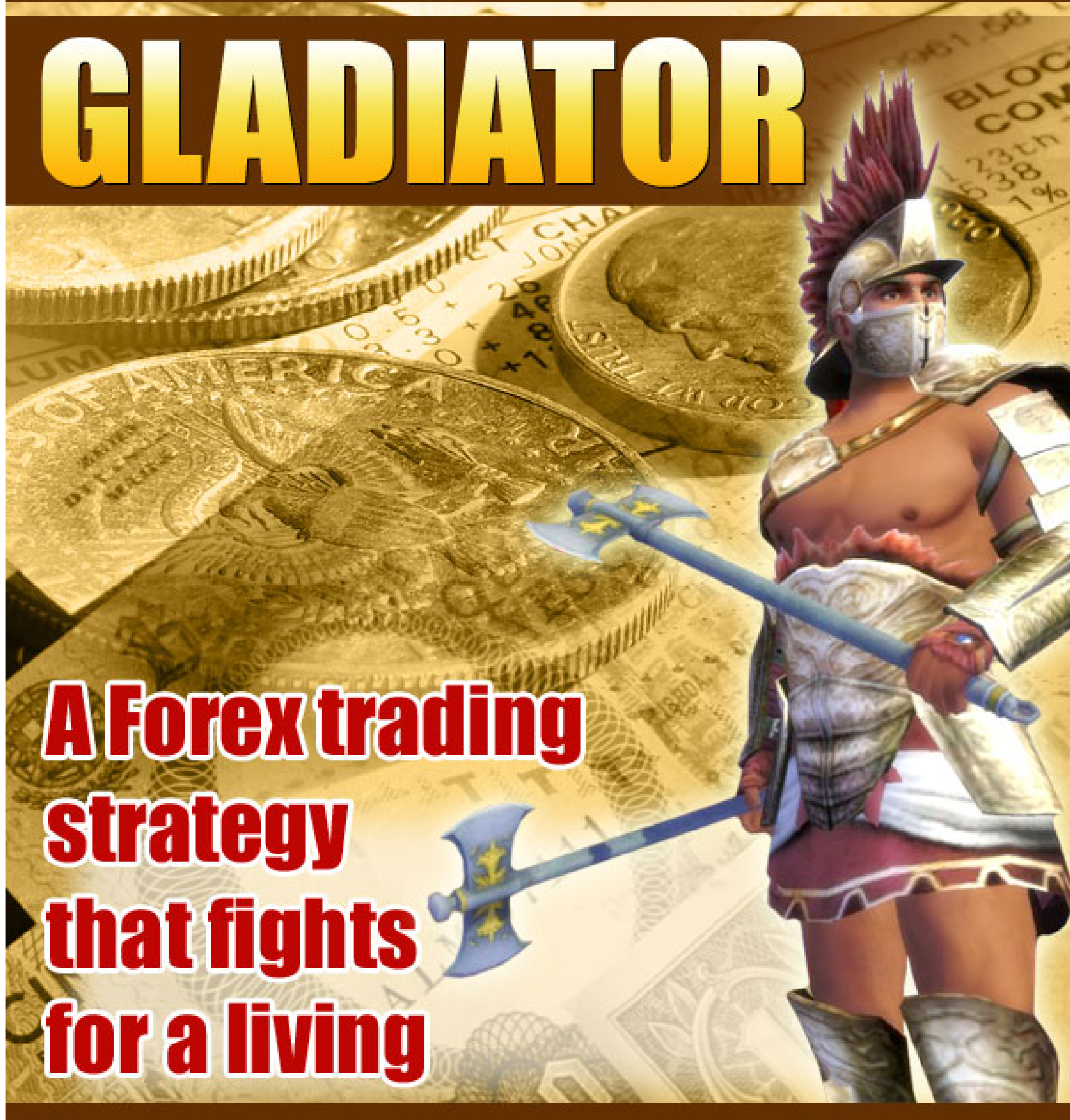

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Introduction

Forex or **The Foreign Exchange Rate Market** is an international market where various currency exchange transactions take place; people simultaneously buy one currency and sell another.

The most commonly traded currencies are referred to as “Majors”; over 85% of daily transactions on Forex trading involve the Majors. These seven currencies are the US Currency (Dollar, USD), Japanese Yen (JPY), Euro (EUR), British Pound (GBY), Swiss Franc (CHF), Canadian Dollar (CAD) and Australian Dollar (AUD).

The Forex system in operation today was established in the 1970s when free **currency exchange** rates were introduced, this period also saw the US Dollar overtake the British Pound as the benchmark currency. Prior to this, and in particular during World War II, the exchange rate remained more stable.

Forex trading in simplest terms is the buying of one currency and the selling of another. **Forex trading**, also referred to, as “FX” is open to corporations, small businesses, commercial banks, investment funds

and private individuals. It is the largest financial market in the world averaging a daily turnover of over $1 trillion dollars, making it a diverse and exciting market.

It is a 24-hour market enabling it to accommodate constant changing world **currency exchange rates**. According to the New York Times, trading begins at 2:15 pm on Sunday in Sydney and Singapore and progresses through to Tokyo at 7:00 pm, London at 2:00 am and reaches New York at 8:00 am. This leaves investors free to respond to global political, economic and social events when they take place, day or night.

Benefits of Forex Trading

- **Commission-Free Trades** – No commission charges on self-traded accounts. All Limits, Stops, Entry and Exit orders are commission-free. Traders pay a spread between the bid and ask prices.

- **24-Hour Market** – Trade anytime day or night. Unlike traditional investments, FOREX offers continuous trading day or night allowing investors to profit even at times when other investment markets are closed. Normal operation hours are Sunday 5 pm through Friday 4 pm Eastern Standard Time.

- **High Liquidity** – Ability to enter and exit the market freely at a desired price. A powerful attraction to any investor as it suggests the freedom to open or close a position at will.

- **400 to 1 Leverage** – Control up to 400 times investment capital. Leverage ratios range from 40– 400. For participants with small investment capital, this can mean huge potential gains. Example: USD $1,000 investment would control $100,000 (at 100 to 1 leverage) and $400,000 (at 400 to 1 leverage). Please note that risk increases proportionately with the amount of leverage used.

- **Tight Spreads** – Competitive spread rates of 3-5 pips. Offering a competitive advantage typically enjoyed by only the largest institutions, investors can increase profitability with narrower spread rates.

- **Interests** – Earn interest on open positions and unused margin on a daily basis.

- **Safety of Funds** –All funds are deposited with reputable financial institutions.

- **Real-Time Account Info** – Up-to-the-Minute access to trade activities and reports. Continuous connection to market movements allows investors immediate feedback, to monitor both profitability and control risk.

- **Full Charting Capabilities** – Execute orders and monitor positions directly on the chart. Full access to trade capabilities all in one window.
- **Bi-Directional Trading** – Ability to profit in both Bullish and Bearish conditions. The relative strength and direction of an economy is irrelevant, even in times of recession profit is still possible.
- **Flexible Settlements** – Foreign Exchange can be tailored to specific investment objectives. Investors may choose from different trade strategies based on financial goals and needs, whether it is aggressive, conservative, long-term or short.
- **Trend lines** – Currencies have long identifiable trends. Over long historical periods, currencies have shown substantial and identifiable tendencies in movement.
- **Global Diversification** – Full diversification beyond equities and treasuries. A vital tool in any investment portfolio allowing investors to diversify at a global level maximizing profitability while reducing portfolio risk.
- **Tax Advantages** – FOREX is a tax-deferred investment. Profits on investment are taxed as capital gains upon withdrawal.
- **Small Initial Investment** – Trade accounts start at $1,000. Traders enjoy all the benefits mentioned above even with small investment capital.
- **Dedicated Account Management** – Benefit from professionally managed accounts. P|X Account Executives will work with you towards your investment goals and advise a proper strategy to suite your style.

Foreign Exchange Risks on Forex

Assuming you are dealing with a reputable broker, there are still risks to Forex trading. Transactions are subject to unexpected rate changes, volatile markets and political events.

Exchange Rate Risk: refers to the fluctuations in currency prices over a trading period. Prices can fall rapidly, resulting in substantial losses unless stop loss orders are used.

Interest Rate Risk: can result from discrepancies between the interest rates in the 2 countries represented by the currency pair in a FOREX quote. This discrepancy can result in variations from the expected profit or loss of a particular Forex transaction.

Credit Risk: is the possibility that 1 party in a Forex transaction may not honor their debt when the deal is closed. This may happen when a bank or financial institution declares insolvency. Dealing on regulated exchanges, which require members to be monitored for credit worthiness, can minimize credit risk.

Country Risk: is associated with governments that may become involved in foreign exchange markets by limiting the flow of currency. There is more country risk associated with "exotic" currencies than with major countries that allow the free trading of their currency.

Forex Market Background

The global marketplace has changed dramatically over the past several years. New investment strategies are becoming more important in order to minimize risk, as well as to maintain high portfolio returns. Among the most rewarding of the markets opening up to traders is the Foreign Exchange market. Identifiable trading patterns, as well as comparatively low margin requirements, have created rewarding trading opportunities for many.

In contrast to the world's stock markets, foreign exchange is traded without the constraints of a central physical exchange. Transactions are instead conducted via telephone or online. With this transaction structure as its foundation, the Foreign Exchange Market has become by far the largest marketplace in the world. Average volume in foreign exchange exceeds $1.5 trillion per day versus only $25 billion per day traded on the New York Stock Exchange. This high volume is advantageous from a trading standpoint because transactions can be executed quickly and with low transaction costs (i.e., a small bid/ask spread).

As a result, foreign exchange trading has long been recognized as a superior investment opportunity by major banks, multinational corporations and other institutions.

Spot foreign exchange is always traded as one currency in relation to another. So a trader, who believes that the dollar will rise in relation to the Euro, would sell EURUSD. That is, sell Euros and buy US dollars.

