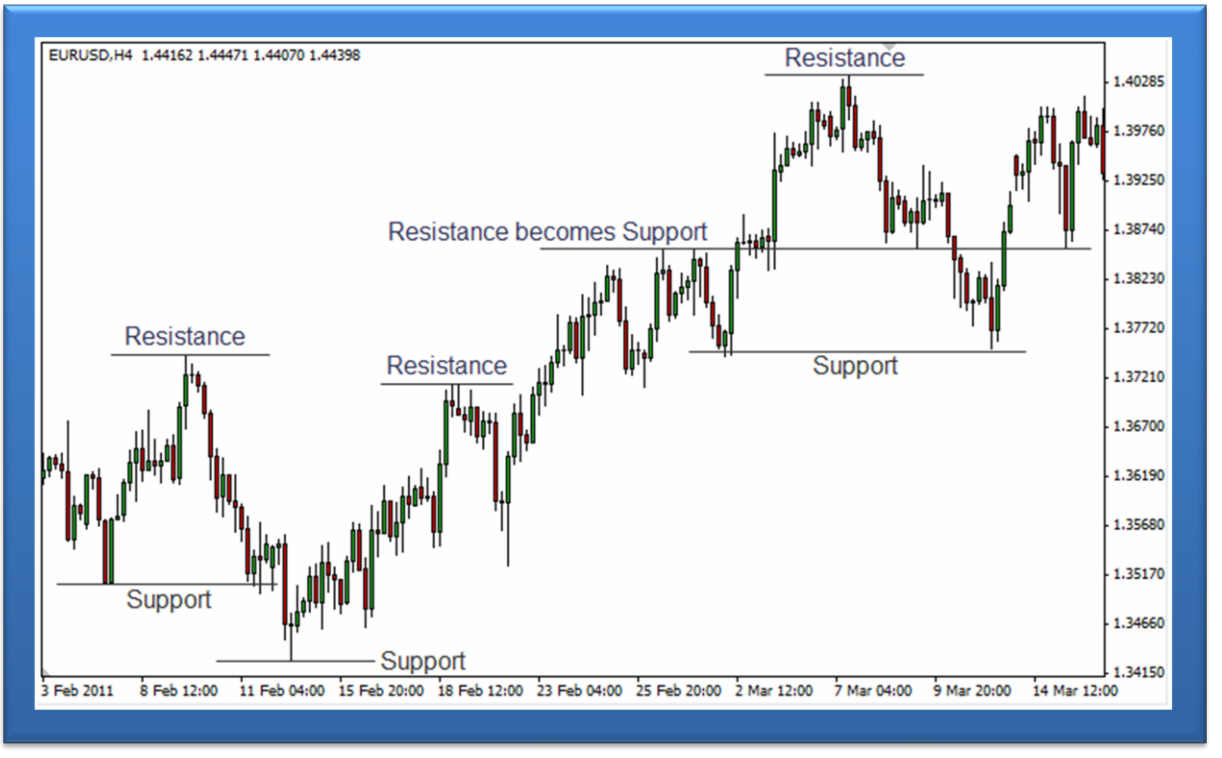
Conversely, if the bears believe the market has a lot more room to drop, they will continue to place short orders at a lower price, violating their rule of engagement, “Sell high, buy low”. The level at which the bears stop selling becomes a “support” level.

Now here comes the interesting part. Days, weeks, or even months later, these “imaginary” support & resistance lines are still written in the sand. When the market creeps-up on one of those lines, traders often times think, “Hey, I remember this spot.” And they choke, causing that support/resistance line to be strengthened. This is why trendlines and channels work so well. Traders remember…

When investor expectations change, they often do so abruptly. Note how when prices rose above the resistance level they did so decisively; also, similarly with support.

The development of support and resistance levels is probably the most noticeable and reoccurring event on price charts.

The penetration of support/resistance levels can be triggered by fundamental changes that are above or below investor expectations (e.g., changes in interest rates, government announcements, etc.) or by self-fulfilling prophecy (investors buy as they see prices rise). The cause is not as significant as the effect, new expectations lead to new price levels.



As you can see from the chart above, sometimes the price will just keep going through support and resistance and sometimes it will come back to test its previous support or resistance line. This applies also to trendlines. We will be going into this in more detail in future chapters when we cover learning to trade.

It is essential to understand the concept of support and resistance.

The validity of a trend line is dependent on its duration and the number of times it has been successfully tested.

The longer the trend line has been in effect and the more times it has been successfully tested, the more important the trend line becomes. Consequently, when a trend line of long duration, which has been successfully tested many times, has been violated then an important reversal of trend has likely occurred.

However, at no time should you exit the market until definitive evidence of trend termination has occurred. Remember another trading mantra – “The trend is the trend until proven otherwise - to ignore this dictum is to unnecessarily deny yourself profits.”

VII. Moving Averages

The changing prices of a security from tick-to-tick, day-to-day, or whatever time period you are looking at, may seem random, but there are ways to smooth out this randomness. One way traders look to make sense from this seemingly unpredictable sea is the Moving Average.

If you are going to trade professionally, it is vital that you can identify trading opportunities. To this end, the concept of moving averages is a very useful tool to understand.

A moving average (MA) is a way to try and eliminate or minimize the fluctuations of the numerical value of price fluctuations we are observing.

This will help us identify the underlying value. Moving averages are generally calculated using the closing price.

What, in effect, the moving average does, is to eliminate the fluctuation of price in all time periods below the number which is chosen for the average. For example, a 4-day or 9-week moving average eliminates the presence of price fluctuations for periods up to 4 days or 9 weeks, respectively.

A 200-day moving average eliminates the presence of daily price fluctuations for the past 200 days. This smoothing effect of price change increases as you use longer and longer periods as the average.

There are four commonly used moving averages: simple, smoothed, weighted and exponential.

Simple moving averages give equal weighting to each time period‟s price.

In an attempt to give greater importance to more recent prices, different types of moving averages have been developed. These include smoothed, weighted and exponential moving averages.
I won't go into the complex mathematical derivations of these. Why not? Because detailed retrospective studies of their use has shown that the simple moving average statistically outperforms or equals the use of these newer, biased moving averages.

A. Simple Moving Average

This is the most widely used, and it is simply calculated by adding up a set of values and dividing the total by the number in the set.

This is the average. Movement of this average is effected by adding the next new value of the set and subtracting the first value of the set and again dividing by the same number of values in the set being studied. This simple calculation is repeated with each new piece of data.

Here‟s an example. To find the 3 period average of the sequence 5,10, and 8, add the three numbers together, which gives 23, and divide that number by 3 which equals 7.7.

The chart below shows price strength is associated with a rising moving average and that weakness is denoted by a declining moving average.

Shorter time periods mean: a greater volatile average, a shorter lag period (the time it takes for the MA to catch up with the price), and costly whipsaws occur more frequently.

Longer time periods will be less volatile with fewer whipsaws, but the lag period will be greatly increased, substantially eroding profits.

In the example below, we can see that the 9 moving average (blue) has crossed above the 18 moving average (red). This is bullish alignment; it"s also an initial signal for a “long” entry. Just like with trendlines, when price returns (retraces) to the moving average, we have an opportunity to buy or sell. Obviously, in this case, we would want to place an order to buy at the open of the following candle.

As we can see with the next chart, our Protective Stop (Stop-loss) would have been placed below one of the previous lows, depending on your level of risk.

Once the market closed below the 18 MA, our position would be closed with a “sell” order.


candle closes below 18 MA
Close position
Bullish Entries
Protective stop-loss (P S)

In the next example, we have three moving averages 4, 9 and 18. These help represent the short, medium and long term trend.

When the 4 moving average crossed below the 9 moving average a potential sell signal was triggered. Once the market retraced above the faster MA, a subsequent close signalled a conservative short entry at the open of the next candle. A close above all three MAs triggers an exit on the open of the next candle.

An aggressive entry to the short side is triggered once the market closed below all three moving averages.

As seen below, stop-loss positions are entered slightly above the MAs, or above previous highs.

1. The moving average is similar to a smoothed trend and as such often acts as an area of support or resistance.

2. Price often reverses when it reaches the moving average level. i.e., in a rising trend, a falling price often finds support and in a falling market, rising securities often find resistance when they reach the level of the moving average.

3. The penetration or crossover of a moving average (and therefore of a smoothed line of support or resistance) by price is frequently the signal of a trend reversal.

4. If the moving average has flattened out or has already reversed direction, then its violation increases the likelihood of a reversal of the recent trend.

5. The longer the time span used to calculate the moving averages, the greater the significance of its violation by price, e.g., a 200-week moving average violation by price is of more significance than that of a four week moving average, which is of more significance than that of a four day moving average.

B. Which Moving Average To Use

Any time-frame can be considered from minutes to years. An appropriate choice relevant to one's trading style is the most obvious.

If you are a very short term trader, then a moving average of as little as three days may be appropriate.

However, in a sideways moving market, you can become out of sync with the trend and spend a lot of time being whipsawed.

The normal bull/bear market cycle, usually 4 years in duration, would be entirely missed by choosing a four year moving average. A two year average would be frustratingly slow and you would be in and out of the market too late to make much, if any, profit.

Yet a short period, e.g., a 10-day moving average would likely whipsaw you in and out the market too frequently to be very profitable.

Different markets, different market cycles and different investor goals will determine the most appropriate time period for which to calculate the moving average.

Some commonly used ones are:

- Major primary trend monitored by a 40-week (200-day) moving average.
- Intermediate term trend by a 40 day moving average.
- Short term trend by a 20-day moving average.

VIII. Stop Losses

A stop loss is the level at which you will close a trade on the basis that it has gone too far in the 'wrong' direction, and therefore negated the reason for being in that trade.

Always use a stop loss when trading; it can be too easy for a $300 loss to become a $5000 loss. A good trader takes a small loss and goes on to the next trade.

Remember that trading capital is your business; if it burns, there is no insurance. Once you have entered a trade, immediately place a stop. This safeguards you from losing your entire account.

