Claws & Horns

A Beginner's Guide to

FOREX Trading

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CHAPTER 1:

INTRODUCTION TO THE FOREX MARKET

Part 1: What is FOREX?

FOREX is the acronym for the foreign exchange market where one type of currency is traded for another type of currency. FOREX is one of the world's largest trading markets. While some traders on this market are just looking to exchange their own currency for a foreign currency, most participants are currency traders, which means they speculate on exchange rates and their movements, just like traders speculate on stock prices on the stock market. People who trade currency are trying to make money on the fluctuation of rates.

Rate fluctuations on the exchange are typically the result of actual monetary flows in addition to global macroeconomic conditions. All significant news that impacts the market is released publicly, so everyone who is trading on the market gets the news at the exact same time. This reduces "insider information" to almost zero.

On FOREX, currencies are traded against each other and are expressed as xxx/yyy where xxx represents one currency and yyy represents the second currency. So if you are trading euros against the U.S. dollar, one unit would be represented as EUR/USD or 1 euro = 1.0636 dollar. There is no universal exchange for a specific currency pair.

The FOREX market is open 24 hours a day, Sunday evening until Friday evening. When the United States trading session ends, another session (Pacific, Asian and so on) will start. This means that all

world currencies are constantly up for trade. Traders don't have to wait until the market opens to react to significant world news. An average of $5.3 trillion is exchanged every day.

Part 2: The History of FOREX

The FOREX exchange as it is known today began in 1973, but currency trading has actually been occurring since the first coins were introduced in the times of the Pharaohs of ancient Egypt. After World War II ended, though, the United States economy was strong relative to most of the European countries. The U.S. dollar became the prominent currency at this time and was recognized as the global reserve currency. All other foreign currencies were measured against the U.S. dollar, which created a new financial network known as the Bretton Woods System. This agreement allowed currencies to fluctuate within one percent to the currencies' par.

The Bretton Woods System was in effect from 1944 until 1973, when the agreement to use this market ended. The United Kingdom was faced with severe financial problems and began to float its currency. This caused other currencies to drop in value and float their currencies as well. U.S. President, Richard Nixon is credited with bringing about the free-floating currency system that gave rise to the short-lived Smithsonian agreement in 1971. This agreement allowed currencies to fluctuate within a range of two percent of the currencies' par. These boundaries were found to be too unrealistic and the agreement ended in March of 1973.

1982 marked the first time a currency pair was offered as a purchase option to the United States, with more currencies becoming available in 1983. By 1987, both the United Kingdom and the United States were trading heavily on the FOREX, but there were many other countries such as China, South Korea and even Iran (in 1991) participating as well.

The first online trading of currency occurred in 1994, which in turn led to the development of the Euro currency in Europe. The rise of the Euro threatened the dominance of the U.S. Dollar as the global reserve currency. The Euro is currently the official currency in 19 European countries.

Part 3: Why Trade FOREX?

While many traders are aware of the benefits of trading on the stock exchange, few new traders understand the advantages of trading FOREX. This market is gaining in popularity because it offers many benefits that they don't get with other markets. Here are a few reasons why trading FOREX has gained so much favour among traders.

1. No commissions. No one likes to pay fees to make money. On FOREX, traders do not pay clearing fees, exchange fees, government fees or brokerage fees. Quite simply, traders don't have to give away part of their profits to these fees. Retail brokers on FOREX are compensated through the "bid-ask spread", which will be explained in further detail later.

2. No middlemen. Traders can trade directly with the market instead of relying on a middleman to make the trades for them.

3. No fixed lot size. When trading FOREX, traders can participate with $25 or less. Traders determine their own lot, which makes the market accessible to just about everyone.

4. 24-hour Market. Traders can trade at any time of the day or night, which makes it easy for part-time traders to decide when they want to trade. The Australian market opens on Monday mornings and it closes in New York on Friday afternoons.

5. Low-cost transactions. The transaction cost for trades is usually less than 0.1 percent. This is the bid-ask spread where brokers make their money. With larger brokerage companies, the cost per transaction can be as low as 0.07 percent.

6. The market cannot be controlled. This market is so big and encompasses so many traders that it cannot be controlled by any single entity for any length of time.

7. Entry into FOREX is easy. It can be easy to think that it would cost a small fortune to begin trading currency, but in actuality, most online FOREX brokers offer trading accounts for as low as $25, sometimes less. This doesn't mean traders should start with that small of an account, but it does mean that traders can start without a lot of start-up capital.

8. Highly liquid. The FOREX market is huge, which means it is also highly liquid. Traders do not get "stuck" with a trade because there is almost always someone else who is willing to take what is being offered. In fact, traders are able to set a take profit order so that

when they reach the profit level they want, the trade can be closed. They can also set a stop loss order to close a trade if it's going the wrong way.

9. More leverage. Small deposits are able to control larger contract values, which gives traders the ability to reap significant profits and keep risk capital low.

10. Free information and practice. Almost all online FOREX brokers provide free demo accounts to give potential traders practice before trying the real thing. This is a great way for traders to build their skills and risk fake money before risking real money on the actual FOREX.

Part 4: Who Trades on FOREX?

Before the late 1990s, traders would have to have between $10 million and $50 million to open a trading account. The market was originally intended to be used by large companies and banks, but when the Internet became widely available, small traders, also referred to as retail traders, were able to access FOREX trading online. There are still four major players on the FOREX market today.

1. Big banks. The biggest banks in the world determine the exchange rates on the market. They set the bid-ask price that brokers must pay per transaction.

2. Big companies. Companies that operate on a global scale exchange on FOREX because they have to exchange their local currency into foreign currency before they can do business in the foreign country.

3. Governments and central banks. As with global companies, governments and central banks trade on FOREX as part of their operations. Central banks can cause fluctuations in the market when they adjust interest rates.

4. Speculators. Almost 90 percent of all trades are executed by speculators. Their goal is to make as much money as possible on the fluctuations in the exchange rates.

Part 5: Why Day Trade?

Day trading is the one opportunity that can provide participants with complete personal and financial freedom. Of course, there are certainly risks, but there are at least 10 reasons why day trading is such a popular "profession".

1. Race, gender, social status, education and background do not matter when you day trade. All that matters is that you have some money available for trading.

2. There are no bosses to answer to and no employees to pay. The only person you have to worry about is your broker and if your broker isn't doing his job, there are many others who will.

3. You can work from home and not pay rent on an office or carry an inventory of goods.
4. There is no face-to-face contact with customers, so you don't have to worry about customer service, invoices, returned checks or any other customer-related hassles.
5. You can trade on your time. If you only want to trade part-time, you can do that. There isn't an eight-hour commitment like with a traditional job.
6. You do not need a ton of money to begin your trading business.
7. Trades can be converted to cash in mere seconds. You do not have to wait for payday to roll around to get money when you need it.
8. Low transaction costs and no commissions mean you keep more of your profits.
9. Trading can be learned quickly and easily, without a college degree. You also don't need years of experience to begin trading FOREX.
10. Minimal requirements are necessary to begin trading. All you need is a computer with a stable Internet connection, an online broker to provide you with trading tools, a funded trading account and a solid trading strategy.

CHAPTER 2:

THE BASICS OF FOREX

Part 1: Currencies

When traders trade on FOREX, they buy or sell in currency pairs. Each pair is constantly in a battle with each other currency and the exchange rates fluctuate according to which currency is stronger at the moment of the trade. The trades are expressed as one currency against another currency and are notated as currency 1/currency 2. For instance, if you were trading the euro against the U.S. dollar, it would be notated as EUR/USD.