Forex-Training.com has compiled the following guide for quoting conventions:

Symbol	Currency Pair	Trading Terminology
GBPUSD	British Pound / US Dollar	"Cable"
EURUSD	Euro / US Dollar	"Euro"
USDJPY	US Dollar / Japanese Yen	"Dollar Yen"
USDCHF	US Dollar / Swiss Franc	"Dollar Swiss", or "Swissy"
USDCAD	US Dollar / Canadian Dollar	"Dollar Canada", or "C-Dollar"
AUDUSD	Australian Dollar / US Dollar	"Aussie Dollar"
EURGBP	Euro / British Pound	"Euro Sterling"
EURJPY	Euro / Japanese Yen	"Euro Yen"
EURCHF	Euro / Swiss Franc	"Euro Swiss"
GBPCHF	British Pound / Swiss Franc	"Sterling Swiss"
GBPJPY	British Pound / Japanese Yen	"Sterling Yen"
CHFJPY	Swiss Franc / Japanese Yen	"Swiss Yen"
NZDUSD	New Zealand Dollar / US Dollar	"New Zealand Dollar" or "Kiwi"
USDZAR	US Dollar / South African Rand	"Dollar Zar" or "South African Rand"
GLDUSD	Spot Gold	"Gold"
SLVUSD	Spot Silver	"Silver"

Spot Forex versus Currency Futures

Many traders have made the switch from currency futures to spot foreign exchange ("Forex") trading or "currency trading". Spot foreign exchange offers better liquidity and generally a lower cost of trading than currency futures. Banks and brokers in spot foreign exchange can quote markets 24 hours a day.

Furthermore, the spot foreign exchange market is not burdened by exchange and NFA ("National Futures Association") fees, which are generally passed on to the customer in the form of higher commissions.

For these reasons, virtually all professional traders and institutions conduct most of their foreign exchange dealing in the spot Forex market, not in currency futures.

The mechanics of trading spot Forex are similar to those of currency futures. The most important initial difference is the way in which currency pairs are quoted. Currency futures are always quoted as the currency versus the US dollar. In spot Forex, some currencies are quoted this way, while others are quoted as the US dollar versus the currency.

For example, in spot Forex, EURUSD is quoted the same way as Euro futures. In other words, if the Euro is strengthening, EURUSD will rise just as Euro futures will rise. On the other hand, USDCHF is quoted as US dollars with respect to Swiss Francs, the opposite of Swiss Franc futures. So if the Swiss Franc strengthens with respect to the US dollar, USDCHF will fall, while Swiss Franc futures will rise.

> The rule in spot Forex is that the first currency shown is the currency that is being quoted in terms of direction.

For example, "EUR" in EURUSD and "USD" in USDCHF is the currency that is being quoted.

The table below illustrates which spot currencies move parallel to the futures contract and which move inversely (opposite):

Forex Symbol	Currency Pair	Futures Symbol	Directional Relationship
GBPUSD	British Pound / US Dollar	BP	Parallel
EURUSD	Euro / US Dollar	EU	Parallel
USDJPY	US Dollar / Japanese Yen	JY	Inverse
USDCHF	US Dollar / Swiss Franc	SF	Inverse
USDCAD	US Dollar / Canadian Dollar	CD	Inverse
AUDUSD	Australian Dollar / US Dollar	AD	Parallel
NZDUSD	New Zealand Dollar / US Dollar	ND	Parallel

HEY, MY NAME IS TIMOTHY. I AM JOE'S FRIEND.

IN THIS SECTION, I AM GOING TO REVIEW THE BASICS OF FOREX TRADING.

SOME READERS MAY ALREADY BE FAMILIAR WITH THIS STUFF, BUT MOST OF YOU WHO ARE NEW TO FOREX TRADING WILL NOT. NEW TRADERS NEED TO UNDERSTAND THE BASICS FIRST!

Technical Analysis

In Forex trading there are two common types of analysis that most traders utilize: fundamental and technical analysis.

- Fundamental analysis attempts to predict currency movement based off of political and economy indicators.
- Technical analysis uses historical economic information to predict changes in the Forex market.

This is the first of two articles that will explore technical analysis.

Technical Analysis is based on the following assumptions:

1. Price movements are a result of combined market forces. Political events, economic conditions, seasonal fluctuations, supply and demand are all things that can affect currency prices. Technical analysts do not concern themselves with why the market moves, they are only interested in the movements themselves.

2. Currency prices on the Forex market follow trends. Predictable consequences have been linked with many recognized market patterns.

3. Historical trends can be used to predict current price movements. Data on the FOREX market has been collected for the last 100 years, over that time certain patterns have emerged. Human psychology and the way people react to certain circumstances are the basis of these patterns.

Most traders consider technical analysis to be of critical importance even though they may also use fundamental analysis to support and confirm the strategy suggested by technical analysis. Unlike fundamental analysis, technical analysis can be applied to many different currencies and markets at the same time. Since fundamental analysis requires detailed knowledge of the economic and political conditions of a certain country, it is nearly impossible for any single trader to perform proper fundamental analysis on more than a few countries.

For the beginning trader the complexities of technical analysis may seem overwhelming and they may even wonder if it is actually necessary. If you wish to be successful at FOREX trading you must have a strategy. Any strategy can work but technical analysis has been proven as a reliable and effective method of predicting market changes. Many forces can affect currency prices though so technical analysis is no guarantee, most successful traders utilize a combination of technical and fundamental analysis.

Any quality online FOREX broker should be able to supply you with a large variety of online charts for technical analysis. You can purchase in-depth professional charts (there is usually a monthly fee involved in gaining access to this information). There is also free software available to help you with charting. Charts provide different snapshots of timeframes and usually can also have analytical overlays. These charts will provide a broad over view and can also be zoomed into the tick level. Good charts are updated in real time. These may be available on your broker's site or could be part of their software.

You should learn the market and study trends before for a period of time before you begin actively trading. Most brokers will provide you with a practice account where you can place "paper trades". Paper trades are just practice trades where no real money is made or lost. They act just like a real trade though so you can see exactly how your

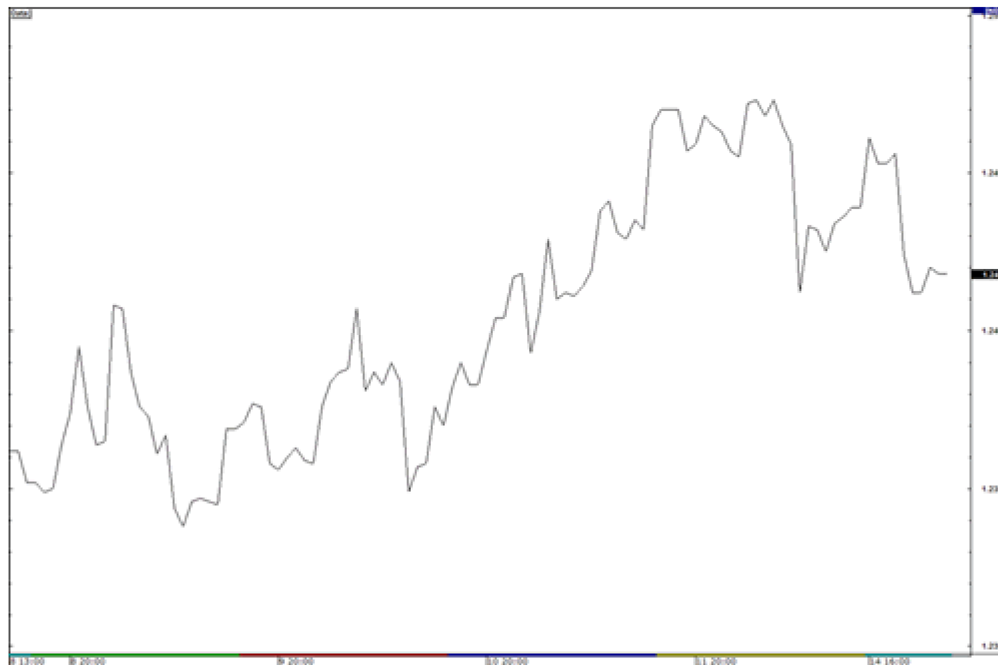
trade would have turned out if you had placed it for real. This allows you to become familiar with your brokers system and software as well as learning about the market and how it moves without risking any money while you learn.

Visual Trading

Price charts can be simple line graphs, bar graphs or even candlestick graphs. These are graphs that show prices during specified time frames. These time frames can be anywhere from minutes to years or any time interval in between.

Line Chart

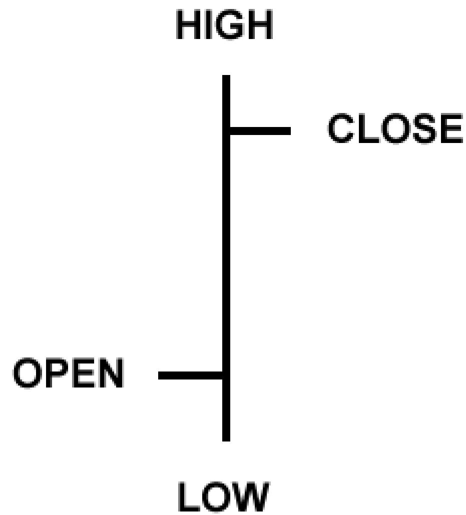
A simple line chart draws a line from one closing price to the next closing price. When strung together with a line, we can see the general price movement of a currency pair over a period of time. Here is an example of a line chart for EUR/USD:



