Tom Yeomans presents:

Extreme Forex

THE BOOTCAMP PAPERS

Trading economic reports

Extreme risk- Extreme profit
Becoming a professional foreign exchange trader
Trading economic reports..correctly
Learn exactly how your forex broker conducts business
Technicals..Real world versus fantasy world.
How to win consistantly.

How to Make a Full Time Income Trading Economic News Releases.

News trading is a common sense, statistical approach to making highly accurate predictions on how a particular currency will respond to economic numbers released at set times during the month.

This type of trading is called "Short Term Economic Fundamentals" and it has a very good track record of predicting what will most likely happen immediately after the official release of numbers.

When the numbers surprise everyone. Huge moves take place. Sometimes, movements of a hundred pips or more happen within seconds. Huge profits are possible for a knowledgeable and patient trader. The interesting thing about report trading is that the numbers surprise everyone quite often. The difference between what was expected (consensus) and the actual numbers happen frequently.

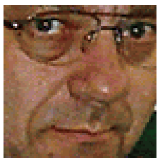
FOREX TRADING CAN BE <u>VERY PROFITABLE</u> FOR THOSE WHO CAN ACCURATELY PREDICT WHAT WILL HAPPEN TO THE VALUE OF THE CURRENCY AFFECTED BY NEWS.

FOREX TRADING CAN BE <u>DISASTEROUS</u> FOR THOSE WHO CAN NOT ACCURATELY PREDICT WHAT WILL HAPPEN TO THE VALUE OF THE CURRENCY AFFECTED BY NEWS.

Table of Contents

In pursuit of the "Perfect Trade"

The Boot Camp Papers
Written 2006 by
Thomas J Yeomans



Prologue

Hi. My name is Tom Yeomans. Although there are websites saying I am not real and my trading record is unbelievable, yes..I exist.

I live on the far eastern tip of Canada. I am married with three children and have the greatest job in the world. My daily task is to accurately predict what will happen in the currencies market after an economic report is released to the public. I do this by analyzing the potential effects of economic releases on the currency market.

Movements that occur before and after some economic reports can be violent as people scramble to reposition for the "news". Many times, the official numbers match what was expected by the general run of market participants and produce no clearly defined or sustained move. Others, the market goes wild and seemingly out of control.

Since I believe that there is only one trading strategy that will produce consistent results, I sit on my thumbs most of the week. There have been weeks when I could see the opportunity for three good trades, and others when I was lucky to get 1.

I have trained more than 3 thousand forex traders in this method since the publication of my first book (The Perfect Trader). I know I have not seen it all but believe me, I have seen and heard a lot. Forex is a hard business. The vast proportion of people who get into trading last about 90 days. Being on the receiving end of a ton of emails from beginners I can understand exactly why they last 90 days or less. Proper thing.

Zero sum gain. This is true of our little interbank as brokers match our trades with each other and take the other side of any remaining. Every second, money goes from one pocket to another.

It is an attractive business idea. Forex offers the potential of wealth with limited investment. Trading correctly is not a matter of hanging out in chat rooms, It is a matter of going about your life with the money you have made. A few hours a day spent trading in return for a great lifestyle.

Each person starts out with the idea they will be spending an hour a day trading but they all get caught up looking for the secret meaning and staring at charts for hours on end. This is the gambling mentality that insures they will lose. Technical analysis is responsible for more failures than any other facet of trading. Everyone, ends up trying to avoid the task of learning about the market they are entering.

Technical analysis offers people with no understanding of what they are doing with a way to beat the markets in an hour. Sure.

The so called “tools” they offer on all trading platforms are useless. If you think differently, you can join the group of technical analysts that Barclays bank tossed out on their ears last year after experimenting with technical’s. They dumped the whole division.

In forex, the house is your broker. Your broker is not your friend like the regulated markets claim. All transactions performed on all forex trading platforms never end up in any real market. Your broker is always on the other side of your trade. They are market makers because they literally create the market. The platforms you are given to make trades with are glued into the data feed.

In other markets and trading venues, you are free to use different data feeds or a wide variety of different platforms to work with the broker. Not forex. The data prices are unique and individual to the broker you use. They literally create the data prices you see.

That is why forex demo feeds are free as compared to the exchange fees involved in legitimate and regulated environments. The forex market is not regulated or supervised. There is no official price. The market prices you see have been literally created by the broker or shared among likeminded brokers. They created the data themselves so they are not liable for exchange fess. There is no exchange. Price is literally whatever your forex broker says it is. Read the fine print of any broker agreement. That will open your eyes.

I am not telling you this to scare you away from trading. I am telling you this so you understand that technically, you have no hope of consistently winning trades against your broker. They have the leading edge in every way. Technically, they own the market you are trading in. You can't beat the buggers technically. They know this.
In the lucrative world of forex marketing, everything is technical. Just search out economic fundamental traders like myself. Find any? The odds are overwhelmingly against the average person making money consistently in forex. The average person lacks all the essential requirements to succeed.

Beginners lack everything. They were drawn in by the rags to riches. This business attracts with the risk takers. (The gamblers). It's the lure of something for nothing and huge leverages that draws them. (Illegal in the regulated markets. The very people who should not have a large amount of leverage are offered 100,200, even 500 to 1 ratios.

This may be the only book you will ever read about trading where I present a good argument against technical analysis in its current and very popular form. 99.999% of all system for sale are technical. Just about every technical essay will tell you the same stupid and foolish statement;

"Economic reports are built into the price prior to the release and displayed with technical's".

These boneheads don't understand how the market works at all. They are probably in the middle of some sales meeting on the mornings that Non-farm or GDP is released. After watching massive movements created by economic reports that differed from consensus over the last three years, you don't want to know what I think of someone who tells you that kind of nonsense.

Economics rules the price of currencies. Don't ever forget that! The other markets may be ruled by emotion, but the foreign exchange totaling more than two trillion dollars a day does not run on emotion. This my friend, is our edge. The dollar goes where economic principles of supply and demand tell it to go. Not because it is "overbought" or the doji has a wick of some sort. Get that foolishness out of your head and you will be on your way to becoming a professional currencies trader.

No matter how many orders or what kind of crap the brokers pull, the price will go to where the price must go according to solid economic principles. This is their weakness.

After running across thousands of traders who would love to prove me wrong about technical analysis, not one single person has done it. Why?

You can't perform accurate technical measurements with flawed, contrived data.

If the feeds they give you are contrived, then the measurements from technical tools are not accurate. Surely the dropout rate of traders shows you something.

Pick any three forex platforms and run them on your computer at the same time. Each one is different by varying degrees since there is no single source of data other than what the broker will provide to you. How can you possibly make a technical prediction even if these formations and patterns did work at some time in the past?

Depending on the broker you are using or the person you are listening to, the data is different. Let a math student tell you differently. They would be amazed at the ludicrous claims from technical proponents. All these people who hang around forums and message boards are trying to create the life they don't have from profitably trading. (They don't know how an inflation indicator like CPI works, but they can quickly tell you when the candle is rising from the whatever.

Are the tools provided on the platform bringing riches beyond belief? It doesn't take an Einstein to understand technical analysis. Where are all the big time winners?

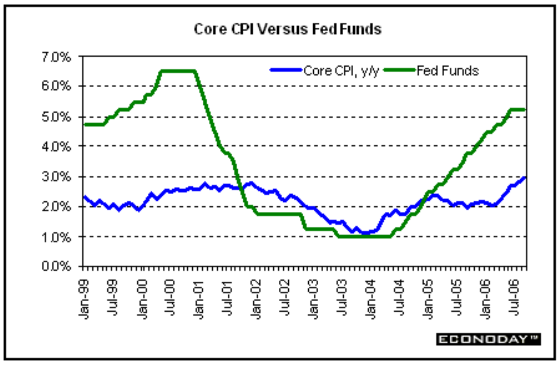
SHORT TAKE — A WEEKLY PUBLICATION

Core Inflation - Coming Down Much Anytime Soon?

Short Take - October 25, 2006

R. Mark Rogers, Senior Economist, Econoday

The Fed has paused in raising interest rates for two consecutive FOMC meetings, leaving the Fed funds rate at 5-1/4 percent and with the expectation that the economy will moderate and that core inflation will come down. Currently, as of September 2006, the core CPI inflation rate stood at a year-on-year figure of 2.9 percent while the core PCE deflator figure for August 2006 came in at 2.5 percent. Fed officials have implied that they want to bring the core PCE rate down to a range of 1 to 2 percent annualized growth. The core CPI figure tends to run about a quarter percentage point higher because of differences in methodologies. So, how likely is it that either inflation measure will come down one-half to one percentage point to be back in the Fed's implicit target range? For a reference point for comparing data, the core CPI was last in the Fed's target range roughly in early 2003 through spring of 2004. A good starting point for our analysis is to get a better feel for what is in the core CPI.



Characteristics of a successful forex trader.

The number one characteristic among successful forex traders, is patience.
(Intelligence will be assumed.)

Control over emotions is the number one requirement for successful trading. Jumping into the foreign currencies market with a hundred thousand dollars or more on every move you think is going to work is an idiots game. You know it and I know it. Let's not beat around the bush on this. As you read further about brokers and data, you will begin to understand why the method I will talk about, apart from long term economic trading, is your only hope to catch your opponent off guard. Your opponent is the broker. Don't forget that. You must pick your time to enter carefully.

Technical trading is like trusting the guy you are about to have a shoot-out with loading your gun. Your broker is on the other side of your trade. He loads your gun.

The seconds immediately after a news release is the only time both of you are on level ground. Neither know what the numbers will be prior to the report. The scales are balanced for a few precious seconds until the computers catch up.

The second important attribute is need vs. desire.

The old saying you shouldn't play with scared money is true in trading. That is why it has always been the wealthy who were in the markets. If you have to make money from trading to eat before you have had time to learn how the market works, you are dead in the water.

The most promising traders learn how the markets work before plunging in.

Goodness. This is the most intellectually intensive and profitable business imaginable. The foreign exchange market dwarfs the stock market and indexes. (They are like tiny pebbles in the shadow of the boulder). Foreign exchange trading is the reason our world works as well as it does. This is the entire business of our planet.

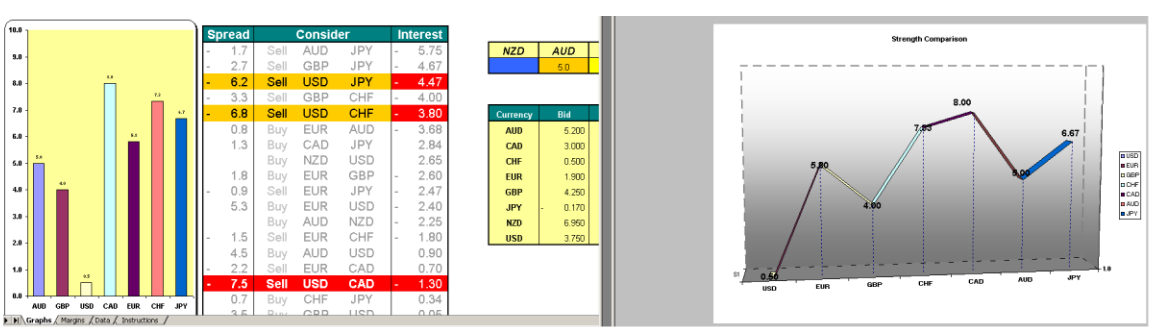
You buy stocks with currency. At some point, all foreign transactions result in a currency exchange. Money does make the world go round.

Although speculators make the prices sweep up and down in the short terms, those types of traders are not traders like you or I. "The people who control the worlds currencies are not swayed by lines drawn on a chart some broker gave them." They are swayed by manufacturers, producers, importers and highly qualified economists from every country on the planet who need to exchange their goods and services with others.

There actually is central foreign exchange authority. This is why all talk of regulation is muted. The reason there is no regulation is that can't regulate it. Banks will not report what price they give their clients on foreign currency exchanges. Seriously, who do you think would have the authority to do something like that? Considering the enormous power banks hold over economies, the best we can hope for currently is the CME/Reuters coming into forex trading around 2007.

Learning to trade consistently enough to enjoy a good lifestyle in forex is an almost impossible task. Everything is against you. However, if you manage to be that one person in perhaps a thousand who is able to make it through the apprentice stage; Wow! What a lifestyle.

Your ability to out-think your opponent is the only way you can get the upper hand. In forex, it is actually easy to make profits if you get a grip on your emotions and use your brain.



I am writing this during the last part of 2006. I refer to this time in my life as the “after freedomforex” phase. The demand for my live services has become overwhelming and every huckster and promoter on the planet wants a piece of me.

After running a Linux software development company with my son, I decided to semi-retire so I could spend more time with my family in our new home located in the beautiful Annapolis Valley of Nova Scotia, Canada. My wife Terri and I had just spent twelve years trying to be farmers in the middle of nowhere

Most of my professional life was spent on the road traveling and living out of hotel rooms. It was time to slow down. Approaching fifty with a bad back gave me a limited amount of opportunities. One day, I saw an ad on television talking about forex trading and that caused me to go to the internet in search of more information. Wow.

For the first time in history, access to the markets through the internet could be had by anyone living anywhere on our planet. No pedigree required. This was my destiny. From my book “ForexFusion” I had the following quote;

“On an average sunny morning, I shut down the lawn mower, walk across the driveway and into my Woodwork Shop/Office and sit down at my computer half an hour before a scheduled economic report. Then, I make a decision and get back to what I was doing with a fistful of cash less than an hour later.”

Three years have passed. I have shown thousands of people how to look for niches in the forex market. Beginners are swept away by the technical analysis crowd and predictive technologies that sound terrific but simply do not work well or consistently. Scams and worn out technical systems were carried over from other markets to the newly established forex industry where disclaimers and the lack of regulatory agencies provide fertile ground for cons.

The forex marketing industry plays on human weakness. Gambling fever. Marketers know we are impressed with authoritative polished images and understand most people cannot ever hope to understand how to trade. As you will come to see, we need losers. Forex, the way we trade it, is zero sum gain. Someone must lose in order for someone to gain.

I was making consistent money in the forex market trading economic reports and carefully recording what was happening. My niche is exploiting consistencies I knew I would find in the way the forex market operated. The first niche I used was called “straddling”.

Straddling must be the very first idea people come up with to give them an edge. In principle it is easy. Just place an order to buy above the current price, and an order to sell just below the current price. When a spike happens, your order is filled and you make money. It actually worked a few years ago when the brokers would guarantee stops and fills. Since then, there have been a few niches like TickTrading and Interest rate differential grid systems that have come and gone as well.

At the bottom of it all has been trading on the release of an important economic report that varied from consensus. These “events” would show huge price spikes that would consistently allow a person to make a trade before the market moved.

Not long ago, I was able to place a trade upon hearing the numbers and wait up to 60 seconds for the movement in the EURUSD. My how things have changed. My current system of trading requires a waiting time of about 30 seconds before making a trade. High spreads, whipsaws and plain foolishness happen these days in the first thirty seconds.

The logic is simple.

An official number is about to be released that will indicate the health of the economy in terms of jobs. The majority of economists expect the official government report to say 10,000 people have applied for unemployment benefits.

Until the official release of the unemployment numbers, everyone is guessing. No one is supposed to know the real numbers ahead of time. The official agency releasing the report takes serious measures to insure that no-one is able to get the numbers before the exact moment.

My assertion is that the consensus numbers are currently reflected in the price prior to hearing the official number. Even my broker doesn’t know what the official numbers will be.

The idea behind news trading is not whether the numbers are good or bad. It is the difference from what was expected by everyone. The surprise factor.

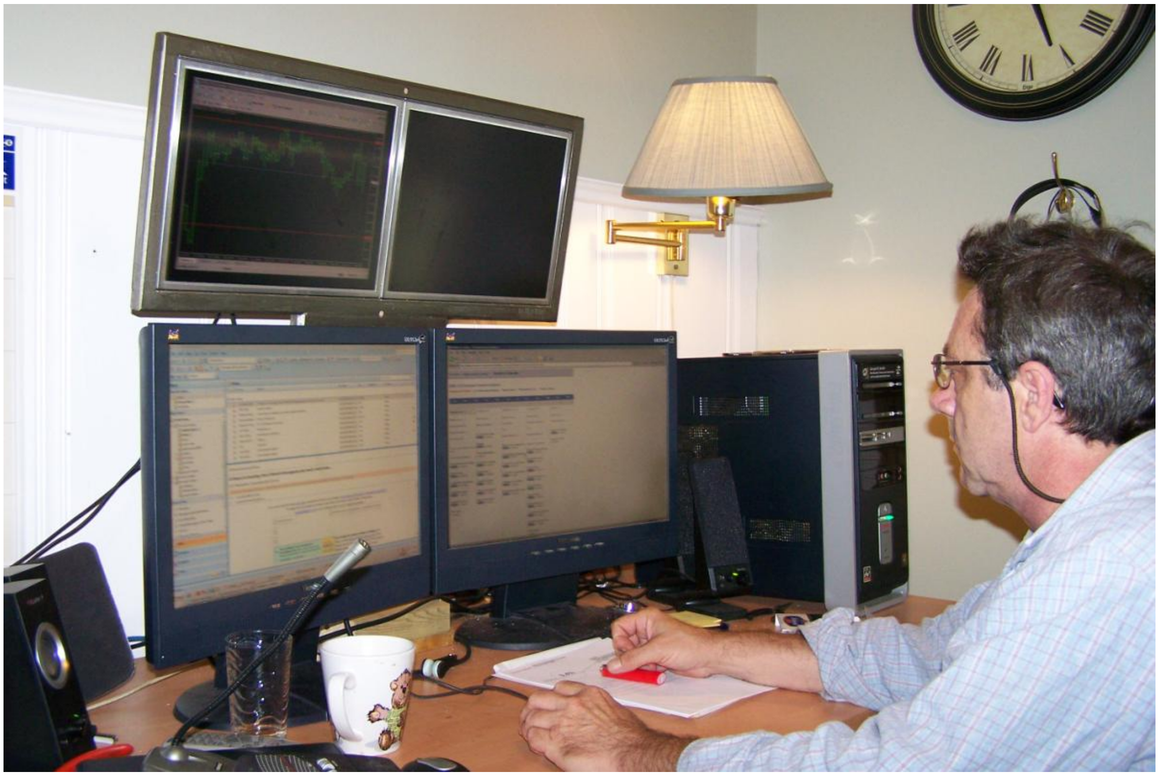
For years, I measured the difference between what was anticipated and the corresponding market movement to come up with a system of trading using “triggers” differences. Time and again, the market would move in a clear sustained, direction whenever the numbers showed a difference of X amount.

I don’t really have the financial need to teach people how I trade anymore. It seems that as I get older, I become more content with what I have and money takes a back seat to my enjoyment of my family and my life. I am not looking to change the behavior of traders. I am not interested in the additional work of sell millions of copies of this book. I hope to present to you something radically different than what you have been taught up to now.

My sense of responsibility is to the faithful people who took a chance and believed what I am about to talk about in this book. I have dozens of new friends for whom I have been able to clear away some of the smoke. Many have gone on to a profitable career in foreign exchange.

I hope this book will light a spark in your mind and someday ignite the raw intelligence. so that all of you will be able to learn the right way to trade – or keep the heck out of the market.

Forex is one of the most intensive markets to trade successfully in the world. The world of finance is brutal and you must be intelligent. Time staring at charts with foolish thoughts of riches is better spent learning from the people who actually move the real foreign exchange market.



The forex market and how it works;

1
Introduction

My name is Tom Yeomans. Some people may know me as CanadianTom from the old days when my son Tommy, and I were developing Linux embedded operating systems. As soon as the forex market became decentralized, and Internet connections were fast enough to trade the newly established forex market, I became interested in seeing exactly how brokers provided the technology to their clients and how they maintained the intranet of traders in their system.

My research into data feeds provided by the forex industry began when my son and I were contracted to provide an embedded Linux firewall for a trader in forex. Our software development company took second place as I got hooked on the markets. Here was a whole new industry and challenge that had never been available to people of my status and background. The elites and privileged that had dominated the markets for so long were about to face competition as a new breed of people entered the industry. I was, fortunately, was one of the new people.

In the beginning, I spent thousands learning how to trade forex with technical analysis and pattern recognition. Since I was a programmer I believed there had to be something, somewhere that could technically analyze the market and make predictions. I lost more money in my live forex accounts by trying to apply technical analysis methods and systems that worked perfectly on my demo.

Recalling my own losses and the sad stories of others who lost fortunes in forex trading using technical analysis, I sent a letter to my faithful “Harmless Strategy” members, who had been reading me rant and rave over the years about new technologies we were working on, and promised that I would keep them up to date on how I make out under the mentoring of my new fundamental thinking tutors.

As I became profitable using fundamental techniques, and gained knowledge about how things really worked in forex trading, I developed a strong aversion to technical analysis.

My first foray away from trading economic reports was currency correlations I called Tick trading. It worked perfectly for a while and provided a good income. I traded straddles back in the days when they worked, and I have used a variety of “non-technical analysis” methods to produce high probability, consistently profitable trades.

Trading the markets reaction to numbers expected during key economic reports is not a fly by night method of trading. Although a person has to keep up with the markets changing reactions to a variety of reports, my method of trading economic reports is a fundamental economic pillar of how markets work.

With unregulated retail forex brokers who have data feeds designed for different applications, we have to learn to live with our adversary/broker by understanding their limitations and exploiting their weaknesses. As I will show you, this is not only possible, but also practical, under the present circumstances. My system of entry and exits using the fundamental forces of the foreign exchange market works every day in my trading room as I teach an elite group of people to profitably trade forex. Students that trade with me during livetradecalls learn not to talk about technical analysis in the live conference room since they see how perfect our trades are without it.

I was ready to give up on forex altogether, until by accident I stumbled onto a recently retired bank trader who completely changed my thinking about trading forex, and my financial future. Jimmy was a currency trader for several banks in New York, and at the time I met him, he had just ended his career, and started trading his own money. We started out by telephone with me bearing the long distance charges from Canada to New York as he taught me how the bigger players think.

Since the beginning of 2004, I've been trading the foreign currency markets reactions to important economic reports. I am making more money in forex, than I made doing anything else for such little effort and time. I usually spend less than 30 minutes in a trade several times a week.

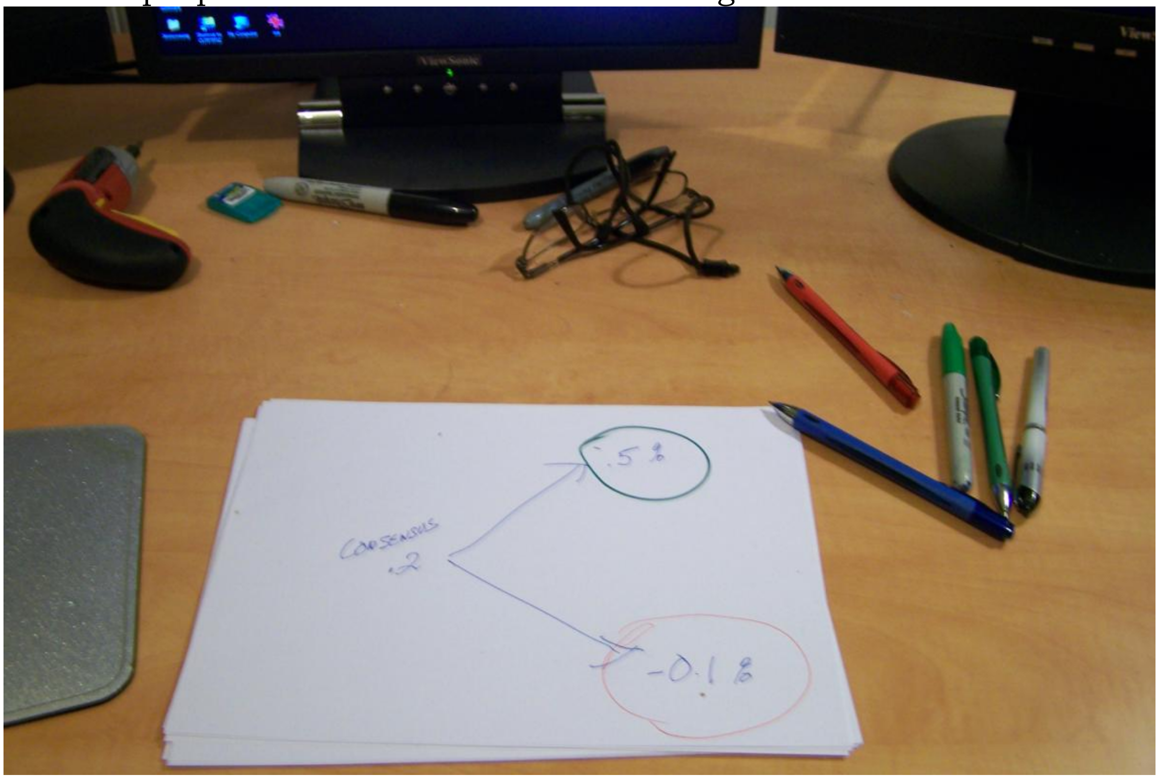
As I have learned to understand it, the reason traders fail is brainwashing by the marketing industry. Every forex trader is given the impressions that they have to be in the market at all times or they are losing out on something important. Old methods of small stop losses and hanging on for retracements came when brokerage fees were high and data was somewhat regulated. Money management methods and systems that worked well for other markets have flooded the forex industry.

Most traders are nothing but gamblers who spend hours staring at the screen, hoping to see some type of pattern or rhythm to the foreign exchange since they are taught by marketers, who do not understand the essential workings of the foreign exchange industry.

Often I am asked by people why no one else teaches them the things I talk about .My only answer is that they don't know. Also, I try to teach people to think for themselves and that is not popular or saleable.

When interviewed by an industry magazine, the head strategist for FXCM said he would be surprised to learn there is as many as 5% of traders making money consistently. My success trading the forex news reports made me wonder why almost nobody teaches it? Why is the Internet filled with nothing but technical analysis?

The only reason I can see is that people who trade the news make so much money they simply don't have time or desire to teach how to do it. Also, people want quick fixes, and the forex marketing industry is there to provide it. I guess the saying that successful traders trade, and the unsuccessful traders teach, holds true. I like to think of myself as an exception to that due to circumstance and a love to rant and rave to people about the wonders of the things I discover.



2
What moves the forex market

I am writing this chapter, with the assumption that everybody knows the basic terms in forex, such as pip and currency pairs. If you don't know the basics, please educate yourself before going forward with this book.

I suggest using Baby Pips or one of the many beginner mentors who will concentrate on developing a good money management plan and support the economic fundamentals behind trading foreign currencies.

The Forex market is a gathering of buyers and sellers. It's important to know who the big buyers and sellers are. They are obviously entities with the most money. I'd classify them as large speculators, (Banks hedge funds and carry traders) and big businesses.(Make note: Not currency traders in retail forex!)

The speculators move their money from one currency to the other, with a goal to make money. Big businesses move their money from one currency to the other, because of practical reasons, such as an American corporation converting dollars into euros to pay their employees or for an order in Europe. These orders are called “jobber orders”.

Teaching others to trade forex has taught me a great deal about the characteristics of the average forex trader. I guess you could say that it taught me how to be a better trader because of the organizational skills required to run a trade room and constant repetition of facts and strategies. Dealing with so many beginners’ shows me all the weaknesses and illusions they exhibit that contributes to their ultimate failure. In return, I further commit myself to not being like them.

I will try to make the things I am about to tell you clear and understandable to those whom “basic fundamental analysis techniques” are new. You do not have to have a high IQ to trade forex profitably. You will have to alter the way you think about foreign exchange and throw away a lot of the garbage you have already picked up in the marketing world of trading forex.

I have no axe to grind for brokers or any of the horrible traders turned marketers out there. As you will see, sadly, these losers are exactly why we will be able to make money consistently.

The forex market at every level is a Zero Sum Gain situation. Just like poker, there is X amount of money on the table.