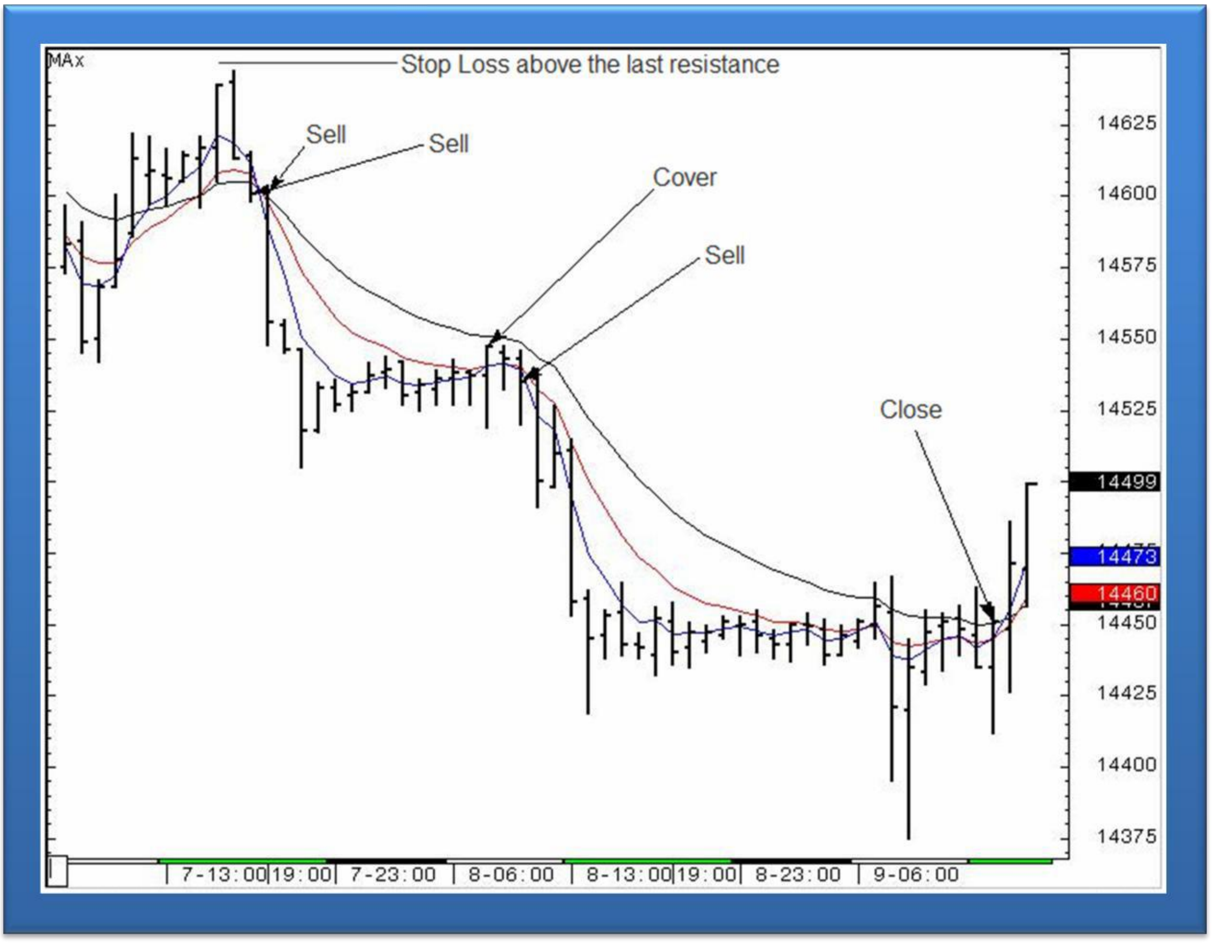
It is also wise to talk with your broker about how they execute your stop. Some brokers execute stops differently.

Your stop loss policy can be set in a number of ways. Some use an actual figure (e.g. $100), and some a percentage figure, i.e., they do not want a position to go more than a certain percent, say 5%, against them.

Others may use technical analysis principles to set stops; this is my preferred method of trading. If I enter a trade on the short side after a signal, as in the example below, I will place my stop in the next nearest resistance.

The opposite is true for the long side. If I enter a trade to the long side, I will place my stop at the next lowest support.

The most important thing, however you approach the decision, is to know where you will cut a losing position before entering the trade. Set the rules and ALWAYS follow them.



A. Exiting A Losing Trade

The stop loss means that if a security trades a certain amount below or above where you entered the market, an order is executed to close your position.

You may use "programmed" stops if your broker offers them. (Some brokers do not offer this.)

You can also, at anytime during the trade, close the trade by calling your broker or executing the trade on your dealing station.

If you are long a security, you will sell it in order to close it. If you are short a security, you will buy it in order to close the position. Think of it like this, when you buy something you now own it. In order to get rid of it you must sell it.

IX. Profitable Trades

Once you are in a profitable trade, the next challenge becomes when to take profit. Optimizing profits is the other main aim of trading, besides limiting losses.

As a trader, you must determine the risk/reward level that is comfortable for you, either on your own or by discussing it with your broker.

Below are some exit strategies, but these are not exclusive; there are many trade management techniques. Take your profits as you see fit, as it is your trade and you must manage it. No one else can do it for you.

A. Exiting A Profitable Trade

1. Trailing Stop

Once a profitable position has been established, maintain a trailing stop, e.g. below the current price if you are long.

Again, this can be set in actual dollar amounts, percentage terms, or using technical analysis principles.

However you approach the stop price, it is a level beyond which you are not prepared to give up profit, or where a position slips back to even or a small loss. As the price continues to rise, your stop 'trails' higher in tandem.

As an example, if you were to set a straight forward $300 trailing stop and the security moved in your favour by $1000, you could change your stop to be only $300 behind the price and lock in $700 of profit.

In this way, you lock in profits and you are still in the game should the trade continue to go in your favour. You could also trail the stop until you get another signal, e.g., as in a trendline breaking.

2. Take partial profits

Another strategy commonly used is to close, say half your position when you are comfortable with the profit level, and let the other half continue to trade. In that event also use a protective stop, either static or trailing, to prevent profit erosion on the balance of the position.

3. End of Day

If not stopped out by a stop loss, or a trailing stop, exit day positions before the market closes.

4. Holding Positions Overnight

If you are setting out expressly to trade longer-term positions, always check where the market is and if you need to close or adjust your stop.

5. Buy Points

Once you have decided a price at which you wish to buy, adhere to that strategy. This is particularly true if you are waiting for a certain price to trade to confirm your view. Jumping the gun can be risky; the entry level may never be reached.

Chasing a market up or down can also offer the potential for greater risk and less return (see below). Also, when a security nears its entry level, watch very carefully how it trades. Is price moving faster? How is it trading? Do we see a lot of buyers or sellers at the entry level?

All of this will help to determine if a trade is likely to be a profitable one. No one knows the future, but paying attention to how a security is trading will certainly help you make more profitable decisions

X. Bid/Offer

Normally, when you look at your charts, you only see one price and that price is the *bid* price.

Some types of charting software are capable of displaying the *offer* price but most commonly, the price you see is the bid price.

This can confuse new traders as once they are all set up to go with their dealing station and place their first trade, they wonder to themselves why it got filled at a different price from what they saw on the computer screen.

This could be because the market moved between the time it took you to look at the chart and actually place the order, or it could be that the new trader was unaware of the difference between the bid and offer.

The *bid* is the price other traders or institutions are prepared to buy a security at and the *offer* is the price other traders and institutions are prepared to sell a security.

Now, if you want to buy a security, you will have to pay the price at which traders are prepared to sell to you. So when you buy something you pay the *offer* price.

On the other hand, if you want to sell something then you pay the *bid* price. That is the price at which traders are prepared to buy from you.

The difference between the *bid* and *offer* is called the spread.

The security involved and how much activity there is in that market will determine the spread. In some markets, the spread can be quite large and in other markets, the spread can be small.

To simplify this, think of it like this. When you want to go long (buy) in the market, you will pay the offer price and therefore the spread. When you close your position (sell your previous position) you get the bid price and don‟t pay the spread.

So, at least once during the trade, you will pay the spread. If you first enter the market long you will pay the spread on the way in but not on the way out.

If you first enter the market short you will not pay the spread initially but you will pay it on the way out.

There are other combinations of this but this is the most common.

Depending on which financial newspaper you buy, you will either see the *bid/offer* price quoted separately or if there is just one price, that is normally the mid price between the *bid/offer* spread.

Most brokers are reputable nowadays but when asking for a quote, never tell them what you intend to do just simply ask for a price on Xyz company or security. That way, the broker doesn‟t know what you want to do.

If you tell him I want to buy Xyz Company first, he knows your intention and has some advantage. If he doesn‟t know if you want to buy or sell, he will give the best prices he can find.

Imagine the situation; you have a position in Xyz Company and call your broker and tell him that you are trying to close your position so you need a quote.

With that knowledge he theoretically has an advantage because he knows you are trying to get out of a position and may accept an unrealistic price just to cut your losses.

If on the other hand, you are simply asking for a price, the broker doesn‟t know if you are trying to add to the position or close it.

Even with electronic dealing stations, you should be able to see the bid/offer prices before the system knows your intention. In other words, you should not have to select an option to buy and then get the bid/offer price first.

XI. Three Different Trading Methods

In this section of the course, I want to introduce you to three simple trading tactics.

A. The Trend Following Method

A simple trend following method is to use a 9-period Simple Moving Average of the closing prices and an 18-period Moving Average of the closing prices.

When the nine-period Moving Average crosses the 18-period Moving Average, this is the set up.

Because we don‟t know if this is going to develop into a trend I like to see the price first return back to the nine-period Moving Average and then monitor what happens next.

If the price then closes back below the 9-period Moving Average, then a sell signal is generated. Obviously, it would need to close back above the nine-period Moving Average in an uptrend.

My stop loss would be placed above the most recent high in a down trend and below the most recent low in an uptrend.

The exit could be when we have a closing above the 18-period Moving Average.

As we mentioned previously, a period of time can be anything that you want it to be. Each bar or candle could be a five-minute period or a monthly period.

B. The Breakout Method

This is a very common method of trading called the Breakout Method.

First, we will normally see a period of inactivity or consolidation. Next, we will see a sudden burst from this range and this is the breakout.

For markets that have volume, I would expect to see a sudden increase in volume to help confirm the breakout.

At this stage, aggressive traders may think about taking a position but I like to wait a little longer and see if I get confirmation of the breakout.

I have placed a twenty-period Moving Average of the closes just as a visual guide and reference point. You can see that the market progressed to R1 and then retraced to S1, this is the setup.

Here is where it gets interesting. If at S1 the market continues back down to the breakout area, then I do nothing. If I get a close above R1 that is when I enter the market and place my stop below S1.

Next, the market goes to R2 and then retraces back to S2. Once the market headed north again past R2, I move my stop to S2.

The market continues its bullish move to R3 and then retraces to S3. You will notice that I have two R3‟s and that‟s because they are the same level. The market struggled to make it above R3 and retraced to S4.

Once R3 is taken, I move my stop to S4 and lock in profits.