Bar Charts

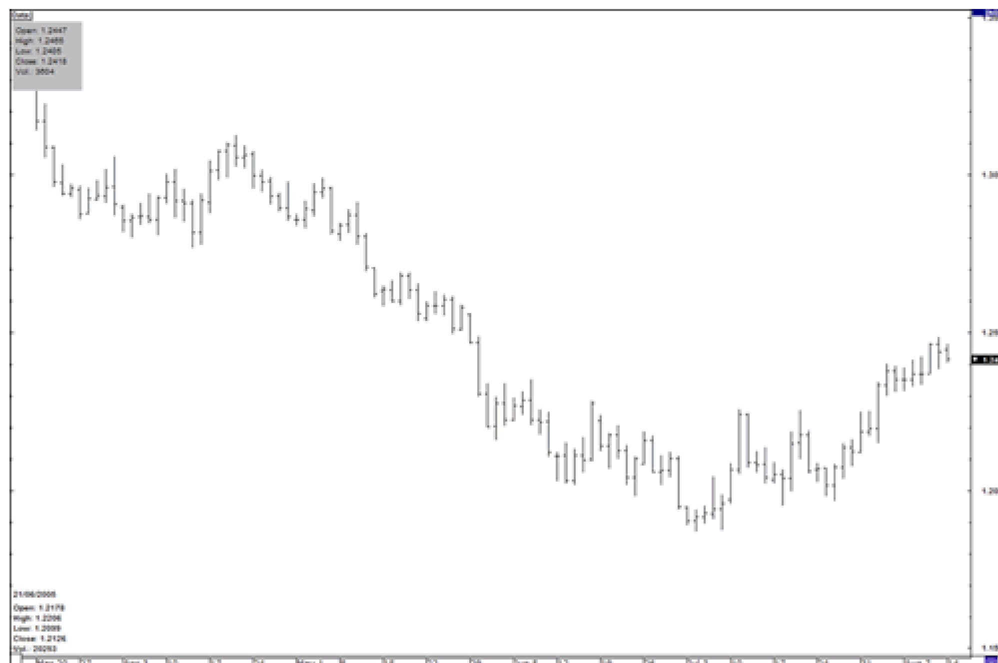
A bar chart also shows closing prices, while simultaneously showing opening prices, as well as the highs and lows. The bottom of the vertical bar indicates the lowest traded price for that time period, while the top of the bar indicates the highest price paid. So, the vertical bar indicates the currency pair’s trading range as a whole. The horizontal hash on the left side of the bar is the opening price, and the right-side horizontal hash is the closing price.

Bar charts are also called “OHLC” charts, because they indicate the **O**pen, the **H**igh, the **L**ow, and the **C**lose for that particular currency. Here’s an example of a price bar:



- **Open:** The little horizontal line on the left is the opening price
- **High:** The top of the vertical line defines the highest price of the time period
- **Low:** The bottom of the vertical line defines the lowest price of the time period
- **Close:** The little horizontal line on the right is the closing price

Here is an example of a bar chart for EUR/USD:

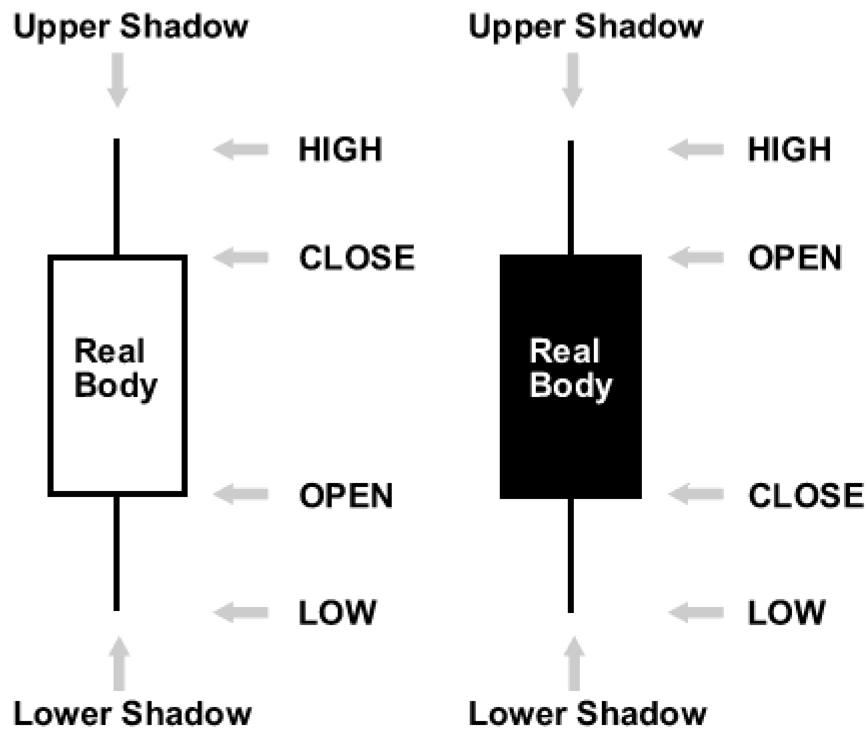


Candlestick Charts

Candlestick charts show the same information as a bar chart, but in more attractive and easier to read format. Candlestick bars still indicate the high-to-low range with a vertical line.

However, in candlestick charting, the larger block in the middle indicates the range between the opening and closing prices. Traditionally, if the block in the middle is filled or colored in, then the currency closed lower than it opened.

In the example below, the 'filled color' is black. For our 'filled' blocks, the top of the block is the opening price, and the bottom of the block is the closing price. If the closing price is higher than the opening price, then the block in the middle will be "white" or hollow or unfilled.



Here is an example of a candlestick chart for EUR/USD.

The purpose of candlestick charting is strictly to serve as a visual aid, since the exact same information appears on an OHLC bar chart. The advantages of candlestick charting are:

- Candlesticks are easy to interpret and it's a good place for a beginner to start figuring out chart analysis
- Candlesticks are easy to use. Your eyes adapt almost immediately to the information in the bar notation.
- Candlesticks and candlestick patterns have cool names such as the shooting star, which helps you to remember what the pattern means.
- Candlesticks are good at identifying marketing turning points – reversals from an uptrend to a downtrend or a downtrend to an uptrend. You will learn more about this later.

EVEN IF YOU ARE AN EXPERT
FOREX TRADER, PLEASE READ
THIS SECTION BECAUSE IT'S
IMPORTANT, AND IT'S EASY
TO FORGET THESE FINE POINTS.

Psychology of Trading

Trade with a DISCIPLINED Plan

The problem with many traders is that they take shopping more seriously than trading. The average shopper would not spend $400 without serious research and examination of the product he is about to purchase, yet the average trader would make a trade that could easily cost him $400 based on little more than a “feeling” or “hunch.” Be sure that you have a plan in place BEFORE you start to trade. The plan must include stop and limit levels for the trade, as your analysis should encompass the expected downside as well as the expected upside.

Cut Your Losses Early and Let Your Profits Run

This simple concept is one of the most difficult to implement and is the cause of most traders demise. Most traders violate their predetermined plan and take their profits before reaching their profit target because they feel uncomfortable sitting on a profitable position. These same people will easily sit on losing positions, allowing the market to move against them for hundreds of points in hopes that the market will come back. In addition, traders who have had their stops hit a few times only to see the market go back in their favor once they are out, are quick to remove stops from their trading on the belief that this will always be the case. Stops are there to be hit, and to stop you from losing more then a predetermined amount! The mistaken belief is that every trade should be profitable. If you can get 3 out of 6

trades to be profitable then you are doing well. How then do you make money with only half of your trades being winners? You simply allow your profits on the winners to run and make sure that your losses are minimal.

Do Not Marry Your Trades

The reason trading with a plan is the #1 tip is because most objective analysis is done before the trade is executed. Once a trader is in a position he/she tends to analyze the market differently in the “hopes” that the market will move in a favorable direction rather than objectively looking at the changing factors that may have turned against your original analysis. This is especially true of losses. Traders with a losing position tend to marry their position, which causes them to disregard the fact that all signs point towards continued losses.

Do Not Bet The Farm

Do not over trade. One of the most common mistakes that traders make is leveraging their account too high by trading much larger sizes than their account should prudently trade. Leverage is a double-edged sword. Just because one lot (100,000 units) of currency only requires $1000 as a minimum margin deposit, it does not mean that a trader with $5000 in his account should be able to trade 5 lots. One lot is $100,000 and should be treated as a$100,000 investment and not the $1000 put up as margin. Most traders analyze the charts correctly and place sensible trades, yet they tend to over leverage themselves. As a consequence of this, they are often forced to exit a position at the wrong time. A good rule of thumb is to never use more than 10% of your account at any given time.

How To Choose A Forex Broker

If you are doing Forex trading, then you know the importance of a good Forex broker. This is especially true if you are just starting out and do not have a lot of experience. A good Forex trader will work with you and provide the information and tips you need to make the best trading.

Even though your Forex broker will be offering you tips and advice, they do not make the final decision to buy or sell. You do. Therefore it is important you know what you want and make your own decision. It is ok to ask a lot of newbie Forex questions to your broker if you are new to Forex trading but make your own mind and accept the results.

As you can see, a good Forex broker is important as you will be seeking his/her advice and you certainly want someone who's the best in the Forex business. So how do you go about choosing one? Here are some tips to help you

1. **Registered Forex Broker**.

It is important that your Forex broker is a registered member of a financial institution. Ask for his/her credentials. You want the assurance that he/she will be able to act on your decision and access the funds needed.

Check with the NFA (National Futures Association) if you doubt your Forex broker is registered.

2. **On-call Broker**.

Your Forex broker should remain in contact at all times. Whether it be via cell phone, email, instant messaging etc. Your broker should know Forex trading is a 24-hour standby job and fluctuations in trading can happen quite quickly. Therefore it is important you can get hold of your Forex broker when you need him/her.

3. **Experienced Broker**.

Before you select a Forex broker, ask for his/her references. Call those references and ask them about their opinions on the Forex trader. By doing this, you can assert whether the Forex broker is experienced and whether he/she is able to execute a trade effectively and successfully.

It would be best to contact more than one reference to get accurate feedback on the Forex broker.

4. **Cost of Broker**

Many people when looking for a Forex broker are overly concerned about the cost. Usually more experienced Forex brokers as well as those with a good track record of successful trades demand a higher price.

My recommendation is to select a few Forex brokers that you are comfortable with, have credentials, have a proven good track record. Once you have done that, then you can talk about cost.