The major currency pairs are all pairs that contain the U.S. Dollar (USD) as one of the pair. They are the most frequently traded pairs on FOREX. They are also the most liquid pairs available. Here is a chart of the major currency pairs. Also included are the terms FOREX traders use to verbally refer to these pairs.

Pair	Countries Involved	Trader Term
EUR / USD	Euro Zone / United States	Euro dollar
GBP / USD	United Kingdom / United States	Pound dollar
USD / JPY	United States / Japan	Dollar yen
USD / CAD	United States / Canada	Dollar loonie
NZD / USD	New Zealand / United States	Kiwi dollar
USD / CHF	United States / Switzerland	Dollar swissy
AUD / USD	Australia / United States	Aussie dollar

When currency pairs do not contain the U.S. dollar as one of the pair, they are referred to as cross-currency pairs or crosses. They can sometimes be referred to as the “minors”. All cross-currency pairs contain one of the three major non-U.S. dollar currencies. Here are the charts for the euro, yen and pound.

Euro Cross-Currency Pairs

Pair	Countries Involved	Trader Term
EUR / CHF	Euro Zone / Switzerland	Euro swissy
EUR / NZD	Euro Zone / New Zealand	Euro kiwi
EUR / GBP	Euro Zone / United Kingdom	Euro pound
EUR / AUD	Euro Zone / Australia	Euro aussie
EUR / CAD	Euro Zone / Canada	Euro loonie

Yen Cross-Currency Pairs

Pair	Countries Involved	Trader Term
EUR / JPY	Euro Zone / Japan	Euro yen
NZD / JPY	New Zealand / Japan	Kiwi yen
GBP / JPY	United Kingdom / Japan	Pound yen
AUD / JPY	Australia / Japan	Aussie yen
CHF / JPY	Switzerland / Japan	Kiwi yen
CAD / JPY	Canada / Japan	Loonie yen

Pound Cross-Currency Pairs

Pair	Countries Involved	Trader Term
GBP / CHF	United Kingdom / Switzerland	Pound swissy
GBP / NZD	United Kingdom / New Zealand	Pound kiwi
GBP / AUD	United Kingdom / Australia	Pound aussi
GBP / CAD	United Kingdom / Canada	Pound loonie

Other Cross-Currency Pairs

Pair	Countries Involved	Trader Term
AUD / CHF	Australia / Switzerland	Aussie swissy
AUD / NZD	Australia / New Zealand	Aussie kiwi
AUD / CAD	Australia / Canada	Aussie loonie
NZD / CAD	New Zealand / Canada	Kiwi loonie
NZD / CHF	New Zealand / Switzerland	Kiwi swissy
CAD / CHF	Canada / Switzerland	Loonie swissy

Of course there are many other currencies that can be exchanged on FOREX besides the majors and minors. These are the currencies of emerging countries. When the currency of a major currency is paired with an emerging currency, it is called an exotic currency pair. Not all brokers offer exotic currency pairs, and if they are offered, the transaction costs are typically more. However, it is a good idea to be familiar with some of these pairings. Here is a chart of the most common exotic currency pairs.

Pair	Countries Involved	Trader Term
USD / HKD	United States / Hong Kong	Dollar Hong Kong dollar
USD / SEK	United States / Sweden	Dollar Swedish krona
USD / SGD	United States / Singapore	Dollar Singapore dollar
USD / NOK	United States / Norway	Dollar Norwegian krone
USD / ZAR	United States / South Africa	Dollar rand
USD / DKK	United States / Denmark	Dollar krone
USD / THB	United States / Thailand	Dollar baht
USD / MXN	United States / Mexico	Dollar peso

When trading exotic currency pairs, you could see spreads that are significantly larger than the spread for USD/JPY or EUR/USD, so that needs to be factored into your decision to trade one of these pairs.

Part 2: Price

Trying to determine the price of an exchange can be daunting for new FOREX traders. It is important to train your eyes to spot the changes in mere seconds so you can make quick decisions. The first step in accomplishing this goal is to understand how to read the price of a currency. If you want to buy one currency, 100 Euros for instance, then you need to know how much of another currency you need to pay for it. The best way to learn how to read the price of a currency is to view some examples.

Example: EUR/USD 1.456

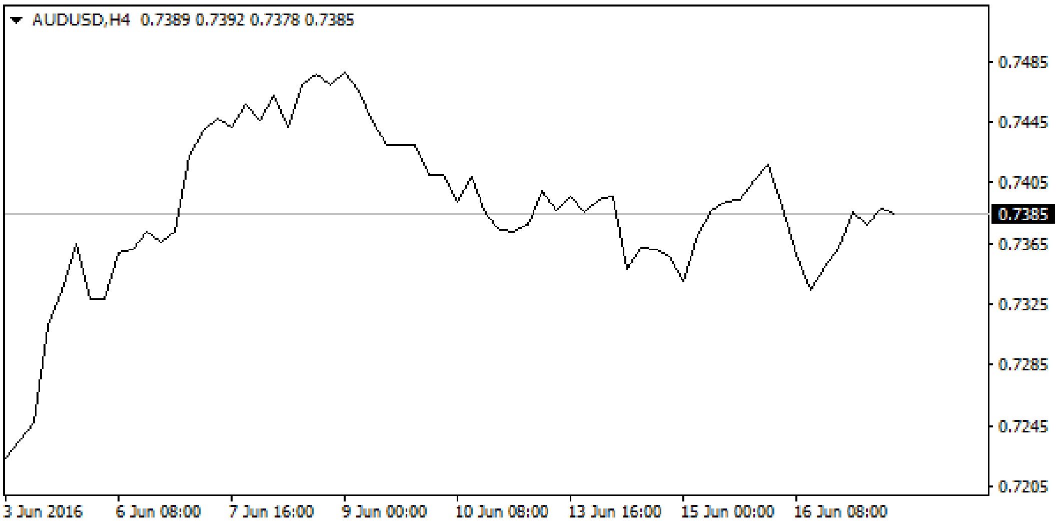
This quote tells you that one Euro can purchase 1.45 U.S. dollars. If you want to buy 100 Euros, you would have to spend 145 U.S. dollars. This quote represents the average of the prices to buy and the prices to sell for a currency pair at that specific point in time. It does not include the bid-ask spread that is set by each broker. You have to factor in the bid-ask spread, which is what you pay to buy the currency and what you would receive if you sell it.

The bid-ask price is usually very low for the major currency pairs, but it is important to note that the broker can widen the spread at any time in order to make a profit off of individual trades. Traders must keep in mind several factors when buying currencies, including the time of the year, the emotional mood of the market and the hour the trade is occurring. All of these factors can influence a quote and can render it useless within seconds.