The market finally topped at R5 and headed south to S5. Once S5 was reached, it made a little rally and came back to close below S5. This is where I would have gotten out.

S5 was the first point where the market retraced then rallied but came back to close below support.

C. The Reversal Method

The next method can be used as a stand-alone method or simply reversing an existing position.

First, you identify an established trend. Next, you will be anticipating a reversal of the trend as it has been in existence for some time.

In our example, I have used a nine-period Moving Average and an eighteen-period Moving Average of the closes. The first piece of evidence that this might be a top was when the nine-period Moving Average crossed below the eighteen-period Moving Average.

Next, our established trend line was broken with a close below the line and the last piece of evidence was when we had a close below support. This was our entry and we would place a stop loss order above the most recent high. Our exit is the 50% retracement of the entire move.

CHAPTER 5: THE ART OF RISK MANAGEMENT

Risk management is a combination of various concepts to control your trading risks. It is defining your lot size, hedging, trading certain sessions and timeframes, or knowing when to place proper stop loss.

Importance Of Risk Management

Risk management is easier to understand but more difficult to apply – it is one of the key factors to cope with being a Forex trader. Trading with a demo account may seem easy and comfortable, but things change once real money is involved. This is where a suitable risk management becomes valuable.

Controlling Losses

Knowing when to cut your losses by limiting risks involved on you trades is very crucial. Once you have set your stop, stick with it. It can be very tempting to move your stop losses farther beyond. But if you do this, you are not managing your risks effectively; you run the risk of eventually depleting your account.

Use The Correct Lot Size

There is no exact formula in determining the correct lot size. In the beginning, the smaller the lot size, the better. Also, keep in mind the risks involved in using larger lots with a small account balance. Having a smaller lot size will let you stay flexible and manage your trades objectively.

Track Overall Exposure

It is important to have a good understanding of the interconnections between currency pairs. For example, if you go 1 lot short on EUR/USD and 1 lot short on GBP/USD, you are exposed to the USD twice in the same direction, having two long lots of the USD. If the USD goes down, you would have lost twice as much. Limiting your overall exposure reduces your risks and allows you to stay for the long haul.

Polish Your Skills For Better Profit

Observe, practice, learn, and polish your skills before you put them to test. Practice trading on a demo account that is absolutely risk-free. You not only get to hone what you have learned, you also do not expose your funds inadvertently.

Risk management is all about keeping your risks under control. The more controlled your risks are, the more prepared you are when you need to be. Forex traders need to act fast when opportunities arise. Involving proper risk management can spell the difference between becoming a Forex expert or a mediocre trader.

I. Probability

Before you trade, it is very important that you have some working knowledge of probability in order to maximize your trading technique.

Let‟s take a simple example. Imagine that you have in your hands a shiny new penny. The penny is brand new and has no marks or scratches on it. A statistician would call it a "fair" coin.

You decide to toss the penny into the air. It can only come down heads or tails. You know that these are the only two choices - or probabilities. Since the coin is a "fair" one, it is just as likely to fall heads as tails.

In statistical language, the probabilities are equal. As you continue tossing the coin, you decide to keep a record of how many times heads or tails comes up. You may not be aware of it, but if you do this, you are performing one of the basic experiments in probability.

If you toss the coin ten times, these are all the possible results:

10 heads and 0 tails
9 heads and 1 tail
8 heads and 2 tails
7 heads and 3 tails
6 heads and 4 tails
5 heads and 5 tails
4 heads and 6 tails
3 heads and 7 tails

2 heads and 8 tails
1 head and 9 tails
0 heads and 10 tails

Is one of these combinations more probable than the others? Which is the most probable? Suppose you ask everyone in a room to toss a coin ten times and to write down the results.

Which combinations would be likely to occur? If you add up all the heads and all the tails of the people in the room, would there be an equal number of each? These are questions you should start to think about when applying probability. We will soon learn how to find out.

If you toss ten coins into the air at once, instead of one coin ten times, the probabilities (the combination of heads and tails) are exactly the same.

The penny, as was mentioned, should be a "fair" coin. They are just as likely to fall heads as tails. Because a coin has an equal chance of falling either way, we can predict how it will fall in a great many tosses. If the coin were damaged so that it was likely to fall heads more often than tails, we could not predict how it would fall.

This may seem strange, or contradictory. But, with a damaged coin, we would first have to learn about its behaviour. If we tossed it 1,000 times, we might end up with 600 heads and 400 tails. We could then say that the coin would probably fall heads 6 times out of 10. But we still could not predict its behaviour as accurately as we could that of a "fair" coin.

A. Law Of Averages (Independent Trials)

Suppose that you have tossed a fair coin into the air ten times and each time it has fallen heads. What is the probability of getting a head on the next toss? If some friends were watching you, one of them would almost certainly say, “You‟re bound to get a tail”.

The law of averages will catch up with you. The fact of the matter is that you are not „bound‟ to get a tail.

The chance (or probability) that you will get another head is exactly even. On any one toss, a head is as likely as a tail, no matter what has happened before. In this sense, there is no such thing as “the law of averages”.

Try to forget old ideas. Think this problem through clearly. You toss the coin into the air for the eleventh time. It has reached its high point and is about to fall.

Does the coin „remember‟ that it has already fallen heads ten times in a row? Of course not! Can the coin decide how it will come down? No! How it fell before has nothing to do with how it will fall now.

Statisticians often say, “The coin has no memory.”

The toss of a coin is called an independent event. Nothing outside of itself can influence the way it lands. The only way we can “predict” its fall is through the law of probability. And from these laws, we know that on each toss of a coin, the probability of a head or a tail is exactly equal, no matter what has happened before.

If the chances of heads or tail are equal, then this should be true of many tosses. If you toss a coin 100 times, you should get 50 heads and 50 tails. This is theoretically true. That is, in an ideal situation, this would be true. (Actually, as we shall see, there is seldom an equal division of heads and tails.)

However, if we accept this to be true, what happens if we start out by getting 10 heads in a row? How will the score even out?

Does it mean that we are „bound‟ to get 10 tails in a row to balance the 10 heads? Again we are not „bound‟ to get anything. We may get 10 tails in a row. But we may also never get more than 2 tails in a row.

The outstanding American probabilist, Professor William Feller, explains the evening-out process very simply. He says that the 10 heads in a row will probably be „swamped‟ by more tails than heads. This may be what follows the „run‟ of 10 heads:

Heads	10	1	1	2	1	1	1	17
Tails	1	2	3	3	2	3	2	16

Despite the „run‟ of heads, tails have almost drawn even. The „run‟ of 10 was never approached; it was simply swamped.

B. Dependent Events

Until now, we have spoken of independent events, whose outcome is not influenced by what happened before. As you may have guessed, a dependent event is an event that is influenced by, or dependent upon, an event that already happened before.

Let us imagine that you have 20 M&Ms. Of the 20, 19 are brown and one of them is red. However it is of the same size and „feel" as all the others.

You place all 20 M&Ms into a jar. Without looking you try and pick out the red one. What is the probability? Since there are 20 in all and only one red one, the probability is 1 out of 20.

On your first try you fail. You pick a brown one. Without replacing the one you picked, you try again. What is the probability of picking the red one now? Obviously, you now have a better chance. The probability is 1 in 19.

Once you pick the red one, the game is over. But, otherwise you proceed; the probability of picking the red one becomes higher and higher- if you do not replace the brown M&Ms.

Each probability is dependent upon the events that happened before.
Should you fail to pick the red one on the 19th consecutive attempt, what is the probability on the 20th attempt? Obviously, there is no probability; there is only certainty.

Probability, as we said earlier, deals only with uncertainty. This will become clearer as we go on.

Next, we will look at how all of this affects your trading.

II. Trading And Probability

Now we have a basic knowledge of probability, but how does it affect us in the trading world? Well, as a trader, we are attempting to make only high probability trades. In other words we only want to trade when we believe the odds are in our favour.

One way we attempt to find opportunities in our favour is through technical analysis. Let us first look at some things not to do: Double up and throw up!

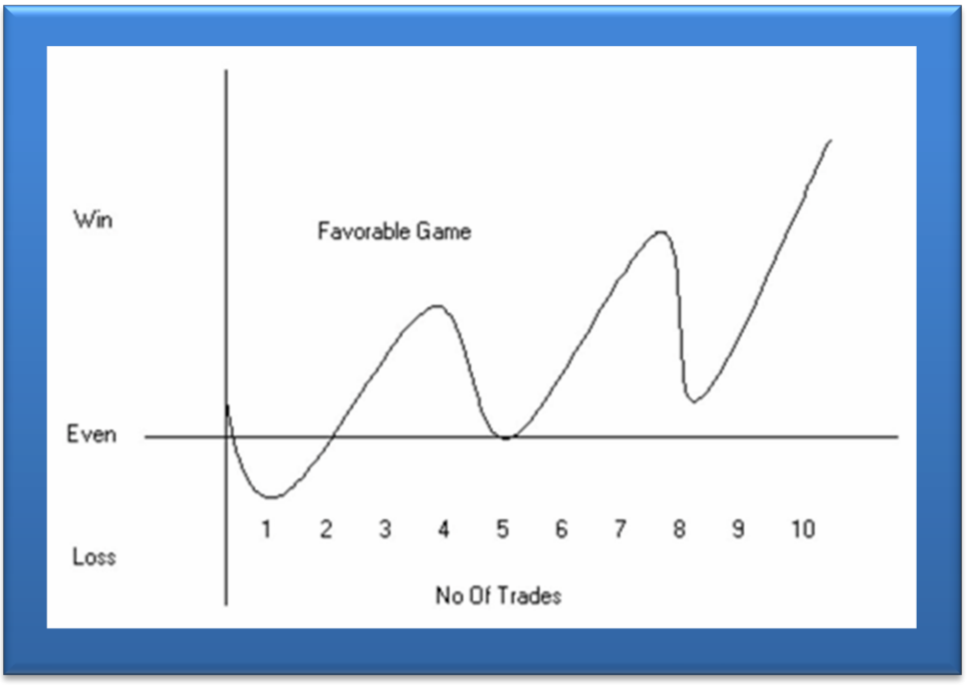
Here‟s an example of doubling up a Position after each loss .

First Trade	$100
Second Trade	$200
Third Trade	$400
Fourth Trade	$800
Fifth Trade	$1,600
Sixth Trade	$3,200
Seventh Trade	$6,400
Eighth Trade	$12,800
Ninth Trade	$25,600
Tenth Trade	$ 51,200
Total Lost	$102,300

As you can see from the example above, if you doubled your position after each losing trade, you would need a staggering $102,300 in your account just to cover your losses.