Sometimes the price for a Forex broker with the above qualifications can be high, however you need to keep in mind, they can help you make more money in the long run and offset the cost.

The Top Four Forex Brokers

The best Forex brokers are: Saxo Bank, GAIN Capital, GCI Financial Ltd., and CMS Forex.

- **Saxo Bank's ForexTrading.com** offers 24 hour online trading, streaming news from three major providers, detailed analysis from in-house experts, direct online chat to dealers, and a secure trading environment.

  GAIN Capital gives its asset managers robust technology, wholesale dealing spreads, consistent liquidity, fast execution, and access to a wide range of sophisticated tools. GAIN Capital's proprietary trading technology today supports over $60 billion in monthly trade volume. GAIN Capital's FOREXTrader has streaming prices in 14 currency pairs, real time profit and loss account information, sophisticated risk management tools, a variety of simple and complex order types, and full reporting capabilities.

  Professional dealing practices and a service-oriented approach has earned GAIN Capital a reputation as a world class provider of foreign exchange services. Client and partners from over 110 countries currently rely on their technology, execution and clearing services, and administrative tools.

  For individual investors, GAIN Capital operates FOREX.com, which offers advanced, yet easy-to-use trading tools along with lower account minimums and extensive educational resources.

- **GCI Financial** is one of the world's largest online brokers offering commission-free trading in Forex. GCI Financial offers Internet trading software, fast and efficient execution, and the low margin requirements. GCI Financial's free trading software gives the investor the edge in execution, market information, and account management. GCI Financial offers Forex and indices on an online dealing platform. In their Forex trading platform the trader can add and remove instruments from the ""dealing prices"" window to fully customize the trading.

- **CMS Forex** accepts no commission, demands a small amount of only $200 to establish a mini account, provides users with a Free Demo account, provides leverage as high as 400:1, and has a 3 to 4 pip spread on major currencies.

HEY, MY NAME IS MARCOS.
MOST PEOPLE MAKE MISTAKES,
AND I'M NO EXCEPTION!

LET ME SHARE THE MOST
COMMON MISTAKES NEW
FOREX TRADERS MAKE.

READ THIS SECTION VERY
CAREFULLY TO AVOID MAKING
THE SAME ERRORS!

Top 7 Mistakes Beginners Make When Forex Day Trading Online

Learning to master Forex day trading online for someone who has no background in the financial markets can be intimidating. Generally, much patience and time are needed.

However, by looking at the most common mistakes we can at least shorten the learning curve and get past the first few hurdles as quickly and painlessly as possible. The financial rewards once the skills are learned are certainly worth it!

1. Thinking they can generate huge amounts of money in a short time.

   This is not a get-rich-quick scheme. An individual approaching day trading online with that mindset best look somewhere else.

2. Going by gut feeling instead of calmly assessing market conditions using technical indicators and selecting high probability trades.

3. Chasing the market.

   A typical scenario: The new trader feels certain price is going up so puts in a long position. Unexpectedly price pulls back. The new trader gets nervous and doesn't want to lose too heavily so comes out with a 15 pip loss.

   Shortly after that price resumes the uptrend. The new trader thinks, "I was right in the first place" and puts in a second long position to try and make up for the 15 pip loss and make a profit on top.

   Low and behold, price doesn't go where the new trader was expecting, pulls back, and takes out the position at a 25 pip loss. Score for the day: -40 pips.

   Chasing the market is one of the surest ways to blow your account.

4. Lack of thorough preparation before the start of a new trading session.

   It is crucial a trader examines the charts from a higher time frame down to a small time frame (e.g. weekly, daily, 4 hour, 1 hour) to pick up significant candle or chart patterns and understand the direction of the overall trend.

   Additionally, consulting the daily calendar for Fundamental Announcements will ensure the trader is not caught off-guard by sudden market moves at news time.

5. Poor or non-existent equity management.

   New traders often fail to educate themselves on how much they can risk on any one trade according to how much capital they have in their account. Many are tempted to trade multiple lots far too early only to get wiped out.

   Multiple lots can result in big profits. They can also eat you alive when a trade goes against you. Only strict, almost paranoid,

tight equity management will ensure the account survives and grows.

6. Floating from one system to the next, trying indicator after indicator, becoming a 'jack of all trades, but master of none.'

   Find a proven system that fits with your trading personality and style and stick with it until you make it work for you.

7. Thinking they can learn by themselves, find the secret code and 'crack the system.'

   Most successful traders learned from someone who is already a professional successful trader, preferably with years of experience. It is so important to have a mentor or tutoring program to get up to speed more quickly.

What Are These Costly Mistakes?

Well, the first one is: Getting bogged down with technical stuff. In common terms, that's referred to as "paralysis of analysis".

Like most financial markets there are an almost indefinite number of factors one can look at before making a trading decision. All sorts of indicators exist like support and resistance levels, moving averages, pivots, oscillators, and Fibonacci and trend lines.

The big problem for new traders is these indicators create confusion more than anything else. The solution is to find a trading method that simplifies the process. Perhaps the simplest trading method is one that relies on only two or three easy to measure indicators. Anything beyond that stifles most traders.

The second mistake is…

Letting Emotion Dictate How You Trade!

All investing markets are driven primarily by the emotions of fear and greed. Whether we like it or not that's just the way it is.

Panic selling and holding on to a position to squeeze out every last pip is typical, but emotional trading can lead to making bad decisions and an empty trading account.

Keeping your emotions in check is actually not that hard. First of all, go into any and every trade with a complete plan. Know when and where you'll enter and exit. Determine ahead of time where you'll place your stop losses. Secondly, don't abandon your plan in the heat of the battle. Keep your objectives in sight and follow through.

One more thing: Paper trading properly will help you avoid these mistakes. Pretend your demo account is real. Find a simple trading system that relies on two or three indicators at most and…

Master It during Paper Trading!

This way you'll go into the market armed.

By making each trade as real as possible, you'll learn to develop trading plans and stick to them. Again, it's all about simulating a real experience in a practice environment.

In conclusion let me just say this:

1. Find a simple trading system that won't bog you down with too much analysis and learn it.

2. Learn to take emotion out of your trading decisions by following the guidelines above. You'll become a better, more successful trader.

Forex Day Trading Tips

The second and final part of this section clearly and simply details more essential tips on how to avoid the pitfalls and start making more money in your Forex trading.

This two-part section clearly and simply details essential tips on how to avoid typical pitfalls and start making more money in your Forex trading.

1. **Trade Pairs, Not Currencies**: Like any relationship, you have to know both sides. Success or failure in Forex trading depends upon being right about both currencies and how they impact one another, not just one.

2. **Knowledge is Power**: When starting out trading Forex online, it is essential that you understand the basics of this market if you want to make the most of your investments.

   The main Forex influencer is global news and events. For example, say an ECB statement is released on European interest rates that typically will cause a flurry of activity. Most newcomers react violently to news like this and close their positions and subsequently miss out on some of the best trading opportunities by waiting until the market calms down. The potential in the Forex market is in the volatility, not in its tranquility.

3. **Unambitious Trading**: Many new traders will place very tight orders in order to take very small profits. This is not a sustainable approach because although you may be profitable in the short run (if you are lucky), you risk losing in the longer term as you have to recover the difference between the bid and the ask price before you can make any profit and this is much more difficult when you make small trades than when you make larger ones.

4. **Over-cautious Trading**: Like the trader who tries to take small incremental profits all the time, the trader who places tight stop losses with a retail Forex broker is doomed. As we stated above, you have to give your position a fair chance to demonstrate its ability to produce. If you don't place reasonable stop losses that

allow your trade to do so, you will always end up undercutting yourself and losing a small piece of your deposit with every trade.

5. **Independence**: If you are new to Forex, you will either decide to trade your own money or to have a broker trade it for you. So far, so good. But your risk of losing increases exponentially if you do either of these two things:

   - Interfere with what your broker is doing on your behalf (as his strategy might require a long gestation period)

   - Seek advice from too many sources - multiple inputs will only result in multiple losses. Take a position, ride with it and then analyze the outcome - by yourself, for yourself.

6. **Tiny Margins**: Margin trading is one of the biggest advantages in trading Forex as it allows you to trade amounts far larger than the total of your deposits. However, it can also be dangerous to novice traders as it can appeal to the greed factor that destroys many Forex traders. The best guideline is to increase your leverage in line with your experience and success.

7. **No Strategy**: The aim of making money is not a trading strategy. A strategy is your map for how you plan to make money. Your strategy details the approach you are going to take, which currencies you are going to trade and how you will manage your risk. Without a strategy, you may become one of the 90% of new traders that lose their money.

8. **Trading Off-Peak Hours**: Professional FX traders, option traders, and hedge funds posses a huge advantage over small retail traders during off-peak hours (between 2200 CET and 1000 CET) as they can hedge their positions and move them around when there is far small trade volume is going through (meaning their risk is smaller). The best advice for trading during off peak hours is simple - don't.

9. **The Only Way is Up/Down**: When the market is on its way up, the market is on its way up. When the market is going down, the market is going down. That's it. There are many systems that analyze past trends, but none that can accurately predict the

future. But if you acknowledge to yourself that all that is happening at any time is that the market is simply moving, you'll be amazed at how hard it is to blame anyone else.

10. **Trade on the News**: Most of the really big market moves occur around news time. Trading volume is high and the moves are significant; this means there is no better time to trade than when news is released. This is when the big players adjust their positions and prices change resulting in a serious currency flow.

11. **Exiting Trades**: If you place a trade and it's not working out for you, get out. Don't compound your mistake by staying in and hoping for a reversal. If you're in a winning trade, don't talk yourself out of the position because you're bored or want to relieve stress; stress is a natural part of trading; get used to it.

12. **Don't Trade Too Short-term**: If you are aiming to make less than 20 points profit, don't undertake the trade. The spread you are trading on will make the odds against you far too high.