I am going to be brutally honest about what it takes to successfully trade the forex market under the current conditions existing in April 2006 using the brokers and standard news sources available to us. The foreign exchange market, as we know it, has only been available to mortals like ourselves since broadband came into our neighborhoods. Forex-trading consoles only began to make it into our homes a few years ago and have experienced exponential growth due to massive advertising campaigns by the hugely successful and profitable brokerages opening around the world. By offering astronomical leverages and allowing ten-dollar deposits, they are able to fleece traders in an unregulated industry.

Fortunately, I have had the good fortune of being tutored and later developing relationships with professionals that had been in the market when things were different. I found that many of the important principles and clear fundamental thinking used in the old days is still valid.

However, I understand that much of the advice had to be filtered since their objectives and thinking were very different from my own.

One thing I found using a Market-Maker simulator, was that a bank trader has to have money always working during his or her shift. Although they used the experience and the guidance of a central authoritative figure on their shift called a “chief strategist”, who would guide them with pure fundamentals of market behavior at times. This forces them to rely on forms of technical analysis when fundamental movements cannot carry them through their shift. (I can understand their forced reliance on technical tools and acknowledge their objective of keeping their job by trying to predict the market however they can.)

I am not a bank trader or market maker. I am little ol Tommy boy, trying to get a little piece of the leftovers from the sharks as they demolish the technical crowds and bandwagon traders. It is not too hard to do, as you will see. My objective is to make some money from an upcoming move, get out and live my life for the day. I usually make more money in ten minutes than most systems claim to produce for the day at incredible risk of fluctuations.

I will never be the same sad sack chart watcher I started out to be. I do not sit and stare at charts trying to make sense of them. I don’t look for patterns that will magically predict what’s going to happen. I don’t tune in to message boards with the same Holy Grail seeking mentality crowds. I don’t want to be like all the losers looking to other losers for answers.

You will find me cruising central bank sites and reading the footnotes of bank president speeches. You will find me spending several quiet hours of research on an upcoming report. You will find me winning trades over and over and over again because I use common sense in a world where everyone has gone crazy.

With a win loss ratio determined only by my ability to think quickly, I only need to make a few trades a month to make a good living in the market. There are times when I can only enter a trade once a day or heaven forbid, once a week. But it doesn’t matter. If I can get the parameters needed for a high probability trade, or a combination of things happen that comes within my mental powers of simple deduction of yes/no. I am a happy and contented forex trader.

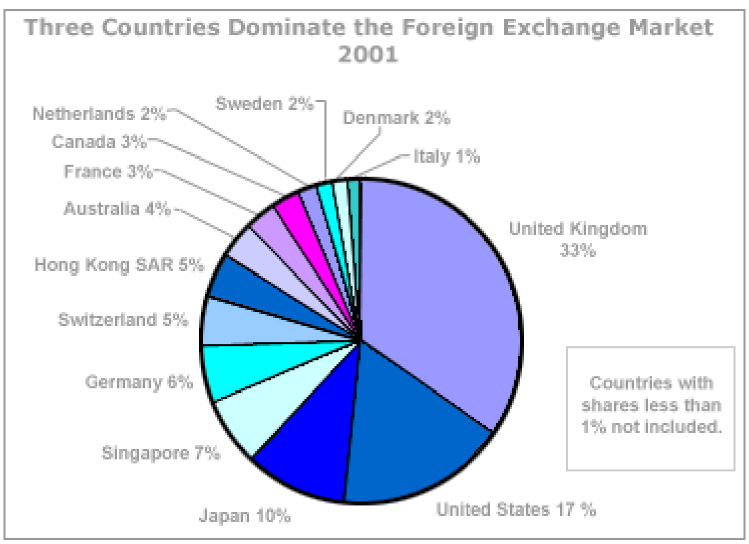
I don’t have a work schedule to follow or a boss to answer to. I have no objectives other than to make money by seeing some kind of opportunity that presents itself. This means If can find an opportunity every so often to make a good trade and easy money, put the petal to the metal eh?

Now, listen very carefully to what I am about to say…

The reason I have such a high ratio of winners to losers is that I do not make predictions or guess what is going to happen. I see the numbers, understand the meanings and I make a trade based on what I know will happen. I do not make trades using a technical indicator. I make trades using my brain.

Watching charts and trading forex is not my lifestyle…anymore. I use it to provide me with one. I pick a time when the market is most likely to make a move, which is usually on the release of an economic report, and I do some planning ahead of time to get a little piece of it.

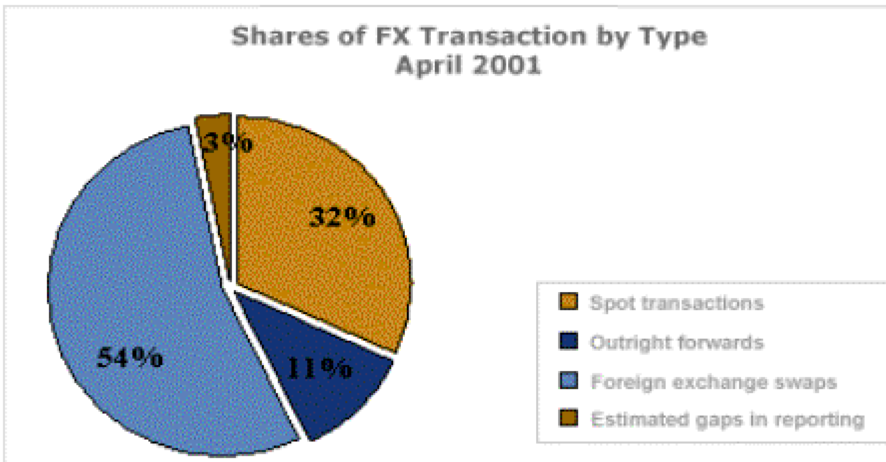
The mechanics of making trades is something you will have to wade through on your own using your brokers' manual. Each platform is different but they all follow the same routines. I usually make market orders with a huge stop limit and possible take profit targets. A stop is just an order. Keep that in mind.



We are trading currencies folks. We try to extract the difference between separate and quite distinct currencies that move up ad down in value. Spread trading the forex market is something people tend to keep quiet about since their methods and techniques usually involve some indicator carried over from the other markets where there was no spread against another quite different entity. Standard charts go up and down.

Up means good and down means bad. In forex, we can trade both up and down.

Currency price is not determined by emotions the way smaller markets like stocks and indices are. Many regulated commodities are ruled by the speculators desires and fears. Not foreign exchange. Central banks and professionals determine the price relationship of a currency based on easy to understand methods. What we see on our forex platforms is a contrived market. There is no single central authority for foreign exchange prices. This is good and bad.



Professionals and specialists with university degrees in economics determine the value of various currencies. We traders have nothing to do with it. We can only hope to find an opportunity or an edge by understanding how these folks determine a currency value, which is translated into a price. We only have to find an opportunity.

Understanding that we are buying strength or selling weakness of a currency, not a pair, is vital if you hope to become successful and last any amount of time in trading this type of market. If you don't know in a single glance whether the EURUSD rising is displaying US dollar weakness or Euro strength, then it is time to take a break from the charts for a while. That stuff is basic. I always talk about strengths and weaknesses of the individual currencies, not the pairs. When you hear me talk of a pair, I try to state clearly what currencies are involved using the standard process. I am not talking about an individual entity.

When big business needs to convert their currency, they don't care about the current price the way we do. They have a commitment and schedule that has nothing to do with current market prices other than trying to get a fair deal. When some of the larger transactions take place, the market moves. There are thousands of these types of transactions taking place all over the world every business day and there is no way to benefit from jobbers exchanging currencies unless we wait for the most logical time of day to do it. After an economic report!

However, we can benefit greatly by following the big speculators, because the speculators are in it to make money, and so are we.

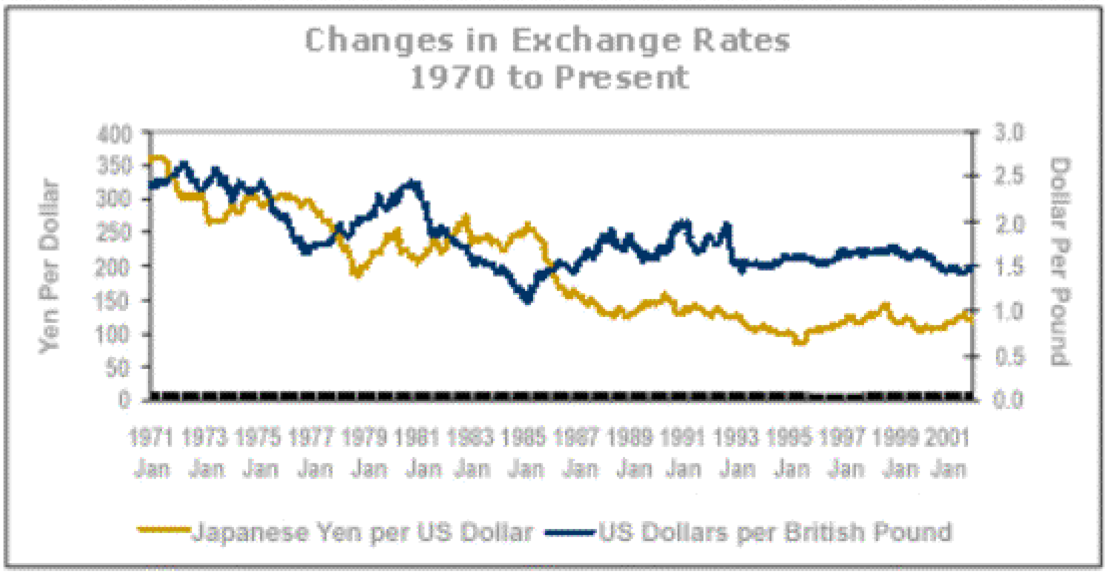
Who are the big speculators? They are large financial institutions and banks. They are hedge funds and interest rate carry traders. They are **NOT** retail traders like you and me. At this point, there are too few retail traders in the forex market to move it. The market doesn't even move one pip when you or I place a trade. If we want to make money, our job is to figure out what the big sharks are doing, and be on the same side as them.

If we want to figure out what they are doing, we better know what they are basing their decisions on. There is no way to know that, unless you yourself traded for a big bank before. I never traded for a big bank. However Jimmy Young, who taught me, sure did. And Jimmy said that the banks move large amounts of their money from one currency to the other, mostly based on the economic news. Isn't it logical that if we want to follow those banks' lead, we should do the same? Now, the next logical question that comes up is "Don't the banks get some insider's information on the news? Don't they get the news before people like you and me?" I have been trading economic reports since 2004, and from my experience, there are indeed certain countries that seem to work on insider's information, and there are others, like the USA, Canada and the UK who get their information at the same time as you and I.

Before I move on to the next section, I would like to talk about technical analysis, and why it doesn't work during news releases. I may be repeating myself but it is vitally important for you to understand it.

ALL THE DATA FEEDS from forex brokers ARE DIFFERENT! They even have a string of contrived feeds for different traders. Launch several demos or real platforms and see for yourself. One important thing I found concerning bank traders using technical analysis was that a bank trader has to have money always working during their daily trade times. This forces them to rely on technical analysis when fundamentals don't carry them through their entire shift. I can understand their reliance on technical tools for those times and acknowledge their objective of keeping their job by trying to predict the market. There are many retail traders that do the same as well.

The real issue here is whether you, as an individual trader can **consistently** capitalize on this knowledge. I am not a bank trader or market maker. I am trying to get a little piece of the leftovers from the sharks. If you simplify everything by just trading the economic news releases, it is easy to make money-trading forex. The hard part is to shake the feeling you have to always be watching the market or trading it.



3

How online forex brokers work

Another important topic that I cover is what actually happens when you place your trade through your online broker. If you are serious about trading forex, it's very important to know this because it's a jungle out there, and retail traders like you and I are at the bottom of the food chain. As far as I know, the forex market works in the following way.

I'll start from the top of the food chain, and work myself to the bottom.

There is a centralized market place, where all the big boys, such as banks get their information on the currencies exchange rates. This is the most up-to-date unbiased price source that only very big companies have access to. We normal people do not have access to it.

How indicators monitor the four pahsesBelow that, are your online brokers, who are market makers as well as market movers. What they do is they gather small retail traders like me and you, they give us prices, and we start trading against each other to some degree. The market makers try to keep the price close to where they think the actual price that's offered to the big banks is. However, that's a matter of reputation, rather than a matter of requirement. They are not legally required to give you the real price since there isn't one. They can make up their own price, and if they wipe out your account by doing it, you can't do anything legally, because the forex market is not regulated. Such price manipulation happens daily. Usually market makers don't move the market too much from where they think the actual exchange rate is, because they are afraid to lose business that way.

Whenever there are more sellers than buyers, or buyers than sellers, market makers usually fill the gaps with their own money, or with the money of their supporting banks. Market makers make their money, not only from the spreads, but also from trading against their clients

Brokers do not have a centralized feed to relay. They have their own feed, using reference points.

If you start making money consistently, some brokers will actually put you on “manual execution”. That happened to me and few other people I know. What does that mean? it means the end of your news trading career with that broker. If you can’t react to most news fast, you miss the bulk of the move. On manual execution, it means someone must approve your trade before you place it, which will take too much time. Close your account with a broker that puts you on manual through their dealing desk. The sad thing is that’s what the bucket shop broker wants you to do. They don’t want clients that make money consistently.

Most online brokers are casinos. They lose money when you make money! They don’t want your business unless you lose money. Why do you think most brokers don’t allow flexible lot sizes? Why do you think most standard accounts only let you trade in increments of 100K and not less? Imagine if you are at a casino, playing blackjack, and you have $5,000. Would you last longer if you bet $1,000 at a time, or would you last longer if you bet $10 at a time? I am sure everybody knows the answer to this question. And that’s exactly what the online brokers do to you. With most brokers on their standard accounts with a leverage of 100:1, you can only trade in increments of $100,000. Yes, there are mini accounts, but most of them limit your ability to place bigger trades, so you are forced to open a standard account.

Here is another one for you. Did you ever notice your trading platform freeze during a news release, prohibiting you to place any trades? Why do you think that is? “Supposedly”, it’s because of too many traders using the platform…but it immediately raises another question. Isn’t it true that most retail traders use technical analysis? And technical analysis teachers tell their students to stay away from news times. Doesn’t it make sense then that during news times, there would be fewer traders than during normal times? What do you think is the real reason a platform will freeze during news times?

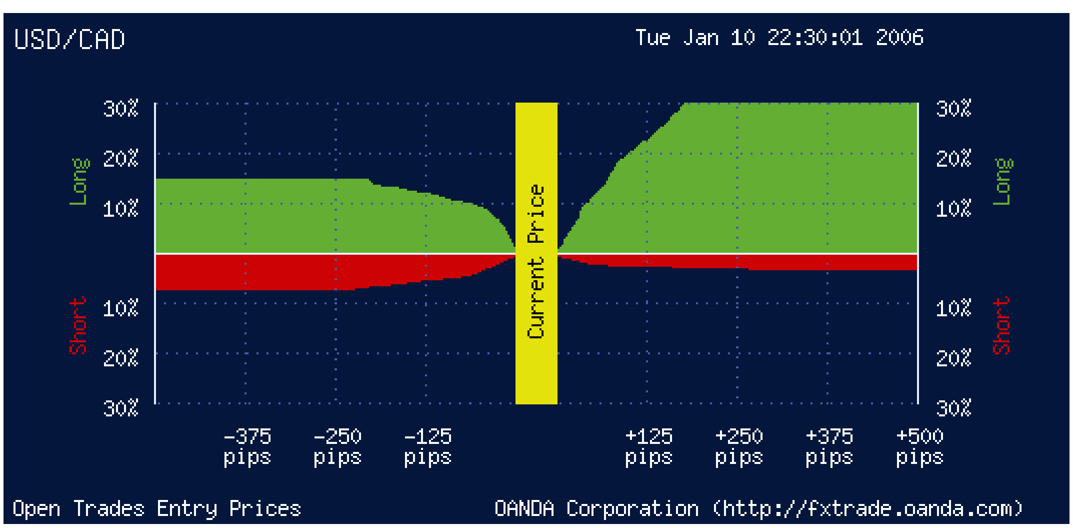
Did you also notice that most brokers don’t allow you to set up trading boundaries, meaning that every time you click a buy or sell button, you have the option to be filled at the best market price within 5 pips? Instead, what happens is that when you click the buy or sell button, there is a 2 to 3 second delay until your trade is executed, and if, within those few seconds, the market moves by a pip or so.

You get a message back, saying that your order wasn't filled, which loses you another 5-10 seconds from placing the trade again.

Is it just technology limitations? Not likely since Oanda does it. Or is it a well thought out strategy by online brokers tExamples of lagging indictors
o limit traders from trading the volatile moves they can't control? Are online brokers just really stupid people that forgot to provide these functions necessary for news trading? Or is there some conspiracy that's to eliminate winning strategies, which by the way, is the strategy that most banks base their decisions on? Fundamentals.

Most online forex brokers have Introducing Broker programs, where they pay a bit of each trade to the person who refers clients to them? Next time you hear some "reputable" forex guru recommend you to a broker, ask yourself whether they do it, because they really think that's a good broker? Or are they doing it to make money from all your trades.

There is a forex broker out there that has all the functions I mentioned above to help you trade the news. From their words, they don't trade against their clients, and it's in their best interest to keep people that make money, because they make their money on the spread. They don't have fancy marketing campaigns, free seminars or an (800) number. They also don't have an Introducing Brokers program, so there is no financial benefit for anybody to refer you to them. Their spreads are 1 to 2 pips tighter than most other brokers, simply because they don't have to pay out that 1 to 2 pips to their Introducing Brokers. Regardless of all those things, they are still the third largest forex brokers in the world. Oanda is the best I can find for my style of trading.



4
How I trade

People with huge amounts of money move the foreign exchange market. Not, as you may have been told, by tiny unimportant and insignificant forex traders like we. My goal was to understand how the real market movers' work and find vulnerabilities or consistencies. In other words, how to get a piece of what happens. I only need to capture a tiny piece of the movement created by these people after an economic report. Excellent high probability trades do not come every day, but when I am prepared, they are massively profitable.

I only make a trade when I am positive the market will move in a certain direction at a particular time. There are no shakes or emotions involved in the process. I know for certain, that the market will move when there is a difference between what was expected, (consensus) and the actual report numbers. I believe it is an initial shifting of their positions upon finding their experts were wrong in their consensus estimates.

Hundreds of traders have been trading live in the room with me during various economic reports that I have loosely classified as A, B, C. They know that I don't make guesses or trades using predictive tools or any type of technical analysis considered by the vast majority of today's traders.

Just about every trade I have made in the last six months has been a winner. (I lost an NFP trade or two from revision stupidity)The other loss was a six pip wrong call.) Losses happen of course, but they are few and far between. The reason for what seems like an impossible trading record is that I do not take chances with family food money. I am in no hurry to jump into a trade worth more than the value of my home. For this reason I have no desire to take chances or gamble on mechanical prediction machines.

I consider what I do the equivalent of driving a car. Sure, there is risk. But I am in complete control of the decisions I make concerning my trading money just as I am in choosing where to drive and how safely.

If all hell broke loose and I had no way to get out of a trade without losing everything in my account, so be it. If a catastrophic thing happened while driving, I would have insurance to cover it. Keep only enough money in your trading account to cover the trade sizes you want to make that week. If there is an A type report coming out, and my style of trading is new to you, play it safe and make dollar or less pip trades with low leverage. You should be able to start out small and build your confidence slowly so you can take on larger trades with no hesitation.

Thinking that some move is going to happen and you are going to be there with all you have is a loser's way of thinking. I keep enough in my account at one time to make my trades. That's it. This way, if a horrible Refco thing happened to me, I could cover the loss and move on to another broker. (My heart goes out to the poor RefcoFX buggers who were faithfully following a money management system and slowly building their accounts.)

It is no good to ask me how much I expect to make next month or try to compare with how I do. What you will make using some of the things in this book is impossible to guess. All I can say is that I try to capture as much of an expected move as possible while keeping in mind all of the things can go wrong. The market gives what it gives under the vast array of circumstances involved in an event. Each report and each month is different. Maybe that is what intrigues me about trading.

Fortunately, I have had the pleasure of being tutored and then developing relationships with professionals that had been in the market when things were different. I found that many of the important principles and clear fundamental thinking used in the old days is still valid. However, I understand that much of the advice had to be filtered since their objectives were very different from my own.

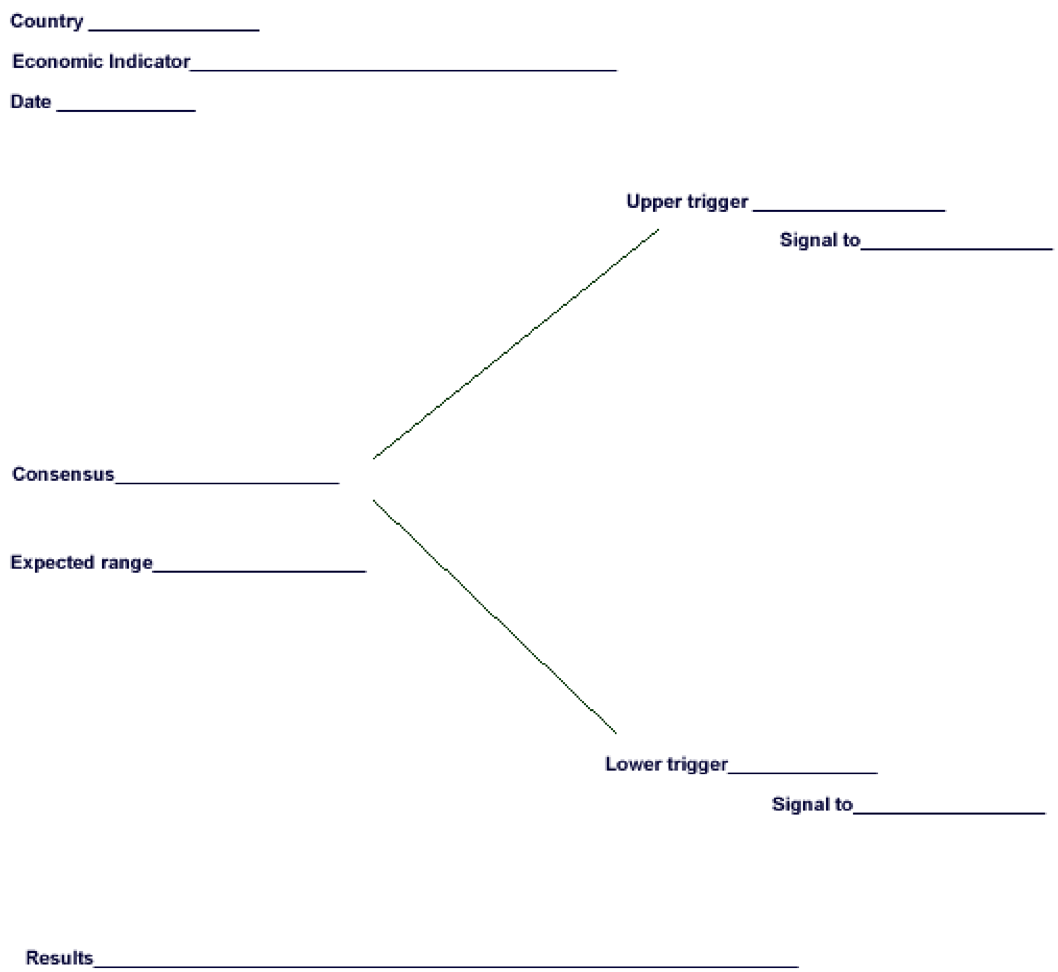
I only need to jump in and out of the market once a day or even once a week if I can get the parameters needed for a high probability trade. I don't have a work schedule to follow or a boss to answer to. I have no objectives other than to make money by seeing some kind of opportunity that presents itself. This means if I can find an opportunity every so often to make a good trade and easy money, put the petal to the metal eh?

Now, listen very carefully I will repeat it…

99% of the trades are profitable, and the other 1% that are bad judgment, The reason I have such a high ratio of winners to losers is that I do not make predictions or guess what is going to happen. I see the numbers and I make a trade based on what I know will happen. I try to place my trade immediately after the spread goes down and the first initial spike has retraced a bit to let me in. (November 2006)

I do not make trades using technical indicators. I make trades based on the difference between what was anticipated and the actual.

Watching charts and trading forex is not my lifestyle…anymore. I use it to provide me with a lifestyle. I pick a time when the market is most likely to make a move, which is usually on the release of an economic report, and I do some planning ahead of time to get a little piece of it.



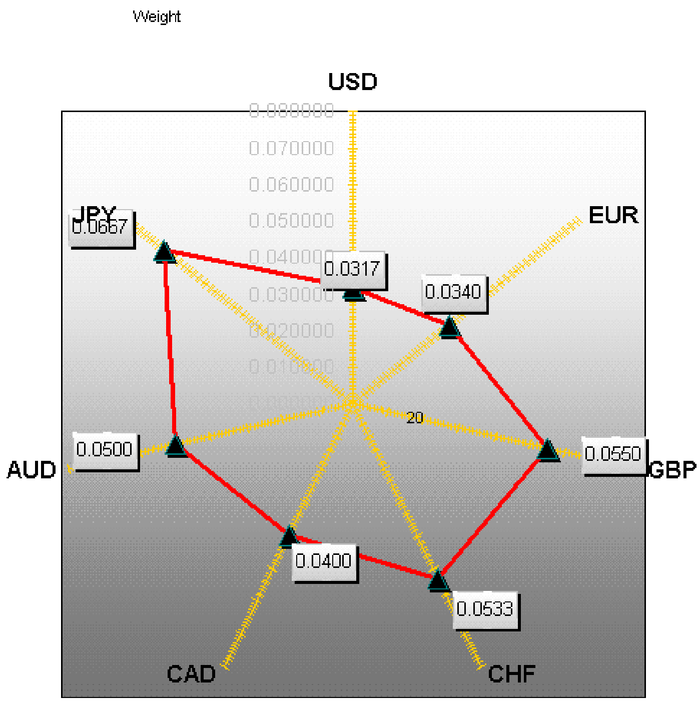
The mechanics of making trades is something you will have to wade through on your own using your brokers' manual. Each platform is different but they all follow the same routines. I usually make market orders with a huge stop limit and possible take profit targets. A stop is just an order. Keep that in mind.

I will tell you about several interesting edges that currently exist in the forex market that are based on your understanding what it is you are trading.