Now you may ask me how likely that is to happen. Just think back to the example with the coins, an aberrant negative run can and <u>will happen</u>.

This is why I do not recommend doubling up after each loss. If we trade in a disciplined systematic manner, when our aberrant run does occur, we will still be in the game at the end of it.



Ideal Situation

No. Trades	No. Wins	No Losses	Total Wins
2	1	1	1
4	3	1	3
6	4	2	4
8	6	2	6
Total Trades			14

In the above example, we made 14 out of 20 winning trades or 70%

Actual

No. Trades	No. Wins	No Losses	Total Wins
2	0	2	0
4	4	0	4
6	6	0	6
8	4	4	4
Total Trades			14

As you can see from the above, the actual situation may be different from the theoretical situation even though we land up at the same place.

Probability is a huge subject all on its own and we could go on forever explaining the ins and outs.

The important point in all of this is to realize that regardless of the system or method you use to trade, there will be occasions when you have losses or even a string of losses.

When these occur it is important to have faith in your trading plan and not to try and double up to catch up.

The final point to be made is that as we can see from the above examples, any trading system will go through times when it has more losses than wins.

This is where money management comes into play, which we shall get to soon.

A. Drawdown

Drawdown is a dirty word in trading but every trader will experience some drawdown. It is simply unavoidable.

Imagine that you start your trading account with $10,000 and after a few trades you lose $2,000. Your drawdown would be 20%.

Now, let‟s say you make more trades and gain $4,000 which brings you to $12,000 ($8,000 + $4,000 = $12,000). On the next trade after that, you lose $2000. Your drawdown would be 16.7% ($2,000 / $12,000). The $12,000 was your equity peak as that was the highest point in the period we looked at.

Maximum Drawdown

Maximum drawdown is the lowest point your account reaches between peaks.

If you started your account with $10,000 and the lowest amount you had in your account over a six-month period was $5000 then you had a 50% drawdown.

You would need to make $5,000 from the lowest point in order to get back to even. This is an important point because even though you lost 50% from your high of $10,000, you would need to make 100% on the $5,000 to get back to even.

Measuring Drawdown Recovery

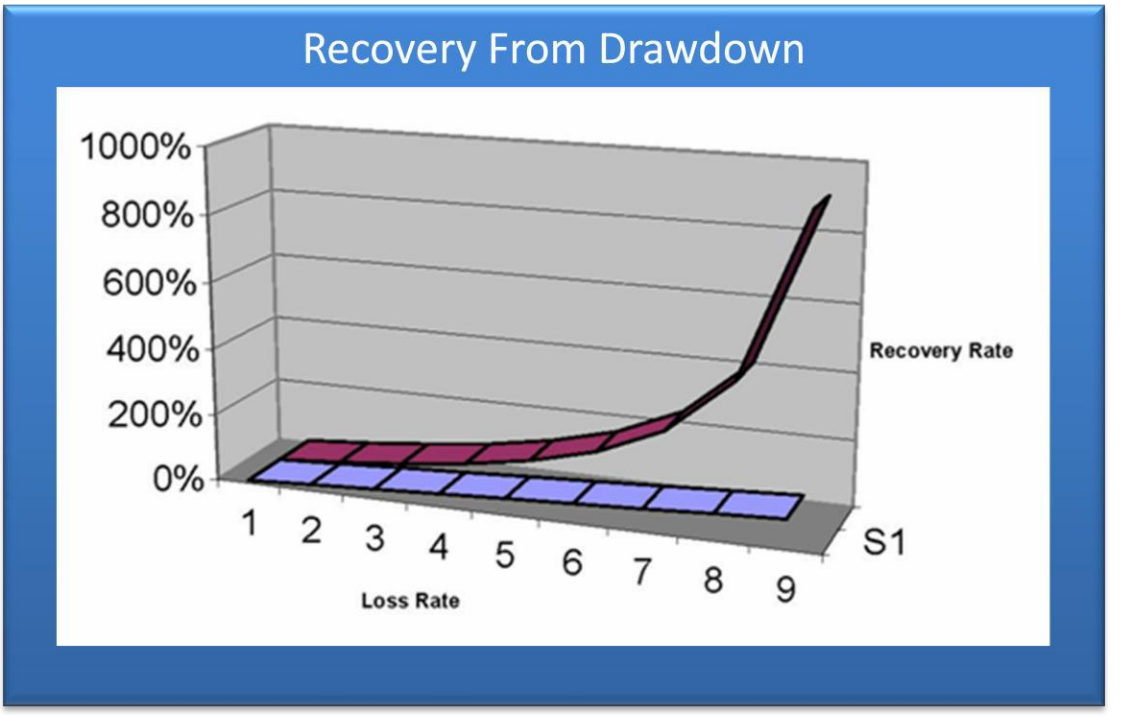
Drawdown recovery can confuse many traders. If a trader loses 20% of his account, he thinks he needs to make 20% in order to get back to even.

This is in fact not true. If you started with $10,000 and lost $2,000 (20%), you would need to make 25% in order to get back to even. The difference between $8,000 and $10,000 is $2,000. If you calculate the $2,000 as a percentage of $8,000 (not the original $10,000) it works out to 25%.

Loss Of Capital As A %	% Required To get Back to Break Even
10%	11.11%
20%	25%
30%	42.86%
40%	66.67%
50%	100%
60%	150%
70%	233%
80%	400%
90%	900%
100%	Blow Out/Broke

You can clearly see what‟s happening here. As your drawdown increases, the amount you need to make back increases faster.

I cannot emphasize this enough! You must be aware of risk. Understanding how basic probability and money management works is as important, if not, more important, than any trading system.



This is the main reason I strongly advise new traders to use stop losses. If you use a stop then you will be able to define your risk.

If for example you decided to risk no more than 3% in any one trade then the chances of going broke before you destroy your bankroll are minimal.

Trade No#	Equity	3% Of Equity	Equity	20% Of Equity
1	10,000	300	10,000	2,000
2	9,700	291	8,000	1,600
3	9,409	282	6,400	1,280
4	9,127	274	5,120	1,024
5	8,853	266		
6	8,587	258		
7	8,330	250		
8	8,080	242		
9	7,837	235		
10	7,602	228		
11	7,374	221		
12	7,153	215		
13	6,938	208		
14	6,730	202		
15	6,528	196		
16	6,333	190		
17	6,143	184		
18	5,958	179		
19	5,780	173		
20	5,606	168		
21	5,438	163		
22	5,275	158		
23	5,117	153		

As you can see on the table above, if you risked 20% on each trade and had 4 consecutive losses, your drawdown would be almost 50%.

If, on the other hand, you only risked 3% on each trade, you would need 23 consecutive losses to get to the same 50% drawdown.

If you think 3% is not enough to risk on one trade, consider this. I have never met a trader who has been in this game for any extended period of time that did not have some kind of stringent money management principles.

In fact, the majority of traders who have been trading for a prolonged period would argue that 3% is too much. They would feel much more comfortable only risking 1%.

I also want you to note that if you are trading more than one market or have more than one trade in a given sector then the total amount you are at risk should be no more than 3%.

Let‟s say you are following three markets and have one trade on in each market. You should add up the total amount that you are at risk for if all three trades lost.

For example if you had a starting account of $10,000 and you had three trades on each with a $300 stop loss then your risk is actually 9%. As each of your trades has the potential to lose $300 the total amount at risk is $900 which is 9% not 3%.

B. Risk Reward Ratio

Risk reward ratio is simply the amount you risk as compared to the amount you expect to make.

If you have a stop in place which limits your risk to $1000 but when your trade is successful you expect to make $3000 then your risk to reward ratio is 3:1.

10 Trades	Loss	Win
1	$1,000.00	
2		$3,000.00
3	$1,000.00	
4		$3,000.00
5	$1,000.00	
6		$3,000.00
7	$1,000.00	
8		$3,000.00
9	$1,000.00	
10		$3,000.00
Sub Total	$5,000.00	$15,000.00

From the table above, you can see that if you only selected trades where you thought you had a 3:1 risk reward ratio then even if you were right only 50% of the time you would still make a profit.

Conclusion

Only risk a small portion of your trading capital in any one trade.

III. Different Types Of Forex Traders: Which One Are you?

A. Scalping

A scalper is one who trades for small profits between 3-10 pips, uses short term timeframes like 1-minute to 15-minute charts, and places multiple trades in a single day. Scalping requires enormous concentration and quick reaction skills, but can be very stressful to many individuals.

You are a scalper if you can focus on your chart for many hours; you think fast and can change direction in an instant.

Some factors to consider if you are a scalper:

1. Trade with the most liquid pairs: EUR/USD, GBP/USD, USD/CHF, USD/JPY. These currency pairs offer the narrowest spreads because they have the highest trading volume. You need spreads as tight as possible since you will be entering the market quite often.

2. Trade during overlaps, the busiest trading times of the day, which are from 8 to 9 AM GMT for the Tokyo/London overlap, and from 12 Noon to 5 PM GMT for the London/New York overlap.

3. Focus on a single pair since scalping requires attention and efficiency. Add one currency pair at a time as you get familiar with how your trading goes.

4. Be mindful of your transaction costs since you will be entering the trades more often. Make sure that your targets are at least double your spreads to make up for times when the market moves against you.

5. Have a solid money management in place since you are entering the market many times in a day.

6. Be well prepared especially when major news reports are to be released because market movements can go either way during these momentous events.

B. Day Trading

A day trader, as the name implies, is a day trader. This type of traders trade in high volumes but will avoid holding positions after the market closes. They will be using time frame charts between 5-minute and 30-minute candlesticks and set profit targets of 10-50 pips a day.

Day traders rely more on technical patterns and volatile pairs to make profits anywhere from ten to one hundred times of its transaction size.

You are a Day Trader if you like to start and end a trade within one day, you are eager to know whether you have gained profits or not, and you have the time to study and monitor the market all in one day.

Types of Day Trading

1. Trend Trading is when you examine longer time frame charts and determine an overall trend. When you have determined an overall trend, you shift to a smaller time frame chart and search for trading opportunities in the direction of that trend. Using indicators on the shorter time frame charts will give you an idea of when to time your entries.

2. Countertrend trading is like Trend Trading except that you look in the opposite direction when you have seen an overall trend. Your goal is to find the end of a trend and get in early when the trend reverses. This can be tricky but has potential for bigger profits.

3. Breakout trading is placing a trade expecting to get a breakout in either direction. This is especially effective when the market is consolidating because this signals that the currency pair is about to break out. Determine a strong resistance and support range then set your entry points above and below the breakout levels. Commonly, you can aim to have the same number of pips that comprises your determined range.