13. **Don't Be Smart**: The most successful traders I know keep their trading simple. They don't analyze all day or research historical trends and track web logs and their results are excellent.

14. **Tops and Bottoms**: There are no real "bargains" in trading foreign exchange. Trade in the direction the price is going in and you're results will be almost guaranteed to improve.

15. **Ignoring the Technicals**: Understanding whether the market is over-extended long or short is a key indicator of price action. Spikes occur in the market when it is moving all one way.

16. **Emotional Trading**: Without that all-important strategy, you're trades essentially are thoughts only and thoughts are emotions and a very poor foundation for trading. When most of us are upset and emotional, we don't tend to make the wisest decisions. Don't let your emotions sway you.

17. **Confidence**: Confidence comes from successful trading. If you lose money early in your trading career it's very difficult to regain it; the trick is not to go off half-cocked; learn the business before you trade. Remember, knowledge is power.

The second and final part of this section clearly and simply details more essential tips on how to avoid the pitfalls and start making more money in your Forex trading

1. **Take it like a man** - If you decide to ride a loss, you are simply displaying stupidity and cowardice. It takes guts to accept your loss and wait for tomorrow to try again. Sticking to a bad position ruins lots of traders - permanently. Try to remember that the market often behaves illogically, so don't get commit to any one trade; it's just a trade. One good trade will not make you a trading success; it's ongoing regular performance over months and years that makes a good trader.

2. **Focus** - Fantasizing about possible profits and then "spending" them before you have realized them is no good. Focus on your current position(s) and place reasonable stop losses at the time you do the trade. Then sit back and enjoy the ride - you have no real control from now on, the market will do what it wants to do.

3. **Don't trust demos** - Demo trading often causes new traders to learn bad habits. These bad habits, which can be very dangerous in the long run, come about because you are playing with virtual money. Once you know how your broker's system works, start trading small amounts and only take the risk you can afford to win or lose.

4. **Stick to the strategy** - When you make money on a well thought-out strategic trade, don't go and lose half of it next time on a fancy; stick to your strategy and invest profits on the next trade that matches your long-term goals.

5. **Trade today** - Most successful day traders are highly focused on what's happening in the short-term, not what may happen over the next month. If you're trading with 40 to 60-point stops focus on what's happening today as the market will probably move too quickly to consider the long-term future. However, the long-term trends are not unimportant; they will not always help you though if you're trading intraday.

6. **The clues are in the details** - The bottom line on your account balance doesn't tell the whole story. Consider individual trade details; analyze your losses and the telling losing streaks. Generally, traders that make money without suffering significant daily losses have the best chance of sustaining positive performance in the long term.

7. **Simulated Results** - Be very careful and wary about infamous "black box" systems. These so-called trading signal systems do not often explain exactly how the trade signals they generate are produced. Typically, these systems only show their track record of extraordinary results - historical results. Successfully predicting future trade scenarios is altogether more complex. The high-speed algorithmic capabilities of these systems provide significant retrospective trading systems, not ones which will help you trade effectively in the future.

8. **Get to know one cross at a time** - Each currency pair is unique, and has a unique way of moving in the marketplace. The forces which cause the pair to move up and down are individual to each cross, so study them and learn from your experience and apply your learning to one cross at a time.

9. **Risk Reward** - If you put a 20 point stop and a 50 point profit your chances of winning are probably about 1-3 against you. In fact, given the spread you're trading on, it's more likely to be 1-4. Play the odds the market gives you.

10. **Trading for Wrong Reasons** - Don't trade if you are bored, unsure or reacting on a whim. The reason that you are bored in the first place is probably because there is no trade to make in the first place. If you are unsure, it's probably because you can't see the trade to make, so don't make one.

11. **Zen Trading**- Even when you have taken a position in the markets, you should try and think as you would if you hadn't taken one. This level of detachment is essential if you want to retain your clarity of mind and avoid succumbing to emotional impulses and therefore increasing the likelihood of incurring losses. To achieve this, you need to cultivate a calm and

relaxed outlook. Trade in brief periods of no more than a few hours at a time and accept that once the trade has been made, it's out of your hands.

12. **Determination** - Once you have decided to place a trade, stick to it and let it run its course. This means that if your stop loss is close to being triggered, let it trigger. If you move your stop midway through a trade's life, you are more than likely to suffer worse moves against you. Your determination must be show itself when you acknowledge that you got it wrong, so get out.

13. **Short-term Moving Average Crossovers** - This is one of the most dangerous trade scenarios for non professional traders. When the short-term moving average crosses the longer-term moving average it only means that the average price in the short run is equal to the average price in the longer run. This is neither a bullish nor bearish indication, so don't fall into the trap of believing it is one.

14. **Stochastic** - Another dangerous scenario. When it first signals an exhausted condition that's when the big spike in the "exhausted" currency cross tends to occur. My advice is to buy on the first sign of an overbought cross and then sell on the first sign of an oversold one. This approach means that you'll be with the trend and have successfully identified a positive move that still has some way to go. So if percentage K and percentage D are both crossing 80, then buy! (This is the same on sell side, where you sell at 20).

15. **One cross is all that counts** - EURUSD seems to be trading higher, so you buy GBPUSD because it appears not to have moved yet. This is dangerous. Focus on one cross at a time - if EURUSD looks good to you, then just buy EURUSD.

16. **Wrong Broker** - A lot of FOREX brokers are in business only to make money from yours. Read forums, blogs and chats around the net to get an unbiased opinion before you choose your broker.

17. **Too bullish** - Trading statistics show that 90% of most traders will fail at some point. Being too bullish about your trading aptitude can be fatal to your long-term success. You can always learn more about trading the markets, even if you are currently successful in your trades. Stay modest, and keep your eyes open for new ideas and bad habits you might be falling in to.

18. **Interpret Forex news yourself** - Learn to read the source documents of Forex news and events - don't rely on the interpretations of news media or others.

HEY, MY NAME IS DAVID.

I AM GOING TO REVIEW MONEY MANAGEMENT PROCEDURES MOST OF THE FOREX WARRIORS TRY TO IMPLEMENT.

Forex Money Management

Put two rookie traders in front of the screen, provide them with your best high-probability set-up, and for good measure, have each one take the opposite side of the trade. More than likely, both will wind up losing money. However, if you take two pros and have them trade in the opposite direction of each other; quite frequently both traders will wind up making money - despite the seeming contradiction of the premise. What's the difference? What is the most important factor separating the seasoned traders from the amateurs? The answer is money management.

Like dieting and working out, money management is something that most traders pay lip service to, but few practice in real life. The reason is simple: just like eating healthy and staying fit, money management can seem like a burdensome, unpleasant activity. It forces traders to constantly monitor their positions and to take necessary losses, and few people like to do that.

However, as Figure 1 proves, loss-taking is crucial to long-term trading success.

Amount of Equity Lost	Amount of Return Necessary to Restore to Original Equity Value
25%	33%
50%	100%
75%	400%
90%	1000%

Figure 1 - This table shows just how difficult it is to recover from a debilitating loss.

Note that a trader would have to earn 100% on his or her capital - a feat accomplished by less than 1% of traders worldwide - just to break even on an account with a 50% loss. At 75% draw down, the trader must quadruple his or her account just to bring it back to its original equity - truly a Herculean task!

The Big One

Although most traders are familiar with the figures above, they are inevitably ignored. Trading books are littered with stories of traders losing one, two, even five years' worth of profits in a single trade gone terribly wrong. Typically, the runaway loss is a result of sloppy money management, with no hard stops and lots of average downs into the longs and average ups into the shorts. Above all, the runaway loss is due simply to a loss of discipline.

Most traders begin their trading career, whether consciously or subconsciously, visualizing "The Big One" - the one trade that will make them millions and allow them to retire young and live carefree for the rest of their lives. In FX, this fantasy is further reinforced by the folklore of the markets. Who can forget the time that George Soros "broke the Bank of England" by shorting the pound and walked away with a cool $1-billion profit in a single day? But the cold hard truth for most retail traders is that, instead of experiencing the "Big Win", most traders fall victim to just one "Big Loss" that can knock them out of the game forever.

Learning Tough Lessons

Traders can avoid this fate by controlling their risks through stop losses. In Jack Schwager's famous book "Market Wizards" (1989), day trader and trend follower Larry Hite offers this practical advice: "Never risk more than 1% of total equity on any trade. By only risking 1%, I am indifferent to any individual trade." This is a very good approach. A trader can be wrong 20 times in a row and still have 80% of his or her equity left.

The reality is that very few traders have the discipline to practice this method consistently. Not unlike a child who learns not to touch a hot stove only after being burned once or twice, most traders can only absorb the lessons of risk discipline through the harsh experience of monetary loss. This is the most important reason why traders should use only their speculative capital when first entering the Forex market. When novices ask how much money they should begin trading with, one seasoned trader says: "Choose a number that will not materially impact your life if you were to lose it completely. Now subdivide that number by five because your first few attempts at trading will most likely end up in blow out." This too is very sage advice, and it is well worth following for anyone considering trading FX.

Money Management Styles

Generally speaking, there are two ways to practice successful money management. A trader can take many frequent small stops and try to harvest profits from the few large winning trades, or a trader can choose to go for many small squirrel-like gains and take infrequent but large stops in the hope the many small profits will outweigh the few large losses. The first method generates many minor instances of psychological pain, but it produces a few major moments of ecstasy. On the other hand, the second strategy offers many minor instances of joy, but at the expense of experiencing a few very nasty psychological hits. With this wide-stop approach, it is not unusual to lose a week or even a month's worth of profits in one or two trades. (For further reading, see Introduction To Types Of Trading: Swing Trades.)

To a large extent, the method you choose depends on your personality; it is part of the process of discovery for each trader. One of the great benefits of the FX market is that it can accommodate both styles equally, without any additional cost to the retail trader. Since FX is a spread-based market, the cost of each transaction is the same, regardless of the size of any given trader's position.