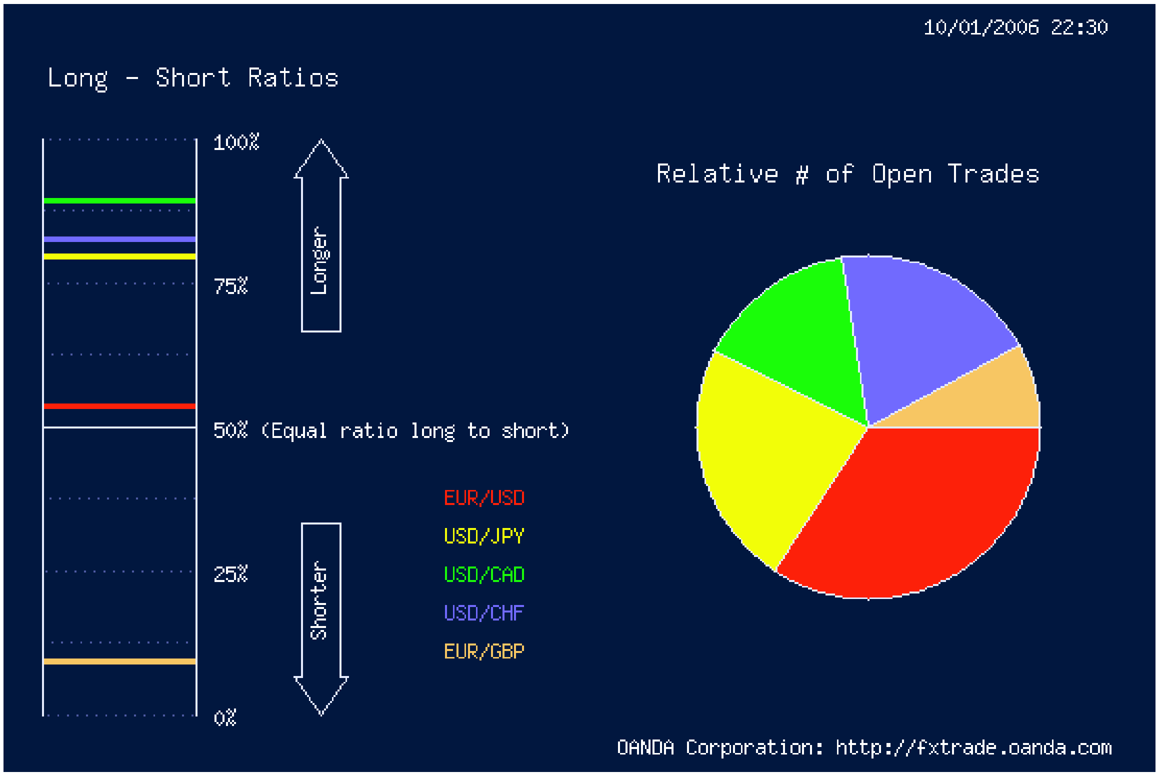
We are trading currencies folks. We try to extract the difference between separate and quite distinct currencies. Spread trading the forex market is something people tend to keep quiet about since their methods and techniques usually involve some indicator carried over from the other markets where there was no spread against another quite different entity. Standard charts go up and down; up means good and down means bad. In forex, we can trade both up and down.

Currency is not determined by emotions the way much smaller markets like stocks and indices. Most commodities are ruled by the speculators' desires and fears. Not foreign exchange. Central banks and professionals determine the price relationship of a currency. What we see on our forex platforms is a contrived market. There is no single central authority for foreign exchange prices.

Professionals and specialists determine the value of a country's currency. We have nothing to do with it. We can only hope to find an opportunity or an edge by understanding how these folks determine a currency value, which is translated into a price. We only have to find an opportunity.



Understanding that we buy strength or sell weakness of a currency, not pair, is vital if you hope to become successful and last any amount of time in trading this type of market. If you don't know in a single glance whether the EURUSD rising is displaying US dollar weakness or Euro strength, then it is time to take a break from the charts for a while. That stuff is basic. I always talk about strengths and weaknesses of the individual currencies, not the pairs. When you hear me talk of a pair, I try to state clearly what currencies are involved using the standard process. I am not talking about an individual entity.



1. Preparation and execution of trades

When you are preparing for a trade, there are three things you need to know.

First;

Learn to recognize which news releases or economic indicators are tradable. This comes from my own experience, and I listed all the economic reports that I trade in the appendix. All economic reports are listed on websites at least a month in advance. My students favorite website for report times (Called an economic calendar) is www.forexfactory.com.

http://personalagent.com/tradecalls/dailybookmarks.htm

ECONODAY 2006 U.S. Economic Events & Analysis

Resource Center » U.S. & International Recaps | Release Dates | Why Investors Care | Today's (

Why Investors Care

Market Moving Indicators

- Consumer Price Index
- Durable Goods Orders
- Employment Situation
- FOMC Meeting Announcement
- Gross Domestic Product
- Housing Starts
- Industrial Production & Capacity Utilization
- International Trade
- ISM Manufacturing Index
- Personal Income & Outlays
- Producer Price Index
- Retail Sales

Other Key Indicators

- ADP Employment
- Bank of Canada Announcement
- Bank Reserve Settlement
- Beige Book
- BOE Policy Meeting Announcement
- Business Inventories
- Chain Store Sales
- Challenger Job Cut Report
- Construction Spending
- Consumer Confidence
- Consumer Credit
- Consumer Sentiment
- Corporate Profits
- Current Account
- ECB Policy Meeting Announcement
- EIA Natural Gas Report
- EIA Petroleum Status Report
- Employment Cost Index
- Existing Home Sales
- Factory Orders
- Farm Prices
- FOMC Minutes
- Help-Wanted Index
- ICSC-UBS Store Sales
- Import and Export Prices
- Index of Leading Indicators
- ISM Non-Manufacturing Index
- Jobless Claims
- MBA Purchase Applications
- Money Supply
- Monster Employment Index
- Motor Vehicle Sales
- NAHB-WF Housing Market Index
- NAPM-Chicago
- New Home Sales
- NY Empire State Index
- Pending Home Sales Index
- Philadelphia Fed Survey
- Productivity and Costs
- RBC Cash Index
- Redbook
- State Street Investor Confidence Index
- Treasury Budget
- Treasury International Capital
- Treasury STRIPS
- Wholesale Trade

Second;

You must know the type of report that is being released and how it fits into the overall picture of the economy.

GDP	GDP is the value of all final goods and services produced in the US. It is the broadest measure of economic activity and thge principal indicator of economic performance.
Trade Balance	A measure of Trade between US and the rest of the world. In its simplest form the difference between exports and imports.
Non-Farm Payrolls	A component of the Bureau of Labor Statistics Employment Report which is the single most important report on economic activity.
CPI	This index measures the change in prices for a fixed basket of goods and services, which is purchased by consumers.
LEI	A composite of economic variables designed to signal turning points in the economy. As a rule of thumb, three declines in a row are interpreted as signaling a recession (with an average lead time of about 12 months).
ISM Manufacturing	Approximately 300 companies are asked to comment on the relative growth of five categories relating to the manufacturing sector. Results over 50 are bullish, whereas results under 50 are bearish.
ISM Non-Man.	Growth survey for non-manufacturing sectors.
Industrial Production	Primarily a gauge for manufacturing activity, measures the total output of all factories, mines, and utilities. This indicator is extremely useful for predicting shifts in overall economic cycles, and can be used to gauge changes in GDP.
Durable Goods	This indicator measures the total number of manufacturers' orders for durable goods, which are defined as goods with a foreseeable lifespan of three years or more. It acts as a gauge for manufacturing activity.
Empire State Manufacturing	Participants from a variety of industries within New York state are asked to evaluate current and upcoming conditions.
Philly Fed	A survey of manufacturing in the Philadelphia Reserve Bank district. An especially important component is he current general activity index
Existing Home Sales	A private report on sales of previously owned single-family homes. Along with new home sales as an economic indicator.
TIC Report	Treasury International Capital (TIC) report which shows the monthly data on net foreign purchases of US securities
Personal Con.	Consumption consists of purchases of goods and services; it accounts for two-thirds of GDP.
U. Mich. Con. Confidence	This survey asks consumers to evaluate the overall business climate as it pertains to their own situation. There is a direct correlation between consumer sentiment and the growth of consumer spending; the latter is especially important because it makes up two-thirds of GDP.

Key Economic Reports

The federal governments and private groups release dozens of economic reports on a weekly or quarterly basis. Each is a barometer that measures the activivty in a particular segment of the economy.

Key Economic Reports List for USA

Non-Farm Payrolls
Trade Balance
Current account
GDP
Personal Income and Outlays
Retail sales
Consumer Price Index
Durable Goods

Key Economic Reports for the UK

Trade balance
CPI
Retail sales
Current account
GDP

Key Economic Indicators for Canada

Monthly GDP
Labour force survey
Trade figures
Retail sales
CPI

The economic reports above have shown they will move in a clear, sustained direction if the difference between what is expected and what the actual report meets or exceeds a "trigger" number.

1

Third;

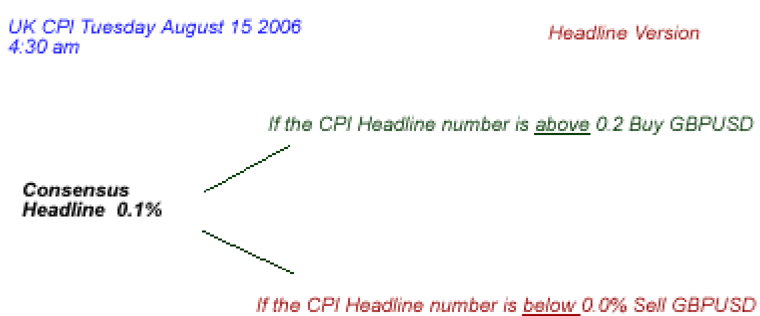
Find out the exact time it's being released (in your time zone) so you can be in front of your machine before the report is released. You would get the time of the official release from one of the calendars above.

Next, you will need to figure out what's expected in the release this month and last. Find the difference between the actual number and the expected numbers on the release? What should you do if the number is higher or lower? For example, if retail sales were expected to increase by 2%, but only increased by 1%, the currency usually shows weakness. If the retail sales came out 3%, instead of 2%, the pertaining currency shows strength.

The problem with forecasts is that different news websites will have different forecasts. These numbers are called "economist expectations". It's your job as a trader to browse through as many different expectation numbers as possible, and find the number you will use for the trade. Figuring out the correct forecasts can't be systematized, you have to use your brain, and pick the number from experience and through my sheet of past moves. I use the following websites to determine the forecasts for economic releases:

http://www.forexresourceguide.com/fundamentals/fundamentals.htm

After we determine what's expected for a particular news release, it's our job to figure out triggers, or variations that will tell us whether to buy a currency, sell a currency, or not to place a trade.



Triggers can't be systematized either, my triggers come from trading since 2004. For example, if the retail sales were expected to increase by 5%, but they increase by 5.1%, this number is better than expected, but historically I see that it's not significantly better to move the currency. Therefore if this happens, it may not be worth placing a trade.

The bigger the difference from the actual number released and the expected number, the larger the move created, and the safer the trade becomes. Let's say if the difference is only 0.1%, the market may only move 5 pips, or not move at all. This trade is risky, and not worth it. But if the difference is 10%, the market can move one direction 100 or 200 pips! That's a very safe trade, and you can put a lot of faith in the trade. The triggers vary for each economic release, and as you trade the news consistently, you'll start understanding it from experience.

EXAMPLE OF SHEET OF PAST MOVES USED TO DETERMINE TRIGGERS

Time	Description / Short Comment	Con	Act	Diff	Trade	Pre-release Price
	Retail Sales					
0830	Nov	(0.1)	(0.3)	(0.2)		1.3124
0830	Ex-autos	0.1	0.6	0.5		
0830	Dec ; 8:30am U.S. Durables difference -3.3	(0.5)	(1.2)	(0.7)		1.3380
0830	Ex-autos ; Responded to bear news despite bear USD news	0.4	(0.1)	(0.5)		
0830	Jan ; Responded to bullish news	0.4	1.6	1.2		1.3232
0830	Ex-autos	0.4	2.2	1.8		
0830	Feb ; Responded to bullish news	1.0	2.3	1.3		1.3511
0830	Ex-autos	0.5	0.5	0.0		
0830	Mar ; Responded to bullish news	0.8	1.2	0.4		1.3665
0830	Ex-autos	0.4	1.0	0.6		

Numbers in red are negative numbers.
Numbers in black are positive.

Comments made after release of Economic report we are examining. This is what happened.

We are trying to determine the difference between what was generally expected, and the actual number reported.

Pre-release price menas the pair price immediatley prior to the report. For USA reports, the eurusd is used. For Canadian economic reports, we use usdcad prices and in the UK, we use prices for the GBP pair.

The next step in preparation for a trade is the news service that you use to get the live economic news. This is absolutely crucial. Most brokers offer news release news for free. They usually delay their feeds. The real question is how fast you can get the news. If you are out by even one minute, the opportunity is gone; the market already moved. If you want to get the news right away, you probably will have to pay for it. I recommend the following news services:

www.needtoknownews.com
This is an audio news provider. The subscription costs between $175 a month through our special link. Their current focus is only on U.S. news, and you get them pretty much instantly from the actual release. It's an audible service, so you listen to the numbers.

http://tradethenews.com

This is my favorite provider. The price can be discounted by mentioning my name since I have an agreement with them to pass along savings to referrals. Tradethenews will provide a text based system as well for confirmation of the audio signals. Also, they provide instant audio news for European releases.

Trade the News discount link and coupon code for your students.**The discount they give my students...**
30% off Audio Product = Reg $175/mo w/ discount $123/mo
10% off Headlines Only = Reg $40/mo w/ discount $36/mo

People who subscribe through the website should use **YEO3006**

http://newsstrike.com

These are free and can be used for practice but delays come on the important numbers or in the case of newsstrike, they only cover the US reports.

I always use at least two news services on each trade. One is audible, one is in written format. I use whichever one releases the numbers first or use one to back up the first. All official government economic reports and NGs have their numbers posted on the web for free access by the public as well.

The next step in your preparation for a trade is the online broker that you use to place your trades. There is only one online broker that I found that does the job overall. OandaFX Corporation. Their website is www.fxtrade.oanda.com

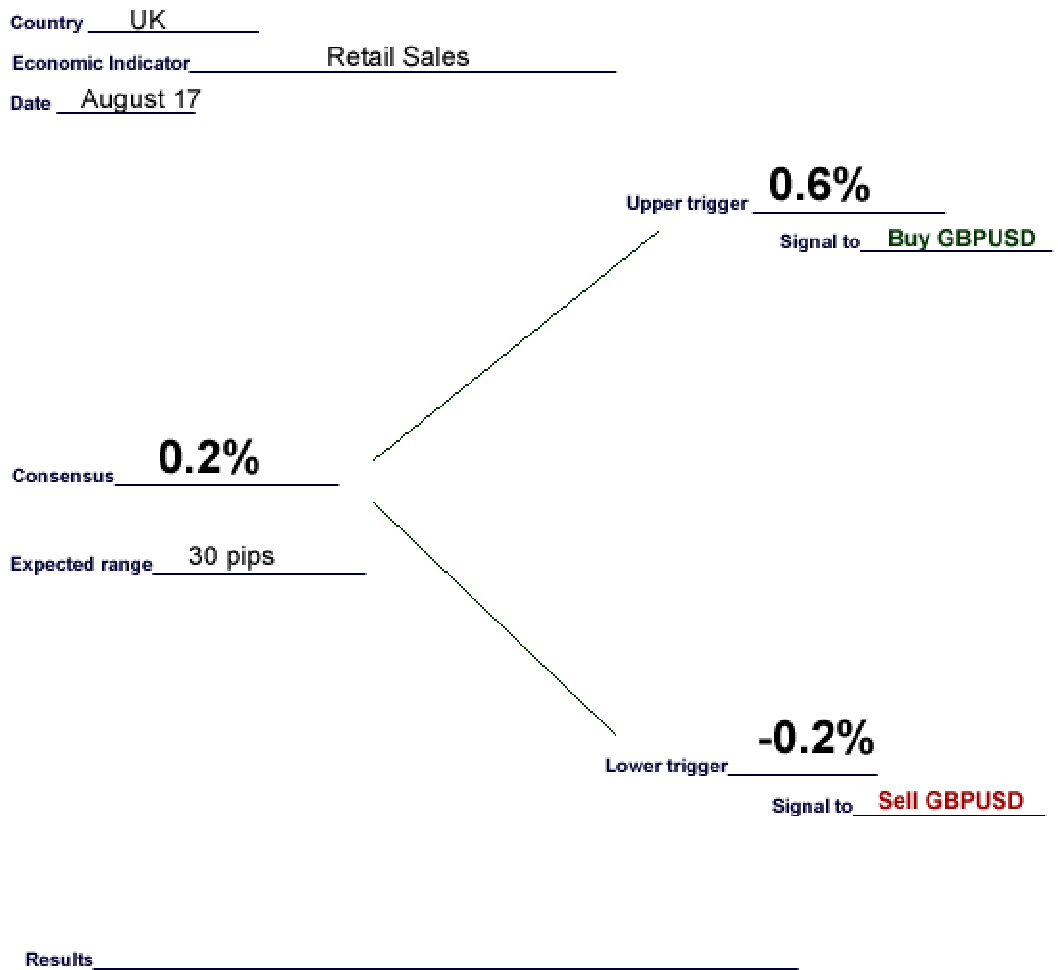
First of all, Oanda doesn't trade against you, so they don't care whether you make money or you lose money. They make their money on the spread, so if you are profitable, they have no reason to kick you out. They welcome scalpers unlike the others.

Another great thing about Oanda is trade lot flexibility. You could put anywhere from $1 to $10,000,000 on a trade. They use 50:1 leverage, which is the maximum. Also, on each trade, you can set up boundaries of slippage or percentage of your account to fill your orders. Slippage is something brokers do not like to talk about but is a reality during volatile times.

Understanding and properly setting your maximum slippage keeps them from filling you at the top of the bounce or spike like the others. This way, you can actually place trades during volatile times. You could specify to fill your order at best price within 10 pips or 5 pips, or whatever other number of pips you desire, and you will get filled, as opposed to most other brokers who will give you an error message that your order was not triggered, because the market has moved by one or two pips.

JOHN MAULDIN'S
Thoughts from the Frontline

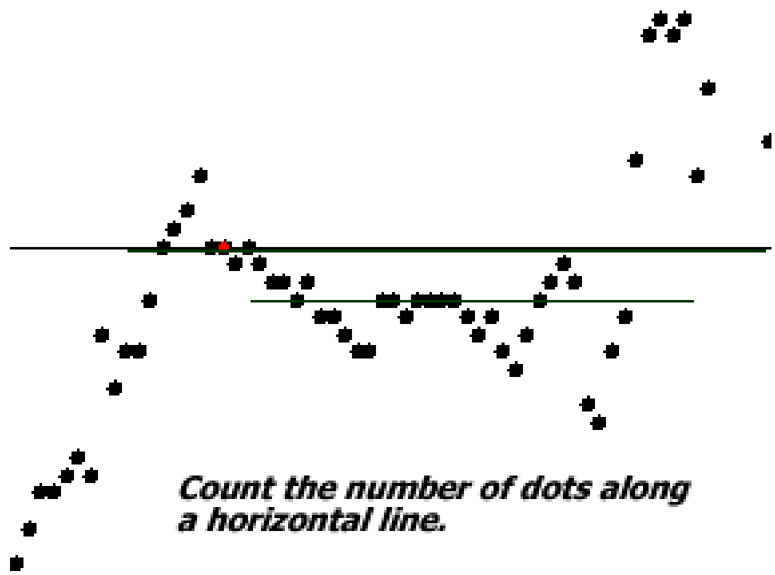
A very good free subscription service. Thoughts from the front line.



When you hear the numbers come out, it's very important not to rush and make a bad decision. Take your time, let your brain register what happened, see if it hit your trigger, make a decision whether you should buy or sell a specific currency, and only then execute your trade. There is lots of reports and no move is that important. Learn using penny pips on a live account and move up slowly as you gain confidence in the numbers.

Obviously I have to do as much as possible to make sure I am prepared to hit that buy or sell button when it's time to do it. Therefore I make sure I have at least two market order windows open on Oanda. One buy, one sell. I enter the numbers I want to buy or sell, et cetera. Sometimes I have four windows open, two for buy, and two for sell. I have different lot sizes entered in each window. That way if the news comes out much different than expected, I will place more money on a trade.

To exit my trades, I use strategic price points I developed and refined over the years, which I call anchors.



5

Anchors

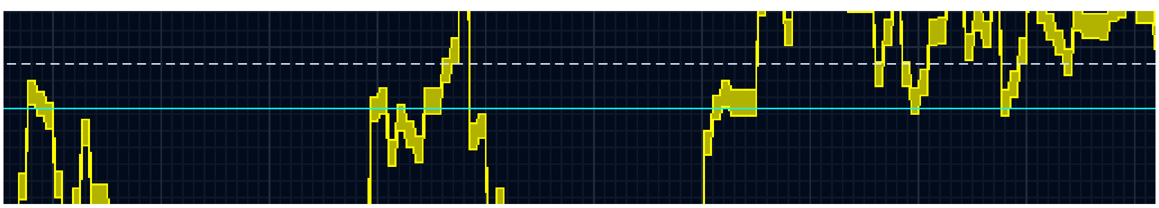
Anchors are an excellent way to determine an exit. I have no idea whether they work on entries since I only enter on the numbers, but they work perfectly for my exit points. Sure, the market may go on, and sometimes it turns precisely 180 at an anchor. Either way, it doesn't really matter. It is the point where I take my money and walk away until another day.

Many of you often hear me talk about old school ways of thinking and poorly converted stock market indicators on our forex platforms. I will usually dismiss the use of technical indicators for this type of trading (in their current and traditional form.) I personally do not believe that any technical based, mechanical system no requiring you to use your brain and disregards fundamental laws of supply and demand is capable of consistently winning trades. Not only is the data using the majority of forex brokers, contrived to fit their trading platforms.

I have witnessed people using technical indicators and a clean system of entry and exit, exploit a consistency they have found. My way of trading economic report numbers is a consistency. So are anchors.

Anchors are nothing but a consistency. Count the number of times the price has reached, exceeded, or retraced a horizontal position.

Determining anchors is a fuzzy thing at best, but it is a consistency. It is neither support nor resistance. It is not a pivot or any other common technical area. It is an area where the market has shown a tendency to dawdle around. When I set the anchors, I am not looking at exact levels. I am scanning the close price band on the Oanda charts through various time frames looking for the areas where the price has a tendency to be attracted to and show a habit of hanging around. It is an exit area for my trades.



Calling it support or resistance implies that I somehow know what the price will do once it reaches it. I don't know what's going to happen after it gets to the anchor. I just know that if the market has enough momentum, it will more than likely go to that level. Support and resistance levels require too much precision for no good reason. It is the area I focus on, not an exact price. Since I want to know where to exit, the anchor is a good place to do it when the momentum has began to wear off. I usually tell everyone in the room my anchor spots and will watch for decreased momentum around an anchor. I will usually bail out there. Others may want to ride the market longer but the anchor spots I make seem like a good place for me to get out. I do not like to ride retracements. So I can get out if the market slows down and decide later since I know the price will more than likely hang around an anchor before going again.

Maybe it is the market makers gobbling up all the support and resistance people. Sitting and waiting at certain areas getting all the orders they can before moving on. I don't know and I don't care. I just see them as good exit spots since I don't want to stay in the market any longer than needed to get my money.

If you are currently signed up for my trade calls, I usually start my call 30 minutes before the news release, and I tell people what numbers are expected, what my triggers are, what the anchors are, and I even tell people in real time, what trade I am placing and when I am exiting.

I have live audio news going in the background, so the people who didn't sign up for a live news service yet can hear the live numbers. I consider these trade calls is the next logical step for anybody who wants to learn from me, if you are still not signed up for them, I strongly recommend that you do.

Friday March 16 2006 Release Time (NYtime) ***9:15 am - 9:45 am***

Report *Industrial Production / Capacity Utilization*
The University of Michigan's Consumer Survey (preliminary)

What is Expected

Industrial production is expected to come in at 0.9%
Capacity utilization Forecast 81.5 percent. Range: 81.2 to 82.1 percent
Consumer sentiment is widely believed to come in at 88.0

Based on last month

Last month Consumer confidence fell 4.5 points. The consensus is for a range of 86 to 90 this month.

Industrial production also fell in January although many are looking for a rebound with their expected postive figure of 0.9%

Additional reports *Weekly leading index - no concern*

Trade strategy

Focus on seeing both Industrial Production and Preliminary Consumer Sentiment coming out above or below expectations.

Above the consensus for both will indicate a Sell eurusd condition and both below may show us a Buy condition on the eurusd. I don't think a single report will do much on its own but I will call it when we see the numbers.

At this stage, I believe the trade should be made once I know what the numbers are from the Michigan report coming out 35 minutes after the Industrial production figures.

I will not wait for the leading indciators report. It will not likely do much and things will already be over by the time it gets reported.

2. Money management

News trading and money management.
Arrogant or sensible?

The essence of any system is its ability to produce profits on a consistent basis. Everyone currently trading is told over and over again that you must rely on a mechanical (type) system with clear entries and exits combined with a system of money management approved by the pencil pushers instead of his or her brain. Sure, the brain is involved in designing and learning the system. But after that, they tell you to stop relying on your brain because emotions get in the way.

Every program or system of trading taught to the masses I have ever seen will lay out the groundwork for a method of trading that every so-called expert will agree has all the rules required to give you a better than even chance of a return on investment. They size it up for clear entry signals and firm rules of trading. Anyone can follow it.

But here is the catch, go out and do the research. I am sure everyone reading this who has even glanced into trading money management has seen it. These long time, professional money managers, system designers and money management experts tell me I can reasonably expect a good, reliable system to produce, at best, 10% or so return. One person says a 45% annual return has people beating down the door. However, the sad truth is that most funds and speculative concepts actually lost money last year and the year before.

This is where I have been having a hard time applying money management to the way I trade. My beautiful and brilliant wife Terri, who, by the way, was not only a home school mom, organic produce farmer, hobby gardener, soap maker, excellent drywaller and financial whiz with our money; She also took her CSC (Canadian Securities Course) and commerce degree at St. Mary's University in our province. Last night, while suffering from a stomachache, I explained my money management dilemma to her. And her answer was as perfect as she is!

"Money management is everything to any long-term business or investment. Manage the money that is brought in from the investment or business. All those money management systems are just rehashed boilerplates of normal business plans. Projections you would normally take to an investor or the bank for financing."

The various systems for money management I have been mulling over are making the same mistake the technical crowd is making. (In my experience and opinion) Everyone wants to make predictions. Everyone is trying to fit things into neat little compartments with rules so they don't suffer from that horrible beast called emotions or God forbid, thinking on your own.

You see, I don't trade using emotion. I used to in the beginning. I now trade with numbers and my brain. I try to become better with each trade I make. I fully expect to make more this month than I did last month and I can tell you now, that if I rigidly held to the same rules of entry and exits that I did last year and never tried to improve my ability to trade, I would not be here writing this. You would probably find me folding sweaters at WalMart.

Maybe everyone else in the world of trading has a problem controlling his or her impulses when it comes to trading, but I don't! Ask any of the hundred or more people who have traded with me. When the lunch my kids will be taking to school tomorrow may be hanging on a trade I am about to make, believe me, I'm not itching to get into a trade where I don't know what is about to happen. I guess the gamblers out there with fulltime jobs to support their trading can jump in and out of the market based on some mindless system of trading currencies, but I can't.

Another thing I don't do is take risks or try to predict.

I make trades solely on the result of the numbers and my observation of the immediate circumstances surrounding economic factors at work at the time of the trade. All of the money management advice and systems I looked at were based on predicting and getting some type of ratio for wins and losses. Just like the technical analysis crowd. The sheets, the programs, the articles all made assumptions based on predictions. I don't predict, I respond.

I know that my particular method of trading short term, high frequency moves has an unbelievable (to most people) record of successful trades. However, I can't predict the future so I can't even guesstimate an average move to be had next week on a particular report. My sheet will tell you what has happened in the past few years, but as you may have noticed, it is very hard to tell how much of a move you will get until the time comes.