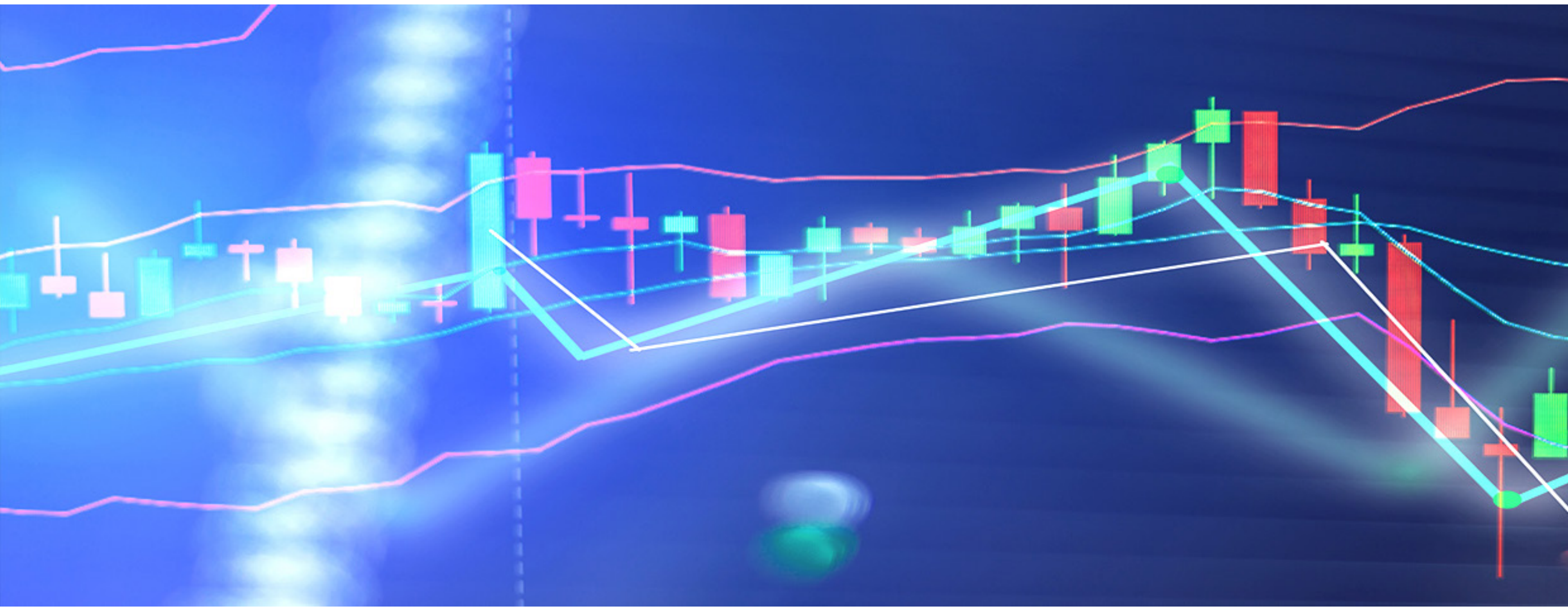
Part 3: Price Charts

There are three main types of charts that are going to give you information as you trade FOREX. You need to analyze these charts so that you can determine which currency pairs are a good buy and which ones you should sell or stay away from.

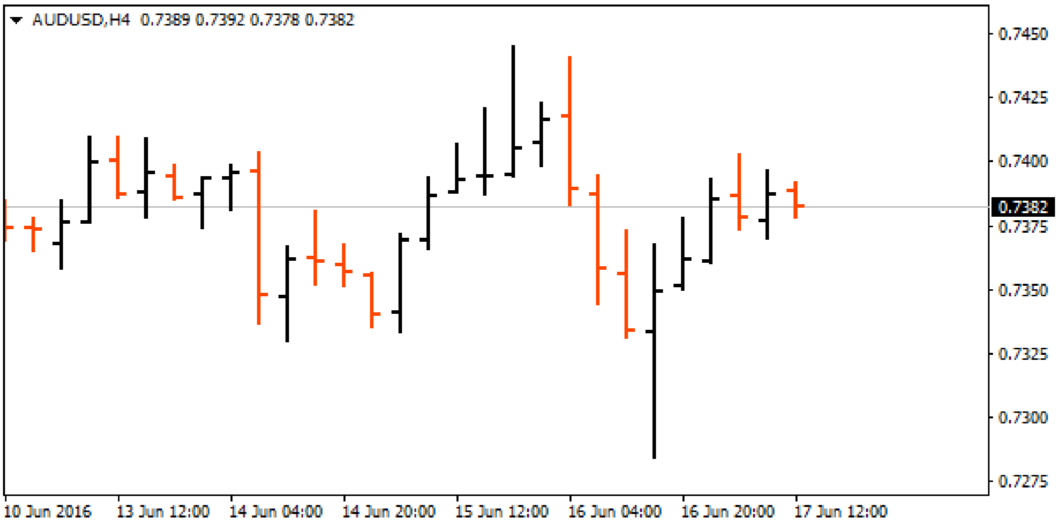
1. Line charts. These charts give you a quick view of the major market trends in addition to support and resistance levels. Line charts are not meant to be used to trade off because they don't show you individual prices. However, if you are looking to see the market trend at a glance, line charts can be very helpful. Line charts show connections between two points in time. You can analyze a line chart from hour to hour or over a lengthier period of time.



Sample line chart

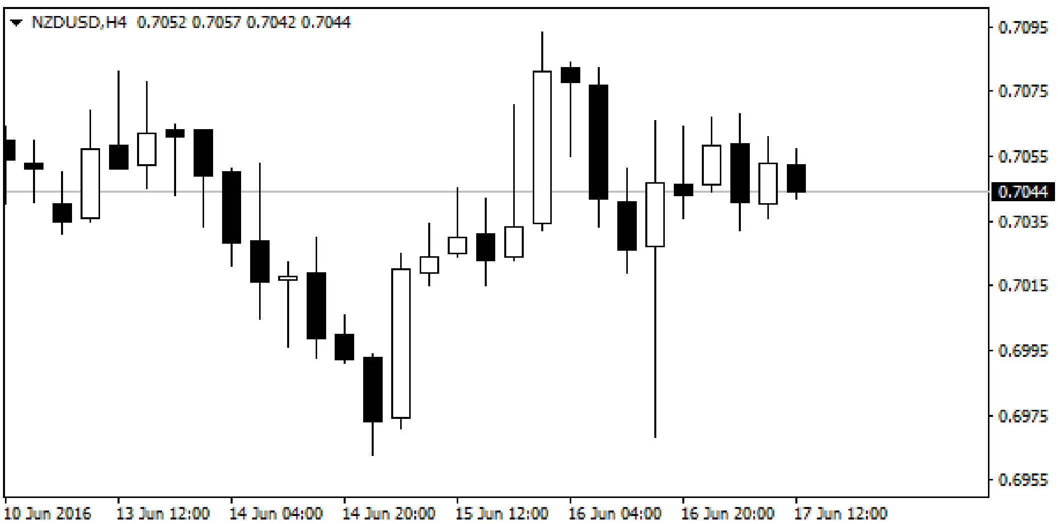


2. Bar charts. Bar charts show you a price bar for a set period of time. You can choose a yearly bar chart, which will give you a price over several years; a monthly bar chart, which will give you a price for each month; a daily bar chart, which will give you the price for the year, the month, the day; a four-hour chart, which will give you the price for each four-hour period of time. Bar charts are OHLC chart (Open, High, Low, Close), so each bar shows opening and closing prices, as well as maximum and minimum of a period. These charts are more practical for trading than line charts because they show individual prices.