For example, in EUR/USD, most traders would encounter a 3 pip spread equal to the cost of 3/100th of 1% of the underlying position. This cost will be uniform, in percentage terms, whether the trader wants to deal in 100-unit lots or one million-unit lots of the currency. For example, if the trader wanted to use 10,000-unit lots, the spread would amount to $3, but for the same trade using only 100-unit lots, the spread would be a mere $0.03. Contrast that with the stock market where, for example, a commission on 100 shares or 1,000 shares of a $20 stock may be fixed at $40, making the effective cost of transaction 2% in the case of 100 shares, but only 0.2% in the case of 1,000 shares. This type of variability makes it very hard for smaller traders in the equity market to scale into positions, as commissions heavily skew costs against them. However, FX traders have the benefit of uniform pricing and can practice any style of money management they choose without concern about variable transaction costs.

Four Types of Stops

Once you are ready to trade with a serious approach to money management and the proper amount of capital is allocated to your account, there are four types of stops you may consider.

1. Equity Stop

This is the simplest of all stops. The trader risks only a predetermined amount of his or her account on a single trade. A common metric is to risk 2% of the account on any given trade. On a hypothetical $10,000 trading account, a trader could risk $200, or about 200 points, on one mini lot (10,000 units) of EUR/USD, or only 20 points on a standard 100,000-unit lot. Aggressive traders may consider using 5% equity stops, but note that this amount is generally considered to be the upper limit of prudent money management because 10 consecutive wrong trades would draw down the account by 50%.

One strong criticism of the equity stop is that it places an arbitrary exit point on a trader's position. The trade is liquidated not as a result of a logical response to the price action of the marketplace, but rather to satisfy the trader's internal risk controls.

2. **Chart Stop**

Technical analysis can generate thousands of possible stops, driven by the price action of the charts or by various technical indicator signals. Technically oriented traders like to combine these exit points with standard equity stop rules to formulate charts stops. A classic example of a chart stop is the swing high/low point. In Figure 2 a trader with our hypothetical $10,000 account using the chart stop could sell one mini lot risking 150 points, or about 1.5% of the account.

Figure 2

3. **Volatility Stop**

A more sophisticated version of the chart stop uses volatility instead of price action to set risk parameters. The idea is that in a high volatility environment, when prices traverse wide ranges, the trader needs to adapt to the present conditions and allow the position more room for risk to avoid being stopped out by intra-market noise. The opposite holds true for a low volatility environment, in which risk parameters would need to be compressed.

One easy way to measure volatility is through the use of Bollinger bands, which employ standard deviation to measure variance in price. Figures 3 and 4 show a high volatility and a low volatility stop with Bollinger bands. In Figure 3 the volatility stop also allows the trader to use a scale-in approach to achieve a better "blended" price and a faster breakeven point.

Note: The total risk exposure of the position should not exceed 2% of the account; therefore, it is critical that the trader use smaller lots to properly size his or her cumulative risk in the trade.

Figure 3

Figure 4

4. **Margin Stop**

This is perhaps the most unorthodox of all money management strategies, but it can be an effective method in FX, if used judiciously. Unlike exchange-based markets, FX markets operate 24 hours a day. Therefore, FX dealers can liquidate their customer positions almost as soon as they trigger a margin call. For this reason, FX customers are rarely in danger of generating a negative balance in their account, since computers automatically close out all positions.

This money management strategy requires the trader to subdivide his or her capital into 10 equal parts. In our original $10,000 example, the trader would open the account with an FX dealer but only wire $1,000 instead of $10,000, leaving the other $9,000 in his or her bank account. Most FX dealers offer 100:1 leverage, so a $1,000 deposit would allow the trader to control one standard 100,000-unit lot. However, even a 1 point move against the trader would trigger a margin call (since $1,000 is the minimum that the dealer requires). So, depending on the trader's risk tolerance, he or she may choose to trade a 50,000-unit lot position, which allows him or her room for almost 100 points (on a 50,000 lot the dealer requires $500 margin, so $1,000 – 100-point loss* 50,000 lot = $500). Regardless of how much leverage the trader assumed, this controlled parsing of his or her speculative capital would prevent the trader from blowing up his

or her account in just one trade and would allow him or her to take many swings at a potentially profitable set-up without the worry or care of setting manual stops. For those traders who like to practice the "have a bunch, bet a bunch" style, this approach may be quite interesting.

Conclusion

As you can see, money management in FX is as flexible and as varied as the market itself. The only universal rule is that all traders in this market must practice some form of it in order to succeed.

HI, MY NAME IS RALPH, ONE OF THE FOREX WARRIORS WHO HAS BEEN FIGHTING SUCCESSFULLY SINCE 2001!

WE ALL KNOW THAT A SUCCESSFUL TRADER IS THE ONE WHO BUILDS HIS OWN SYSTEM OF TRADING BASED ON EXISTING SYSTEMS AS WELL AS HIS OWN INSIGHTS ON THE FOREX BATTLE.

LET ME SHARE WITH YOU A SIMPLE 3-STEP METHOD YOU CAN TAKE INTO CONSIDERATION WHILE YOU DEVELOP YOUR OWN PERSONAL FIGHTING SYSTEM!

The System

Cashing in on Short-term

Currency trends may be rarer than trading ranges, but that doesn't mean they can't be traded. This strategy uses two time frames to identify the trend, an overbought-oversold indicator to pinpoint entry and a trailing stop to protect gains on profitable trades.

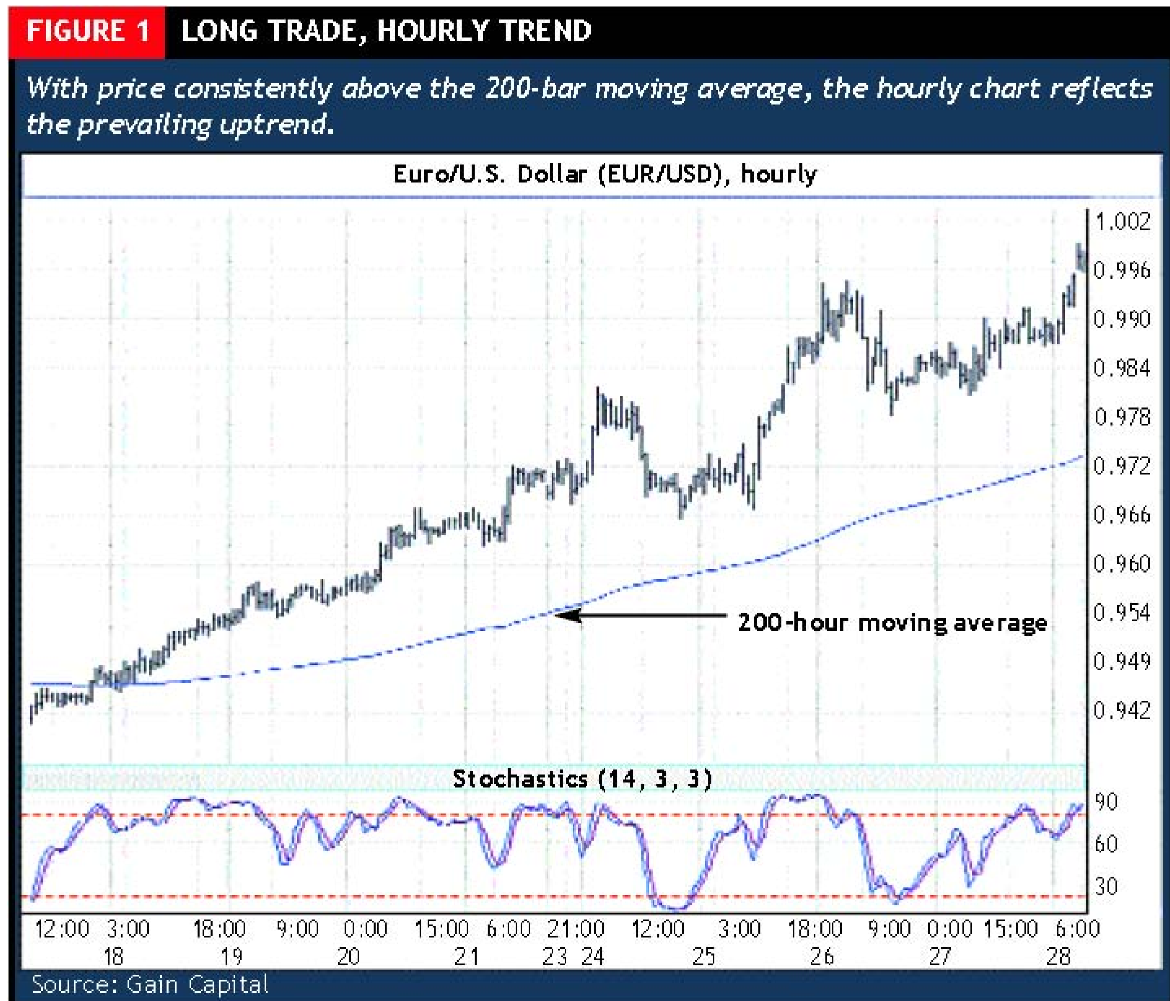
Many technical trading strategies resolve around the assumption that markets will hover within a given range — and with good reason. Seventy percent of the time markets will bounce back and forth between support and resistance levels, or fluctuate randomly. The rest of the time, market behavior is characterized by persistent price moves — trends — that shatter support and resistance levels.

Although these basic probabilities work against traders who try to exploit trends, the potential rewards can be worth the risk. It is possible to increase your ability to capitalize on trends by locating trend signals, identifying specific entry points within the trend and using risk management techniques to limit losses.

The following sections will explain how a trading system based on these concepts works especially well in the foreign exchange (Forex), or currency, market, particularly with the “major” currencies — the U.S. dollar, Euro, Japanese yen, British pound, Swiss franc, Canadian dollar and Australian dollar. More than 85 percent of transactions in the $1 trillion per day Forex market involve the majors.