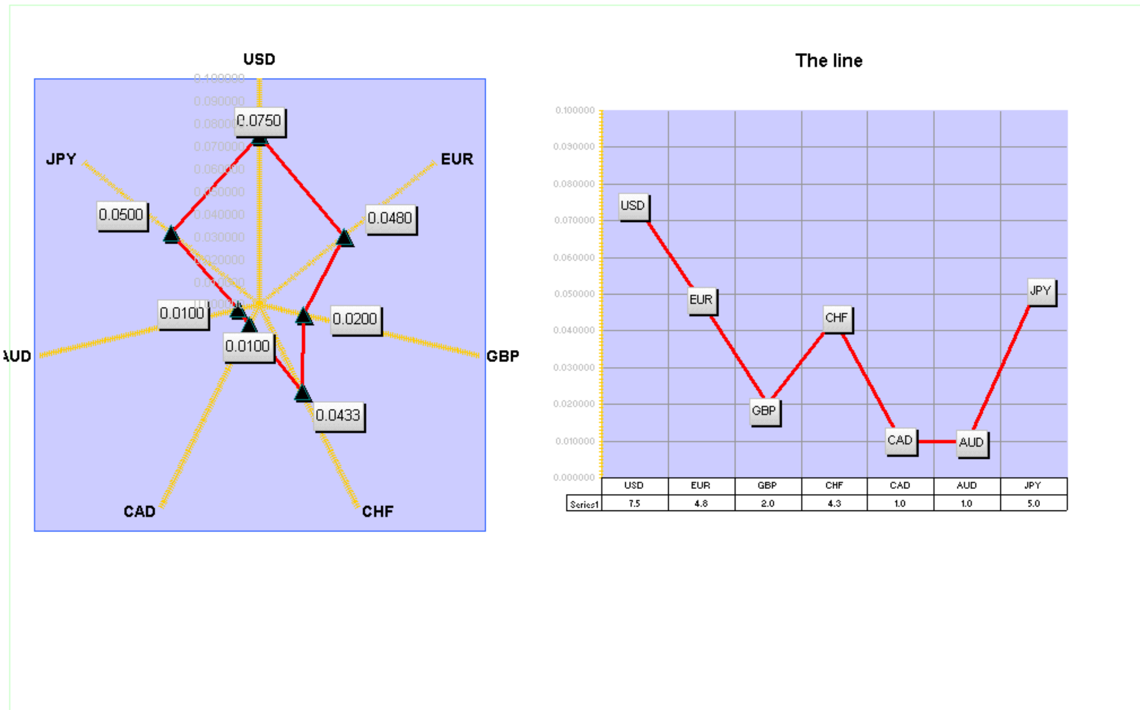
I have often had people ask me what my risk to reward ratio is. Another popular question is my rate of return. Huh? I usually explain that it is all on the fly. I use my brain for that stuff. Every trade is different and every trade I make, I adjust to compensate for the differences, as I perceive them. So, to make a prediction on how much I will make next week, what the risks and returns will be…well, you got me there.

I know what's coming up this week for good report trades. Mind you, I have been trading them every month for years. Yet, I could not even hazard a pip amount I will get from them since I know the market will give X amount depending on X factors. I know the only real way to fill in the X, is after it's over. Once I am out of the trade, I am closed up for the day.

Here comes Terri's simple, yet powerful idea. She is the one who does all the accounting for my trading account. She is the one who decides how much to keep in and how much to take out. I chauvinistically made the assumption that since I was the guru of trading in the house, it was up to me to find answers when all along, without realizing it, she had been applying money management for me. Here is what she does:

She takes everything out of the account and leaves enough for me to trade with. She doesn't know how to trade, nor does she want to. One trader in our family is enough. When I complain about how I wished there was more to have loaded up on some report I was talking about, she leaves a bit more in the next time. All the while, she manages my account like a business applying all the rules any household budget employs. Since, it is a business and not a hobby. While I have been out looking for the perfect money management system, which doesn't even gel with my style of trading, Terri has been quietly managing what I made last week, not worrying about what I am going to be making next month or this year. No spreadsheets of what I should be aiming for. God love her, she just assumes that I will make more money as time goes on and deals with what we have in the here and now.

The answer to market movement is the same as money management. Spend more time making sure your trades stand a high probability of success going the way you expect using your brain than worrying about money and goals you haven't reached. Try to become the best you can be and let the other stuff fall into line once when the money begins rolling in. Do not accept losses. The only people who say losses are inevitable are people who play the odds. They are predictors. Reach for perfection and don't make a trade unless you have properly reasoned it out using your head, not a system developed by someone, who sells systems. If you lose, try not to do it again. Don't gamble, do not predict. I know the experts say differently, but look where they are.



If all I could expect to make this year is a forty or fifty percent increase in my initial measly account, I would toss this stuff to the winds. I am in this business to make as much as I can as safely as I can. So far, it has been working out great once I tossed out the advice of well-meaning (sometimes) predictors and anal-retentive employees of someone else.

Everyone who trades in the live trade room each day with me knows that I sometimes come out to the office in my Garage with slippers and a housecoat. When my phone rings while I am voice conferencing live, I don't worry about bill collectors or bosses.

My job is to earn a living from trading. I knew going in that I would have to put in the time and pay the price of experience to learn. When you trade with me, I try my best to get everything I can from a move without losing one single trade. Sometimes, not very often, I do make a mistake but I will be dammed if I am going to accept them as inevitable. Those who trade with me know how it works.

I trade to make money and all the money management systems in the world can't make you a profitable trader. Only winning trades can do that, over and over again. Call it arrogance, but it seems a few people have taken an interest in my style and record of trading success and have made offers that normal people, like myself, rarely come across.

I will be calling signals on the economic reports to money managers and others who only want the signals. They don't want to learn to trade, they only want to make money on my signals. They pay X amount a month, or X percentage of the gains. That's good for me. It doesn't interfere with my traders in the room and I have insisted that it never does.

> It may be arrogance, but I call the shots in my life! I am a full time trader! I am very good at what I do because I don't do the things others do. It works for me and I hope you learn to make it work for you. What a wonderful feeling to go back to my yard work and unfinished wood projects around the house knowing I'm not stuck in a car picking my nose with a Tim Horton's coffee in my hand kissing butt all day in the hopes I don't lose my job. Control and risk go hand in hand. More control, less risk. Makes sense eh? Now apply it to trading.

6
Foreign Exchange Fundamentals

Economic indicators provide a snapshot of the economy's health. Economists look at gross domestic product (GDP), consumer price index (CPI) or the unemployment rate. Currently, these are tradable indicators. This list is by no means complete. There are lots of indicators missing and several important countries where there is no information available at this time. You will find the list comprises of the indicators most likely to produce a move when the number differs from the "general public" consensus numbers.

This list was produced from indicators that have proven themselves as being capable of producing moves when the number differ over the last year. When you understand that indicators go through fads where one may be more important than others, you will learn to adjust them for your trading. In 2005 the UK placed emphasis on housing numbers where the US doesn't place the same weight on them yet.

The big movers have been rated on the linked pages as those that have a verifiable history of moving the currency when the difference between what is expected (Called the consensus) and the actual release number. The consensus available on popular websites and through various free sources are reliable only because they have consistently proven incorrect. Companies do fill a need in making up sheets consisting of hundreds of projections which they sell to the big players. But for our purposes, using the inherent weakness in common estimates works great.

Economists categorize some economic indicators as leading, lagging or coincident. These categories help them see where the economy is in terms of the business cycle, which shows the rising and falling of economic conditions over time. The Federal Open Market Committee (FOMC) examines many economic indicators prior to determining monetary policy. The indicators listed in this section are examples of some of the factors the FOMC considers before issuing its directive on monetary policy.

Trading foreign exchange is exciting and potentially very profitable, but there is also significant risk factors. It is crucially important that you fully understand the implications of margin trading and the particular pitfalls and opportunities that foreign exchange trading offers. On these pages, I offer you a brief introduction to the FX markets, as well as their participants

Leading indicators anticipate the direction in which the economy is headed. You take the numbers and views into account when determining strength and weakness of a currency but not necessarily to make a trade based on these numbers alone.

EXAMPLES OF LEADING INDICATORS

1. Average weekly hours, manufacturing: The average hours worked per week by production workers in manufacturing industries tend to lead the business cycle because employers usually adjust work hours before increasing or decreasing their workforce.

2. Average weekly initial claims for unemployment insurance: The number of new claims filed for unemployment insurance are typically more sensitive than either total employment or unemployment to overall business conditions, and this series tends to lead the business cycle. Initial claims increase when conditions worsen (i.e., layoffs rise and new hiring fall).

3. Building permits, new private housing units: The number of residential building permits issued is an indication of construction activity, which typically leads most other types of economic production.

4. Stock prices, 500 common stocks: The Standard & Poor's 500 stock index reflects the price movements of a broad selection of common stocks traded on the New York Stock Exchange. Increases (decreases of the stock index can reflect both the general sentiments of investors and the movements of interest rates, which is usually another good indicator for future economic activity.

5. Index of consumer expectations: This index reflects changes in consumer attitudes concerning future economic conditions and, therefore, is the only indicator in the leading index that is completely expectations-based. Data are collected in a monthly survey and responses to the questions concerning various economic conditions are classified as positive, negative or unchanged.

6. Manufacturers' new orders, consumer goods and materials: These goods are primarily used by consumers. The inflation-adjusted value of new orders leads actual production because new orders directly affect the level of both unfilled orders and inventories that firms monitor when making production decisions.

7. Manufacturers' new orders, nondefense capital goods: New orders received by manufacturers in nondefense capital goods industries (in inflation-adjusted dollars) are the producers' counterpart to manufacturers' new orders for consumer goods.

8. Vendor performance, slower deliveries diffusion index: This index measures the relative speed at which industrial companies receive deliveries from their suppliers. Slowdowns in deliveries increase this series and are most-often associated with increases in demand for manufacturing supplies (as opposed to a negative shock to supplies) and, therefore, tend to lead the business cycle.

9. Money supply: In inflation-adjusted dollars, this is the M2 version of the money supply. When the money supply does not keep pace with inflation, bank lending may fall in real terms, making it more difficult for the economy to expand. M2 includes currency, demand deposits, other checkable deposits, traveler's checks, savings deposits, small-denomination time deposits and balances in money market mutual funds.

10. Interest rate spread, 10-year Treasury bonds less federal funds: The spread or difference between long and short rates is often called the yield curve. This series is constructed using the 10-year Treasury bond rate and the federal funds rate, an overnight interbank borrowing rate. It is felt to be an indicator of the stance of monetary policy and general financial conditions because it rises (falls) when short rates are relatively low (high). When it becomes negative (i.e., short rates are higher than long rates and the yield curve inverts), its record as an indicator of recessions is particularly strong.

Coincident indicators provide information about the current status of the economy.

EXAMPLES OF COINCIDENT INDICATORS

1. Employees on nonagricultural payrolls: It includes full-time and part-time workers and does not distinguish between permanent and temporary employees. Because the changes in this series reflect the actual net hiring and firing of all but agricultural establishments and the smallest businesses in the nation, it is one of the most closely watched series for gauging the health of the economy.

2. Personal income less transfer payments (in 1996 $): The value of the income received from all sources is stated in inflation-adjusted dollars to measure the real salaries and other earnings of all persons. Income levels are important because they help determine both aggregate spending and the general health of the economy.

3. Index of industrial production: This index covers the physical output of all stages of production in the manufacturing, mining, and gas and electric utility industries. It is constructed from numerous sources that measure physical product counts, values of shipments and employment levels.

4. Manufacturing and trade sales This index includes sales at the manufacturing, wholesale, and retail levels. It is inflation adjusted to reflect real total spending.

Lagging indicators change months after a downturn or upturn in the economy has begun and help economists predict the duration of economic downturns or upturns.

EXAMPLES OF LAGGING INDICATORS

Average duration of unemployment: This measures the average duration (in weeks) that individuals ***counted*** as unemployed have been out of work. Decreases in the average duration of unemployment invariably occur after an expansion gains strength and the sharpest increases tend to occur after a recession has begun. This is one of the things just to keep in mind when assessing the current mood of the market.

Average prime rate charged by banks: Although the prime rate is considered the benchmark that banks use to establish their interest rates for different types of loans, changes tend to lag behind the movements of general economic activities. This is not of much use to us.

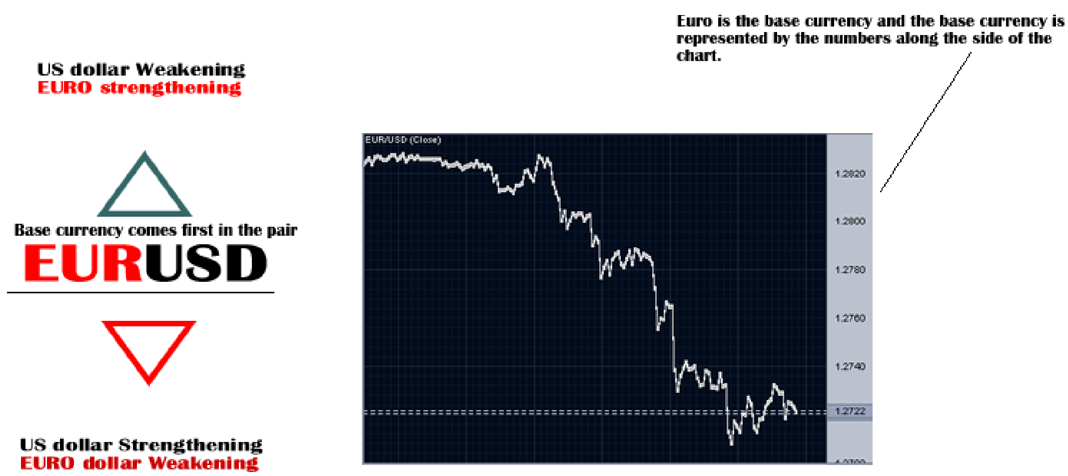
Ratio of manufacturing and trade inventories to sales: This is a popular gauge of business conditions for individual firms, entire industries and the whole economy. Because inventories tend to increase when the economy slows and sales fail to meet projections, the ratio typically reaches its cyclical peaks in the middle of a recession. It also tends to decline at the beginning of an expansion as firms meet their sales demand from excess inventories.

Consumer installment credit outstanding to personal income: This measures the relationship between consumer debt and income. Because consumers tend to hold off personal borrowing until months after a recession ends, this ratio typically shows a trough after personal income has risen for a year or longer.

Change in labor cost per unit of output, manufacturing: Measures the rate of change in an index that rises when labor costs for manufacturing firms rise faster than their production (and vice versa). The index is constructed from various components, including seasonally adjusted data on employee compensation in manufacturing (wages and salaries plus supplements) and seasonally adjusted data on industrial production in manufacturing. Because monthly percent changes in this series are extremely erratic, percent changes in labor costs are calculated over a six-month span. Cyclical peaks in the six-month annualized rate of change typically occur during recessions, as output declines faster than labor costs despite layoffs of production workers. Troughs in the series are much more difficult to determine and characterize.

Commercial and industrial loans outstanding (in 1996 $): This series measures the volume of business loans held by banks and commercial paper issued by nonfinancial companies. The underlying data are compiled by the Board of Governors of the Federal Reserve System. The Conference Board, a New York-based business research network, makes price level adjustments using the same deflator (based on Personal Consumption Expenditures data) used to deflate the money supply series in the leading index. The series tends to peak after an expansion peaks because declining profits usually increase the demand for loans. Troughs are typically seen more than a year after the recession ends.

Change in consumer price index for services: Compiled by the Bureau of Labor Statistics, it measures the rates of change in the services component of the consumer price index. It is probable that because of recognition lags and other market rigidities, service sector inflation tends to increase in the initial months of a recession and to decrease in the initial months of an expansion.



In this example, the EURO is dropping in value and the US dollar is climbing.

How Indicators Monitor the Four Phases of the Business Cycle

The four phases of the business cycle of rising and falling economic growth are:

Expansion or recovery,

Peak,

Contraction or recession

Trough.

The leading indicator system provides a basis for monitoring the tendency to move from one phase to the next. The system assesses the strengths and weaknesses in the economy as clues to a quickening or slowing of future rates of economic growth, as well as to cyclical turning points in moving from the upward expansion to the downward recession, and from the recession to the upward recovery.

The terms "leading," "coincident" and "lagging" refer to the timing of the turning points of the indexes relative to those of the business cycle. Leading indicators anticipate the direction in which the economy is headed. The coincident indicators provide information about the current status of the economy. These indicators change as the economy moves from one phase of the business cycle to the next and tell economists that an upturn or downturn in the economy has arrived. Lagging indicators change months after a downturn or upturn in the economy has begun and help economists predict the duration of economic downturns or upturns.

The system is based on the theory that expectations of future profits are the motivating force in the economy. When business executives believe that their sales and profits will rise, companies tend to expand production of goods and services and investment in new structures and equipment. When they believe profits will decline, they reduce production and investment. These actions generate the four phases of the business cycle.

Key Economic Indicators are the most likely to move the market is the actual numbers differ with the consensus.

Consumer Price Index – a measure of the average price level of a fixed basket of goods and services purchased by consumers as determined by the Bureau of Labor Statistics. Monthly changes in the CPI represent the rate of inflation.

Durable goods orders - reflect the new orders placed with domestic manufacturers for immediate and future delivery of factory hard goods.

Employment cost index – a measure of total employee compensation costs, including wages, salaries and benefits. This is the broadest measure of labor costs.

Gross domestic product – the broadest measure of aggregate economic activity encompassing every measure of the economy, measuring the total value of goods and services produced during a specific period.

Index of industrial production – a measure of the physical output of the nation's factories, mines and utilities.

Jobless claims – a weekly compilation of the number of individuals who filed for unemployment insurance for the first time. It portends trends in the labor market.

Motor vehicle sales – unit sales of domestically produced cars and light-duty trucks. Figures are good indicators of trends in consumer spending.

Personal income – the dollar value of income received from all sources by individuals.

Personal outlays – consumer purchases of durable goods, nondurable goods and services.

Producer price index – a measure of the average price level for a fixed basket of capital and consumer goods paid by producers.

Trade balance – measures the difference between exports and imports of both tangible goods and services. The level of the international trade balance, as well as changes in exports and imports, indicate trends in foreign trade.

A History Of Foreign Exchange Trading

Initially, the value of goods was expressed in terms of other goods, i.e. an economy based on barter between individual market participants. The obvious limitations of such a system encouraged establishing more generally accepted means of exchange at a fairly early stage in history, to set a common benchmark of value. In different economies, everything from teeth to feathers to pretty stones has served this purpose, but soon metals, in particular gold and silver, established themselves as an accepted means of payment as well as a reliable storage of value.

Originally, coins were simply minted from the preferred metal, but in stable political regimes the introduction of a paper form of governmental IOUs gained acceptance during the Middle Ages. Such IOUs, often introduced more successfully through force than persuasion were the basis of modern currencies.

Before the First World War, most central banks supported their currencies with convertibility to gold. Although paper money could always be exchanged for gold, in reality this did not occur often, fostering the sometimes disastrous notion that there was not necessarily a need for full cover in the central reserves of the government. At times, the ballooning supply of paper money without gold cover led to devastating inflation and resulting political instability. To protect local national interests, foreign exchange controls were increasingly introduced to prevent market forces from punishing monetary irresponsibility.

In the latter stages of the Second World War, the Bretton Woods agreement was reached on the initiative of the USA in July 1944. The Bretton Woods Conference rejected John Maynard Keynes suggestion for a new world reserve currency in favour of a system built on the US dollar. Other international institutions such as the IMF, the World Bank and GATT were created in the same period as the emerging victors of WW2 searched for a way to avoid the destabilizing monetary crises which

led to the war. The Bretton Woods agreement resulted in a system of fixed exchange rates that partly
reinstated the gold standard, fixing the US dollar at USD35/oz and fixing the other main currencies to
the dollar - and was intended to be permanent.

The Bretton Woods system came under increasing pressure as national economies moved in different directions during the sixties. A number of realignments kept the system alive for a long time, but eventually Bretton Woods collapsed in the early seventies following president Nixon's suspension of
the gold convertibility in August 1971. The dollar was no longer suitable as the sole international
currency at a time when it was under severe pressure from increasing US budget and trade deficits.

The following decades have seen foreign exchange trading develop into the largest global market by
far. Restrictions on capital flows have been removed in most countries, leaving the market forces free
to adjust foreign exchange rates according to their perceived values.

But the idea of fixed exchange rates has by no means died. The EEC introduced a new system of fixed exchange rates in 1979, the European Monetary System. This attempt to fix exchange rates met with near extinction in 1992-93, when pent-up economic pressures forced devaluations of a number of weak
European currencies. Nevertheless, the quest for currency stability has continued in Europe with the
renewed attempt to not only fix currencies but actually replace many of them with the Euro back in
2001.

The lack of sustainability in fixed foreign exchange rates gained new relevance with the events in
South East Asia in the latter part of 1997, where currency after currency was devalued against the US
dollar, leaving other fixed exchange rates, in particular in South America, looking very vulnerable.
While commercial companies have had to face a much more volatile currency environment in
recent years, investors and financial institutions have found a new playground. The size of foreign
exchange markets now dwarfs any other investment market by a large factor. It is estimated that more

than 3.2 Trillions is traded every day, far more than the world's stock and bond markets
combined times 100!

Market Participants

Banks

The interbank market caters for both the majority of commercial turnover as well as enormous amounts
of speculative trading every day. It is not uncommon for a large bank to trade billions of dollars on a
daily basis. Some of this trading activity is undertaken on behalf of customers, but a large amount of
trading is also conducted by proprietary desks, where dealers trade to make the bank profits.

The interbank market has become increasingly competitive in the last couple of years. A large
part of interbank trading takes place on electronic broking systems. There are dozens of interbanks.

Interbank Brokers

Until recently, foreign exchange brokers were doing large amounts of business, facilitating interbank
trading and matching anonymous counterparts for comparatively small fees. Today brokers are profiting from playing the role of market maker as well by taking the opposite side of their clients trades.

Customer Brokers

For many commercial and private clients, there is a need to receive specialized foreign exchange
services. There is a fair number of non-banks offering dealing services to such clients. Many banks do not undertake trading for private clients at all, and do not have the necessary resources or inclination to support medium sized commercial clients adequately. The services of such brokers are more similar in nature to other investment brokers and typically provide a service-oriented approach to their clients.

Central Banks

The national central banks play an important role in the foreign exchange markets. Ultimately, the

central banks seek to control money supply and often have official or unofficial target rates for their
currencies. As many central banks have very substantial foreign exchange reserves, the intervention
power is significant. Among the most important responsibilities of a central bank is the restoration of
an orderly market in times of excessive exchange rate volatility and the control of the inflationary
impact of a weakening currency.

Frequently, the mere expectation of central bank intervention is sufficient to stabilize a currency, but in
the event of aggressive intervention, the actual impact on the short-term supply/demand balance can
lead to the desired moves in exchange rates.

Hedge Funds

Hedge funds have gained a reputation for aggressive currency speculation. There is no
doubt that with the increasing amount of money some of these investment vehicles have under
management, the size and liquidity of foreign exchange markets is very appealing. The leverage
available in these markets allow such funds to speculate with tens of billions of dollars at a time.Hedge funds actually perform a beneficial service by exploiting and exposing unsustainable financial weaknesses, forcing realignment to more realistic levels.

Commercial Companies

The international trade exposure of commercial companies is the backbone of foreign exchange
markets. Protection against unfavorable moves is an important reason why these markets are in
existence, although it sometimes appears to be a chicken and egg situation?

Commercial companies often trade in sizes that are insignificant to short-term market moves as the main currency markets can quite easily absorb hundreds of millions of dollars without any impact. One of the decisive factors determining the long-term direction of a currency's exchange rate is the overall trade flow.

Some multinational companies can have an unpredictable impact when very large positions are covered due to exposures that are not commonly known to the majority of market participants.

Investors and Speculators (That's us)

As in all other efficient markets, the speculator takes over the risks that commercial participants do not wish to be exposed to. The boundaries of this type of speculation are unclear as many of the above-mentioned participants also have speculative interests. (Even some of the central banks.)

The foreign exchange markets are popular with beginning investors due to the large amount of leverage that can be obtained and the ease with which positions can be entered and exited 24 hours a day.
Currency trading as presented by forex brokers is easier than investing in other markets since the platform is simple to understand and the amount of tradable instruments is limited.

Main FX Markets

The majority of all foreign exchange trades involves the US dollar against another currency. This has historical reasons as well being due to the fact that the US economy is the largest in the world and the global leader and benchmark. Many commodity markets are denominated in US dollars leading to additional need for US dollar trading.

Traditionally, the German mark and the Japanese yen have been the basis of a lot of trading as well, with sterling and the Swiss franc trailing a little behind the three main currencies. Each of these markets has very distinct features. The German mark has for all practical purposes been replaced by the Euro. The dollar has suffered violent swings as the credibility of US economic policy has been questioned on many occasions.

The German mark was a tower of strength over the past thirty years, due to the widespread respect the German central bank - the Bundesbank . The traditional role of the Bundesbank as the world's most dedicated inflation fighter was undermined after unification with the former East Germany and has now been replaced as the most influential central bank in Europe by the European Central Bank.

The yen has been highly volatile, initially strengthening throughout the early nineties, then relieved by US support to the dollar. In October 1998, the most dramatic currency move in many years was seen as the dollar fell some 15% in just a few days against the Japanese currency. Japanese interest rates seem to be stuck at rock-bottom levels.

The Swiss franc serves, as does the dollar from time to time, as a "safe haven". This is due to the isolation of the Swiss economy, its independent and neutral political stance and the secrecy of Switzerland's banking system. The attractions of this combination have led to a relentless inflow of funds into Swiss francs in times of trouble and a resulting very low level of interest rates.

The pound is a big part of foreign exchange markets and the first currency to be traded actively against the US dollar via the transatlantic cables. ("cable"), The pound will remain an interesting currency as one of the few key European currencies.

European Currencies

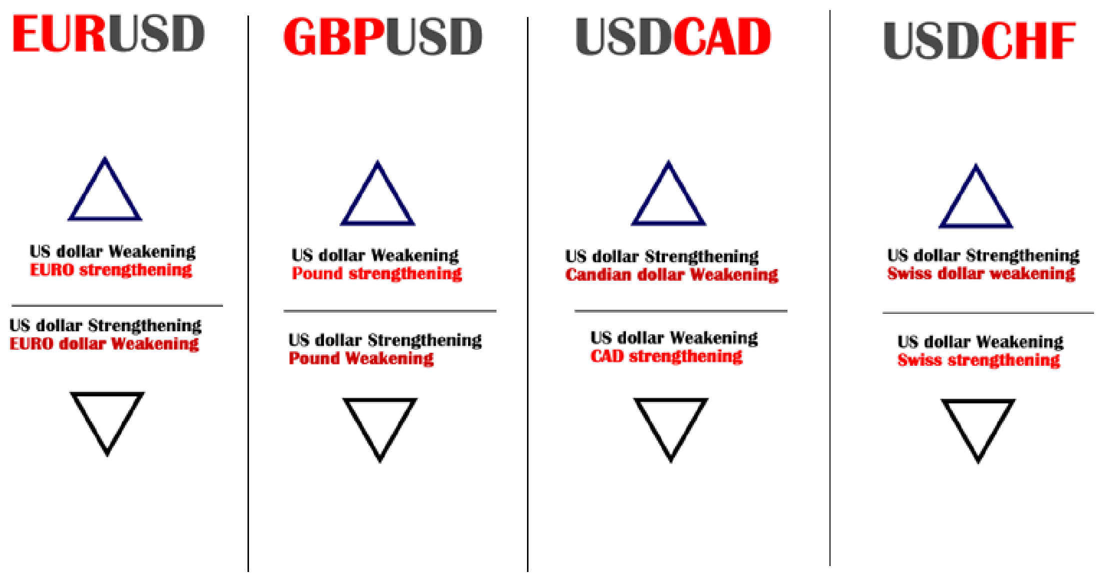
European currencies have gained in importance in the last twenty years and have suffered some major crises due to the continued attempt to peg exchange rates to each other. Playing the interest rate spreads between high and low interest rates provided easy profits for speculators. (Interest Rate Differential trading)

The key to Continental European currencies has been the German mark-French franc Axis that was seen as the backbone of the common currency. The Benelux countries have benefited from long-term stability as well, whereas most Mediterranean and Scandinavian currencies have fluctuated wildly against this European core. The introduction of a common currency in 2001 spelled big changes to foreign exchange trading in Europe. As early as 1998, the participating currencies were fixed against each other and this has forced many European banks to reconsider many of their trading activities. Overall, we do not consider the introduction of the Euro to be particularly detrimental to foreign exchange markets.

A weaker Euro has taken the place of the mark and non-participating European currencies will become more volatile and more vulnerable to speculative attacks.