C. Swing Trading

Swing traders hold positions for one day to several days by capturing profits from trend-following or counter-trend moves. The swing trader uses one-hour, four-hour and daily charts. The eight-hour and 12-hour charts are also used if these are supported by the trading platform.

Swing trading appeals to those who have full-time jobs and analyze the market after work. Because trades last longer than one day, stop losses are necessary to withstand price changes.

You are a Swing Trader if you are willing to take lesser trades that have very good set-ups, but hold them for longer periods.

D. Position Trading

Position trading is the longest term trading of the four. Position traders use daily and weekly charts and hold positions for days, weeks, months, or even several years.

Since Position Trading is held longer, technical formations can be considered but fundamental patterns are mostly applied in evaluating the market.

You are a position trader if you are independent minded and have a good understanding of the fundamentals.

Whether you're a scalper, day trader, swing trader, or position trader, your knowledge of different time frames and various trading strategies can help you achieve success in Forex trading.

IV. Your Forex Trading Action Plan

Trading in foreign exchange can be dangerous especially if you are a beginner. The odds are very high, 90% of traders lose money because they have not educated themselves well enough, they lack any trading discipline, and have not made any trading plan.

The vital rule is, “cut losses, let profits run”. In other words, make sure you quit a losing trade before you lose too much, and make sure a beneficial trend is over before getting out. This may also involve managing strong emotional reactions when losing trades - traders who accept that losing is part and parcel of a trader‟s life stand a better chance of survival than those who did not.

Patience is one of the most important virtues of the human race; the same is true for the Forex trader. Patiently waiting for only the „best‟ price setups will greatly improve not only your win ratio, but will boost your confidence, as well. Over-confidence, on the other hand, can cause you to waste your efforts. This is the point where the amateurs separate from the pros. The pros manage their emotions well; they know exactly when their emotions get in the way of their trades.

In this plan, you will answer why, when and how you want to trade Forex. You will begin by looking inside yourself and knowing your strengths and weaknesses. You will set realistic goals, define how much money you are willing to risk and how to manage that risk, and determine what trading systems you want to employ.

Important Elements of a Trading Plan

1. **Define your goals.** Your goals can be an end return on investment or a percentage on profit. Many traders target a number of pips per week as their trading goal.

2. **Use of trading strategies.** Learn a trading strategy that has worked in the past and use this. Some traders employ at least one or two strategies in their trading plans.

3. **Know when to exit before entering the trade.** Do not decide only when you already entered the trade because this often never works. You are not going to be as objective when you are in a trade.

4. **Define your entry strategy.** Be sure you can define what constitutes a good entry. This will come from your understanding of different trading strategies and proper use of technical analysis.

5. **Use of stop losses.** Stop losses are crucial for risk management and require solid understanding so that you use can place stop-losses properly for your position size and amount at risk. Some traders define their stop losses in terms of percentages on investment or an exact number of pips.

A right trading plan will help you contain your emotions and follow rules guided by rationale. You simply have to stick to it! The most successful people learn how to utilize their strengths while limiting their weaknesses.

V. Trading Journal: Recording Performance To Improve Trades

One of the best ways to improve your trading results is to use a trading journal and log your every trade. A well kept and detailed trading journal will help you identify which trades were successful and which were not, including other factors related to such success or loss. This can help you identify and correct any mistakes you have made. While many trading platforms record your profit/loss activities, they do not offer a functionality of a real trade journal.

An effective trading journal may include the following:

1. Number.
2. Date & Time.
3. **Strategy & Indicator.** Note down the strategy and indicator you based your trade entry. This is especially useful when you apply a number of strategies and indicators simultaneously.
4. Currency Pair.
5. **Trend Direction.** Record if you were trading countertrend or with the trend.
6. Entry, Exit, Limit and Stop Prices.
7. Profit or Loss in Pips.
8. **Trade size.** Write down the lot size you are using whether this nano, mini, macro, standard, etc.
9. **Chart Timeframe.** Note down the timeframe you entered the trade, such as 30-minute, 1-hour, daily, etc.
10. **Trading Session.** Take note of which session are you trading: Tokyo, London or New York Session.

11. **Fundamental or Economic Announcements.** Be aware of the economic calendar and pertinent news releases. As you gain more experience in Forex trading, you will also learn how to deal with these.

12. **Screenshots.** This is an invaluable piece of evidence of your trade. You can share your screenshot with other Forex traders to help improve your trading.

13. Date & Time Closed.

14. **Additional Remarks.** This is good for recording how you felt before, during and after each trade. Note down your observations. This will help give you a deeper understanding on why succeeded or failed in your trading activities.

Recording and meticulously maintaining a Forex trading journal is crucial in attaining and sustaining a proper trading mindset. Customize your trading journal according to what you feel is important, and modify it as you progress in your trading journey.

VI. Demo/Paper Trading

Over the years, I have trained many traders and I always advise that they spend at least three months on demo or paper trading before they go live with real money.

Now, even though I advise this, I have never had a student actually do it. They all give up on paper trading after a few weeks and go live.

Why is that? They become impatient, they think they have mastered it or they think they don‟t need that much time.

There is a good argument for not paper trading first as no matter how much paper trading you do, you will never get the emotional involvement that you have when you‟re in a real live trade.

The fact remains, however, that you need time to familiarize yourself with whatever system or software you are using.

Finding out you don‟t know how to operate your trading platform, or you don‟t know the correct terminology to use when speaking with your broker on the phone when trading live is a recipe for disaster.

You need time to get used to how to operate your system. Whichever system you use, you must know it inside and out. This is part of trading. It is one of your main tools and should be taken seriously.

Paper trading is simply using imaginary money with imaginary trades. In the old days, you would look at the financial newspapers and write down the imaginary trades on a piece of paper, which is where the term comes from.

Virtually every broker now offers a free demo of their system and will fund your account with an imaginary amount of money, e.g. $50,000.

This will let you make trades just like you would if it were your own money in the account. The system will also calculate your profits and losses automatically.

Take this time to experiment with the system. Make mistakes. Press the wrong button. Buy when you really meant to sell and so on; it costs nothing at this stage.

One last thing on paper trading. Take it seriously. If you cannot make money on paper then do not even think about using real money. I know too many traders who did not make money on paper, but for some inexplicable reason thought that if they had real money in the account they would.

If you are at all serious about this game, approach it professionally. If you aren‟t making money on paper, go back to basics and rethink your plan.

Homework

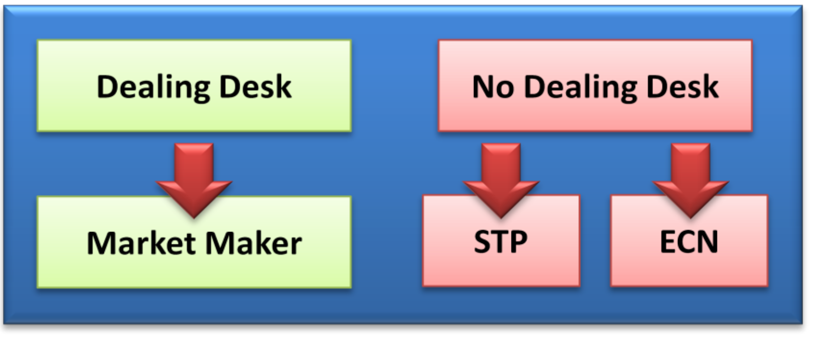
Remember to always do your homework. Check the charts carefully. This is your money and you are responsible for it.

CHAPTER 6: FOREX BROKER IN-DEPTH

Nearly all Forex brokers offer services online. Mostly share similar qualities but largely differ in operations, policies and fees. Bear in mind, that the Forex market remains loosely regulated and choosing the right broker can be very daunting, especially to a new trader.

In the following pages, we will discuss this topic extensively, so that you can be better informed when considering which broker might be better for you.

I. Different Types Of Brokers

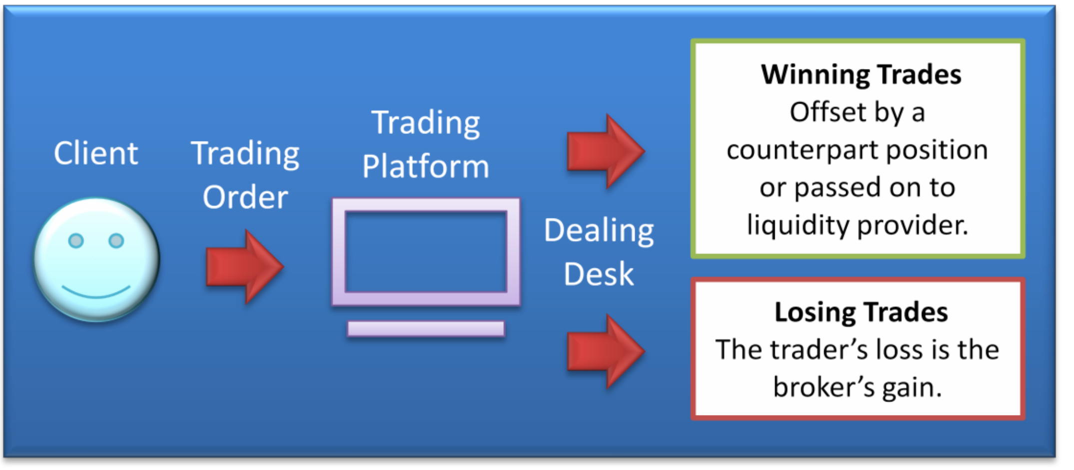


A. Dealing Desk (DD) Or Market Maker

A Dealing Desk broker is a Market Maker broker. Market Makers earn from their spreads and by trading against their clients: if you buy, the Market Maker sells; if you sell, the Market Maker buys. As their name implies, they literally make the market and invent foreign exchange rates for their clients. At first glance, this may seem like a conflict of interest. But in reality, it is quite the opposite. This is because the Market Maker provides both the sell and buy quotes, which suggests that they are disinterested in their client‟s trading results.

Market makers control the quotes they present to their clients and do not refer to the real interbank rates at all. Alarming as it may sound, competition amongst these brokers is so intense that their rates are comparable to interbank figures.

Order Flow Chart Of A Market Maker Broker



As shown in the flow chart above, if you take a long position (buy order) for GBP/USD for 10,000 units with your Market maker broker, your broker will look for a counterpart position (sell order) from its client or pass it on to the broker‟s liquidity provider. A liquidity provider is a sizable holder of a financial asset who readily buys and sells currencies.