Tools and Rules

The Strategy uses two charts with different time periods (10-minutes and hourly), along with two technical indicators: a 200-bar moving average and a 14-bar slow stochastic study (see “Stochastic refresher below”)



Stochastic Refresher

Stochastics are amongst the most popular technical indicators when it comes to Forex Trading. Unfortunately most traders use them incorrectly. In this section, we will review the correct way to use this popular technical indicator.

George Lane developed this indicator in the late 1950s. Stochastics measure the current close relative to the range (high/low) over a set of periods.

Stochastics consist of two lines:

%K – Is the main line and is usually displayed as a solid line
%D – Is simply a moving average of the %K and is usually displayed as a dotted line

There are three types of Stochastics: Full, fast and slow stochastics. Slow stochastics are simply a smother version of the fast stochastics, and full stochastics are even a smother version of the slow stochastics.

Interpretation

Buy when %K falls below the over-sold level (below 20) and rises back above the same level.

Sell when %K rises above the over-bought level (above 80) and falls back below the same level.

The interpretation above is how most traders and investors use them; however, it only works when the market is trendless or ranging. When the market is trending, a reading above the overbought territory isn't necessary a bearish signal, while a reading below de oversold territory isn't necessary bullish signal.

Trending market

When the market is trending is necessary to adapt the oscillator to the same conditions: When the market is trending up, then the

signals with the higher probability of success are those in direction of the trend "Buy signals", on the other hand when the market is trending down, selling signals offer the lowest risk opportunities. Thus when the market is trending up, we will only look for oversold conditions (when the stochastics fall below the oversold level [below 20] and rises back above the same level) to get ready to trade, and in the same way, when the market is trending down we will only look for overbought conditions (when the stochastics rise above de overbought level [above 80] and falls back below the same level. Taking all overbought/oversold signals during a trending market will lead us to many whipsaws. If you are not comfortable with the number of signals given, try expanding your trading to other currency pairs.

Trend-less market

During a ranging market we could use the interpretation explained above to trade off stochastics.

Divergence

Divergence trades are amongst the most reliable trading signals in the Forex market. A divergence occurs either when the indicator reaches new highs/lows and the market fails to do it or the market reaches new highs/lows and the indicator fails to do it. Both conditions mean that the market isn't as strong as it used to be giving us opportunities to profit from the market. Stochastics can also be used to trade off divergences.

Price behavior

A price behavior can be incorporated into any kind of system or Forex strategy. When using divergences or overbought/oversold condition with a price behavior approach, the probability of success of our signals increases enormously. Why? Because price dictates at the end, how all indicators will behave, it also gives us a lot of information about the probable direction it will take in the future.

The 1-2-3 Steps

Step 1:

Identify a trend. Compare the moving averages on the 10-minute and hourly charts. A trend is in effect when price is consistently above/below the moving averages on both charts.

Step 2:

Pinpoint entry. Once you've identified a trend, look for the following two conditions at the same time on the 10-minute chart:

1. The market is no more than 20 points above (to buy) or 20 points below (to sell) the moving average;
2. The fast stochastic line crosses above the slow stochastic line below 20 (to buy) or crosses below the slow stochastic line above 80 (to sell).

These conditions indicate: 1) the currency is currently in a short-term uptrend or downtrend; and 2) the currency has paused or pulled back (reflected by the higher low stochastic reading and the fact that price is within 20 points of the moving average) and is poised to turn (because the fast stochastic line is crossing back above or below the slow line).

Step 3:

Ride the trend. Set a trailing stop after the initial trade entry. On a long position, enter a stop-loss order 10 points below the 200-period moving average on the 10-minute chart. In the case of a short position, place the initial stop 10 points above this moving average. As the trade goes in your favor, raise (for a long trade) or lower (for a short Trade) the stop to protect profits. For simplicity's sake, the following examples use a trailing stop 25 points from each new top or bottom. The charts in the next section illustrate the application of this strategy in two currency pairs.

Trade Example

The first example took place in the Euro currency-dollar (EUR/USD) currency pair during the fourth week of June 2002. (For those unfamiliar with currency quoting and charting conventions, see “Quoting currencies,”)

First, compare the hourly and 10-minute EUR/USD charts. Look for a time when price is above the 200-period moving averages on both charts. On the hourly chart (Figure 1, below), the fact that price is almost exclusively above the 200-hour moving average indicates a persistent uptrend. On the 10-minute chart (Figure 2, top left), price moves (and remains above) the moving average in the last third of the chart.

The next step is to pinpoint the entry zone — when the market is within 20 points of the moving average on the 10-minute chart and the stochastic lines cross. The range between 1 p.m. and midnight on June 27 meets these requirements. The entry point occurs when the fast stochastic crosses above the slow stochastic when the indicator is below 20. A long position is entered at .9883 around 8 p.m., with an accompanying stop-loss at .9858 (10 Points below the 200-bar moving average value of .9868).

The stop is then trailed upward as the market makes new peaks. The EUR/USD tops out at .9992, so the stop scaled up to .9967, where the position was closed for an 84-point ($840) gain.

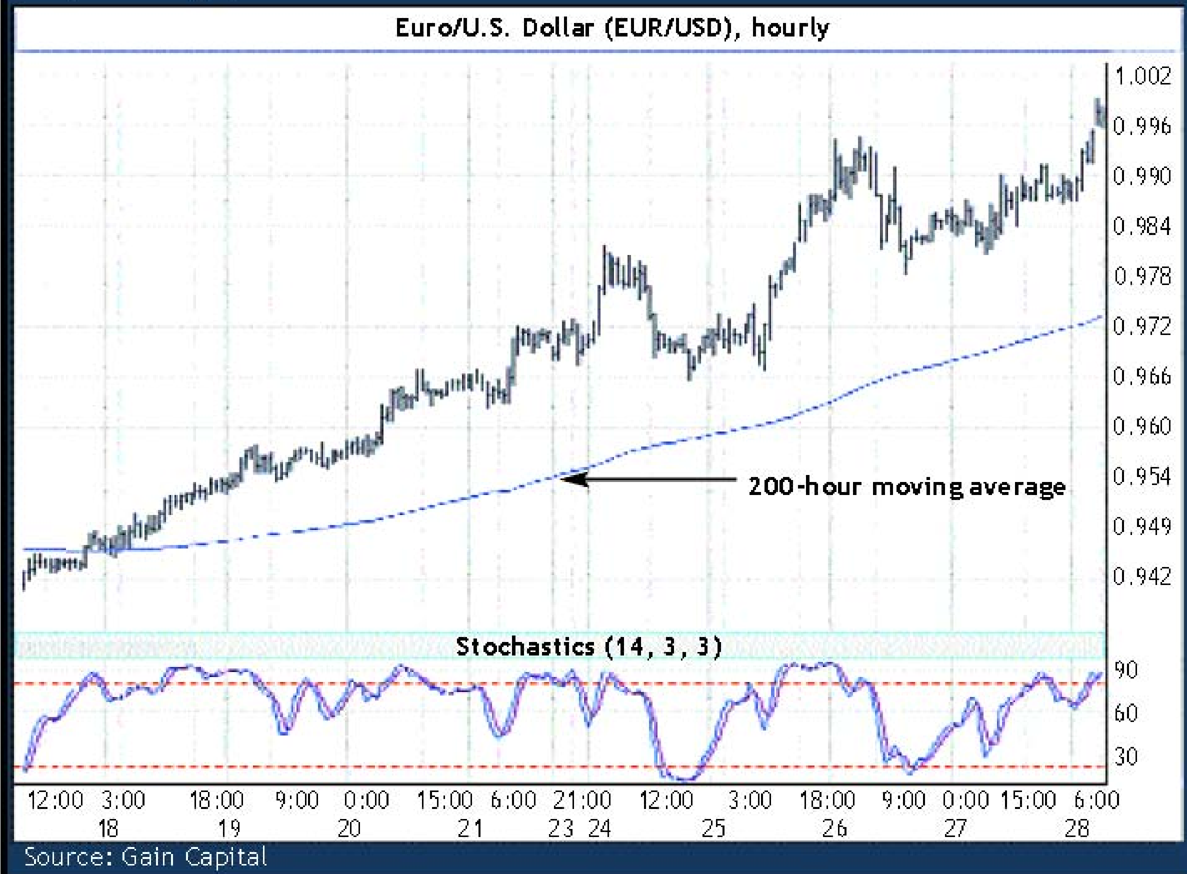
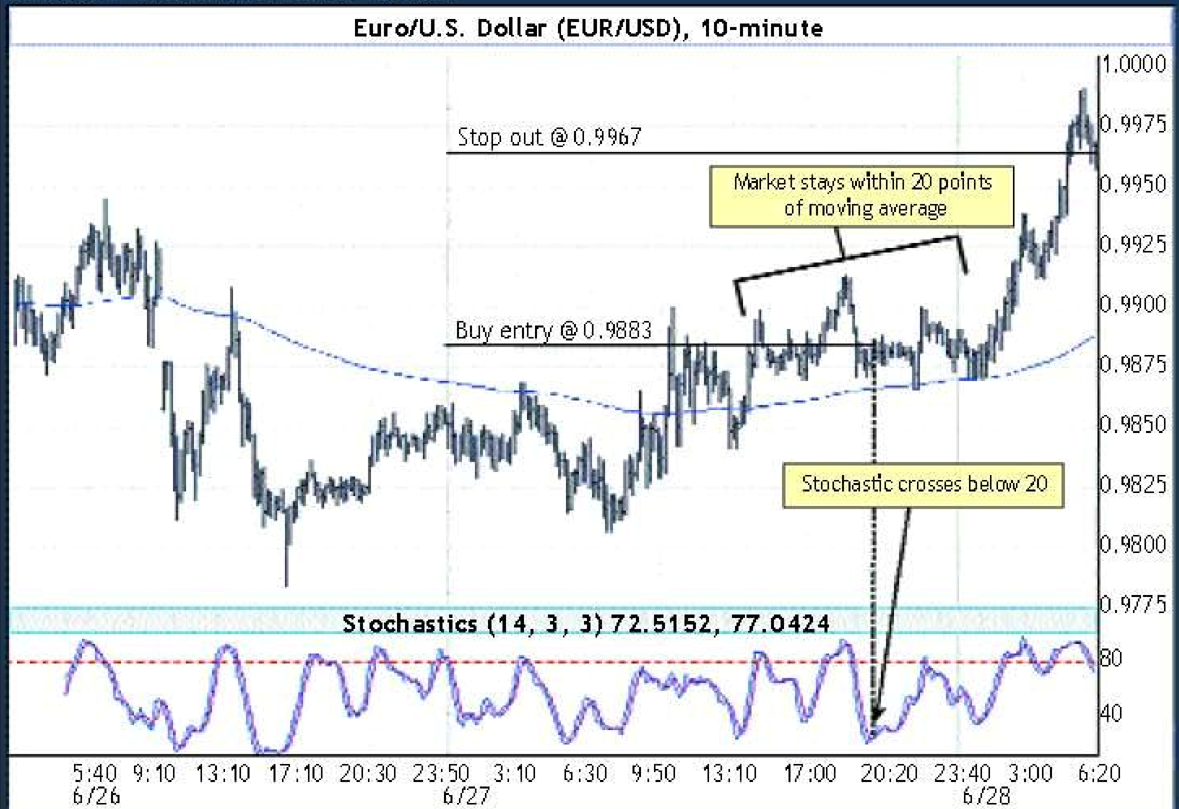