Emerging Markets

Exotic currencies have offered enormous profit potential and substantial risks. The most noticeable approach has been to single out weak, but fixed currencies for brutal speculative attacks, leading to large devaluations and extensive economic problems for the countries involved. The reason that many emerging currencies are pegged to the US dollar or other currencies is normally to force local monetary authorities to act with more discipline and to reassure holders of the currency against the risk of depreciation. It has proven nearly impossible for most emerging countries to maintain the necessary discipline to justify stable currency levels and the result is nearly always a dramatic devaluation. In leveraged trading, such devaluations offer big profit potential, but in the intermediate periods where the currency is stable, high interest rates will benefit investors with the nerve to hold onto the currency. This makes the emerging markets very tricky to trade and while nobody should trade any foreign exchange market without a solid grasp of the technical aspects, this is even more true in emerging markets. Seen from a commercial company's point of view, failure to protect against the risks in such markets can be fatal. Predominantly, interest focuses on South East Asia and South America, but both the African Continent and Eastern Europe provide interesting markets.



7
Forex Basics

Margin Trading

Foreign exchange trading is normally undertaken on the basis of margin trading. A relatively small deposit is required to control much larger positions in the market. For major FX currency crosses a trader typically requires a 1 % margin deposit for he first USD 10,000 invested.

Base Currency and Price

When you trade, you will always trade a combination of two currencies. For example, you will buy US dollars and sell Canadian dollars. Or buy Euro-dollars and sell Japanese yen. There is always a long (bought) and a short (sold) side to a trade, which means that you are speculating on the prospect of one of the currencies strengthening and one of them weakening. This is called spread trading.

The base currency is normally the currency with the highest value and is stated as the first part of a pair. (eg. Pound-dollar in GBPUSD) The normal way to trade is buying or selling a fixed amount of US dollars, i.e. USD1,000,000.

Dealing Spread

When trading foreign exchange, you are quoted a *dealing spread* offering you a buying and a selling
level for your trade. Once you accept the offered price and receive confirmation from the broker, the
trade is done. There is no need to call an exchange floor.

Spot trading

When you trade foreign exchange you are normally quoted a **spot** price.

Interest Rate Differentials

Different currencies pay different interest rates. This is one of the main driving forces behind foreign
exchange trends. It is inherently attractive to be a buyer of a currency that pays a high interest rate
while being short a currency that has a low interest rate. Although such interest rate differentials may not appeal to large institutions who do not operate using leverage, the significance to smaller players is much greater.

Speculation

Speculative investment is the most common investment type in international foreign exchange markets.
Many different participants ranging from the largest financial institutions to individual investors undertake this type of investment. Where the interbank market is often traded by high-earning dealers for tiny exchange rate movements intra-day, some of the big hedge funds may take up enormous leveraged positions with a longer term strategic target. The risks involved mean that strict trading discipline should be adhered to and that the implications should be considered carefully whenever entering into a transaction of a commercial or speculative nature.

Commercial Hedging

Some clients have commercial interests in foreign exchange markets. As global currency markets have become more volatile and international trade is increasing, most medium and large companies are in some way exposed to currency movements. Whether a company has income or expensesin foreign currencies, they are incurring substantial risks. This has resulted in large companies developing full internal trading operations with substantial expertise and advanced technology. The most professional of these internal departments are actually similar to full-scale brokers, and companies like Daimler-Benz and Ikea are important participants in the world's financial markets.

Investment Hedging

Hedging of foreign investments is in many ways similar to normal commercial hedging. In both cases, the currency exposure is an often unwanted additional exposure aside from the underlying investment or commercial activity. Of course, an investment in a particular foreign stock may also be an investment in the expectation of an appreciating currency, but in most cases this will not be the primary reason.
The interest rate differential may often be an important consideration when entering a longer term hedge and may sometimes also represent a significant advantage when this differential is positive

Technical Analysis

Technical Analysis is the study of past price and activity history in order to predict future price movements. The basic premise of technical analysis is that the price discounts all information available in the market and that patterns in price movements tend to repeat themselves. Another important foundation of technical analysis is that price movements are not random, but tend to trend in some direction most of the time. Although this seems an obvious fact to anybody that has ever looked at a chart, it is in fact a hotly disputed idea in certain academic circles.

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8

Fundamental Analysis

Fundamental analysis deals with the factual influences on the market and the trader will aim to predict economic developments and the impact on the direction of foreign exchange rates. Frequently, there is an almost hostile atmosphere between technical and fundamental traders, disrespecting the other's approach.

Many aspects are taken into consideration when applying fundamental analysis. The monthly
and quarterly economic statistics give good indications of the strength of the economy. This indicates
probable future changes in short and long-term interest rates that are of great significance to foreign
exchange trends. Generally, high short-term interest rates will be supportive for a currency, unless
confidence is undermined by fears of strong inflationary pressures.

International trade and investment flows are followed closely to assess the implications for the relative strength of buying and selling for commercial and cash transactions. Political events, such as elections or cabinet appointments can often have significant impact on foreign exchange markets, depending on the perceived policy impact on the economy.

Monetary policy is also followed very closely, including the indicators shaping such policy decisions.
Money supply, central bank interventions and short-term interest rates are all significant factors for
fundamental analysts. Trading currencies is probably the purest way of taking a view of a country's overall economic situation. Events in South East Asia in the second half of 1997 clearly showed the consequences when confidence in a local economy collapses and the most efficient way to profit from such expectations is
shorting the currency involved. The overall stronger economic situation in the US compared to Continental Europe likewise resulted in a substantial appreciation in the US currency during 1997.

9
Economic Statistics

Trade Balance

The trade balance is a measure of the difference between imports and exports of tangible goods and
services. The level of the trade balance and changes in exports and imports are widely followed by
foreign exchange markets.

The trade balance is a major indicator of foreign exchange trends. Seen in isolation, measures of imports and exports are important indicators of overall economic activity in the economy. It is often of interest to examine the trend growth rates for exports and imports separately.

Trends in export activities reflect the competitive position of the country in question, but also the strength of economic activity abroad. Trends in import activity reflect the strength of domestic economic activity. Typically, a nation that runs a substantial trade balance deficit has a weak currency due to the continued commercial selling of the currency. This can, however, be offset by financial investment flows for extended periods of time.

Gross Domestic Product

The Gross Domestic Product (GDP) is the broadest measure of aggregate economic activity available.
Reported quarterly, GDP growth is widely followed as the primary indicator of the strength of economic activity. GDP represents the total value of a country's production during the period and consists of the purchases of domestically produced goods and services by individuals, businesses, foreigners and the government. GDP reports come in quarter-to-quarter revisions. A high GDP figure is often associated with the expectations of higher interest rates, which is frequently positive, at least in the short term, for the currency involved, unless expectations of increased inflation pressure is concurrently undermining confidence in the currency.

Consumer Price Index

The Consumer Price Index (CPI) is a measure of the average level of prices of a fixed basket of goods and services purchased by consumers. The monthly reported changes in CPI are widely followed as an inflation indicator. The CPI is a primary inflation indicator because consumer spending accounts for nearly two-thirds of economic activity. Often, the important number excludes the price of food and energy as these items are generally much more volatile than the rest of the CPI and can obscure the more important underlying trend.

Rising consumer price inflation is normally associated with the expectation of higher short term interest rates and may therefore be supportive for a currency in the short term. Nevertheless, a longer term inflation problem will eventually undermine confidence in the currency and weakness will follow.

Producer Price Index

The Producer Price Index (PPI) is a measure of the average level of prices of a fixed basket of goods received in primary markets by producers. The monthly PPI reports are widely followed as an indication of commodity inflation. The PPI is considered important because it accounts for price changes throughout the manufacturing sector. The "core" PPI is often followed which excludes the food and energy components as these items are normally much more volatile than the rest of the PPI and can therefore obscure the more important underlying trend.

Studying the PPI allows consideration of inflationary pressures that may be accumulating or receding, but have not yet filtered through to the finished goods prices. A rising PPI is normally expected to lead to higher consumer price inflation and thereby to potentially higher short-term interest rates. Higher rates will often have a short term positive impact on a currency, although significant inflationary pressure will often lead to an undermining of the confidence in the currency involved.

Payroll Employment

Payroll employment is a measure of the number of people being paid as employees by non-farm business establishments and units of government. Monthly changes in payroll employment reflect the net number of new jobs created or lost during the month and changes are widely followed as an important indicator of economic activity. Payroll employment is one of the primary monthly indicators of aggregate economic activity because it encompasses every major sector of the economy. It is also useful to examine trends in job creation in several industry categories because the aggregate data can mask significant deviations in underlying industry trends.

Large increases in payroll employment are seen as signs of strong economic activity that could eventually lead to higher interest rates that are supportive of the currency at least in the short term. If, however, inflationary pressures are seen as building, this may undermine the longer-term confidence in the currency.

Durable Goods Orders

Durable Goods Orders are a measure of the new orders placed with domestic manufacturers for immediate and future delivery of factory hard goods. Monthly percent changes reflect the rate of change of such orders. Levels of, and changes in, durable goods order are widely followed as an indicator of factory sector momentum. Durable Goods Orders are a major indicator of manufacturing sector trends because most industrial production is done to order. Often, the indicator is followed but excludes Defence and Transportation orders because these are generally much more volatile than the rest of the orders and can obscure the more important underlying trend.
Durable Goods Orders are measured in nominal terms and therefore include the effects of inflation.
Therefore the Durable Goods Orders should be compared to the trend growth rate in PPI to arrive at the real, inflation-adjusted Durable Goods Orders. Rising Durable Goods Orders are normally associated with stronger economic activity and can therefore lead to higher short-term interest rates that are often supportive to a currency at least in the short term.

Retail Sales

Retail Sales are a measure of the total receipts of retail stores. Monthly percentage changes reflect the rate of change of such sales and are widely followed as an indicator of consumer spending.
Retails Sales are a major indicator of consumer spending because they account for nearly one-half of total consumer spending and approximately one-third of aggregate economic activity.
Often, Retail Sales are followed less auto sales because these are generally much more volatile than the rest of the Retail Sales and can therefore obscure the more important underlying trend.
Retail Sales are measured in nominal terms and therefore include the effects of inflation. Rising Retail

Sales are often associated with a strong economy and therefore an expectation of higher short-term
interest rates that are often supportive to a currency at least in the short term.

Housing Starts

Housing Starts are a measure of the number of residential units on which construction is begun each
month and the level of housing starts is widely followed as an indicator of residential construction
activity. The indicator is followed to assess the commitment of builders to new construction activity. High
construction activity is usually associated with increased economic activity and confidence, and is
therefore considered a harbinger of higher short-term interest rates that can be supportive of the
involved currency at least in the short term.

Quote
The current price offered or asked for a financial instrument.

Pip
The smallest amount, or simply, the increment, by which the quote for a FX
cross can change. For example, if the quote for AUDUSD changed from 58.65 to 58.91, it will have risen 26 pips. For 100,000 AUDUSD, these 26
pips would represent 260 US Dollars. FX options are also quoted in pips.

Speculate
Buying or selling something purely for profit rather than for some fundamental business or other need.

Spot

In foreign-exchange, the spot market is the market for buying and selling for
immediate delivery. A spot position is a position purchased in the spot market and the spot price is the price for an instrument for immediate delivery, as opposed to a forward price, which is for delivery at a specific later date.

Stop

A buy stop is an order to buy at a specific price higher than the current market price and a sell stop is a stop to sell at a specific price below the current market price. Traders often refer to "stop-loss" orders. These are stops that are placed below the market when the trader is long and above the market when the trader is short. These orders are triggered when the market price hits them to prevent further losses in the trader's position.

Volatility

There are two types of volatility:

1) Historical volatility is actual volatility based on volatility realized in past movements in the market.

2) Implied volatility is the volatility interpreted from the price of options. So, the implied volatility is the expected spread of movement of an underlying asset's price predicted over the term of the option derived from the known prices of options and the other parameters used in the calculation of those prices.

Key Economic Reports List for USA

Most important USA reports are released at, or around 8:30 am NY time.

Non-Farm Payrolls
Trade Balance
Current account
GDP
Personal Income and Outlays
Retail sales
Consumer Price Index
Durable Goods

Key Economic Reports for the UK

Most reports from the UK are released around 4:30 am NY time.

Trade balance
CPI
Current account
GDP

Key Economic Indicators for Canada
Most reports are released between 7:00 - 8:30 am NY time.

Monthly GDP
Trade figures
CPI

2006

These 15 economic reports are known to move the market tremendously when there is a difference between actual and anticipated numbers. Using the spreadsheet of past moves to see what a particular economic report has done each month will guide you in correctly determining the corresponding currency movement direction. It is easily seen that there is a high correlation between differences in economic report numbers and the movement of a currency.

10

Economic indicators

In this section I will list and cover meanings of most important economic indicators that exist. That way you know what the numbers mean when they come out. Whether they are positive or negative for a specific currency.

NOTE

You do not have to know the meanings of any of the indicators below. You can blindly trade forex without using your brain. Technical analysis has already hooked most people into thinking there are firm rules on how to trade. Yes, you can logon and not think, just react, since I will be doing livecalls but you had better be prepared for confusion, losses, and no doubt eventual ruin unless you think first. If what I say makes sense to you and confirms what you already figured, then we will make money trading together.

Since the world is full of people who have no common sense and lost the ability to make decisions with their brain, I can't make guarantees about anything other than my intention to do the best job I can for your subscription payment. In reality, this type of trading requires thinking individuals who can comprehend what they read correctly.

When I decided to do live trade calls, it was with the understanding that I make no guarantees or offer money back offers personally other than to do my best to show you how easy it is to trade economic indicators the way I do. Trade calls are nothing more than having a mike plugged into the way I am thinking before, during and after a trade.

Just like I have been doing for over a year with crowds of traders. Hopefully, my record of successful calls and "successful non-calls" as one group member calls them, will show you that trading short term responses from surprises in economic reports will pay off if you do your own thinking.

Determine your own risk. Make your own decisions. Personally, I am a very conservative trader. I know many people take calls I walk away from. On a good month, a dozen good economic trades out of forty or fifty I watch monthly, (with a few doubles and triples) is all I ask.

I lose nothing walking away from a trade. I have been doing this long enough to know there is always another trade down the road if I am patient. Learning to be patient is the hardest thing for traders to do. It is still a bugger for many who have been trading with me for a long time. I solve it by shutting down my charts and trading platform after the trade.

If you can learn to control your emotions and get rid of the technical clutter sharks and market makers throw at you and just make trades that you know will work…you will have the cat by the tail as they say here in Nova Scotia, Canada.

One excellent trade a week is a good start. Do your best not to set number goals for yourself. Just commit to researching all you can about the upcoming trade. Read about what it is and what it has been doing. Do not go to retail forex sites for information on these things. Go to the source. The authorities. Ask the people who determine price. Their websites are free for everyone and they constantly produce massive amounts of information on all the sections of an economy. To get you started, I will give you a free link to one of the best forex trading courses you will ever find. Once you finish reading that, go to the members bookmarks or use your search engine for the words; economy – economics- currencies – foreign exchange etc. Now ignore the Max Power superstar sites and concentrate on learning as much as you can so eventually you take control of your trading and your life. Below are two examples of the legitimate educational resources available at central banks, where, as you must have picked up earlier, currency prices are determined…eventually.

These are examples of the professional world. No smoke or mirrors.

http://www.federalreserveeducation.org/fed101/index.htm

http://www.ntrs.com/library/econ_research/weekly/us/

http://www.ntc-research.com/Information/UKManuInfo.asp

http://www.federalreserve.gov/kids/

http://www.personalagent.com/onetwothree.htm

You will be able to find the definitions and meanings for economic reports from plenty of places. The reports and people who study them have been around a long, long time. I place these summaries gathered below as a recap. You can find information by typing in the name of the report in any search engine

The Gross National Product (GNP)
The Gross National Product measures the economic performance of the whole economy. This indicator consists, at macro scale, of the sum of consumption spending, investment spending, government spending, and net trade. The gross national product refers to the sum of all goods and services produced by United States residents, either in the United States or abroad. The bigger the number the better it is for the currency.

The Gross Domestic Product (GDP)
The Gross Domestic Product refers to the sum of all goods and services produced in the United States, either by domestic or foreign companies. The differences between the two are nominal in the case of the economy of the United States. GDP figures are more popular outside the United States. In order to make it easier to compare the performances of different economies, the United States also releases GDP figures. The higher the figure the better it is for the currency.

Consumption Spending
Consumption is made possible by personal income and discretionary income. The decision by consumers to spend or to save is psychological in nature. Consumer confidence is also measured as an important indicator of the propensity of consumers who have discretionary income to switch from saving to buying. The higher the consumption spending or the consumer confidence, the better it is for the currency.

Investment Spending
Investment or gross private domestic spending consists of fixed investment and inventories. The higher this number, the better it is for the currency.

Government Spending
Government spending is very influential in terms of both sheer size and its impact on other economic indicators, due to special expenditures. For instance, United States military expenditures had a significant role in total U.S. employment until 1990. The defense cuts that occurred at the time increased unemployment figures in the short run. The higher this figure, the better it is for the currency.

Net Trade

Net trade is another major component of the GNP. Worldwide internationalization and the economic and political developments since 1980 have had a sharp impact on the United States' ability to compete overseas. The U.S. trade deficit of the past decades has slowed down the overall GNP. GNP can be approached in two ways: flow of product and flow of cost. The higher the number of the net trade, the better it is for the currency.

Industrial Production
Industrial Production indicator consists of the total output of a nation's plants, utilities, and mines. From a fundamental point of view, it is an important economic indicator that reflects the strength of the economy, and by extrapolation, the strength of a specific currency. Therefore, foreign exchange traders use this economic indicator as a potential trading signal. The better this number, the better it is for the currency.

Capacity utilization

Capacity utilization indicator consists of total industrial output divided by total production capability. The term refers to the maximum level of output a plant can generate under normal business conditions. In general, capacity utilization is not a major economic indicator for the foreign exchange market. However, there are instances when its economic implications are useful for fundamental analysis. A "normal" figure for a steady economy is 81.5 percent. If the figure reads 85 percent or more, the data suggests that the industrial production is overheating, that the economy is close to full capacity.

High capacity utilization rates precede inflation, and expectation in the foreign exchange market is that the central bank will raise interest rates in order to avoid or fight inflation. Generally speaking, the higher this number, the better it is for the currency.

Factory orders
Refer to the total of durable and non-durable goods orders. Non-durable goods consist of food, clothing, light industrial products, and products designed for the maintenance of durable goods. Durable goods orders are discussed separately. The factory orders indicator has limited significance for foreign exchange traders. But generally the better it is, the better it is for the currency.

Durable goods orders
Consist of products with a life span of more than three years. Examples of durable goods are autos, appliances, furniture, jewelry, and toys. They

are divided into four major categories: primary metals, machinery, electrical machinery, and transportation.

In order to eliminate the volatility pertinent to large military orders, the indicator includes a breakdown of the orders between defense and non-defense.

This data is fairly important to foreign exchange markets because it gives a good indication of consumer confidence. Because durable goods cost more than non-durables, a high number in this indicator shows consumers' propensity to spend. Therefore, a good figure is generally bullish for the domestic currency.

Business Inventories
Consist of items produced and held for future sale. The compilation of this information holds little surprise for the market. Moreover, financial management and computerization help control business inventories in unprecedented ways. Therefore, the importance of this indicator for foreign exchange traders is limited.

Construction Data
Construction indicator constitutes significant group that are included in the calculation of the GDP of the United States. Moreover, housing has traditionally been the engine that pulled the U.S. economy out of recessions after World War II. These indicators are classified into three major categories:

1. Housing starts and permits
2. New and existing one-family home sales; and
3. Construction spending.

Construction indicators are cyclical and very sensitive to the level of interest rates (and consequently mortgage rates) and the level of disposable income. Low interest rates alone may not be able to generate a high demand for housing, though. As the situation in the early 1990s demonstrated, despite historically low mortgage rates in the United States, housing increased only marginally, as a result of the lack of job security in a weak economy. Besides, in spite of the 2000 2001 recession the cost of houses, for example in California, was practically not decreased.

Housing starts between one and a half and two million units reflect a strong economy, whereas a figure of approximately one million units suggests that the economy is in recession. The better the housing numbers, the better it is for the currency.

Inflation indicators

Traders watch the development of inflation closely, because the method of choice for fighting inflation is raising the interest rates, and higher interest rates tend to support the local currency. To measure inflation traders use economic tools considered below. On its own, higher inflation is bearish for a currency.

Producer price index (PPI)

It's compiled from most sectors of the economy, such as manufacturing, mining, and agriculture. The sample used to calculate the index contains about 3400 commodities. The weights used for the calculation of the index for some of the most important groups are: food: 24 percent; fuel: 7 percent; autos: 7 percent; and clothing: 6 percent. Unlike the CPI, the PPI does not include imported goods, services, or taxes. The higher this number, the better it is for the currency.

Consumer price index (CPI)

CPI reflects the average change in retail prices for a fixed market basket of goods and services. The CPI data is compiled from a sample of prices for food, shelter, clothing, fuel, transportation, and medical services that people purchase on daily basis. The weights attached for the calculation of the index to the most important groups are: housing: 38 percent; food: 19 percent; fuel: 8 percent; and autos: 7 percent. The higher the CPI, the better it is for the currency.

The two indexes, PPI and CPI, are instrumental in helping traders measure inflationary activity. Although the Federal Reserve takes the position that the indexes overstate the strength of inflation.

Gross national product implicit deflator

Gross national product implicit deflator is calculated by dividing the current dollar GNP figure by the constant dollar GNP figure. The higher this number, the better it is for the currency.

Gross domestic product implicit deflator

It's calculated by dividing the current dollar GDP figure by the constant dollar GDP figure. Both the GNP and GDP implicit deflators are released quarterly, along with the respective GNP and GDP figures. The implicit deflators are generally regarded as the most significant measure of inflation. The higher this number, the better it is for the currency.

Merchandise trade balance

Merchandise trade balance is one of the most important economic indicators. Its value may trigger long-lasting changes in monetary and foreign policies. The trade balance consists of the net difference between the exports and imports of a certain economy. The data includes six categories:

1. Food
2. Raw materials and industrial supplies
3. Consumer goods
4. Autos
5. Capital goods
6. Other merchandise

A separate indicator that belongs to that group is the US Japan Merchandise Trade Balance. The higher the merchandise trade balance the better it is for the currency.

Employment Indicators

The employment rate is an economic indicator with significance in multiple areas. The rate of employment, naturally, measures the soundness of an economy. The unemployment rate is a lagging economic indicator. It is an important feature to remember, especially in times of economic recession. Whereas people focus on the health and recovery of the job sector, employment is the last economic indicator to rebound. When economic contraction causes jobs to be cut, it takes time to generate psychological confidence in economic recovery at the managerial level before new positions are added. At individual levels, the improvement of the job outlook may be clouded when new positions are added in small companies and thus not fully reflected in the data. The employment reports are significant to the financial markets in general and to foreign exchange in particular. In foreign exchange, the data is truly affective in periods of economic transition recovery and contraction. The reason for the indicator's importance in extreme economic situations lies in the picture they paint of the health of the economy and in the degree of maturity of a business cycle. A decreasing unemployment figure signals a maturing cycle, whereas the opposite is true for an increasing unemployment indicator. The higher the unemployment, the worse it is for the currency.

Non-farm Payroll

Generally, the most commonly used employment figure is not the monthly unemployment rate, which is released as a percentage, but the non-farm payroll rate. The rate figure is calculated as the ratio of the difference between the total labor force and the employed labor force, divided by the total labor force. The data is more complex, though, and it generates more information. In Forex, the standard indicators monitored by traders are the unemployment rate, manufacturing payrolls, non-farm payrolls, average earnings, and average workweek. Generally, the most significant employment data are manufacturing and non-farm payrolls, followed by the unemployment rate. The higher the non-farm payroll, the better it is for the currency.

Employment Cost Index (ECI)
The Employment Cost Index measures wages and inflation and provides a comprehensive analysis of worker compensation, including wages, salaries and fringe benefits. The higher this number, the better it is for the currency.

Consumer Spending Indicators
Consumer Spending Indicators grounded on data due to the retail sale volume is important for the Forex because it shows the level of consumers demand and their sentiments, which is initial data for the calculation of other indicators such as Gross National and Gross Domestic Products. The higher the consumer spending indicators, the better it is for the currency.

Retail Sales
Retail sales are a significant consumer-spending indicator for foreign exchange traders, as it shows the strength of consumer demand as well as consumer confidence. As an economic indicator, retail sales are particularly important in the United States. Unlike other countries such as Japan, the focus in the U.S. economy is the consumer. If the consumer has enough discretionary income, or enough credit for that matter, then more merchandise will be produced or imported. Retail sales figures create an economic process of "trickling up" to the manufacturing sector. The seasonal aspect is important for this economic indicator.

The retail sales months that are most watched by foreign exchange traders are December, because of the holiday season, and September, the back-to-school month. Increasingly, November is becoming an important month, as a result of the shift in the former after-Christmas sales to pre-December sales days. Another interesting phenomenon occurred in the United States.

Despite the economic recession in the early 1990s, the volume of retail sales was unusually high. The profit margin, however, was much thinner. The reason is the consumer's shift toward discount stores. Traders watch retail sales closely to gauge the overall strength of the economy and, consequently the strength of the currency. This indicator is released on a monthly basis. The higher the number, the better it is for the currency.

Consumer sentiment
Consumer sentiment is a survey of households that is designed to gauge directly the individual propensity for spending money to increase or to maintain on the same level their expenditures connected with the satisfaction of the household current needs and, by implication, the situation on the labor market. The higher this number, the better it is for the economy.

Auto sales
Despite the importance of the auto industry in terms of both production and sales, the level of auto sales is not an economic indicator widely followed by foreign exchange traders. The American automakers experienced a long, steady market share loss, only to start rebounding in the early 1990s. But car manufacturing has become increasingly internationalized, with American cars being assembled outside the United States and Japanese and German cars assembled within the United States. Because of their confusing nature, auto sales figures cannot easily be used in foreign exchange analysis.

Leading indicators

The leading indicators consist of the following economic indicators:
Average workweek of production workers in manufacturing
Average weekly claims for state unemployment
New orders for consumer goods and materials (adjusted for inflation)
Vendor performance (companies receiving slower deliveries from suppliers)
Contracts and orders for plant and equipment (adjusted for inflation)
New building permits issued
Change in manufacturers' unfilled orders, durable goods
Change in sensitive materials prices. The higher these number, the better it is for the currency, except for the weekly claims for state unemployment. The higher the unemployment claims, the worse it is for the currency.

Personal income
Personal income is the income received by individuals, nonprofit institutions, and private trust funds. Components of this indicator include wages and salaries, rental income, dividends, interest earnings, and transfer payments (Social Security, state unemployment insurance, and veterans' benefits). The wages and salaries reflect the underlying

economic conditions. This indicator is vital for the sales sector. Without an adequate personal income and a propensity to purchase, consumer purchases of durable and nondurable goods are limited. For FX traders, personal income is not significant. But when it's up, it's good for the currency.

3. List of Tradable Economic Reports

There are 8 major countries whose currencies are being trades. They are United States, Euro Union, Great Britain, Japan, Canada, Switzerland, Australia, and New Zealand. I found that the news releases out of Euro Union, Switzerland, and Japan come to the public later than they come to the big boys. The reason I say that, is because by watching those three currencies, I see it makes its move before I get the news. Australia and New Zealand are countries with much smaller economies than the other 6 countries, so I am still experimenting with their news releases, figuring out which ones move their currency, what the triggers are, and such. As soon as I find a way to trade news out of Australia and New Zealand, I will let you know. Make sure you are subscribed to my updates and newsletters. If you are still not receiving them, please subscribe to them through tradecallsroom or one of our trader/affiliates.

Currently I am making money on the news from the United States, United Kingdom, and Canada. I broke down the economic indicators into three types. They are type A, type B, and type C.