Sample bar chart

3. Candlestick charts. Generally, you will get the same information from a candlestick chart that you get from a bar chart, but the format is more visually satisfying. These charts show the high and low points over a given time period using a vertical line. The top line is referred to as the upper shadow and the bottom line is referred to as the lower shadow. These can also be called the “wicks” on some charts. The major difference between candlestick charts and bar charts is how the opening and closing prices are displayed. The “body” of the candle is the range of prices between opening and closing. If the body is black or another dark colour, the price closed lower than it opened. If the body is unfilled or a lighter colour, the currency closed higher than it opened. The dark and light colours help traders see the ups and downs of a currency more quickly than any other type of chart. For this reason, candlestick charts are the most popular type of chart used in FOREX trading.



Sample candlestick chart

Part 4: Support and Resistance

Before you can trade successfully on FOREX, you must understand the concepts of support and resistance. These are referred too often when analyzing trends, so you should familiarize yourself with the terms and their meanings prior to trading.

Essentially, when a market is on an upward trend and it pulls back a bit, the highest point it reached before pulling back is called resistance. When it starts moving back up, the lowest point it reached before it restarted its upward trend is called support. These points are what give a chart its zigzag appearance.

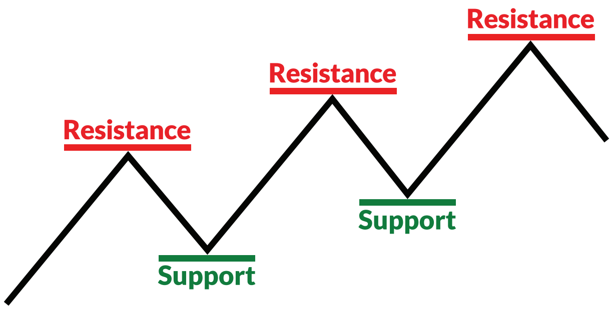
Keep in mind as you look at charts that support and resistance levels are not exact figures. You might see a support or resistance level that looks broken, but if you keep watching you will see that the market was simply testing the level. These false broken levels are referred to as tests of support and resistance and can be readily seen on candlestick charts.

In many cases, a support or resistance level is truly broken if the market closes beyond that level. However, since this is not always true, it is beneficial to look at the support and resistance points on a line chart because a line chart only shows closing prices and not the individual highs and lows. The individual highs and lows can be misleading because they can represent very temporary reactions of the market. To plot support and resistance, you only want the intentional movements and not the temporary reactions.

When you plot the support and resistance of a market, you want to divide them into zones so that you can see true peaks and valleys. These zones will help you determine true breaks in support and resistance rather than the false ones that can cause you to lose a lot of money.

Things to remember about support and resistance:

1. When a price tests the level of support or resistance often, it makes the resistance or support stronger.
2. The strength of a support or resistance break depends on how strong the support or resistance had been before it was broken.
3. When a price rises through resistance, that resistance could possibly become support later on.



Support and Resistance Illustration

Part 5: Trend Lines

Trend lines are the most prevalent method of technical analysis on FOREX. However, they often aren't used correctly, which can make them irrelevant. Trend lines must be drawn correctly in order for them to provide you with accurate information. You can't try to make the line fit the market. The market has to fit the line.

Essentially, to draw a trend line accurately, you first need to locate two major highs (resistance) and two major lows (support). Then, draw a line between the two points. It really is that simple. If you are tracking a downward trend, your trend line will be drawn on top of the peaks and if you are tracking an upward trend, your trend line will be drawn below the valleys.

There are three kinds of trends that you will need to analyze as a FOREX trader:

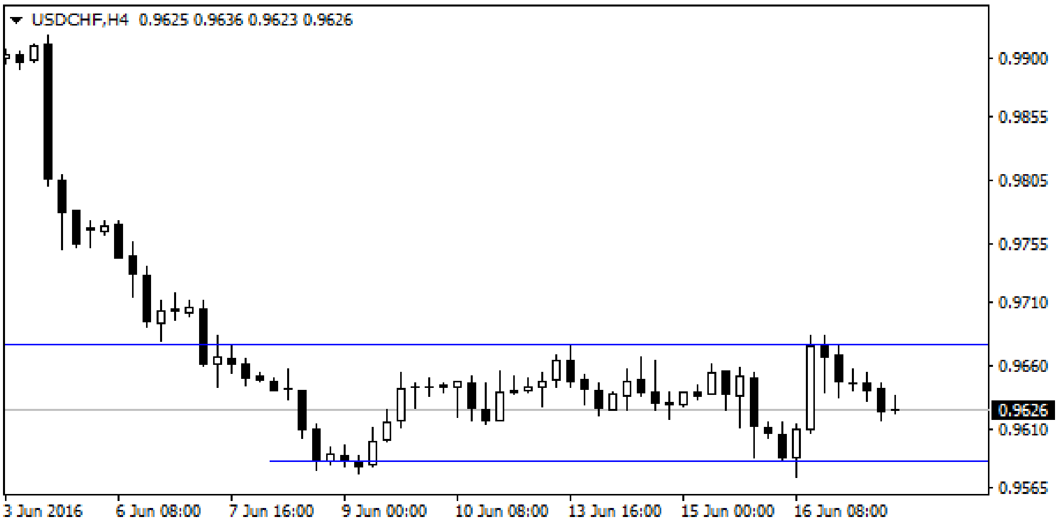
1. Uptrends (tracking an upward movement)

Sample Uptrend

2. Downtrends (tracking a downward movement)

Sample Downtrend

3. Sideways trends (tracking relative little movement either way)



Sample Sideways trend

Part 6: Chart Patterns

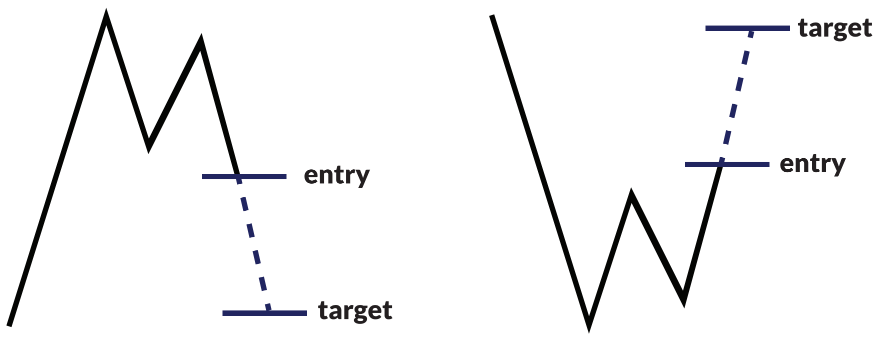
When you are trading on FOREX, you have one main goal: to spot major fluctuations in currency exchange rates before they occur. If you can do this, you can make a lot of money. In order to have the ability to spot these movements, you need to be able to read chart patterns. These patterns will help you predict when the market is about to break out and when it's about to reverse direction so you can take advantage of those fluctuations.

There are six basic chart patterns that you need to be familiar with. There are, of course, variations on all of these patterns, but when you know these six, you can make solid movement predictions.

1. Doubles

There are two types of doubles patterns you will need to recognize. First is the double top. This is a pattern that is created when there is an extended upward move. The tops are the peaks that form when the price reaches a level that can't break. Once the price hits that level, it will bounce downward slightly but then bump right back up. If it bounces downward and back up again, you get a double top. The second top is not as high as the first top. A double top is a strong indication that a reversal is about to happen because the buying pressure is almost over. You will want to look for double tops after a strong uptrend.