With this, Market Makers minimize risks and earn from spreads without taking the opposite side of your trade. Market Makers only take the opposite side of the trade when Market Makers cannot find counterpart positions for their clients.

Risk management practices differ from broker to broker. This is well worth knowing for your own security.

B. No Dealing Desk Broker (NDD)

No Dealing Desk (NDD) brokers provide immediate access to the interbank market. Unlike the Market Maker broker, "No Dealing Desk" brokers do not take the opposite side of your trade. They connect you directly to the interbank market. Furthermore, they work with not just one, but a number of liquidity providers, in order to get the most competitive bid and ask quotes for you. This type of brokers can either charge a commission on each trade, or choose to increase the spread.

Order Flow Chart Of An NDD Broker

Types Of No Dealing Desk Brokers

1. STP Brokers

STP stands for Straight through Processing. Transactions from these brokers are fully computerised and are directly processed through several liquidity providers without any human intervention, with liquidity providers having their individual bid and ask quotes.

Here‟s an example of bid - ask quotes from different liquidity providers:

	Bid	Ask
Liquidity Provider 1	1.0001	1.0003
Liquidity Provider 2	1.0002	1.0003
Liquidity Provider 3	1.0002	1.0004
Liquidity Provider 4	1.0001	1.0003
Liquidity Provider 5	1.0002	1.0005

In the example, the STP brokers see five different bid/ask prices from their liquidity providers. Their system will then choose the best bid and ask price quotes. For the above figures, the best bid quote is 1.0002 (you want to sell high), and the best sell quote is 1.0003 (you want to buy low). The bid-ask quote now becomes 1.0002/1.0003.

From this quote, The STP brokers will either add a fixed mark-up or spread depending on their individual schemes. If their mark-up is 2 pips, the quote that will be shown on your platform would be 1.0000/1.0005, a difference of three-pip spread for you.

Based on this example, you want to buy 100,000 units of GBP/USD, your order will be processed through Liquidity Provider 1, 2 or 4. Liquidity Provider 1, 2 or 4 will have a short position of 100,000 units of GBP/USD at 1.0003, and you will have a long position of 100,000 of GBP/USD at 1.0005. Your STP Broker would earn 2 pips.

2. ECN Broker

ECN stands for Electronic Communications Network. ECN brokers provide direct access to their clients and to other participants in the Forex market. Other participants may include banks, hedge funds, retail traders, and even other brokers.

Since ECN brokers exhibit price quotes from various market participants, they offer you tighter spreads compared to other Forex brokers. ECN brokers charge clients a fixed commission per transaction.

II. Choose Your Broker Wisely

Having learnt about the kind of broker you will need for your trading, your next step is to find the right broker. There are a great number of brokers available on the internet and it will be overwhelming if you don‟t know where to begin and what to look for. Let‟s then review key aspects to bear in mind, in your search for your ideal broker.

A. Quality Institutions

In the US, respectable broker institutions are registered with the U.S. Commodity Futures Trading Commission (CFTC) as a Futures Commission Merchant and Retail Foreign Exchange Dealer. The CFTC is a government agency with the mission to "protect market users and the public from fraud, manipulation and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive and financially-sound futures and option markets."

These brokers are also members of the National Futures Association (NFA), a self-regulatory organization for the futures industry in the US that develops rules, programs and services to help uphold the integrity of the industry and its members.

A professional-looking website does not guarantee any company‟s credibility. Fortunately, scrutinizing a company‟s credentials has become easier with the advent of technology. Brokers that are members of regulatory bodies will indicate them on their website and/or every webpage.

Before opening an account, make certain that your Forex broker is registered and regulated in one or two of the major countries worldwide. This assures you that the funds you will send are well-protected and secured.

B. Live Account Specifics

1. Initial Deposit

Depending on your brokerage of choice, the amount required to open an account will vary. Many brokers offer standard, mini and micro accounts with varying initial deposit requirements. When opening an account with your broker, make sure you know you have the right leverage, tools and services in relation to your investment.

2. Commissions & Spreads

A broker makes money either through commissions or spreads. A broker who earns commissions may charge a percentage of the spread, while a broker who charges no commissions may make money with wider spreads. Find the balance between costs and dependability that is synonymous with good service and affordable fees.

3. Deposits & Withdrawals

Every Forex broker has specific account withdrawal and funding policies. To fund accounts, deposits can be made with a credit card, wire transfer or cheques. Depending on your broker, withdrawals can be facilitated via a number of different methods, which may include wire transfer, credit card, Paypal, and more. The broker may charge fees for any such service.

A decent broker allows for a smooth process for deposits and withdrawal transactions. They hold the trader‟s funds as they facilitate trading, so there should be no reason they would not make this process trouble-free.

4. Leverage Options

Forex traders have access to differing amounts of leverage depending on the broker they choose. Leverage is magnified either way: astronomical profits or widespread losses being the extremes. Leverage should be used with discretion.

5. Currency Pairs Offered

The major currency pairs are the EUR/USD, GBP/USD, USD/JPY, USD/CHF. Brokers may have a wide array of currency pairs on offer, but what‟s most important is if they offer the pairs you are most interested in.

6. Trading Platform

The trading platform is your gateway to the Forex market. Features you should consider are real-time charts, news and data, and extensive technical and fundamental analysis tools. Look for a broker that can provide all the necessary tools to succeed. The most popular platform used is the MT4 Platform, although you may find others on offer.

7. Execution

It is imperative for your broker to execute your orders the very second you click the “buy” or “sell” buttons. The pace by which they get your orders filled is as important as choosing your broker wisely.

8. Customer Service

A well established firm will have proper customer support in place. This plays an important role especially when technical issues arise. Competence, promptness and first-rate after-sales service are the top qualities you should look for with a broker.

III. . Opening An Account With Your Broker

Opening a demo account is quite simple but opening a live account may seem more challenging. On the contrary, it can be summarized in three simple steps: choose the type of account, register and activate.

A. Opening A Demo Account

The best way to start trading currencies is to open a demo or practice account. Trading with a demo account can be fun and involves no monetary risks, yet a demo account has very little or has no difference at all from an actual live account, making simulation to trading as real as possible.

Platform features differ from broker to broker. There are brokers that integrate a wide variety of information such as price quotes, market news, charting, trade summary, account balance, expert advisors, and more, while others are simpler, focusing only on news, quotes, and order entry.

For beginners, trading a demo account provides an opportunity to harness and sharpen trading skills, and eventually help them establish a personalized trading strategy. This also allows traders, beginners and experts alike, to test and be familiar with the broker‟s platform software. There are brokers that allow demo accounts to run indefinitely, while others let them run for a limited time only.

Step By Step Guide To Opening A Demo Account:

1. Click “Open a Free Demo/Practice Account” on your preferred broker‟s website.

2. Register by filling out information needed, such as name, surname, email, password, and any other necessary information.

3. Check your email for any message from the broker. If applicable, click the link provided to verify your account.

4. Download your broker‟s platform software.

5. Install the platform by double-clicking the .exe file. Usually, platforms install on any Windows operating system.

6. Enter your username and password to sign in to the platform software.

Make sure to select “demo” or “practice” should there be any list of choices shown.

Try opening a demo account with several brokers. This does not only help develop your trading skills, it also gives you an opportunity to determine what platform suits you best.

Learn, study, and read. “Risk comes from not knowing what you are doing.” -Warren Buffett.

B. Go Live, But Only When You’re Ready

When you have mastered trading with a demo account and have gained a deeper understanding of the Forex market, you can now move on to trade with a live account. Remember, though, that the demo account is a simulator of the live account. The big difference now is that profits and losses involved become very real.

There are two kinds of live accounts:

1. **Personal Account**. This is an account under your name that can be solely yours, or shared with one or more individuals.

2. **Corporate/Business Account.** This is an account under a company name.

Some brokers offer a “managed account” option usually with a relatively higher amount of minimum deposit. This allows the broker to trade in your behalf using the account for a fee.

Step By Step Guide To Opening A Live Account:

1. Click “Open a Live Account” in your broker‟s website.

2. Register by entering the information needed, such as name, surname, email, password, etc.

3. Check your email for any messages from your broker. If applicable, click for the link provided by your broker to verify the account.

4. Download your broker‟s platform software.

5. The downloaded .exe file usually installs on any Windows operating system. Double click the file to install the platform software.

7. Submit documents required by your broker.

You will need to submit some documents to open a live account and these may vary from broker to broker.

Bear in mind, always read the fine print.

You may also need to verify your identity and address. You may send any government issued identification card to verify your identity, such as passport, driver‟s license, etc. To verify your physical address, you may send any bank statement or any utility bill that shows your name and address. Generally, all these can be sent to your broker via email.

8. You will receive an email with your username, password, and instructions on how to fund your account.

When all these have been completed and your account has been funded, you can now start trading. But, before committing any real funds just yet, consider gaining more knowledge on the following areas:

- What are the best times to trade?
- What are the best currency pairs to trade?
- What are the different lot sizes for trading? Can these be mixed and matched?
- When and how do you place stop/loss orders?
- Have you developed a trading plan?
- Can the broker be contacted when you get disconnected from the internet?
- Have you practiced trading on a demo account for at least six months?