Type A economic indicators are the cream of the crop. These reports move the forex market most of the time. You need good trigger points since the moves are only sustained and directional if the difference between what is expected, and the actual report differs by a certain amount called a "trigger". There reports are the ones that I always wait for and watch.

Type B economic reports are known to have moved in the past but not without sufficient motivation and proper conditions. I have gotten some very good trades from each of these reports but they do not always make the market move so I wait and watch usually.

Type C indicators are usually Duds. They look good and the press covers them well, but they don't usually do much. I include them because you never know. If you happen to be at your machine when one is out, keep your eye on it. You never know.

Standard Triggers for USA reports

Non-Farm Payrolls - 50k either way (Subject to revisions)
Trade Balance - 3
Current account - 2.9
GDP - 0.5 Advance
Personal Income and Outlays - 0.2 (Focus on spending)
Retail Sales - 1.0 ex food and energy (Subject to revisions)
Consumer Price Index - 0.2 ex food and energy
Durable Goods - 1.7 ex transport
CPI - .2
Consumer Confidence - 4
New Home Sales - 5 million
Housing Starts - 130,000
Existing Home Sales 300,000
TIC - 10
Weekly Initial Claims - 60,000
Industrial Production .4
Capacity utilization - 4
ISM manufacturing - 3
Consumer Confidence - 4

Standard Trigger for the UK reports

Trade balance - .3 to .5
CPI - 0.1
Retail sales .4
Current account 1.0
GDP - .1

Standard Triggers for Canada

Monthly GDP .15
Labour force survey - 30K
Trade figures - .5
Retail sales - 1.0
CPI - .5

Key economic reports List for USA

A type
Non-Farm (This one is erratic but predictable)
Trade figures
TIC Treasury International Capital
Conference Board Consumer Confidence
Current account
Advance GDP

B type
Personal Income and Outlays
FOMC announcement
Michigan final consumer sentiment
NAPM Chicago
Retail sales
CPI
Durable goods
Philly fed survey
Michigan Preliminary Consumer Sentiment
FOMC Minutes

C type reports
Industrial production
ISM manufacturing
ISM non-manufacturing
Leading Indicators
PPI Producer price index
Weekly Initial claims

Key economic reports for the UK

A type reports
CIPS Manufacturing PMI
Industrial Production
Trade balance
CPI
BOE Quarterly Inflation report
Retail sales
Current account
GDP

B type reports
Nationwide house price index
CIPS Services PMI
Halifax House price Index
MPC interest rate decision
PPI
RICS housing price index
MPC minutes
GFK Consumer confidence

C type reports
CBI distributive trades survey
Employment
Oedm house price index
PSNCR
Right move House price index

Key economic reports for Canada

A type reports
Monthly GDP
Labour force survey
Trade figures
Retail sales
BOC interest rate decisions

B type reports
CPI
Monthly survey of manufacturing
Industrial capacity utilization rate
Monetary policy report and update

C type reports.
Balance of Payments
Business conditions survey manufacturing

4. Straight talk on success in the forex market

As I mentioned earlier, I have been getting emails for years from all types of people entering the trading game. With very few exceptions, they all seem to be looking for a life. Maybe they are looking for something to replace the monotony of what they have. I don't know. A majority of those who are not looking for a lifestyle change, but a quick way to make a buck without thinking, will become so immersed in the forex marketing carnival it will take over their life.

I would like to think the vast majority will end up with a good lesson learned but unfortunately, many will ruin their families and livelihoods pursuing the "dream" of becoming rich with little work and little investment. This has always been the way zero sum gain has worked trading anything with anyone. Each beginner naively just assumes they can out think the professionals.

I get a bad feeling in my stomach every time I see that infomercial with the two goons telling moms and dads who have worked their whole lives to accumulate wealth that they are better off managing their own money. The light machine will do all the work. It's magic. To me, and from my experience and the experiences of many traders I have known, there is no difference between magic lights or magic formulas. There is no quick, no brained answer to forex profits and instant wealth.

You have to learn about the basics of economics by reading a lot of boring (at first) texts and articles and understand how the financial markets work and also how currencies react to various stimuli before you could hope to consistently make money in this business.

Once you understand how our forex brokers currently operate, and how they manufacture data, you will see why brokers have brilliant programmers working for them who are constantly trying to get an edge on the multitudes of unknowing suspects using technical analysis performed by five minute traders. They fish for orders exactly like you or I would cast out our lines to get nibbles from the fish.

The reason the professionals will wipe you out is because they know a lot more than you do about the foreign exchange business. They are smarter than the new traders coming into their newly created foreign exchange intranet markets with a few grand to waste. They know how and why the foreign exchange market works. Sadly, 99 per cent of the people selling magic formulas and systems don't. Wake up and look at things from your spouses' point of view. Yea tough guy, (girl) You are going to be taking on the professionals in the largest market ever created by humans with your

700 dollar DVD set or thousand dollar tutor who can't be bothered to answer your emails. These people are getting rich in forex. The only problem is that it is through marketing.

After trading economic fundamentals exclusively for nearly two years, I can answer the common question asked by almost everyone when introduced this common sense way of trading.

"Why don't more people talk about fundamentals on the boards and sites I have been going to about forex trading and why are you seemingly the one person going on about this way of trading?"

Learning how to trade using the economic fundamentals of foreign currency exchange, as a basis for very high probability trades doesn't sell.

All the information you need to understand currency trading and the world economy is already provided free of charge by all major institutions, banks and central authorities. There are no magic formulas to market with flashy sites and fast talking salesmen in cubicles. Everything you need to trade profitably is your brain and a terminal to place orders.

Another reason it is not used by the majority of people jumping into currency trading is because they are simply not bright enough to win consistently without clear cut guiding principles of when to get in and when to get out.

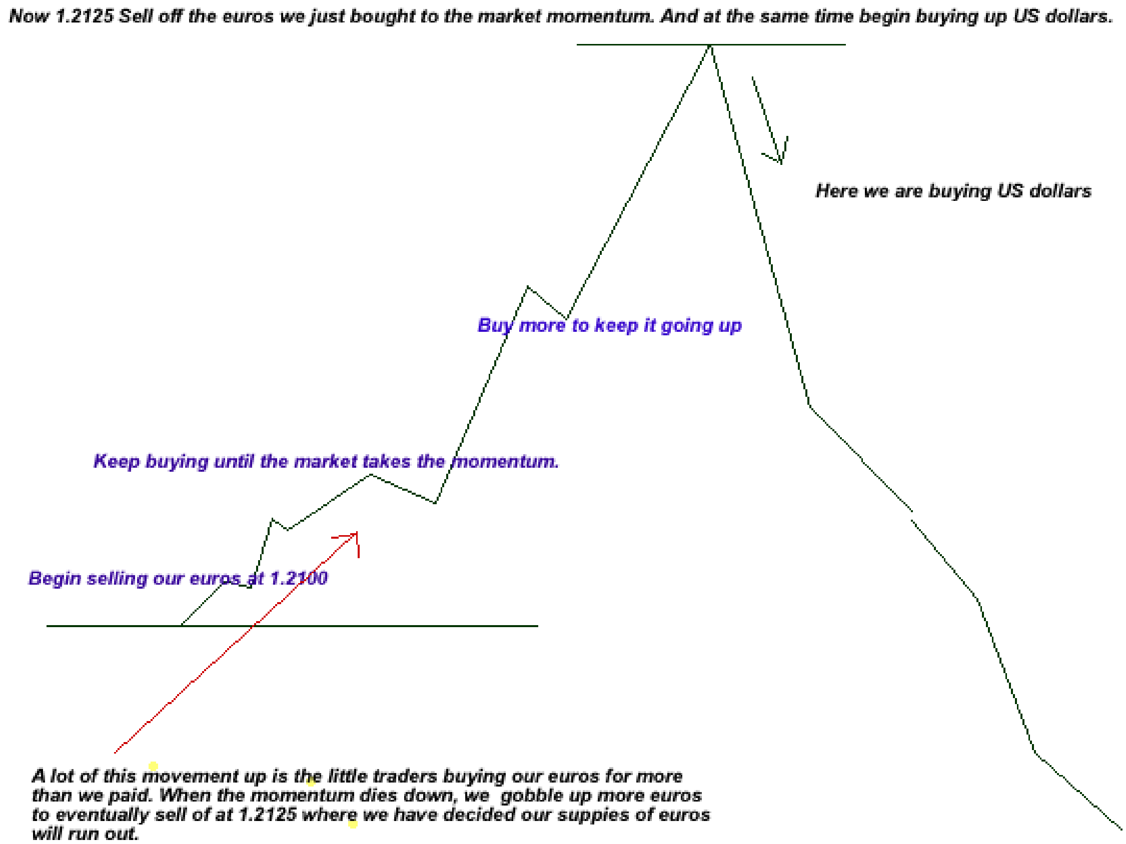
Although the vast majority of traders I have met and spoken with seem to have a good head on their shoulders most of the time, it seems that they just go bananas when the rhythm of the charts capture their souls. They jump in and out of trades making decisions using contrived data and old technical tools designed with slide rules for other markets.

Everyone thinks that they are different somehow no one else could have thought of some particular application for these silly tools to make them work. Just like straddling and the people who think they invented orders above and below the price line prior to news flashes. Ha. Brokers love this type of thinking.

Another strange thing I have noticed beginners use without question is the process of enduring huge retracements. In the old days, trading as one of the common people, a brokerage fee was very costly. Joe Ross talks about having to pay nearly as much for a broker order as his house payment.

Things are different now and the strategies developed in the old days of hanging on through huge drops are ludicrous these days. Why would you sit there and endure a retracement that would be cheaper to just jump out of and back into at 2 pips spread? Gee. I could possibly see if you had to be away from the computer terminal or something. But to sit and watch your profits get pissed down the drain on retracements when you could bail out and wait with some change in your pocket? Come on.

Below is a picture of the EUR/USD pair. It's a good example to get your head around thinking in terms of individual currencies, as opposed to currency pairs. When a report comes out negative for U.S. dollar, we buy the EUR/USD pair. When it comes out positive for U.S. dollar, we sell the EUR/USD pair.


Now 1.2125 Sell off the euros we just bought to the market momentum. And at the same time begin buying up US dollars.
Here we are buying US dollars
Buy more to keep it going up
Keep buying until the market takes the momentum.
Begin selling our euros at 1.2100
A lot of this movement up is the little traders buying our euros for more than we paid. When the momentum dies down, we gobble up more euros to eventually sell of at 1.2125 where we have decided our suppies of euros will run out.

5. Putting it all together

If you read through this entire book, you may feel a little bit overwhelmed by all the terms and economic reports, and a very unusual way of looking at trading than you are used to. Please understand that it's much simpler than it sounds. Don't try to remember everything I said in this book. Here is a strategy that I use to trade the news, without getting overwhelmed:

1. On Sunday, look at the calendar of news reports coming out the coming week.

2. Recognize the reports that you will be watching and trading. You can refer to the ones I mentioned in the previous chapter. Make a schedule for yourself.

3. The night before the report comes out, do your research, and figure out the number that's expected, figure out your triggers, and create a clear sheet for yourself, where you will be able to read that if the report comes out above X number, you will buy X pair. If it comes out below Y number, you will sell X pair, or vice versa. If it never hits neither X or Y number, you don't trade.

4. When the report comes out, take your time to register in your brain the number, look at your sheet and make a trading decision. There will always be three options. Buy, Sell, or Don't Trade. The worst thing you can do is rush yourself into a trade, and click the wrong button. Clicking the wrong button few times in the beginning if almost inevitable. Therefore, I suggest practicing at least 10 reports on your demo account.

5. As soon as you are in a trade, re-evaluate the report, look at the current anchors, and make a decision of where you will exit and take your profits. When that level hits, don't be greedy, take your profits, and stop trading until the next important report.

Possibly, 50% of reports I watch and get ready for, I don't trade. Sometimes more. Others less. In the forex market, it's as important not to lose money as it is to make money. Do not to trade when there is no reason for a trade.

Trading the news requires patience. You have to get out of the mentality to make as many trades as possible. I am not working on probability when I trade the news. I am working with facts.

Trading with facts provides much less trading opportunities than trading probabilities, but every time you place your trade, based on a number that the repositioning will make the currency move, and I am not talking about "maybe", I am talking about *for sure*.

Trading this way is the only way that I know I will make money consistently. When I was trading technical analysis I lost money consistently.

Economic Release Calendars

MONTHLY CALENDARS
Commonwealth November
Oanda November
Bank of Montreal (Canada releases)
StatisticsCanada (Canada releases)
Eurostat (Eurozone releases)
RZB (New Zealand releases)
Statistics New Zealand (New Zealand releases)
NationalStatisticsOnline (UK releases)

WEEKLY CALENDARS
Refco
HSBC
Saxo
thestreet.com
Econoday
mfr.com
U.S. Treasury speaking engagements
ECB speaking engagements

Current FOREX News
Yahoo Asia News
Google Business News
FXStreet
Oanda 4Cast News
Ottowa Business Journal (Canada)
The Australian

Past Economic Releases Archives
Haver Analytics
Econoday
National Bureau of Economic Research
Finam
HSBC
Mellon
MG Financial Group
FXCM Daily FX
FX Street
First Zurich Private Bank (Swiss economic research)

UNITED STATES

Statements and Speeches by Fed Governers

Indicator Summary

Department of Labor
Glossary
Release Schedule 2004
Current Releases
Release Archive
Non-Farm Payroll
CPI
PPI
Import&Export Price Indexes
Employment Cost Index
Productivity&Costs
Weekly Unemployment Claims

Department of Commerce Bureau of Economic Analysis
Glossary Index
Overview of the Economy
Release Dates for 2004
Current Releases
Release Archive
GDP
GDP components'contribution to economic growth
GDP A Case Study

Personal Income & Outlays
Corporate Profits
Balance of Payments (Current Account)
Trade in Goods and Services (Trade Figures)
International Investment Position

Census Bureau
Retail Sales
Durable Goods
New Home Sales
Wholesale Trade
Coustruction Spending

Conference Board
Release Calendar
Consumer Confidence
Leading Indicators
Help Wanted Index

Department of the Treasury
Treasury International Capital

Federal Reserve Bank of New York
Greenspan Testimony July 20/21, 2004
Monetary Policy Report to the Congress July 20, 2004
Testimony of Federal Reserve Officials 1996-2004
Empire State Manufacturing Index

Federal Open Market Committee (FOMC)
Meeting Calendar
Statements (press releases)
Minutes of Meetings
Beige Book
Diagram of How Fed Interacts

Federal Reserve Bank of Philadelphia
Phili Fed Survey

National Association of Purchasing Managers - Chicago
NAPM - Chicago

Institute for Supply Management (ISM)
ISM Manufacturing
ISM Non-Manufacturing

University of Michigan Survey of Consumers
University of Michigan Consumer Sentiment

UNITED KINGDOM

Indicator Summary

National Statistics Online
Index of Production
Trade
Retail Sales
Employment (Average Earnings & Claimant Count)
GDP
CPI
PPI
PSNCR

Bank of England
Monetary Policy Committee Meetings Schedule
Monetary Policy Committee Interest Rate Decisions
Monetary Policy Committee Minutes Publication
Quarterly Inflation Report

Non-Government Economic Indicators
Halifax House Price Index
Nationwide House Price Index
ODPM House Price Index (Government)
RICS Housing Report Survey

CBI Business Surveys
British Retail Consortium
CIPS Services PMI
GfK Consumer Confidence

British Bankers Association BBA

CANADA

Indicator Summary
2004 Release dates for major economic indicators, by month

Bank of Canada
2004 Schedule of upcoming and past Interest Rate Announcements, Monetary Policy Reports, and Monetary Policy Report Updates.

EUROZONE

Indicator Summary
Release Calendar for Euro Indicators 2004

European Central Bank (ECB)
Key ECB interest rates
ECB Governing Council, Meetings, Decisions, Press Conference
Schedule of Meetings and Press Conferences 2004
Weekly Schedule of Public Speaking Engagements and Other Activities
ECB Monthly Bulletin

Eurostat - All Eurozone Economic Indicators

Non-Government Economic Indicators
IFO
Latest IFO business climate survey
ZEW

AUSTRALIA

Indicator Summary

Reserve Bank of Australia
2004 Release Dates for Statements on Monetary Policy, Reserve Bank Board Meetings, RBA Bulletin
Publications and Research
RBA - About Monetary Policy

RBA - Interest Rate Changes History

Australian Bureau of Statistics - all Australian economic indicators

NEW ZEALAND

Reserve Bank of New Zealand
Monetary Policy Decisions and Monetary Policy Statements
Monetary Policy Statements and Official Cash Rate Review Dates

New Zealand Treasury
Current Monthly Economic Indicators

JAPAN

Bank of Japan
Release Schedule
Publications
Key Statistics

SWITZERLAND

Swiss National Bank
Responsibilities and Goals
Mandate
Monthly Bulletin (German or French only)

Correlations.
Last years essay ..correlations have changed a bit

I find it absolutely amazing that most people do not take correlations seriously when trading in forex. Searches of the term come up empty and when you ask so-called experienced traders about correlations in forex currency pairs you are usually given a blank stare. Wow, what a world.

I have always regarded trading as a specialized art and for the life of me, when learning and developing my system over the past year, I have found so many areas where the new generation of traders using electronic platforms and lots of brains are going to kick the crap out of the establishment. The bulk people of the last few generations have come from privilege. A father passes their knowledge and probably their trading account down to their sons along with a system. Today, anyone with a few hundred bucks and brains can make a killing trading as long as they don't get caught up in the hype.

Correlations

Trading involves using correlations to your advantage. A person can trade using correlations exclusively and make a good living on economic reports alone.

Correlations between different currency pairs shift with time, therefore it is important to follow changes in correlation that can occur daily and even hourly. trailing correlations as well near the bottom. As a trader, it is important to understand how different currency pairs move in relation to each other.

FX Correlations (as of 12/03/04)

EUR/USD	AUD/USD	USD/JPY	GBP/USD	NZD/USD	USD/CHF	USD/CAD
1 Month	0.25	-0.89	0.93	0.92	-0.98	-0.86
3 Month	0.96	-0.95	0.96	0.94	-0.99	-0.96
6 Month	0.96	-0.90	0.71	0.90	-0.97	-0.89
1 Year	0.73	-0.73	0.64	0.87	-0.91	-0.80
AUD/USD	EUR/USD	USD/JPY	GBP/USD	NZD/USD	USD/CHF	USD/CAD
1 Month	0.25	-0.39	-0.14	0.38	-0.37	-0.42
3 Month	0.96	-0.90	0.88	0.96	-0.95	-0.98
6 Month	0.96	-0.84	0.62	0.91	-0.91	-0.90
1 Year	0.73	-0.78	0.49	0.77	-0.45	-0.47

As indicated in the tables, the EURUSD has had a strong positive correlation (+0.89) with the NZDUSD and a strongly negative correlation with USDCHF (-0.89) over the past six months . Therefore having a long EURUSD and long USDCHF exposure would generally lead to negated or nearly zero profit or losses because when the EURUSD rallies, USDCHF will move in the exact opposite direction most of the time.

Keep in mind they have different pip values, so the P/L is different and must be taken into consideration. Going long EURUSD and long NZDUSD is like doubling up since the correlation is so strong.

It is very important to monitor shifts in correlation at tick level throughout the day on the currency pairs you are thinking of trading. These shifts can be partially explained by changes in monetary policy or domestic conditions that will affect the value of that countries currency. It is very important to keep in mind the correlation between various currency pairs and their shifting trends.

A beginner to correlations would automatically make the assumption that the higher the number, the better. Not true at all. In fact the higher the number for a currency pair, the more like they will move too fast to make trades with. A few months ago, the USDCHF would easily give us enough time to make a trade but nowadays, no possible way. Right now, it seems the USDCAD pair works best. But not always.

You have to use your head and eyes at all times. Watch the ticks on the charts for determining what is working that day and at that time. Each day can be very different. You have to d decide what type of risk you are willing to take and how much of a delay you need to make a decision before choosing a set of pairs to trade with. Find the pair you are comfortable with that day and in that time period.

I assign a mental weight to each pair I have on the screens in tick mode. Try to imagine a teeter-totter with the various currencies represented by a spring above and below each end. For example;

If you normally use the GBPUSD as the initial primary trigger for the EURUSD or another pair, arrange your tick charts with the GBPUSD on the left. This is important since it gives you a bit of reliability when trying to think very quickly. If you are used to a certain position for a pair, you don’t have to keep scanning the headers to see what pair it is you are watching. Habits are good when it comes to chart positioning. There are enough things to keep in your head when it comes trading time.

Now, we come to the fundamental part of TickTrading.

The several times during your session can almost be precisely calculated each day. The government and certain departments will release reports on the state of the economy. Almost every country does it. Most times, depending on the country, you will see at least five economic reports being released each week during the business hours of that country. There are schedules I will show you links to where you can find out the exact times of various reports. Some move the market tremendously and others barley make it budge.

A general rule about trading the economic indicators is that you will get an estimate of what the likely numbers are going to be prior to the report coming out. We will trade the differences that are reported.

That means if they say number 8 is expected and the number comes out as 2, then we have a situation where a good trade can be made based on the fact that the economists didn't expect it. These are the times when the market can move a hundred pips in seconds. Often you will see moves of 40-60 pips after an economic report. Trading the unexpected using correlations at tick level works very well and can provide a person with a healthy bank balance if they do it correctly.

Most people, when they first learn about news trading, will take the old worn path of all beginners before them and try to make straddles. They think they are fooling the brokers by placing a trade on either side of the market. If it goes one way, they release their buy or sell order on the other side. There are several problems with this approach since the brokers know where the orders are and they simply whipsaw both sides of the market and kill you both ways. If you try to lay the straddle game you will lose. The only time the market moves is when someone buys or sells. This stuff is very simple and straightforward.

In order to trade, you do not have to become an expert on what the various indicators of the economy are. You don't care whether it goes up or down. The only thing you will be doing when trading is responding to what you see.

Trading is not making predictions. It is responding.

This happens all day long. Twenty-four hours a day that line goes up and down with the severity of the events and news that may be taking place. After hours, when the country is asleep, the line on their currency floats sideways with tiny movements reflecting the stable nature of events.

This sideways movement confuses beginners. You are trading against the broker during these times. They own the market during quiet hours and they will beat you since they make the movements to entice people to play the game with them. Sure, there are some correlating events taking place on other currencies that may be active and the broker has to be somewhere close to reality. But on the whole, they own the market and will prey on part timers trying to learn forex trading during the only time they have available.

The brokers eat those people alive. All part-timers come into forex hoping for the big score. It will help them quit their 8 to 5 jobs someday. That is why books on following one type of trading system or another are making millions for their non-trading authors. It has been estimated that more than five thousand people a month are hoping to strike it rich in forex and indexes! 96.8% of them fail within the first six months. They lose all their money and cannot replenish their accounts anymore. That means 3 people out of a hundred are left. How many are making money? Maybe they had a lot more money to lose and much greater persistence than the other 97 people and they will last a year or more. Could we hope for at least one person to make it and stay in the game for a long time? I hope it is you.

Fundamental Trading.

Fundamental analysis is the examination of the underlying forces that affect the interests of the economy, industrial sectors and companies. As with most analysis, the goal is to derive a forecast for the future.

Fundamental trading requires the use of information in making trading decisions. As traders we will need access to the most up to date trading information we can get our hands on. Needtoknownews.com provides a service that allows any of us to have access to the most up to date information concerning economic reports fresh off the floor directly to your computer speakers. Not only do you have instant news flashes affecting everything you need to know, the audio feed you get from them will keep you informed of anything that may affect your trade. I have not found anything close other than a direct data feed from Reuters or one of the biggies for more than ten grand a year.

This service provides you with a trial to see exactly what I am taking about and after that, less than a hundred bucks a month. Having access to this type of service is of the utmost importance if you ever hope to take trading seriously. The news flashes on your broker platform are delayed by quite is bit. Even if they try to make it fast, they have to have things typed in and sent. Using a direct line the guy on the floor or the fellow reading it as it comes off the wires is invaluable.

StopHunting with the pros.

Since you all know that I have actively used points which I called "Anchors" for the last year, I thought I would leave you with a neat trick you can play every so often to pick up a few extra dollars if you find yourself with the itch to trade and a need to make some "pippage".

This method of trading requires a few hours of work planning exactly how you will enter and exit. Stop hunting is a method of trading used by the huge players in most interbank networks. Stop gunning, hunting and chasing is a common practice used by the majors. The reason we see the market move at all is because market makers must entice their clients to trade. They do this by moving the prices up and down filling orders. In order to survive, they must move the market and take orders.

A broker only makes money when they take an order. If they are not filling orders, they are not making money. The reason price moves outside of adjustments to positions held fundamentally is that brokers and market makers, grannies and you or I, are interested in having an order filled. Filling orders makes the market move.
Market orders (current orders)
Stops (potential orders)
Limits (potential orders)

Stop hunting is easy enough for the market makers since they know where the vast majority of orders lie. Traders place potential orders like stops and limits usually at the same time they make a trade if they follow the advice of the majority of teachers and systems.

We need to know where the orders lie to know where the price on our little interbank's will most likely take us.. Although the little dots are an indication of where the priced dawdled filling orders in the past, our advantage is that we can judge the behavior of the five minute chart technical traders since chances are they are still trading and placing stops and orders.

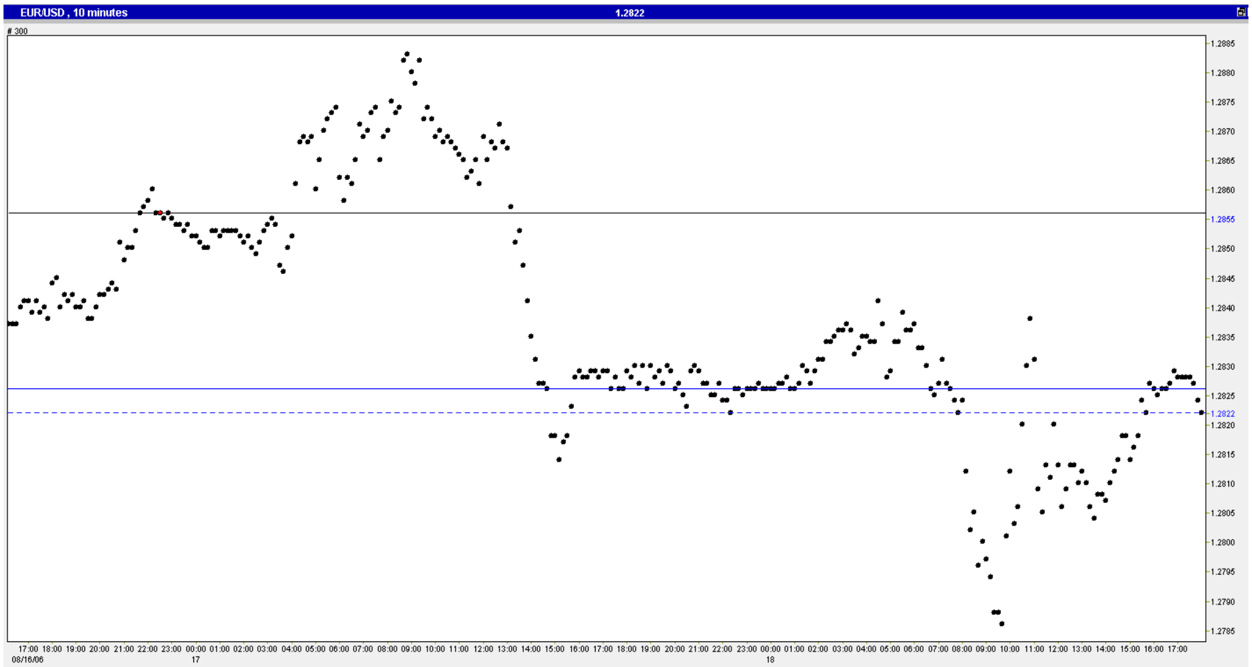
The chance of these traders following a pattern similar to the one they had all morning, is quite high. Not perfect. But there is a very high probability that the same stop, limit, entry and exit behavior will be valid since the traders who moved in clumps a few hours ago are still in the market while we are.