The other type of doubles pattern you want to know is the double bottom. This is the exact opposite of the double top. You are looking for a double bottom after a strong downtrend. The price forms two valleys because it can't go below a specific level. The second bottom won't be as low as the first bottom, an indication that selling pressure is almost over and the price is going to move upward.

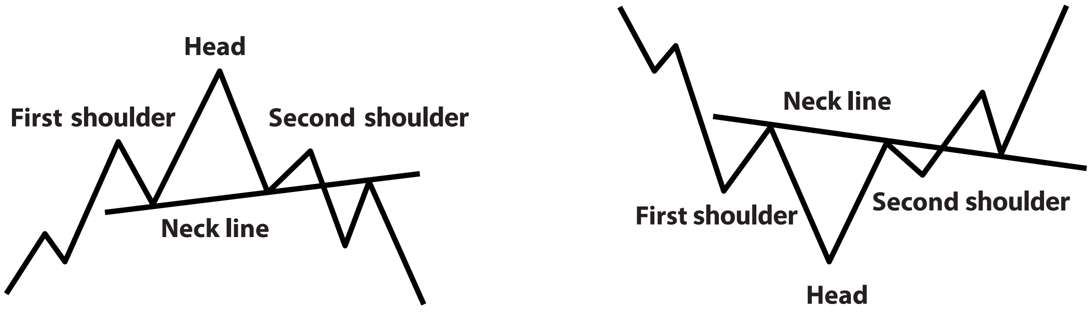


Sample Doubles Patterns

2. Head and Shoulders

This is another type of trend reversal pattern that is formed by a short peak (shoulder), followed by a higher peak (head), followed by another short peak (shoulder). You can draw a line between the lowest two points that is referred to as the "neckline". A downward slope of the neckline is a reliable indication that a reversal is about to occur. You would want to put in an order entry that falls just below the neckline to take advantage of the price before it drops.

There are also inverse head and shoulder patterns that are the exact opposite of the above pattern description. In this case, you would place an entry order above the neckline to take advantage of the price before it rises.



Head and Shoulders in Uptrend (Bearish)

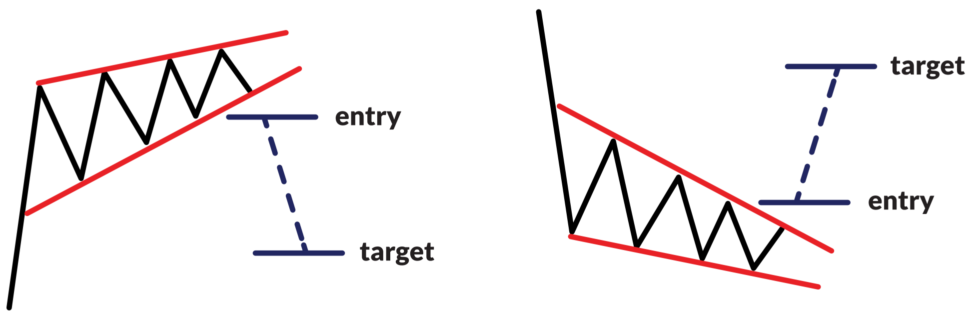
Head and Shoulders in Downtrend (Bullish)

Sample Head and Shoulders Pattern

3. Wedges

There are two types of wedges that indicate a pause in a current trend. This pattern tells you that traders aren't sure where to move the currency pair next. You might see the trend reverse or continue after a wedge pattern. The first type of wedge pattern is called a rising wedge. This is when the price consolidates between support and resistance lines that are moving upward. The support line is steeper than the resistance line which signals that higher lows are forming more quickly than higher highs. This movement indicates that a breakout is about to occur. Essentially, a rising wedge that is formed following an upward trend typically leads to a downtrend. A rising wedge that is formed during a downtrend usually leads to a continued downtrend.

The second type of wedge pattern is a falling wedge. This can also be a signal of a reversal or continuation. If it forms after a downtrend, it will typically lead to an uptrend, but if it forms during an uptrend, it will usually lead to a continuation.

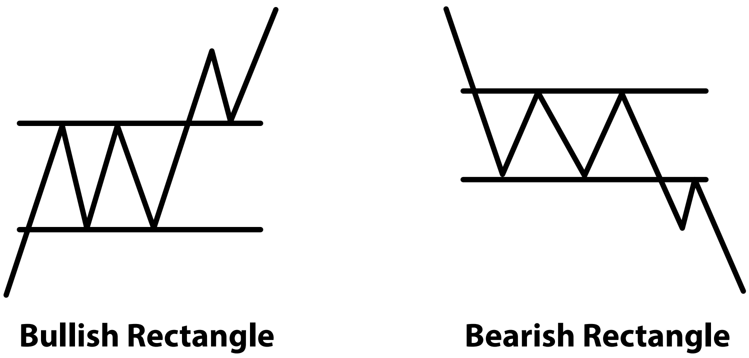


Rising and Falling Wedges

Sample Wedge Patterns

4. Rectangles

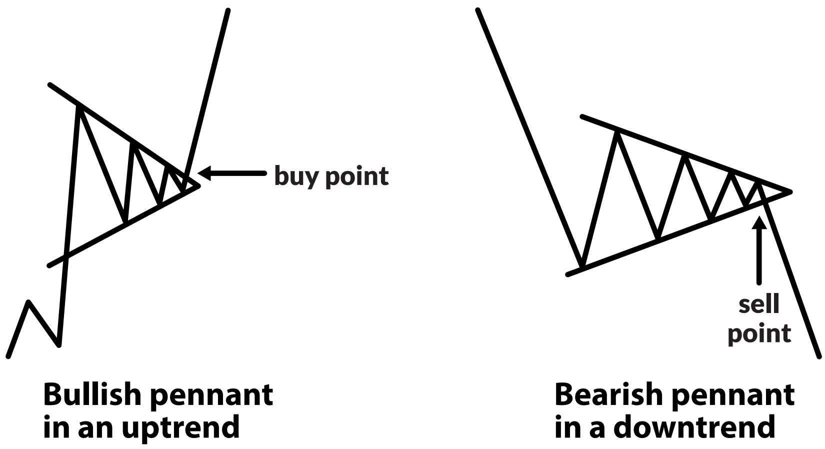
Rectangle patterns are formed when a price has parallel support and resistance levels. This is a time when there could be price consolidation or buyer and seller indecision. The rectangle is formed because the price is testing support and resistance levels over and over again before breaking out. At the point of the breakout, the price will likely trend in whichever direction the breakout occurs. A bearish rectangle is created when a price consolidates during a downtrend. Typically, the price will move even lower. A bullish rectangle is created when a price consolidates during an uptrend. This is a sign that the price will move even higher.



Sample Rectangle Patterns

5. Pennants

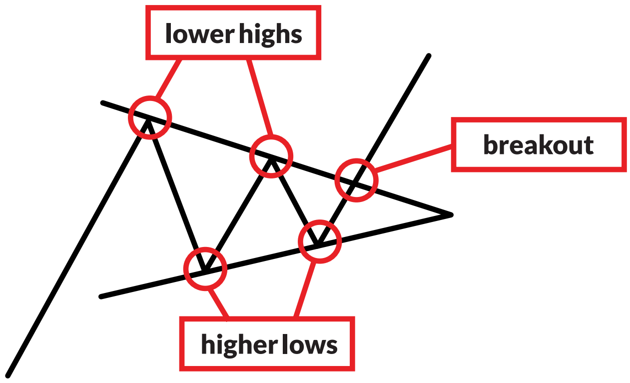
Pennant patterns are continuation patterns that are formed following strong movements. After either a strong upward or downward move, buyers or sellers allow the price to consolidate before taking the currency pair in the same direction. When this occurs, it creates a symmetrical triangle that is referred to as a pennant. During the consolidation period, more buyers or sellers (depending on the direction) get in on the action and force the price to continue in the same direction. A bearish pennant forms when there is a steep downtrend in price, whereas a bullish pennant forms when there is a steep uptrend in price.