IV. The MetaTrader (MT4) Trading Platform

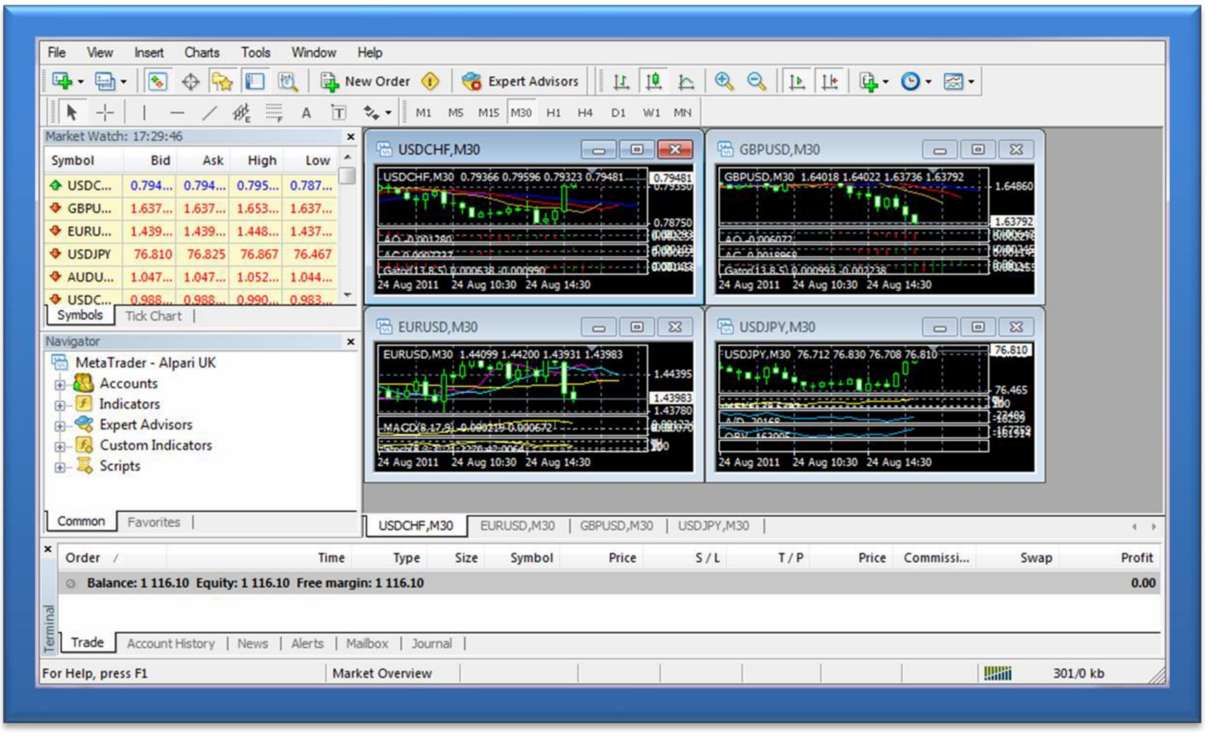
The MetaTrader 4 or MT4 is a Forex trading software created by the MetaQuotes company. The MT4 is one of the most popular trading platforms available today. This versatile platform has all the features needed for trading the currency market:

- The MT4 is equipped with the necessary charting tools for traders to use in technical analysis.

- It can display several trading windows with any type of chart (bar, candlestick, or line), and allows traders to select their preferred settings and use different indicators.

- The MT4 has an internal e-mail service that allows traders to set it to sound for any market changes.

- All trading transactions done through the platform are strictly confidential.



A. How to Use the MetaTrader 4 Platform (MT4)

- At the top is the main Menu which displays the tabs that show the sub-menus for the different commands and functions that can be executed in the platform.

- The second row is the Toolbar that shows the controls and buttons that help you navigate and make adjustments on the charts quickly.

- The third row shows the other buttons of the Toolbar including the timeframes. You will learn more about these in the next section.

- On the left side of the platform is the Market Watch window. To display or hide the window, simply press the Market Watch icon on your Toolbar, or press Ctrl+M on your keyboard.

- Beside the Market Watch heading is the broker‟s time in GMT (Greenwich Mean Time), but the default time may vary from broker to broker. It can also be changed according to your preference.

- The Market Watch window shows all the available currency pairs, their bid/ask quotes and high/low prices.

- The Navigator window is right below the Market Watch window. In this window, you will five groups of features listed as a tree. These are Accounts, Indicators, Expert Advisors, Custom Indicators and Scripts.

- To open or close the Navigator window, click on the Navigator icon on your Toolbar menu or press Ctrl+N on your keyboard.

- Next is the Terminal window where trades are managed. This window also shows previous trades detailing any positions opened. To enable or disable your Trading Terminal window, click on the Terminal icon on the Toolbar or press Ctrl+T on your keyboard.

- Last is the Chart window, the main window in the platform.

- Four charts are open by default. To view a chart in full, click on the Maximize button. To go back to the original four, click on Restore.

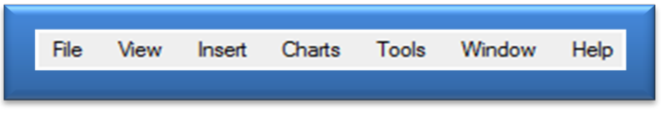
- On the upper left side of the Chart window, you will find the currency pair, the time frame and the prices.

- Right below the chart, you will find tabs of the currency pairs whose windows have been opened. When a chart has been maximized, you can quickly shift to other charts by clicking on those tabs.

- If you prefer a full chart shown on your screen, without the Market Watch, Navigator Window and Terminal windows, select View from the Main Menu of the platform, and select Full Screen, or press F11 key on your keyboard.

B. MT4 Platform Main Menu Commands

The MT4 Main Menu has 7 different tabs namely, File, View, Insert, Charts, Tools, Window and Help. We will discuss them in detail in this section.



1. File Tab

Here are the different commands and functions under File.

New Chart

Select File and scroll down to New Chart. You‟ll see the major currency pairs and the Forex sub-menu, which will show you the cross-currency pairs.

Open Offline

Select File and scroll down to Open Offline. This allows you to find your offline chart data.

Profile

This gives you options to Save or Remove a profile. To save a profile, select Save As and type in a filename. When saved, you will find your profile on the list. To load or use other profiles, select Next or Previous.

Close

This allows you to close a particular chart.

Save As

This allows you to save a chart as a Jpeg file.

Open an Account

This allows you to create another Demo account on your MT4 platform. Fill in the required information, and you will have another account for your MT4.

Login

This opens a window to enter your account login details.

Print Set Up

This shows the printer setting options.

Print Preview

This allows you to see how your chart appears when printed.

Print

This lets you print the entire chart. Select Print when you are ready print your chart.

Exit

This closes the entire MT4 Platform.

2. View Tab

Under the View Tab, you will find the following commands and functions.

Language

To change the language on your platform, just go to View and click on the Language submenu.

Toolbars

This allows you to customize the buttons shown in the Toolbar area.

Status Bar

The Status Bar is found at the very bottom of your Trading Terminal. This indicates whether or not a connection is established with your broker.

Green and blue bars mean that there is connection. However, if you see red bars or a message that says “Waiting for Update”, check your internet connection and make sure you logged in the correct details for the account.

If you see the message “Invalid account” then your account may already be expired. You may open another demo account, but for live accounts, you need to contact your broker right away.

To enable or disable the Status Bar at the bottom, simply select or uncheck the Status Bar.

Charts Bar

You will find this at the bottom part of your Chart window. Select or uncheck to enable and disable Charts Bar.

Market Watch, Data Window, Navigator, Terminal and the Strategy Tester

You can also use the corresponding shortcut key buttons to enable these functions.

The Market Watch button can also be found on the left side of the toolbars menu.

The Data Window shows all the information pertinent to the bar or candle that your mouse is pointing at on the chart. It includes the opening, closing, high and low prices. It also includes the volume.

The Navigator window is where you will find the Accounts, Indicators, Expert Advisors, Custom Indicators and Scripts.

The Terminal is the window at the bottom of the platform. This is where trades are managed. It also shows the details of trades that have been opened.

The Strategy Tester is a good tool for developers of Expert Advisors or those who want to see how their EAs perform based on historical data. To enable or disable this, select the Strategy Tester or use the corresponding shortcut key button on the Toolbar.

Clicking on Full Screen allows you to view the chart more clearly without the other windows.

3. Insert Tab

The Insert Tab is where Indicators and most Drawing Tools are found.

Indicators

This will show you various indicators that that can be applied on your charts.

Lines

This enables you to apply different types of lines on your charts as you trade.

Channels

There are a number of channels that can be applied on your chart, including Fibonacci retracements, which is helpful in identifying trade setups, stop loss and take profit levels.

Gann

Here, you can find the Gann line, fan or grid that can be drawn on your charts.

Shapes and Arrows

This can also be used for drawing on your charts.

Andrews' Pitchfork

This is one of the useful channels that you can apply for further analysis.

Cycle Lines

This helps identify market cycles.

Text and Text Label

These are additional drawing tools for applying texts on your charts.

4. Charts Tab

Here you can select the type of chart you want to use: Bar Chart, Candlesticks and Line Chart.

Periodicity

This shows various timeframe options for trading.

Template

This allows you to create or save a template, as well as load your chosen template.

Grid

This allows you to apply or remove the grids on your charts. Select Grid or press Ctrl+G to enable or disable this function.

Volume

This allows you to the volume data on your charts. Select it or press Ctrl+L to enable or disable the application.

Chart tabs, Auto Scroll, Chart Shift, Zoom In and Zoom Out, Step by Step and the Properties

All these allow you to customize your charts.

5. Tools Tab

The most important tool under this tab is New Order tool. This allows you to enter a trade and place your pending orders. For easy access, press F9 on your keyboard and the Order window will appear.

6. Window Tab

The Window Tab is basically where you can open a new chart, find different chart window arrangements, and select the currency pairs open on your platform.

7. Help Tab

The categories under the Help tab will allow you to find advanced help topics about the MT4 platform, information about technical analysis, information on programming (MQL4 and MQL5), and other details about the broker.

C. Applying And Using Expert Advisors (EA) Or Indicators

If you downloaded an EA or custom indicator, you need to install it in your MT4 platform. Most EAs and custom indicators nowadays have autoinstallers which allow users to install the software automatically.

However, for those that do not have this feature, you need to add them manually into your MT4 platform.

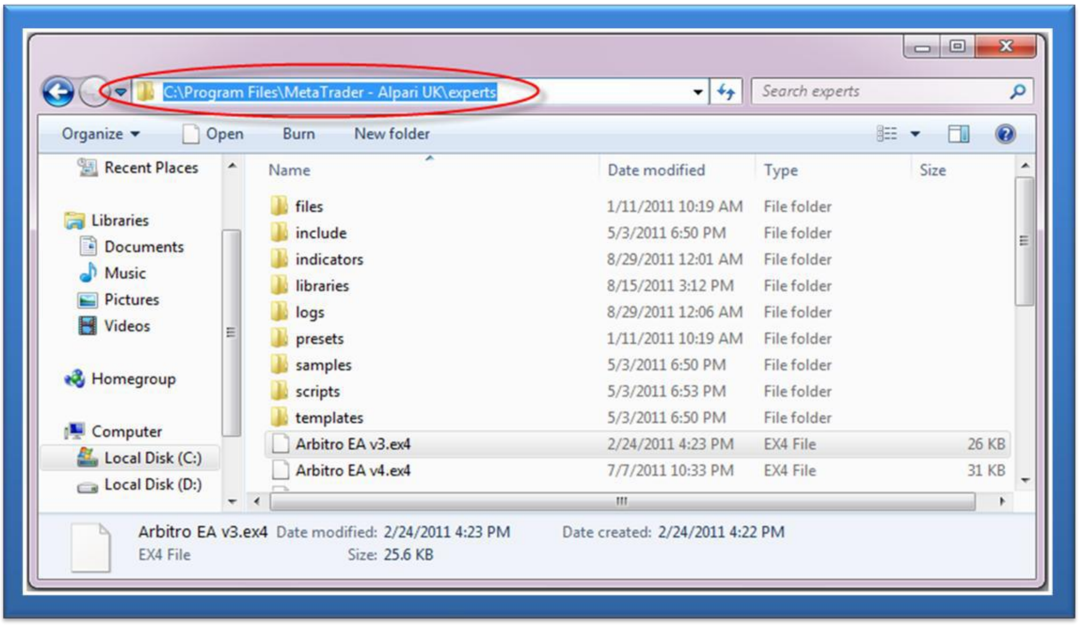
How To Manually Install An EA Or Custom Indicator:

1. Once you have downloaded the EA or indicator files, copy the EA or indicator file.

2. On your computer, open the drive C: folder, go to Program Files, select your MT4 platform folder (it usually has your broker‟s name on it), then open the experts folder, and paste the EA file. Inside the experts folder, open the indicators folder and paste the indicator file.