Stop hunting is a great method for certain times when you see the ducks line up. Applied correctly, it will result in predicting places where the price will most likely settle or reach. It has high accuracy and although it is not very common in the trader mags and boards it works for lots of people who trade fundamentally. Anchors and the currency strength meter can be excellent tools to assist you in learning how stop hunting works.

This is the type of thing where it is your brain and your correct interpretation of how the orders are placed by the vast majority of traders in the market while you are. Since 98% of the ways to trade consist of technical analysis methods, all we have to do is look for a few consistencies in how these traders place orders.

Trading fundamentally, to me, is finding consistencies. Economic fundamental facts and repeatable results.

Anchors and knowing about stop hunting is one example of how you can observe behavior of currencies in short time periods. In a way you are predicting. We only need to predict a beginning traders behavior when trading short time charts. Fortunately for stop hunters, beginners have a tendency to place stops at even numbers until they read somewhere that having a stop at 1.200 is not a good idea. They should be clever and make it a few pips away from the even number. Observe the picture below. Do you see the clumps of dots?



To relate a price to where the orders have bunched, use a horizontal line along the area of most dots.

I edited the essay below and cleaned it up from the original.

Stophunting is a common "sport" in the interbank community when London bank traders come in in the morning or leave in the late afternoon. In the morning around 7-7.30 GMT their Asian-branches pass all the orders and stops to the London traders and so they see where the stops of the customers are.

Many of the larger brokers are always in contact so they know where all the larger stops are positioned and try to clear the stops on both directions in the early London morning. The same thing sometimes happens when the London traders leave and pass the orders to the North Americans. they sometimes go for their stops after 5-5.30 pm GMT. That’s the "classic" stop-hunting in the overlapping of the trading time-zones. Some other forms of stop-hunting also exists in the interbank community, where the larger banks report each other where some larger stops are and "try" to go there...sometimes it’s a very successful "sport" so far...

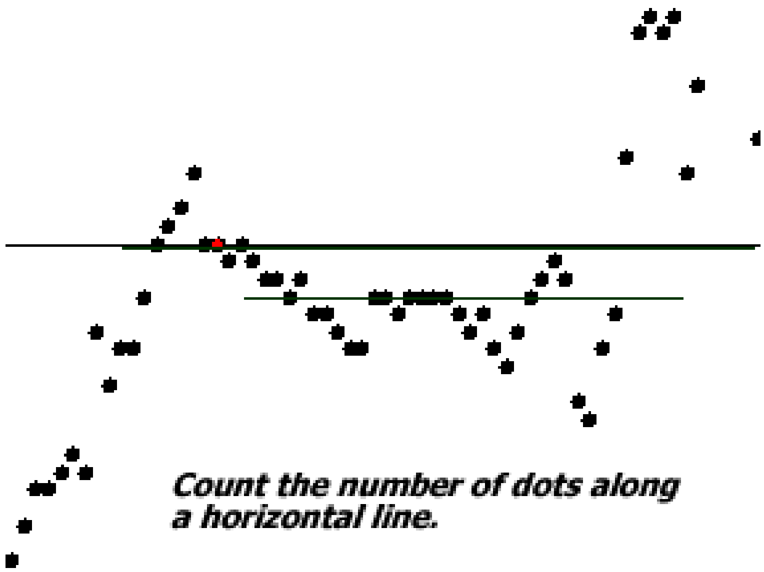
A lot of traders also speak about the stop-hunting of the brokers around the world, which is quite different. With the smaller spreads the brokers are offering nowadays, their profit on a simple quoted trade with streaming prices got smaller in the past years. Their easiest income is from using the stops they have in their books. If they see that a lot of their customers stop-losses are at a certain point and the real market goes very close to this point, it is very easy for a broker to "quote" the currency in their favour, which means to quote several points away from the traded prices in the interbank market to "hunt" for the customer stops.

As forex is a OTC-market there is no regulation on this issue and sometimes it's possible that brokers quote 5 pips and more away from the interbank prices. That means that they "earn" up to 5 pips by "hunting" your stop in getting a 5 pip better price from the counterparty they clear your trades after the stop is done (usually large banks and brokers). Compared with a 1 pip "income" for a broker on a single trade quiet a good business for all the "bucket-shop-brokers" around the world.

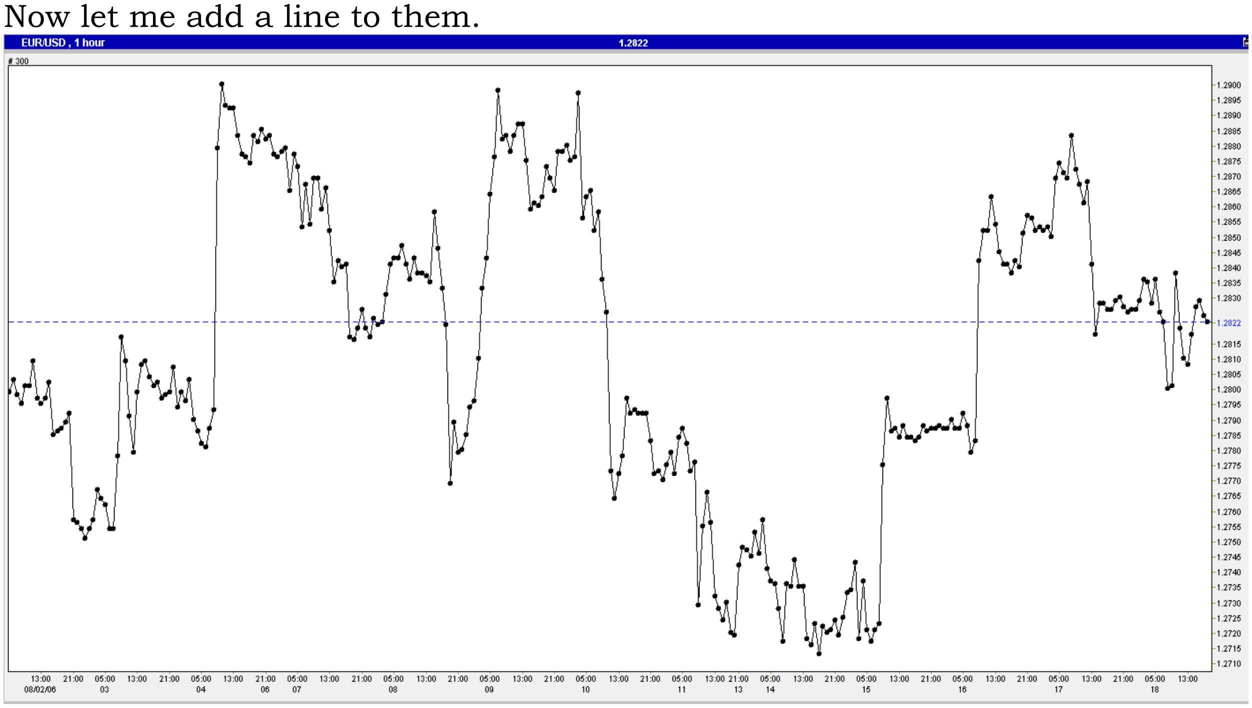
One of the "ugliest" form of "stop-hunting" is used in some cross-rates during "fast" markets, especially after some important numbers are announced. One example is EURJPY, which is the cross rate of EURUSD and USDJPY. Let's say the numbers ar USD-positive and USDJPY is rising fast and EURUSD is going down very fast at the same time, that normally means that the cross rate EURJPY is very "stable" and shouldn't move at all.

But all brokers in this case look where the larger stops in their "cross rates" are sitting and then either quote one of the two major currencies usdjpy or eurusd first to get the "cross rate" moving to the customer stops....I have seen this many times where cross rates have been quoted 20-30 pips away where the real market traded and all the "bucket-shops" got some easy money again...

Despite this, my suggestion is therefore always be careful with London open and close and in fast markets, which is the stop-hunters paradise...



Now let me add a line to them.



Very few people who I tell about anchor spots realize that they are actually a place where the market is consuming orders. It took me a while to realize that the weird coincidence between my anchor lines and how the market reacts are actually places where the orders are. This led to the development of a system using these price points as targets for stop hunting.

Stop Hunting explained;

Using exactly the same methodology and objectives as brokers and market makers in their systems, we can follow along making money as they take orders and make money. (This is like Joe Ross says about catching a little waste produced by the Sharks who move the regulated markets.) We trade along with the brokers and marker movers filling orders. When there are no fundamentals or news driving the market , they move to gather orders. All we have to know is where they will move it.

They will move it wherever the orders are or they may as well close up shop for the day unless an economic report is due out. We choose the direction they are most likely to go using a few other "tools" and we set our limits to entice them further.

The interesting thing about different brokers moving in what seems to be a unified direction, is that traders are people and they follow the same patterns of behavior no matter what broker they use.
We are told how the dealers have "order books" that list their clients orders (stop, limit, market) and I guess everyone is so focused on avoiding being stopped out they don't realize they are acting the same as all beginners act. And this is a consistency a fundamental trader can exploit to their advantage in a system or as a supplement to a system as in anchors.

Each person who understands the basics of economics and learn the art of thinking for themselves, can be a successful fundamental trader. Fortunately for professionals in this business, very few get past the technical paralysis stage. The entire experience for a beginner to trading revolves around using technical analysis in place of a good grounding in what they are actually doing and who the various market participants are. However, to us, this is a predictable and consistent pattern we can trade.

Most traders have no idea what they are doing beyond waiting for a few lines to cross. They jump in with real dollars without a clue as to what will be happening to them. As you will see, this is actually a good thing and it is exactly what drives the market prices we see on our platforms. You will learn to appreciate the fact they these people will lose money and understand why brokers have every reason on earth to support technical analysis

Do you see how stop hunting can be applied for limit orders during news trades and the periods after when trend is established

Boris says this:
Stop hunting is a very common practice. Although it may have negative connotations to some readers, stop hunting is a legitimate form of trading. It is nothing more than the art of flushing the losing players out of the market. In forex-speak they are known as weak longs or weak shorts. Much like a strong poker player may take out less capable opponents by raising stakes and "buying the pot", large speculative players (like investment banks, hedge funds and money center banks) like to gun stops in the hope of generating further directional momentum. In fact, the practice is so common in FX that any trader unaware of these price dynamics will probably suffer unnecessary losses.

Because the human mind naturally seeks order, most stops are clustered around round numbers ending in "00". For example, if the EUR/USD pair was trading at 1.2470 and rising in value, most stops would reside within one or two points of the 1.2500 price point rather than, say, 1.2517. This fact alone is valuable knowledge, as it clearly indicates that most retail traders should place their stops at less crowded and more unusual locations.

More interesting, however, is the possibility of profit from this unique dynamic of the currency market. The fact that the FX market is so stop driven gives scope to several opportunistic setups for short-term traders. In her book "Day Trading The Currency Market" (2005), Kathy Lien describes one such setup based on fading the "00" level. The approach discussed here is based on the opposite notion of joining the short-term momentum.
Now, Borris Schlossberg, lays out a plan outlined in the article on Investpedia….

Taking Advantage of the Hunt
The "stop hunting with the big specs" is an exceedingly simple setup, requiring nothing more than a price chart and one indicator.
Here is the setup in a nutshell: On a one-hour chart, mark lines 15 points of either side of the round number. For example, if the EUR/USD is approaching the 1.2500 figure, the trader would mark off 1.2485 and 1.2515 on the chart.

This 30-point area is known as the "trade zone", much like the 20-yard line on the football field is known as the "redzone". Both names communicate the same idea - namely that the participants have a high probability of scoring once they enter that area.

The idea behind this setup is straightforward.
Once prices approach the round-number level, speculators will try to target the stops clustered in that region.
"Because FX is a decentralized market, no one knows the exact amount of stops at any particular "00" level, but traders hope that the size is large enough to trigger further liquidation of positions - a cascade of stop orders that will push price farther in that direction than it would move under normal conditions. Therefore, in the case of long setup, if the price in the EUR/USD was climbing toward the 1.2500 level, the trader would go long the pair with two units as soon as it crossed the 1.2485 threshold. The stop on the trade would be 15 points back of the entry because this is a strict momentum trade. If prices do not immediately follow through, chances are the setup failed.
The profit target on the first unit would be the amount of initial risk or approximately 1.2500, at which point the trader would move the stop on the second unit to breakeven to lock in profit. The target on the second unit would be two times initial risk or 1.2515, allowing the trader to exit on a momentum burst. Aside from watching these key chart levels, there is only one other rule that a trader must follow in order to optimize the probability of success.
Because this setup is basically a derivative of momentum trading, it should be traded only in the direction of the larger trend. There are numerous ways to ascertain direction using technical analysis, but the 200-period simple moving average (SMA) on the hourly charts may be particularly effective in this case. By using a longer term average on the short-term charts, you can stay on the right side of the price action without being subject to near-term whipsaw moves. "
The method above is quite effective as long as tight money management and lots of discipline is used. You will need to combine the use of anchors and the simple trade setup Boris lays out into something that fits you and your times for trading.
This is the web address for the free access dot charts using NetDania I have in the pictures.
http://netdania.com

Tom-

The Boot Camp 15 Economic Reports

Non-Farm Payroll Employment
Canada Labour report
International Trade Balance USA
Canada Trade Balance
Current Account USA
Gross Domestic Product USA
GDP Canada
Consumer Price Index USA
CPI Canada
Personal spending and Income USA
Retail Sales USA
Retail Sales Canada
Durable Goods USA
Conference Board Consumer Confidence
USA Housing starts

I bend and flex each month on my 15 public trades since there are times when some reports have a good chance of moving the market and others when it doesn't have a possibility. I have been looking at the UK reports lately as possibilities.

Economic Statistics

Trade Balance

The trade balance is a measure of the difference between imports and exports of tangible goods and
services. The level of the trade balance and changes in exports and imports are widely followed by
foreign exchange markets.

The trade balance is a major indicator of foreign exchange trends. Seen in isolation, measures of imports and exports are important indicators of overall economic activity in the economy. It is often of interest to examine the trend growth rates for exports and imports separately.

Trends in export activities reflect the competitive position of the country in question, but also the strength of
economic activity abroad. Trends in import activity reflect the strength of domestic economic activity. Typically, a nation that runs a substantial trade balance deficit has a weak currency due to the
continued commercial selling of the currency. This can, however, be offset by financial investment
flows for extended periods of time.

Gross Domestic Product

The Gross Domestic Product (GDP) is the broadest measure of aggregate economic activity available.
Reported quarterly, GDP growth is widely followed as the primary indicator of the strength of economic activity. GDP represents the total value of a country's production during the period and consists of the purchases of domestically produced goods and services by individuals, businesses, foreigners and the
government. GDP reports come in quarter-to-quarter revisions. A high GDP figure is often associated with the expectations of higher interest rates, which is frequently positive, at least in the short term, for the currency involved, unless expectations of increased inflation pressure is concurrently undermining confidence in the currency.

Consumer Price Index

The Consumer Price Index (CPI) is a measure of the average level of prices of a fixed basket of goods

and services purchased by consumers. The monthly reported changes in CPI are widely followed as an
inflation indicator. The CPI is a primary inflation indicator because consumer spending accounts for nearly two-thirds of economic activity. Often, the important number excludes the price of food and energy as these items are generally much more volatile than the rest of the CPI and can obscure the more important
underlying trend.

Rising consumer price inflation is normally associated with the expectation of higher short term interest
rates and may therefore be supportive for a currency in the short term. Nevertheless, a longer term
inflation problem will eventually undermine confidence in the currency and weakness will follow.

Producer Price Index

The Producer Price Index (PPI) is a measure of the average level of prices of a fixed basket of goods
received in primary markets by producers. The monthly PPI reports are widely followed as an
indication of commodity inflation. The PPI is considered important because it accounts for price changes throughout the manufacturing sector. The “core” PPI is often followed which excludes the food and energy components as these items are normally much more volatile than the rest of the PPI and can therefore obscure the more important underlying trend.

Studying the PPI allows consideration of inflationary pressures that may be accumulating or receding,
but have not yet filtered through to the finished goods prices. A rising PPI is normally expected to lead to higher consumer price inflation and thereby to potentially higher short-term interest rates. Higher rates will often have a short term positive impact on a currency, although significant inflationary pressure will often lead to an undermining of the confidence in the currency involved.

Payroll Employment

Payroll employment is a measure of the number of people being paid as employees by non-farm
business establishments and units of government. Monthly changes in payroll employment reflect the

net number of new jobs created or lost during the month and changes are widely followed as an
important indicator of economic activity. Payroll employment is one of the primary monthly indicators of aggregate economic activity because it encompasses every major sector of the economy. It is also useful to examine trends in job creation in several industry categories because the aggregate data can mask significant deviations in underlying industry trends.

Large increases in payroll employment are seen as signs of strong economic activity that could
eventually lead to higher interest rates that are supportive of the currency at least in the short term. If,
however, inflationary pressures are seen as building, this may undermine the longer-term confidence in
the currency.

Durable Goods Orders

Durable Goods Orders are a measure of the new orders placed with domestic manufacturers for
immediate and future delivery of factory hard goods. Monthly percent changes reflect the rate of
change of such orders. Levels of, and changes in, durable goods order are widely followed as an indicator of factory sector momentum. Durable Goods Orders are a major indicator of manufacturing sector trends because most industrial production is done to order. Often, the indicator is followed but excludes Defence and Transportation orders because these are generally much more volatile than the rest of the orders and can obscure the more important underlying trend.
Durable Goods Orders are measured in nominal terms and therefore include the effects of inflation.
Therefore the Durable Goods Orders should be compared to the trend growth rate in PPI to arrive at the
real, inflation-adjusted Durable Goods Orders. Rising Durable Goods Orders are normally associated with stronger economic activity and can therefore lead to higher short-term interest rates that are often supportive to a currency at least in the short term.

Retail Sales

Retail Sales are a measure of the total receipts of retail stores. Monthly percentage changes reflect the
rate of change of such sales and are widely followed as an indicator of consumer spending.

Retails Sales are a major indicator of consumer spending because they account for nearly one-half of
total consumer spending and approximately one-third of aggregate economic activity.
Often, Retail Sales are followed less auto sales because these are generally much more volatile than the
rest of the Retail Sales and can therefore obscure the more important underlying trend.
Retail Sales are measured in nominal terms and therefore include the effects of inflation. Rising Retail
Sales are often associated with a strong economy and therefore an expectation of higher short-term
interest rates that are often supportive to a currency at least in the short term.

Housing Starts

Housing Starts are a measure of the number of residential units on which construction is begun each
month and the level of housing starts is widely followed as an indicator of residential construction
activity. The indicator is followed to assess the commitment of builders to new construction activity. High
construction activity is usually associated with increased economic activity and confidence, and is
therefore considered a harbinger of higher short-term interest rates that can be supportive of the
involved currency at least in the short term.

Quote
The current price offered or asked for a financial instrument.

Pip
The smallest amount, or simply, the increment, by which the quote for a FX
cross can change. For example, if the quote for AUDUSD changed from 58.65 to 58.91, it will have risen 26 pips. For 100,000 AUDUSD, these 26
pips would represent 260 US Dollars. FX options are also quoted in pips.

Speculate
Buying or selling something purely for profit rather than for some fundamental business or other need.

Spot

In foreign-exchange, the spot market is the market for buying and selling for immediate delivery. A spot position is a position purchased in the spot market and the spot price is the price for an instrument for immediate delivery, as opposed to a forward price, which is for delivery at a specific later date.

Stop

A buy stop is an order to buy at a specific price higher than the current market price and a sell stop is a stop to sell at a specific price below the current market price. Traders often refer to "stop-loss" orders. These are stops that are placed below the market when the trader is long and above the market when the trader is short. These orders are triggered when the market price hits them to prevent further losses in the trader's position.

Volatility

There are two types of volatility:

1) Historical volatility is actual volatility based on volatility realized in past movements in the market.

2) Implied volatility is the volatility interpreted from the price of options. So, the implied volatility is the expected spread of movement of an underlying asset’s price predicted over the term of the option derived from the known prices of options and the other parameters used in the calculation of those prices.

Economics Every Trader Should Know

The Basic Concept Of An Economy

The price of a currency will be influenced by the economy. The effects of inflation or deflation determine dollar direction. The health of the economy is determined by the reports below.

The original article used the dollar index so I kept it in. The dollar index prices can be found here and an explanation of what it is will be found by clicking here.

Fundamental Analysis

I look at the various reports as part of a jigsaw puzzle. As each new piece of the puzzle is found and correctly placed in the “big picture” according to importance and impact overall, the direction of the currency becomes obvious.

The Business Cycle

The business cycle represents a repetitive succession of changes in economic activity. The business cycle has four phases:

1. *Expansion (also called recovery),*
2. *Peak*
3. *Recession (also call contraction)*
4. *Trough*

In the expansion phase, business activity is growing, production and demand are increasing, and employment is expanding. Businesses and consumers normally borrow money to expand, which causes interest rates to rise. There is a precarious balance between rising interest rates and the growth of the economy. Currencies are very sensitive to interest rates. Many economic reports are interpreted directly by their potential effect on how the central bank may view the results. Never underestimate the power of interest rates to move the market.

Leading Indicators can be used to predict the health of an economy. A high figure reflects high inflationary pressure.

This signals strength in the economy leading to greater credit demand. The following indices are related to inflation.

Consumer Price Index (CPI) Rises – Reflects the trend of the average price of consumer goods. This figure is positively related to inflation and if the CPI rises this indicates rising inflation.

Producer Price Index (PPI) Rises – Reflects the trend of producers' costs. This figure is
positively related to inflation. If this price index rises this indicates rising inflation.
Demand for goods rises as well as prices. Investors require higher rates of return. This
pushes rates up to reduce inflationary pressures.

Retail Sales Rise – Reflects the purchasing power of an economy. This indicates
stronger economic growth. Fed may have to tighten interest rates.

Market Impact: US Dollar Index up.

Personal Income Rises – Shows the growth in average income. The higher one's income, the more is consumed prompting increased demand and higher prices for consumer goods.

Market Impact: US Dollar Index up.

Personal Consumption Expenditure (PCE) Rises – Shows the growth in average
expenditure. If the PCE rises there is a demand in consumed goods.

Market Impact: US Dollar Index up.

Prime Rate Rises – The interest rate (lower than the market interest rate) charged to
highly reputable customers like those of banks. If the rates rise there will be less
borrowing and expenditures.

Market Impact: US Dollar Index down.

Fed Raises Discount Rate – Interest charged by the central banks to commercial banks when borrowing money. Higher rates attract short-term inflow of investment. Therefore an increase in the borrowing rate for banks from the Fed usually result in increased rates for banks' clients. This action is used to slow credit expansion.

Market Impact: US Dollar Index down.

Federal Fund Rate – The interbank rate for borrowing or lending reserve to meet margin
requirement. If the rates rise there will be less borrowing and expenditures.

Market Impact: US Dollar Index down.

Fed Buys Bills – Fed adds to banking system reserves that may lead to a drop in rates.

Market Impact: US Dollar Index up.

Durable Goods Order Rises – The amount of orders received by manufacturers. The
higher the figure, the better the economy. Pickup in business activity usually leads to
increased credit demand. This may subsequently cause interest rates to rise.

Market Impact: US Dollar Index up.

Gross National Product (GNP) Falls – This figure reflects the growth and the economic
situation of a country. If GNP falls, this reflects a slowing economy. Fed may loosen
money supply prompting a decline in interest rate.

Market Impact: US Dollar Index down.

Housing Starts Rise – Shows growth in economy and increased credit demand. Fed
less accommodating and any attempt tightening by allowing interest rates to rise.

Market Impact: US Dollar Index up.

Industrial Production Falls – It shows the industrial output of an economy. The higher
the figure, the better the economy. If production falls this indicates slowing economic

growth. Fed may be more accommodating in allowing interest rates to fall to stimulate the economy.

Market Impact: US Dollar Index down.

Inventories Up – Unsold output. When this figure is high, an economy is slow and the currency of this country would be weakened. This indicates a slowing economy since sales are not keeping up with production.

Market Impact: US Dollar Index down.

Oil Price Falls – This reduces upward pressure on interest rates, thereby enhancing prices of debt securities.

Impact: US Dollar Index down.

Precious Metals Prices Fall – This reflects decreased inflation. Demand for inflation hedges a debt.

Impact: US Dollar Index down.

Unemployment Rises – A rate showing the percentage of the unemployed workers within the total population. If unemployment rises then this indicates slow economic growth. Fed may ease credit-causing rates to drop.

Market Impact: US Dollar Index down.

Fed Repurchase Agreements – Fed puts money into banking system to purchasing collateral and agreeing to resell later. This helps bring rates down.

Market Impact: US Dollar Index up.

Fed Reserves of Matched Sales – Fed takes money from the system by selling collateral and agreeing to repurchase some at later date. This decrease in money supply generally raises interest rates.

Market Impact: US Dollar Index down.

Money Supply Increase (M1, M2, M3) – Excess money supply growth potentially can cause inflation and generate fears that the Fed may tighten money growth by allowing the Fed funds rates to rise which in turn, lowers future prices.

Market Impact: US Dollar Index up.

International Trade Deficit Rises – When the merchants export value is smaller than import value, the outflow of currency results. This means a decrease in the money supply used for economic growth.

Market Impact: US Dollar Index down.

Balance Of Payments – A statement in which all the revenues and expenditures of a country are recorded.

Non-Farm Payroll Rises – The figure reflects the health of the commercial and industrial sector of an economy. The size of this figure is positively related to the growth rate of an economy.

Market Impact: US Dollar Index up.

Capital Utilization Rises – This figure is high when an economy is strong. A high figure is beneficial to the currency of a country.

Market Impact: US Dollar Index up.

THE BANDWAGON THEORY: A GLIMPSE AT HOW THE MARKET REALLY WORKS

Imagine a bandwagon that is rolling forward at a quickened pace. Music that is very pleasing to the ear is being played from speakers on each side of this bandwagon, and a few people currently on the back of the wagon are partying, having the time of their lives. The music, loud and clear, starts to attract many other onlookers that happen to be idly standing on the sidelines.

These onlookers, unable to resist the sweet sounds being played, run to join the party that seems to be going on. Progressively, more and more onlookers jump on the back of this bandwagon, and those few who were initially enjoying the first phase of the party begin to leave. As the crowd of new party animals on this bandwagon grows larger, the bandwagon finds it harder and harder to move forward at the same pace.

It slows, enabling more and more late onlookers, witnessing the great fun, the chance to jump on. The crowd grows even larger. Larger and larger this crowd grows, until the bandwagon, heavily laden with the bodies of drunken party animals, can no longer move forward. It finally comes to a complete stop. Now that the bandwagon is at a complete standstill, more people jump on. And why not? At this point, joining the fun is easy.

Absolutely no work is required, for individuals wanting to join the crowd no longer have to run to jump on board. But the nature of the bandwagon is to move forward. Its motionless state is unnatural, and therefore cannot last. It tries to move forward again, but can’t. The crowd, piled on back, is much too large. It must free itself of the heavy burden. And it does.

It quickly shifts into reverse, and jolts backward, knocking a few of the party animals off the back. The music stops. Puzzled faces from the crowd begin to emerge. Before anyone figures out what's going on, another backward jerk takes place, only this one is more violent. Another large group of people gets thrown off the back. Now, reality sets in. The fun has turned into a nightmare of epic proportions, and panic begins to run rampant. Some decide to jump to their deaths.

Another thrust backwards sends an even larger group of drunken, off-balance people, hurling to the muddy ground. It doesn't stop. The joltsbackward continue, each successive one more violent than the last.

At this point, only a few die-hard wagon dwellers are holding on, their very lives hanging in the balance by a very thin thread.