Sample Pennant Patterns

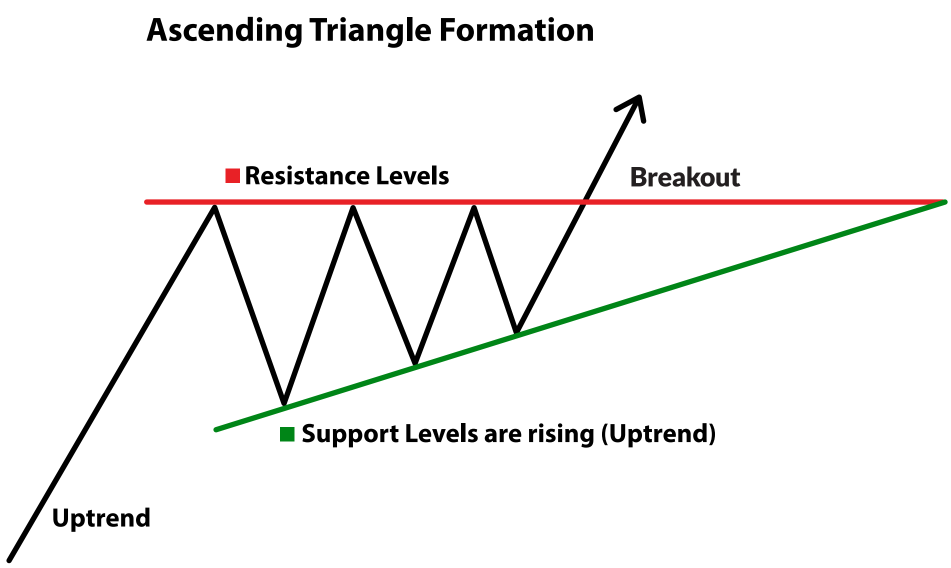
6. Triangles

Three different triangle patterns can form when trading on FOREX. The first, a symmetrical triangle forms when the slope of the highs and the slope of the lows meet together at a point. This means that the market is creating lower highs and higher lows over a period of time. It also indicates a kind of price consolidation. As the highs and lows get closer together, you can predict that a breakout is imminent. However, you don't know which direction that breakout will go. Eventually, either buyers or sellers will get their way. To take advantage of a symmetrical triangle, you will want to place an entry order above the slope of the highs and below the slope of the lows. This will allow you to profit no matter which way the breakout occurs.



Sample Symmetrical Triangle Pattern

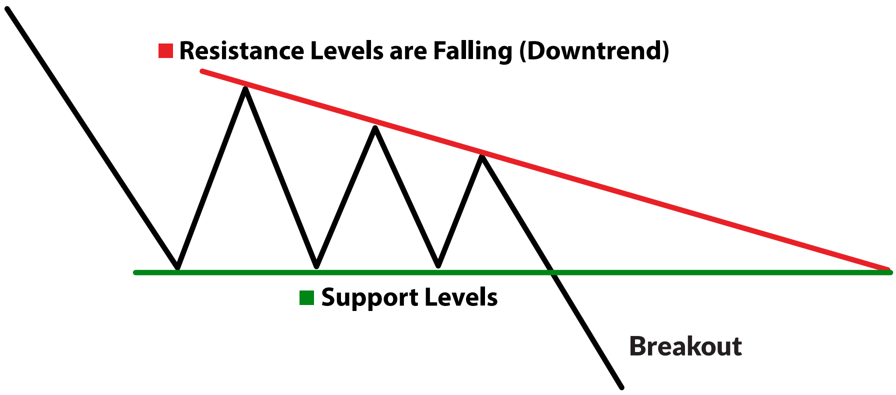
An ascending triangle forms when a slope of higher lows and a resistance level meet together at a point. This pattern indicates that buyers aren't willing to take a price above a certain point, but they are gradually pushing the price upward. They are pressuring the resistance level, which indicates a breakout is likely to occur soon. In most cases, an ascending triangle indicates that the price will move up past the resistance level, although this is not always the case.



Sample Ascending Triangle Pattern

A descending triangle is just the opposite pattern of an ascending triangle. There is a slope of lows and a support level meet together at a point. This indicates that there is a price that sellers are unwilling to break, but the price is gradually being pushed downward. Most of the time, the price will eventually breakout and continue to move down. Keep in mind, though, this is not always the case and it can sometime pounce off the support line and move upward. Again, it doesn't matter to you which direction it's going to go because you simply place an entry order above the highs and below the support line and take advantage when it moves. You cancel the other order and profit from the fluctuation.

Descending Triangle Formation



Sample Descending Triangle Pattern

Part 7: Timeframes

When you start to trade on FOREX, you will need to determine your timeframe. The timeframe is the amount of time you are going to stay in a trade. The three timeframes are long-term, medium-term and short-term.

1. Long-term timeframe. This timeframe can mean a few weeks, a few months or even a few years. If you decide to invest long-term, you would analyze daily and weekly charts to make your trades. The benefits of a long-term timeframe include lower transaction fees, lower stress (since you aren't watching every peak and valley of the market) and more freedom to be away from your computer.

   The drawbacks to investing long-term are that you have to set your stop-loss a long time ahead to avoid losing a lot of money on a correction, you must be patient, you will have to have a lot of capital to support the large variation of the market and you will incur and have to endure usual weekly and monthly losses.

2. Medium-term timeframe. This timeframe can mean a few hours or a few days, so you would analyze hourly charts to make your trades. The benefits of a medium-term investment include more trading opportunities, less risk to lose money over a month and the ability to diversify your portfolio.

The drawbacks to medium-term investing are that you will have higher transaction fees, there is an overnight risk, you have to keep a regular eye on the market and higher stress levels.

3. Short-term timeframe. This timeframe can mean a few minutes to a few hours, so you would analyze minute charts to make your trades. The benefits to trading short-term include a high number of trading opportunities, no overnight risk and quick results.

   The drawbacks to short-term investing are that you will be under immense stress, you have to have a lot of time to watch the market, your profits are limited (but so are your losses) and high transaction fees because you are placing a lot of orders.

The timeframe you choose is going to depend on your personality and goals. It is best to practice using all timeframes on a demo account before you try the real thing. This will help you determine which investment style you prefer.