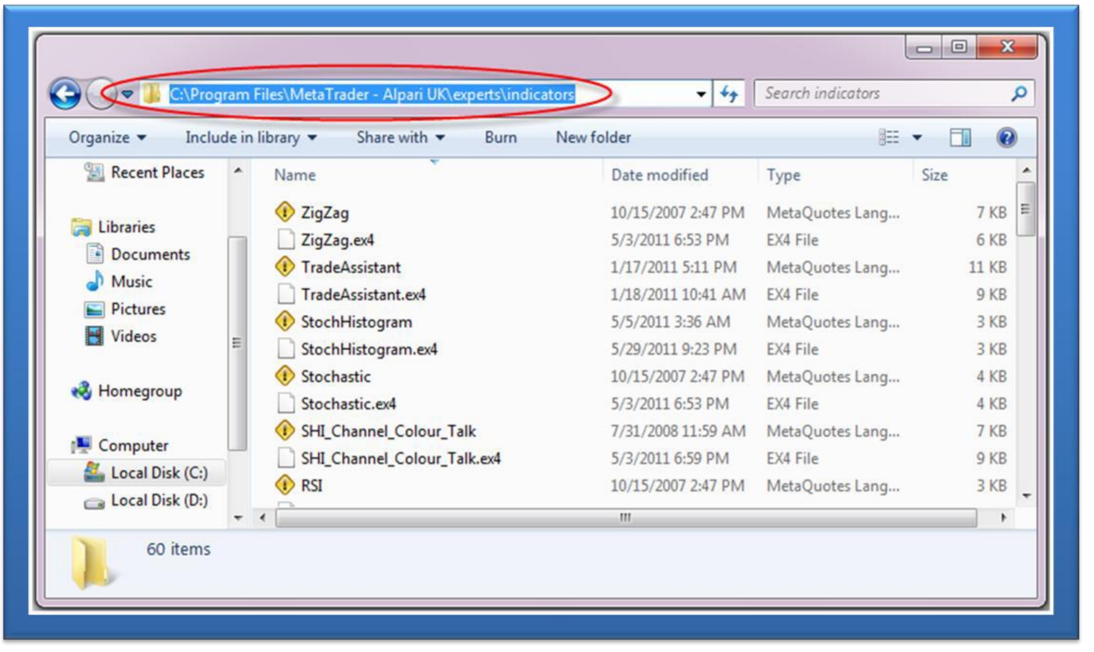
   To make sure, you should see this path at the top of your Windows Explorer when pasting the EA file:

   C:\Program Files\MT4 Platform\experts



And for the indicator file, it should be placed here:

C:\Program Files\ MT4 Platform \experts\indicators



3. Now your EA or indicator is installed into your platform.

How To Apply An EA Or Custom Indicator On Your Chart:

1. Once the installation is done, open your MT4 platform. You may need to restart it if it was already open during the installation process.

2. Open the Navigator window (CTRL+N) and double-click on Experts to show the EAs installed on the platform. If you installed an indicator, double-click Custom Indicators instead.

3. You can now apply the EA or indicator onto your chart. You can either double-click it; drag and drop it onto the chart; or right-click and select “Attach to Chart”.

4. A dialogue box will then appear for you to change the settings or enter any inputs required for the EA or indicator. Once you‟ve made the necessary changes, click on OK. The EA or indicator will now appear on your chart.

You can place multiple Indicators on one chart. Although some MT4 platforms allow multiple EAs, some do not.

Ways To Change The Indicator Settings

1. Right-click on the indicator on your chart and select Properties to open the dialogue box. You can also just double-click on it.

2. To manage all the indicators on your chart, right-click on the chart and select Indicators List. You will see all the indicators in their corresponding windows on your chart. Select the indicator and click on the Edit button if you want to adjust the settings, and click on Delete button if you want to remove it.

How To Change The EA Settings

A smiley face on the upper right corner of your chart indicates that your EA is working. A frowning face or "x" mark indicates otherwise. The first thing to do is make sure that the Expert Advisors button on the Toolbar of the platform is enabled. If this does not help, you may need to change your EA settings.

1. Click on the smiley, frowning face or "x" mark to open the dialogue box.

   You can also right-click the chart, select Expert Advisors then go to Properties to change the settings, or click Remove to delete the EA from the chart.

2. Under the Common tab, make sure that the following are enabled: Enable Expert Advisers, Allow Live Trading, Allow DLL imports, and Allow External Experts Imports.

   Another way to do this is to go to the Main Menu of the platform, click on Tools, Options, and Expert Advisers. You can select the same options.

3. Modify the parameters and settings as necessary, and click on OK.

WHAT WILL MAKE OR BREAK YOU

We are coming to the end of our little book now, and I feel I ought to give you the heads up on what will really make or break you in this game.

Yourself

I have been asked countless times what I thought was the number one reason why most traders don‟t make it. I didn‟t have to think about it much as I already knew the answer.

I knew the answer because I went through it and so will you. You have to be in control of yourself. You have to be disciplined.

At the beginning of the book, I mentioned that trading for a living is not the measure of who you are. Whether you succeed or fail at trading will not change who you are fundamentally. But it is fundamental that you change if you are to succeed.

There is a big difference between a trader who makes a trade and has a loss but is unemotionally unaffected because he knows that it is part of the game, and a trader who has a loss because he couldn‟t be bothered to do his analysis or wasn‟t prepared for the trading day.

Trading will exploit any weaknesses you may have. If you have a tendency to gamble or are impatient by nature then the market will amplify this weakness.

Just as a person who is overweight knows what it would take to lose weight and doesn‟t do it, so does a trader. If the traders who didn‟t make it really and honestly looked at themselves, they would see that the main fault was their own failing.

So how can you avoid this? **Discipline!**

You have to become scientific about your trading. Every time you make a mistake, either emotionally or technically, you have to write it down and analyze where you went wrong. Once you identify where you went wrong you have to have the discipline to correct it.

IMPORTANT

This is the end of the ebook but not the end of your journey to becoming a successful trader. Traders should never stop learning.

By the time you have read this ebook and completed all the courses in this package, you will not only be as knowledgeable as the majority of traders out there: you will have a distinct advantage.

I really hope that this book has been of some help to you. I genuinely want you to succeed.

There is nothing I hate to hear more than some trader losing their hard-earned money.

Hopefully, this book and the lessons in this package will take you a long way down the road to making better trading decisions, and at least, a more informed trader.

God Bless & Good Trading

Mark McRae

GLOSSARY

Account

The bookkeeping records of a customer's transactions and credits or debits. The record usually includes confirmation of the transactions and open positions, cash and cash equivalents and beginning and ending liquidity value.

Account balance

The amount of money or debit in an account.

Account executive:

The broker or clerk who is assigned to work with the client on behalf of the financial institution.

Ask

An indication by a trader or dealer that he/she is willing to sell a market at a given price. This is the price at which someone is willing to accept for a tradable.

Available balance

The balance at the disposal of the account owner at the close of a statement period.

Base currency

The currency in which a general ledger and P/L account is maintained.

Bid

An indication by a trader of his/her willingness to buy a currency. This is the price at which a trader can sell.

Breakaway gap

When a security exits a range by trading at a level that leaves a price area.

Breakout

The point when the market price moves out of the price range.

Bottom fishing

Buying markets whose price appears to have bottomed out or fallen to low levels.

Broker

An individual or firm that facilitates the exchange of tradables between buyer and seller. Sometimes they charge a fee or commission for executing buy and sell orders placed by other individuals or firms.

Channel

In charting, a price channel contains prices throughout a trend.

Central Bank

The government bank that coordinates the nation's banks and flow of payments between different banks. It can also be the central regulatory authority in a country for banks.

Client

A client also called a party, who is a person or corporate body involved in any transaction with a financial institution.

Closing price

The price at which transactions took place just before the close on a given day.

Commissions

A fee charged by a broker to a customer for performance of a specific duty, such as buying or selling a currency.

Correction

Price reaction within the market leading to an adjustment.

Currency

A medium of exchange that circulates in an economy. Also referred to as a country"s official unit of exchange. The currency may be represented by a currency code.

Daily Range

The difference between the high and low price on a given day.

Dead cat bounce

Rebound in the market that sees price recover and come back up somewhat.

Dip

A slight decline in the market followed by a rise.

Divergence

When two or more averages fail to show confirming trends.

Entry

Point at which a trader gets into the market.

Exit

Point at which a trader closed out of the market.

Exponential average

A mathematical formula where more weight is given to the most recent price.

Fill

An executed order. Sometimes, the term refers to the price at which an order is executed.

Limit order

An order to buy or sell when a price is fixed.

Market order:

Instruction to a broker to immediately sell or buy at the best available bid or offer.

Moving average

Mathematical procedure to smooth data fluctuations and to assist in determining when to buy and sell.

Open trades

Current trades still held open in the customer's account.

Overbought

Market price that has risen too steeply or too sharply.

Overshoot

To pass beyond or over a specific target range.

Oversold

Market price that has declined too steeply or too fast.

Rally tops

Price level that concludes a short-term rally in an ongoing trend.

Retracement

In technical analysis, it is the price movement in the opposite direction of the prevailing trend.

Skew

The measure of lopsidedness.

Slippage
The difference of estimated and actual transaction cost.

Stop-Loss
Risk management technique in which the trade is liquidated to halt at any further decline in value.

Tick
Minimum fluctuation of a security.

Trailing stop
Stop loss order, which follows the price in a prevailing trend.

Trend
The tendency of statistical data.

Trend channel
Parallel probable price range centered around a price line.

Trendline
A line that connects a series of highs or lows in a trend.

Whipsaw
Price moves back and forth in a tight range without finding direction.