FIGURE 1 LONG TRADE, HOURLY TREND
With price consistently above the 200-bar moving average, the hourly chart reflects the prevailing uptrend.
Euro/U.S. Dollar (EUR/USD), hourly
1.002
0.996
0.990
0.984
0.978
0.972
0.966
0.960
0.954
0.949
0.942
200-hour moving average
Stochastics (14, 3, 3)
90
60
30
12:00 3:00 18:00 9:00 0:00 15:00 6:00 21:00 12:00 3:00 18:00 9:00 0:00 15:00 6:00
18 19 20 21 23 24 25 26 27 28
Source: Gain Capital

FIGURE 2 LONG TRADE, 10-MINUTE TREND

Price is also above the 200-bar moving average in the final third of the 10-minute chart. The market moves within 20 points of the moving average between 1 p.m. and midnight on June 27. The entry is finally signaled when the fast stochastic line crosses above the slow line (a sign of renewed upside momentum) when the indicator is below 20 near 8 p.m.



Source: Gain Capital

Figures 3 and 4 illustrate a similar example in the dollar-yen rate (USD/JPY). The hourly chart (Figure 3, bottom) shows price was trading well below the 200-bar moving average after June 21. On the 10-minute chart (Figure 4, below), price fell below the moving average after 10 a.m. on June 27, indicating a sell opportunity. Also, price was within 20 points of the moving average at this point. A short trade was opened around 5 p.m. at 119.57 when the fast stochastic line crossed below the slow stochastic line when the indicator was above 80. The trade was protected with a stop-loss order at 119.86. In this case, the stop remained intact until the following day, when USD/JPY began to decline. After trailing the stop down as the market

continued to decline, profits were taken at 118.58 (25 points off the 118.33 low), for a gain of 99 points.

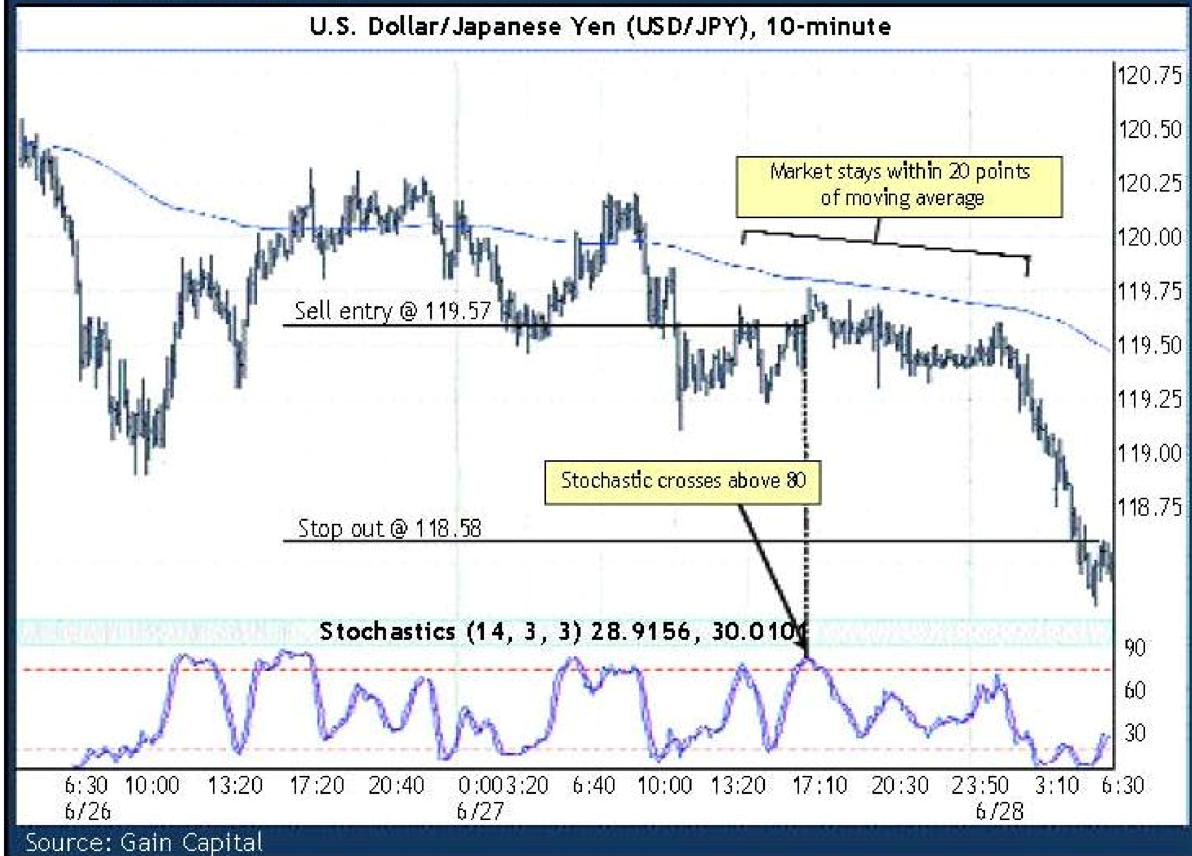


FIGURE 4 SHORT TRADE, 10-MINUTE TREND
On the 10-minute USD/JPY chart, a stochastic crossover (above 80) occurred around 5 p.m. — while price was below (but within 20 points of) the 200-bar moving average — signaling a short trade.
U.S. Dollar/Japanese Yen (USD/JPY), 10-minute
Market stays within 20 points of moving average
Sell entry @ 119.57
Stochastic crosses above 80
Stop out @ 118.58
Stochastics (14, 3, 3) 28.9156, 30.010
120.75
120.50
120.25
120.00
119.75
119.50
119.25
119.00
118.75
90
60
30
6:30 10:00 13:20 17:20 20:40 0:00 3:20 6:40 10:00 13:20 17:10 20:30 23:50 3:10 6:30
6/26
6/27
6/28
Source: Gain Capital

Search and Exploit

This short-term trading method works well in the Forex market, but it is also applicable to others. Each step of the system helps identify areas where effective trades can be made. If at any point one of the criteria is not met, you'll instantly know not to make a trade. This model also gives you the freedom to experiment with different chart intervals. When you're equipped with a system that can help you catch the trend early, you can wait for the rest of the market to follow.

Quoting Currencies

Because currencies are quoted in a different manner than equities, reading a foreign exchange quote may seem a bit confusing at first. However, it's really quite simple if you remember two things:

1. The first currency listed first is the base currency.
2. The value of the base currency is always 1.

For example, if you see a quote of USD/CAD 1.54825, that means that one U.S. dollar is equal to 1.54825 Canadian dollars. Likewise, USD/JPY 122.01 shows that one U.S. dollar is equal to 122.01 Japanese yen.

In every trade involving the U.S. dollar, the dollar will be the base currency, with three exceptions — the British pound (GBP), the Australian dollar (AUS) and the European currency unit, or Euro (EUR). In these cases, you might see a quote such as GBP/USD 1.4366, meaning that one British pound equals 1.4366 U.S. dollars.

Whenever the U.S. dollar is the base unit and a currency quote goes up, it means the dollar has appreciated in value and the other currency has weakened. If the USD/JPY quote we previously mentioned increases to 123.01, the dollar is stronger because it will now buy more yen than before.

However, in the three instances where the U.S. dollar is not the base rate, a rising quote means a weakening dollar, as it now takes more U.S. dollars to equal one pound, Euro or Australian dollar.

In other words, if a currency quote goes higher, that increases the value of the base currency. A lower quote means the base currency is weakening.

Trades that do not involve the U.S. dollar are called cross rates, but the premise is the same. A quote of GBP/CHF 2.4577 signifies that one British pound is equal to 2.4577 Swiss francs.

Summary

Whether you are a newbie just learning about Forex for the first time, or an unlucky trader who has lost money, or a savvy and successful Forex trader, this ebook should help you.

After reading this ebook, you should have a better understanding about how Forex works, how to perform various kinds of analysis, the psychology of trading, how to choose a broker to assist you in your trading, the most common mistakes made in Forex trading, how to manage your money better, and how to get started using a simple 3 step system.

No matter where you are in your Forex trading experience, by carefully applying the tactics suggested in this ebook, you can potentially evolve into a Forex Gladiator – one who makes a good living through foreign currency exchange. It can be done with care and consideration.

To Your Future Success,

Juan Saton

P.S.: Remember to invest your money wisely, and always consult an accountant and broker before getting started with Forex.