Part 8: Chart Indicators

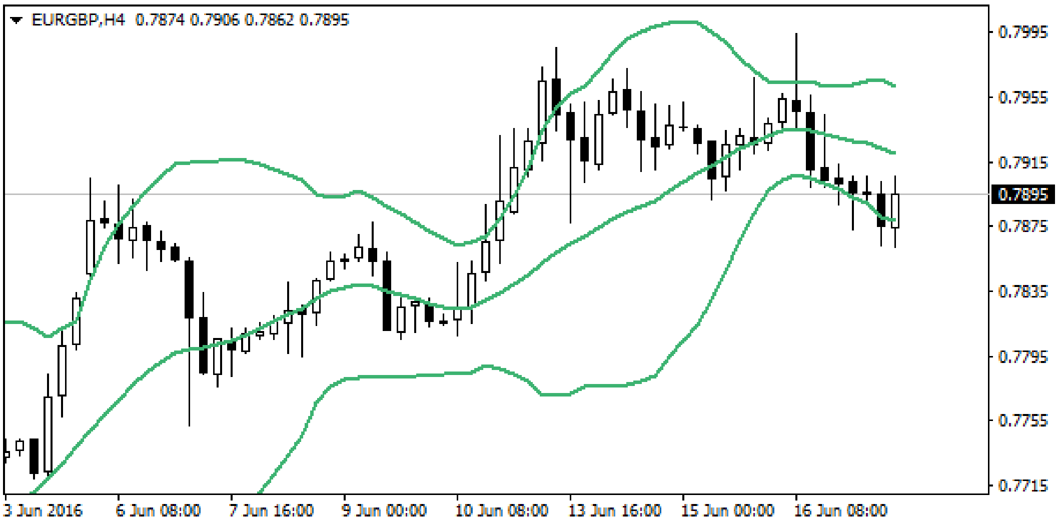
Indicators are statistics that are used to measure current FOREX market conditions and to project future market trends. They are used in analysis to predict fluctuations so that you can capitalize on market movement. Your job is to choose the best indicators and combine them in a way that will give you an advantage during trading. Ideally, you want your indicators to confirm the information you are getting from each one rather than duplicate the information. There are seven main chart indicators that are used extensively by FOREX traders. A description of each one follows.

1. Bollinger Bands

This is an indicator that was created by John Bollinger and is used to measure the volatility of a market. This tells you whether the market is loud or quiet. When the market is loud, the bands expand and when it is quiet they contract. There are several ways you can apply Bollinger bands to make more effective trades.

The Bollinger bounce is when the price returns to the middle of the bands. The reason the bounces happen is because the bands act like dynamic support and resistance levels. The bands will be stronger the longer timeframe you use.

The Bollinger squeeze is an indication that the price is getting ready for a breakout. The bands get closer together during price consolidation and if the price starts to break out below the lower band, the price will start a downward trend. If the price starts to break out above the upper band, then the price will start an upward trend.



Sample Bollinger Bands indicator

2. Moving Average Convergence Divergence (MACD)

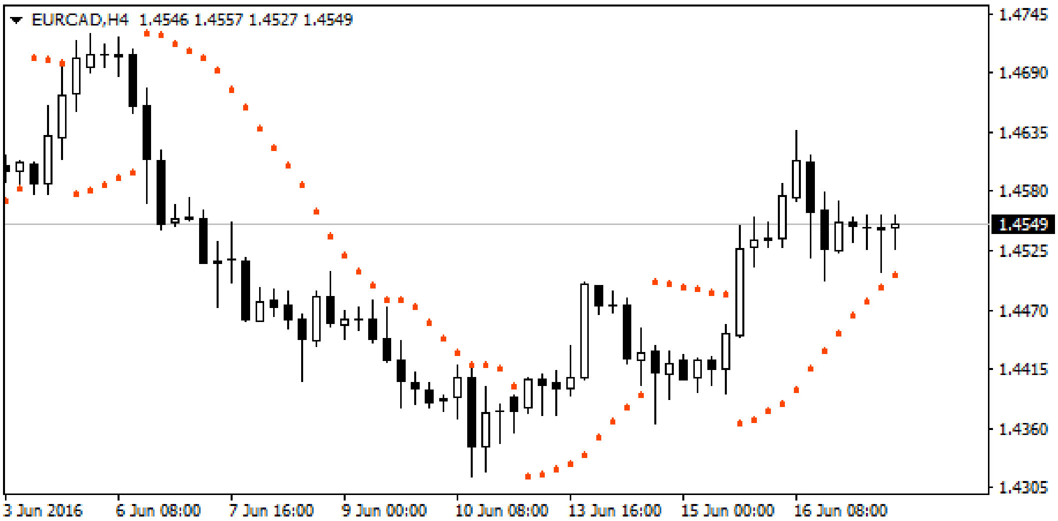
This is an indicator that is used to pinpoint moving averages that hint at a new trend. You will see three numbers on a MACD chart that will help you determine the meaning of the indicator. The first number is the number of periods that is being used to calculate the faster moving average. The second number is the number of periods that is being used to calculate the slower moving average. The third number is the number of bars that is being used to calculate the average of the difference between the slower and faster moving averages.

You can use these two moving lines with different speeds to predict a trend. For instance when the difference between the two lines is zero, a crossover can occur, which can signal the start of a new trend. The only disadvantage of MACD is that the moving averages tend to be slower to react than the price, but it is still the tool of choice for many traders.

Sample MACD indicator

3. Parabolic Stop And Reversal (SAR)

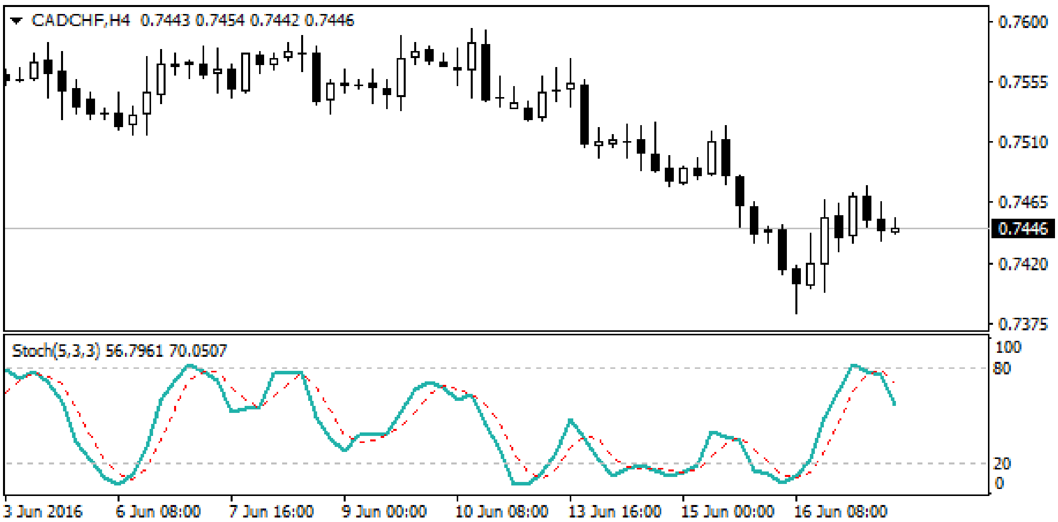
This indicator signals the end of a trend rather than the beginning of one. This is helpful for traders so they know when to exit a trade. A Parabolic SAR places dots on a chart that show traders where there are potential reversals in movement of the price. If the dots are below the candles on a candlestick chart, they are indicating a buy signal. If the dots are above the candles, they are indicating a sell signal. This indicator works best in markets that are trending either upward or downward. You should not use a Parabolic SAR when the price is moving sideways.