Failing to be completely free, the bandwagon angrily puts the pedal to the metal, and this final thrust backward is so vicious that its front wheels lift high off the ground, momentarily suspending the wagon in a perpendicular position.

Top 15 Economic Reports I love to trade

International Trade

(USA, UK, Canada)

Current account

(USA)

GDP

(USA, UK, Canada)

CPI

(USA, UK, Canada)

Personal spending and Income

(USA)

Retail Sales

(USA, Canada)

Durable Goods

(USA)

Conference Board

Consumer Confidence

(USA)

Glossary of Forex Terms

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

- A -

Accrual - The apportionment of premiums and discounts on forward exchange transactions that relate directly to deposit swap (Interest Arbitrage) deals , over the period of each deal.

Actualize - The underlying assets or instruments which are traded in the cash market.

Adjustable Peg - Term for an exchange rate regime where a country's exchange rate is "pegged" (i.e. fixed) in relation to another currency , often the dollar or French Franc, but where the rate may be changed from time to time. This was the basis of the Bretton Woods system. See peg, and crawling peg.

Adjustment - Official action normally by either change in the internal economic policies to correct a payment imbalance or in the official currency rate or.

Agent Bank - (1) A bank acting for a foreign bank. (2) In the Euro market - the agent bank is the one appointed by the other banks in the syndicate to handle the administration of the loan.

Aggregate Demand - Total demand for goods and services in the economy. It includes private and public sector demand for goods and services within the country and the demand of consumers and and firms in other countries for good and services.

Aggregate risk - Size of exposure of a bank to a single customer for both spot and forward contracts.

Aggregate Supply - Total supply of goods and services in the economy from domestic sources (including imports) available to meet aggregate demand.

Agio - Difference in the value between currencies. Also used to describe percentage charges for conversion from paper money into cash, or from a weak into a strong currency.

Appreciation - Describes a currency strengthening in response to market demand rather than by official action.

Arbitrage - The simultaneous purchase and sale on different markets, of the same or equivalent financial instruments to profit from price or currency differentials. The exchange rate differential or Swap points. May be derived from Deposit Rate differentials.

Arbitrage channel - The range of prices within which there will be no possibility to arbitrage between the cash and futures market.

Around - Used in quoting forward "premium / discount". "Five-five around" would mean five point on either side of the present spot value.

Asset Allocation - Dividing instrument funds among markets to achieve diversification or maximum return.

Ask - The price at which the currency or instrument is offered.

Asset - In the context of foreign exchange is the right to receive from a counterparty an amount of currency either in respect of a balance sheet asset (e.g. a loan) or at a specified future date in respect of an unmatched forward Forward or spot deal.

At best - An instruction given to a dealer to buy or sell at the best rate that can be obtained.

At or Better - An order to deal at a specific rate or better.

Authorized Dealer - A financial institution or bank authorized to deal in foreign exchange.

TOP

- B -

Back Office - Settlement and related processes.

Backwardation - Term referring to the amount that the spot price exceeds the forward price.

Balance of Payments - A systematic record of the economic transactions during a given period for a country. (1) The term is often used to mean either: (i) balance of payments on "current account"; or (ii) the current account plus certain long term capital movements. (2) The combination of the trade balance, current balance, capital account and invisible balance, which together make up the balance of payments total. Prolonged balance of payment deficits tend to lead to restrictions in capital transfers, and or decline in currency values.

Band - The range in which a currency is permitted to move. A system used in the ERM.

Bank line - Line of credit granted by a bank to a customer, also known as a " line".

Bank Rate - The rate at which a central bank is prepared to lend money to its domestic banking system.

Base currency - United States Dollars. The currency to which each transaction shall be converted at the close of each position.

Basis - The difference between the cash price and futures price.

Basis point - For most currencies, denotes the fourth decimal place in exchange rate and represents 1/100 of one percent (.01%). For such currencies as the Japanese Yen, a basis point is the second decimal place when quoted in currency terms or the sixth and seventh decimal places, respectively, when quoted in reciprocal terms.

Basis trading - Taking opposite positions in the cash and futures market with the intention of profiting from favorable movements in the basis.

Basket - A group of currencies normally used to manage the exchange rate of a currency. Sometimes referred to as a unit of account.

Bear market - A prolonged period of generally falling prices.

Bear - An investor who believes that prices are going to fall.

Bid - The price at which a buyer has offered to purchase the currency or instrument.

Book - The summary of currency positions held by a dealer, desk, or room. A total of the assets and liabilities. If the average maturity of the book is less than that of the assets, the bank is said to be running a short and open book. Passing the Book refers normally to transferring the trading of the Banks positions to another office at the close of the day, e.g. from London to New York.

Bretton Woods - The site of the conference which in 1944 led to the establishment of the post war foreign exchange system that remained intact until the early 1970s. The conference resulted in the formation of the IMF. The system fixed currencies in a fixed exchange rate system with 1% fluctuations of the currency to gold or the dollar.

Broker - Brings buyers and sellers together for a commission paid by the initiator of the transaction. Brokers do not take market positions.

Bull market - A prolonged period of generally rising prices.

Bull - An investor who believes that prices are going to rise.

Bundesbank - Central Bank of Germany.

Buying Rate - Rate at which the market and a market maker in particular is willing to buy the currency. Sometimes called bid rate.

TOP

- C -

Cable - A term used in the foreign exchange market for the US Dollar/British Pound rate.

Capital Risk - The risk arising from a bank having to pay to the counter party with out knowing whether the other party will or is able to meet its side of the bargain. see Herstatt.

Carry - The interest cost of financing securities or other financial instruments held.

Cash Delivery - Same day settlement.

Cash market - The market in the actual financial instrument on which a futures or options contract is based.

Cash - normally refers to an exchange transaction contracted for settlement on the day the deal is struck. This term is mainly used in the North American markets and those countries which rely for foreign exchange services on these markets because of time zone preference i.e. Latin America. In Europe and Asia, cash transactions are often referred to as value same day deals.

Cash and Carry - The buying of an asset today and selling a future contract on the asset. A reverse cash and carry is possible by selling an asset and buying a future.

Cash Settlement - A procedure for settling futures contract where the cash difference between the future and the market price is paid instead of physical delivery.

Central Bank - A nations main regulatory bank. Traditionally, its primary responsibility is development and implementation of monetary policy.

Central Rate - Exchange rates against the ECU adopted for each currency within the EMS.Currencies have limited movement from the central rate according to the relevant band.

Chartist - An individual who studies graphs and charts of historic data to find trends and predict trend reversals which include the observance of certain patterns and characteristics of the charts to derive resistance levels, head and shoulders patterns, and double bottom or double top patterns which are thought to indicate trend reversals.

Clean float - An exchange rate that is not materially effected by official intervention.

Closed position - A transaction which leaves the trade with a zero net commitment to the market with respect to a particular currency.

Commission - The fee that a broker may charge clients for dealing on their behalf.

Confirmation - A memorandum to the other party describing all the relevant details of the transaction.

Contract - An agreement to buy or sell a specified amount of a particular currency or option for a specified month in the future (See Futures contract).

Conversion Account - A general ledger account representing the uncovered position in a particular currency. Such accounts are referred to as Position Accounts.

Conversion - The process by which an asset or liability denominated in one currency is exchanged for an asset or liability denominated in another currency.

Conversion arbitrage - A transaction where the asset is purchased and buys a put option and sells a call option on the asset purchased, each option having the same exercise price and expiry.

Convertible currency - A currency that can be freely exchanged for another currency (and or gold) without special authorization from the central bank.

Copey - Slang for the Danish krone.

Correspondent Bank - The foreign banks representative who regularly performs services for a bank which has no branch in the relevant centre, e.g. to facilitate the transfer of funds. In the US this often occurs domestically due to inter state banking restrictions.

Counterparty - The other organisation or party with whom the exchange deal is being transacted.

Countervalue - Where a person buys a currency against the dollar it is the dollar value of the transaction.

Country risk - The risk attached to a borrower by virtue of its location in a particular country. This involves examination of economic, political and geographical factors. Various organisations generate country risk tables.

Cover - (1) To take out a forward foreign exchange contract. (2) To close out a short position by buying currency or securities which have been sold.

Covered Arbitrage - Arbitrage between financial instruments denominated in different currencies, using forward cover to eliminate exchange risk.

Covered Margin - The interest rate margin between two instruments denominated in different currencies after taking account of the cost of forward cover.

Crawling peg - A method of exchange rate adjustment; the rate is fixed/ pegged, but adjusted at certain intervals in line with certain economic or market indicators.

Credit Risk - Risk of loss that may arise on outstanding contracts should a counter party default on its obligations.

Cross deal - A foreign exchange deal entered into involving two currencies, neither of which is the base currency.

Cross rates - Rates between two currencies, neither of which is the US Dollar.

Current Account - The net balance of a country's international payment arising from exports and imports together with unilateral transfers such as aid and migrant remittances. It excludes capital flows.

TOP

- D -

Day trader - Speculators who take positions in commodities which are then liquidated prior to the close of the same trading day.

Deal date - The date on which a transaction is agreed upon.

Deal Ticket - The primary method of recording the basic information relating to a transaction.

Dealer - One who, as opposed to a broker, acts as a principle in all transactions, buying and selling for its own accounts.

Deflator - Difference between real and nominal Gross National Product, which is equivalent to the overall inflation rate.

Delivery date - The date of maturity of the contract, when the exchange of the currencies is made This date is more commonly known as the value date in the FX or Money markets.

Delivery Risk - A term to describe when a counterparty will not be able to complete his side of the deal, although willing to do so.

Depreciation - A fall in the value of a currency due to market forces rather than due to official action.

Desk - Term referring to a group dealing with a specific currency or currencies.

Details - All the information required to finalize a foreign exchange transaction, i.e. name, rate, dates, and point of delivery.

Devaluation - Deliberate downward adjustment of a currency against its fixed parities or bands, normally by formal announcement.

Direct quotation - Quoting in fixed units of foreign currency against variable amounts of the domestic currency.

Dirty Float - Floating a currency when the rate is controlled by intervention by the monetary authorities.

TOP

- E -

Easing - Modest decline in price.

Economic Indicator - A statistics which indicates current economic growth rates and trends such as retail sales and employment.

ECU - European Currency Unit.

EDI - Electronic Data Interchange.

Effective Exchange Rate - An attempt to summarize the effects on a country's trade balance of its currency's changes against other currencies.

EFT - Electronic Fund Transfer.

EMS - European Monetary System.

European Monetary System - A system designed to stabilize if not eliminate exchange risk between member states of the EMS as part of the economic convergence policy of the EU. It permits currencies to move in a measured fashion (divergence indicator) within agreed bands (the parity grid) with respect to the ECU and consequently with each other.

Exchange control - Rules used to preserve or protect the value of a countries currency.

Exotic - A less broadly traded currency.

Exposure - In foreign exchange, a potential for gain or loss because of movement in foreign exchange rate. There are three primary types of exposure:

1. Economic: The change in future earning power and cash flow arising from a change in exchange rates. In effect, it represents a change in the value of a company holding foreign currency.
2. Transnational: A potential gain or loss arising from transactions that will definitely occur in the future, are currently in progress, or could have already been completed. A signed but not shipped sales contract, a receivable or foreign currency payment collected but not converted to local currency would all be examples of transaction exposure.
3. Translation: The potential for change in reported earnings and/or the book value of the consolidated company equity accounts, as the result of a change in foreign exchange rates used to translate the foreign currency statements of subsidiaries and affiliates known as accounting exposure.

TOP

- F -

Fast market - Rapid movement in a market caused by strong interest by buyers and/or sellers. In such circumstances price levels may be omitted and bid and offer quotations may occur too rapidly to be fully reported.

Fed Fund Rate - The interest rate on Fed funds. This is a closely watched short term interest rate as it signals the Feds view as to the state of the money supply.

Fed - The United States Federal Reserve. Federal Deposit Insurance Corporation Membership is compulsory for Federal Reserve members. The corporation had deep involvement in the Savings and Loans crisis of the late 80s.

Federal Reserve System - The central banking system in the United States.

Fill or Kill - An order which must be entered for trading, normally in a pit three times, if not filled is immediately canceled.

Fisher Effect - The relationship that exists between interest rates and exchange rate movements, so that in an ideal situation interest rate differentials would be exactly off set by exchange rate movements. See interest rate parity.

Fixed exchange rate - Official rate set by monetary authorities. Often the fixed exchange rate permits fluctuation within a band.

Flexible exchange rate - Exchange rates with a fixed parity against one or more currencies with frequent revaluation's. A form of managed float.

Floating exchange rate - An exchange rate where the value is determined by market forces. Even floating currencies are subject to intervention by the monetary authorities. When such activity is frequent the float is known as a dirty float.

FOMC - Federal Open Market Committee, the committee that sets money supply targets in the US which tend to be implemented through Fed Fund interest rates etc.

Foreign Exchange - The purchase or sale of a currency against sale or purchase of another.

Forex - Term commonly used when referring to the foreign exchange market.

Forex Club - Groups formed in the major financial centers to encourage educational and social contacts between foreign exchange dealers, under the umbrella of Association Cambiste International.

Forward margins - Discounts or premiums between spot rate and the forward rate for a currency. Normally quoted in points.

Forward Operations - Foreign exchange transactions, on which the fulfillment of the mutual delivery obligations is made on a date later than the second business day after the transaction was concluded.

Forward Outright - A commitment to buy or sell a currency for delivery on a specified future date or period. The price is quoted as the Spot rate minus or plus the forward points for the chosen period.

Forward Rate - Forward rates are quoted in terms of forward points , which represents the difference between the forward and spot rates. In order to obtain the forward rate from the actual exchange rate the forward points are either added or subtracted from the exchange rate. The decision to subtract or add points is determined by the differential between the deposit rates for both currencies concerned in the transaction. The base currency with the higher interest rate is said to be at a discount to the lower interest rate quoted currency in the forward market. Therefor the forward points are subtracted from the spot rate. Similarly, the lower interest rate base currency is said to be at a premium, and the forward points are added to the spot rate to obtain the forward rate.

Free Reserves - Total reserves held by a bank less the reserves required by the authority.

Front Office - The activities carried out by the dealer , normal trading activities.

Fundamentals - The macro economic factors that are accepted as forming the foundation for the relative value of a currency, these include inflation, growth, trade balance, government deficit, and interest rates.

FX - Foreign Exchange.

TOP

- G -

G7 - The seven leading industrial countries, being US , Germany, Japan, France, UK, Canada, Italy.

G10 - G7 plus Belgium, Netherlands and Sweden, a group associated with IMF discussions. Switzerland is sometimes peripherally involved.

Gap - A mismatch between maturities and cash flows in a bank or individual dealers position book. Gap exposure is effectively interest rate exposure.

Going long - The purchase of a stock, commodity, or currency for investment or speculation.

Going short - The selling of a currency or instrument not owned by the seller.

Gold Standard - The original system for supporting the value of currency issued. The was that where the price of gold is fixed against the currency it means that the increased supply of gold does not lower the price of gold but causes prices to increase.

Golden Mean Math Formula - The golden mean is a ratio which has fascinated many. It can be expressed succinctly in the ratio of the number "1" to the irrational "1.618034..." and is used in GFT's Echelon System™.

Good until canceled - An instruction to a broker that unlike normal practice the order does not expire at the end of the trading day, although normally terminates at the end of the trading month.

Grid - Fixed margin within which exchange rates are allowed to fluctuate.

Gross Domestic Product - Total value of a country's output, income or expenditure produced within the country's physical borders.

Gross National Product - Gross domestic product plus " factor income from abroad" - income earned from investment or work abroad.

TOP

- H -

Hard currency - Any one of the major world currencies that is well traded and easily converted into other currencies.

Head and Shoulders - A pattern in price trends which chartist consider indicates a price trend reversal. The price has risen for some time, at the peak of the left shoulder, profit taking has caused the price to drop or level. The price then rises steeply again to the head before more profit taking causes the the price to drop to around the same level as the shoulder. A further modest rise or level will indicate a that a further major fall is imminent. The breach of the neckline is the indication to sell.

Hedge - The purchase or sale of options or futures contracts as a temporary substitute for a transaction to be made at a later date. Usually it involves opposite positions in the cash or futures or options market.

Hedged position - One open buy position and one open sell position in the same currency.

Hit the bid - Acceptance of purchasing at the offer or selling at the bid.

TOP

- I -

IMF - International Monetary Fund, established in 1946 to provide international liquidity on a short and medium term and encourage liberalization of exchange rates. The IMF supports countries with balance of payments problems with the provision of loans.

IMM - International Monetary Market part of the Chicago Mercantile Exchange that lists a number of currency and financial futures Implied volatilityA measurement of the market's expected price range of the underlying currency futures based on the traded option premiums.

Implied Rates - The interest rate determined by calculating the difference between spot and forward rates.

Indicative quote - A market-maker's price which is not firm.

Inflation - Continued rise in the general price level in conjunction with a related drop in purchasing power. Sometimes referred to as an excessive movement in such price levels.

Initial margin - The margin required by a Foreign Exchange firm to initiate the buying or selling of a determined amount of currency.

Inter-bank rates - The bid and offer rates at which international banks place deposits with each other. The basis of the Interbank market.

Interest Arbitrage - Switching into another currency by buying spot and selling forward, and investing proceeds in order to obtain a higher interest yield. Interest arbitrage can be inward, i.e. from foreign currency into the local one or outward, i.e. from the local currency to the foreign one. Sometimes better results can be obtained by not selling the forward interest amount. In that case some treat it as no longer being a complete arbitrage, as if the exchange rate moved against the arbitrageur, the profit on the transaction may create a loss.

Interest parity - One currency is in interest parity with another when the difference in the interest rates is equalized by the forward exchange margins. For instance, if the operative interest rate in Japan is 3% and in the UK 6%, a forward premium of 3% for the Japanese Yen against sterling would bring about interest parity.

Interest rate Swaps - An agreement to swap interest rate exposures from floating to fixed or vice versa. There is no swap of the principal. It is the interest cash flows be they payments or receipts that are exchanged.

Internationalization - Referring to a currency that is widely used to denominate trade and credit transactions by non residents of the country of issue. US dollar and Swiss Franc are examples.

Intervention - Action by a central bank to effect the value of its currency by entering the market. Concerted intervention refers to action by a number of central banks to control exchange rates.

TOP

- K -

Kiwi - Slang for the New Zealand dollar.

TOP

- L -

Leading Indicators - Statistic that are considered to precede changes in economic growth rates and total business activity, e.g. factory orders.

Liability - In terms of foreign exchange , the obligation to deliver to a counterparty an amount of currency either in respect of a balance sheet holding at a specified future date or in respect of an un-matured forward or spot transaction.

Limit order - A request to deal as a buyer or seller for a foreign currency transaction at a specified price, or at a better price, if obtainable.

Liquidation - Any transaction that offsets or closes out a previously established position.

Liquidity - The ability of a market to accept large transactions.

TOP

- M -

Maintenance margin - The minimum margin which an investor must keep on deposit in a margin account at all times in respect of each open contract.

Make a market - A dealer is said to make a market when he or she quotes bid and offer prices at which he or she stands ready to buy and sell.

Managed float - When the monetary authorities intervene regularly in the market to stabilize the rates or to aim the exchange rate in a required direction.

Margin call - A claim by one's broker or dealer for additional good faith performance monies usually issued when an investor's account suffers adverse price movements.

Margin - The amount of money or collateral that must be, in the first instance, provided or thereafter, maintained, to ensure against losses on open contracts. Initial must be placed before a trade is entered into. Maintenance or Variation margin must be added to initial to maintain against losses on open positions. Sometimes herein the amount that needs to be present to establish or thereafter maintained is sometimes herein referred to as necessary margin.

Mark to market - The daily adjustment of an account to reflect accrued profits and losses often required to calculate variations of margins.

Market maker - A market maker is a person or firm authorized to create and maintain a market in an instrument.

Market order - An order to buy or sell a financial instrument immediately at the best possible price.

Micro economics - The study of economic activity as it applies to individual firms or well defined small groups of individuals or economic sectors.

Mid-price or middle rate - The price half-way between the two prices, or the average of both buying and selling prices offered by the market makers.

Minimum price fluctuation - The smallest increment of market price movement possible in a given futures contract.

Monetary Base - Currency in circulation plus banks' required and excess deposits at the central bank.

Moving Average - A way of smoothing a set of data, widely used in price time series.

TOP

- N -

Net Position - The amount of currency bought or sold which have not yet been offset by opposite transactions.

TOP

- O -

Odd Lot - A non standard amount for a transaction.

Offer - The price at which a seller is willing to sell. The best offer is the lowest such price available.

Offset - The closing-out or liquidation of a futures position.

Off-shore - The operations of a financial institution which although physically located in a country, has little connection with that country's financial systems. In certain countries a bank is not permitted to do business in the domestic market but only with other foreign banks. This is known as an off shore banking unit.

Overnight limit - Net long or short position in one or more currencies that a dealer can carry over into the next dealing day. Passing the book to other bank dealing rooms in the next trading time zone reduces the need for dealers to maintain these unmonitored exposures.

Overnight - A deal from today until the next business day.

TOP

- P -

Parity - (1) Foreign exchange dealer's slang for your price is the correct market price. (2) Official rates in terms of SDR or other pegging currency.

Parities - The value of one currency in terms of another.

Pegged - A system where a currency moves in line with another currency, some pegs are strict while others have bands of movement.

Pip - One unit of price change in the bid/ask price of a currency. For most currencies, it denotes the fourth decimal place in an exchange rate and represents 1/100 of one percent (.01%).

Position - The netted total commitments in a given currency. A position can be either flat or square (no exposure), long, (more currency bought than sold), or short (more currency sold than bought).

Profit Taking - The unwinding of a position to realize profits.

TOP

- Q -

Quote - An indicative price. The price quoted for information purposes but not to deal.

TOP

- R -

Rally - A recovery in price after a period of decline.

Range - The difference between the highest and lowest price of a future recorded during a given trading session.

Rate - (1) The price of one currency in terms of another, normally against USD. (2) Assessment of the credit worthiness of an institution.

Reaction - A decline in prices following an advance.

Reciprocal currency - A currency that is normally quoted as dollars per unit of currency rather than the normal quote method of units of currency per dollar. Sterling is the most common example.

Resistance Point or Level - A price recognized by technical analysts as a price which is likely to result in a rebound but if broken through is likely to result in a significant price movement.

Revaluation - Increase in the exchange rate of a currency as a result of official action.

Revaluation rate - The rate for any period or currency which is used to revalue a position or book.

Risk management - The identification and acceptance or offsetting of the risks threatening the profitability or existence of an organisation. With respect to foreign exchange involves among others consideration of market, sovereign, country, transfer, delivery, credit, and counterparty risk.

Risk Position - An asset or liability, which is exposed to fluctuations in value through changes in exchange rates or interest rates.

Rollover - An overnight swap, specifically the next business day against the following business day (also called Tomorrow Next, abbreviated to Tom-Next).

Round trip - Buying and selling of a specified amount of currency.

TOP

- S -

Same day transaction - A transaction that matures on the day the transaction takes place.

Selling rate - Rate at which a bank is willing to sell foreign currency.

Settlement date - The date upon which foreign exchange contracts settle.

Settlement Risk - Where a payment is made to a counter party before the counter value payment has been made. The risk is that the counter party's payment will not be received.

Short sale - The sale of a specified amount of currency not owned by the seller at the time of the trade. Short sales are usually made in expectation of a decline in the price.

Short-term interest rates - Normally the 90 day rate.

Sidelined - A major currency that is lightly traded due to major market interest being in another currency pair.

Slippage - Refers to the negative (or depreciating) pip value between where a stop loss order becomes a market order and where that market order may be filled.

Soft Market - More potential sellers than buyers, which creates an environment where rapid price falls are likely.

Spot - (1) The most common foreign exchange transaction. (2) Spot or Spot date refers to the spot transaction value date that requires settlement within two business days, subject to value date calculation.

Spot next - The overnight swap from the spot date to the next business day.

Spot price/rate - The price at which the currency is currently trading in the spot market.

Spread - (l)The difference between the bid and ask price of a currency. (2) The difference between the price of two related futures contracts.

Square - Purchase and sales are in balance and thus the dealer has no open position.

Squawk Box - A speaker connected to a phone often used in broker trading desks.

Squeeze - Action by a central bank to reduce supply in order to increase the price of money.

Stable market - An active market which can absorb large sale or purchases of currency without major moves.

Standard - A term referring to certain normal amounts and maturities for dealing.

Sterilization - Central Bank activity in the domestic money market to reduce the impact on money supply of its intervention activities in the FX market.

Sterling - British pound, otherwise known as cable.

Stocky - Market slang for Swedish Krona.

Stop-Loss order - Order to buy or sell at the best available price when a given price threshold has been reached.

Support levels - When an exchange rate depreciates or appreciates to a level where (1) Technical analysis techniques suggest that the currency will rebound, or not go below; (2) the monetary authorities intervene to stop any further down ward movement. See resistance point.

Swap price - A price as a differential between two dates of the swap.

Swap - The simultaneous purchase and sale of the same amount of a given currency for two different dates, against the sale and purchase of another. A swap can be a swap against a forward. In essence, swapping is somewhat similar to borrowing one currency and lending another for the same period. However, any rate of return or cost of funds is expressed in the price differential between the two sides of the transaction.

Swissy - Market slang for Swiss Franc.

TOP

- T -

Technical Correction - An adjustment to price not based on market sentiment but technical factors such as volume and charting.

Thin market - A market in which trading volume is low and in which consequently bid and ask quotes are wide and the liquidity of the instrument traded is low.

Thursday/Friday Dollars - A US foreign exchange technicality. If a foreign bank buys dollars on Tuesday for Thursday delivery. If the bank leaves the funds overnight and transfers them on Friday by means of a clearing house cheque then clearance is not until Monday, the next working day. Higher interest rates for this period are thus available.

Tick - A minimum change in price, up or down.

Today/Tomorrow - Simultaneous buying of a currency for delivery the following day and selling for the spot day, or vice versa. Also referred to as overnight.

Tomorrow next (Tom next) - Simultaneous buying of a currency for delivery the following day and selling for the spot day or vice versa.

Trade date - The date on which a trade occurs.

Tradeable amount - Smallest transaction size acceptable.

Transaction date - The date on which a trade occurs.

Transaction - The buying or selling of currencies resulting from the execution of an order.

Two Tier market - A dual exchange rate system where normally only one rate is open to market pressure, e.g. South Africa.

Two-Way quotation - When a dealer quotes both buying and selling rates for foreign exchange transactions.

TOP

- U -

Uncovered - Another term for an open position.

Under-valuation - An exchange rate is normally considered to be undervalued when it is below its purchasing power parity.

Up tick - A transaction executed at a price greater than the previous transaction.

TOP

- V -

Value Date - For a spot transaction it is two business banking days forward in the country of the bank providing quotations which determine the spot value date. The only exception to this general rule is the spot day in the quoting centre coinciding with a banking holiday in the country(ies) of the foreign currency(ies). The value date then moves forward a day.

Value Spot - Normally settlement for two working days from today. See value date.

Volatility - A measure of the amount by which an asset price is expected to fluctuate over a given period.

Vostro Account - A local currency account maintained with a bank by another bank. The term is normally applied to the counterparty's account from which funds may be paid into or withdrawn, as a result of a transaction.

TOP

- W -

Wash trade - A matched deal which produces neither a gain nor a loss.

Whipsaw - Term for where a trader takes a position, then has to move against it triggering stop loss limits and liquidation of positions, then having to move in the original direction. Normally occurs in volatile markets.

Working day - A day on which the banks in a currency's principal financial centre are open for business. For FX transactions, a working day only occurs if the bank in both financial centre's are open for business (all relevant currency centers in the case of a cross are open).

The end…

I SINCERELY HOPE THIS EBOOK HAD OPENED YOUR EYES TO THE POSSIBILITIY OF TRADING USING YOUR HEAD INSTEAD OF CHARTS.

Thomas Yeomans
November 2006

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