Sample Parabolic SAR indicator

4. Stochastic

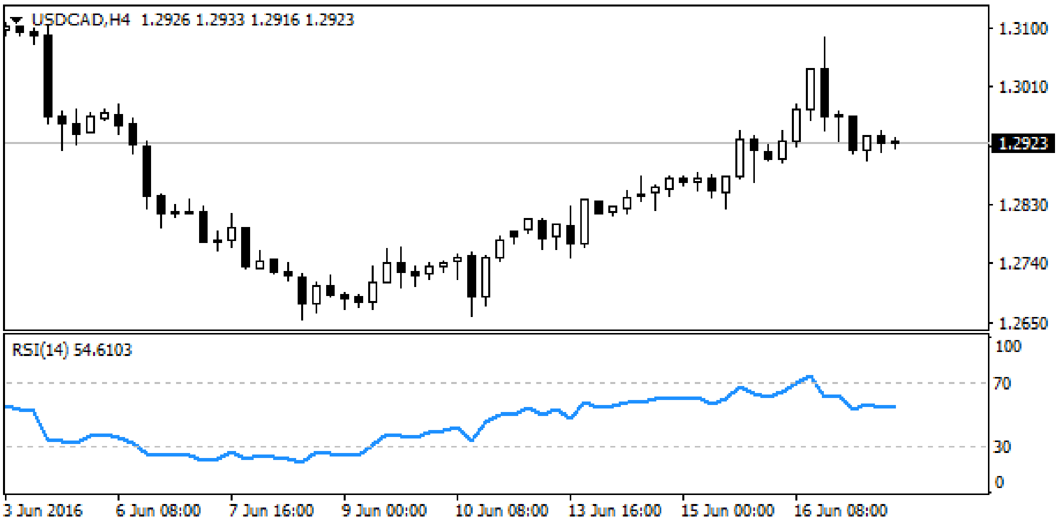
This is another indicator, like a Parabolic SAR, that can tell trader when a trend could end. It measures oversold and overbought conditions in the market. It has two lines, which is similar to the MACD lines in that one line moves more quickly than the other. The Stochastic is measured on a scale of 0 to 100. If the lines are above 80, then the market is overbought. If the lines are below 20, the market is oversold. Typically, traders buy currencies during an oversold market and sell currencies during an overbought market.



Sample Stochastic indicator

5. Relative Strength Index (RSI)

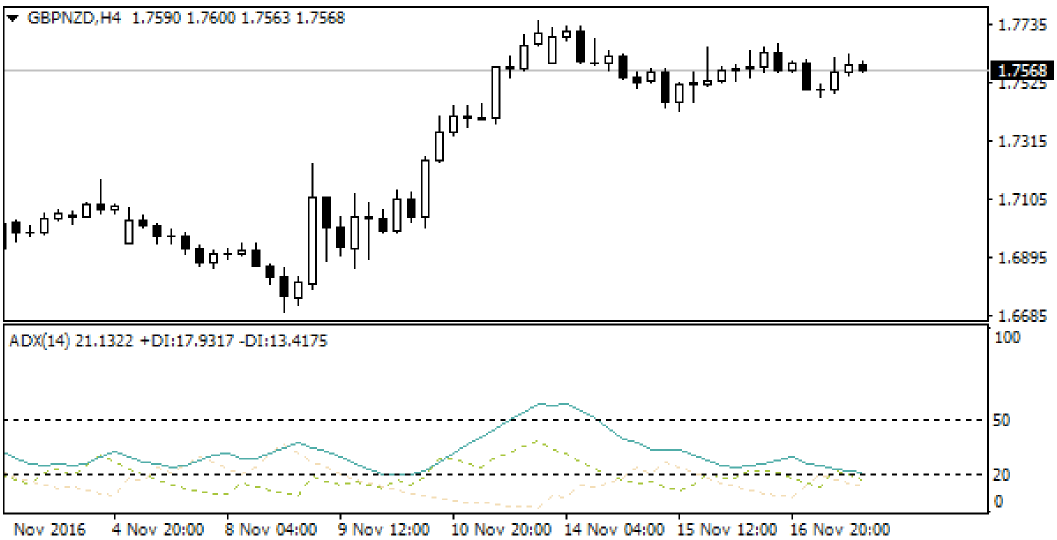
Relative Strength Index is another indicator that helps traders identify currencies that are oversold or overbought. It operates on a scale of 0 to 100. Readings over 70 indicate that the market is overbought. Readings below 30 indicate that the market is oversold. This indicator can be used to verify trends. If you believe an upward trend is possible, the RSI should be above 50. If you believe a downward trend is possible, the RSI should be below 50.



Sample Relative Strength Index indicator

6. Average Directional Index (ADX)

The ADX indicator has a range of 0 to 100. Readings that are below 20 indicate a weak trend. Readings above 50 indicate a strong trend. This is different from the Stochastic because the ADX simply measures how strong the current trend is. This indicator is used to determine whether a market is starting a new trend or if it's ranging. It's not going to tell you whether you should buy or sell, but it does tell you whether or not it's safe for you to start trading in a continuing trend.



Sample Average Directional Index indicator

7. Ichimoku Kinko Hyo (IKH)

This indicator is made up of five lines that gauge future price momentum and future areas of resistance and support. It is mainly used for pairs that include JPY currency.

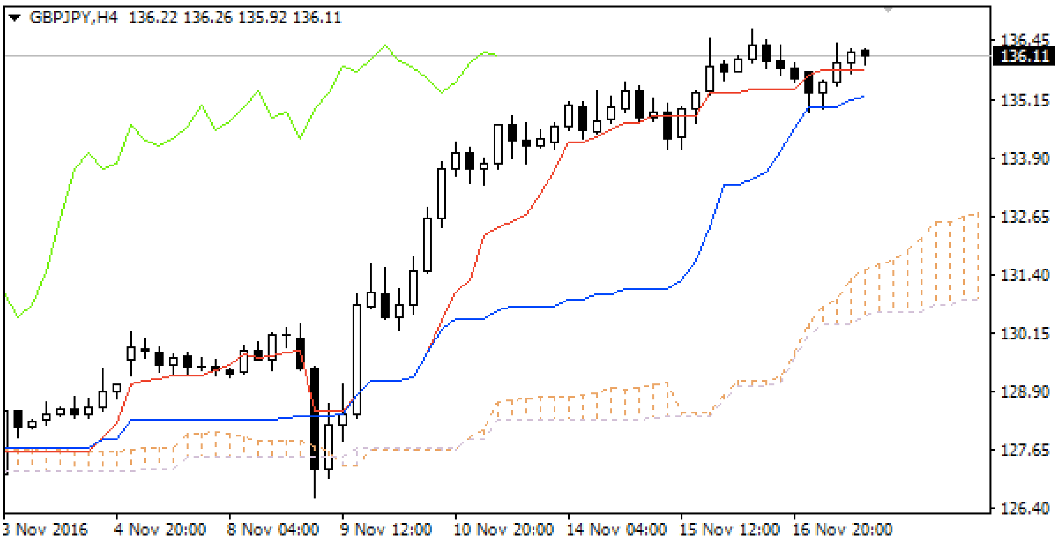
Kijun Sen (blue line): This is the base line that averages the highest high and the lowest low over the previous 26 periods.

Tenkan Sen (red line): This is the turning line that averages the highest high and the lowest low over the previous nine periods.

Chikou Span (green line): This is the lagging line, which is the current day's closing price that is plotted 26 periods behind.

Senkou Span (brown and beige lines): One Senkou line averages the Tenkan Sen and the Kijun Sen plotted 26 periods ahead. The other Senkou line averages the highest high and lowest low over the previous 52 periods and is plotted 26 periods ahead.

Essentially, the IKH rolls support and resistance, trend indicators, crossovers and oscillators all in one chart. Once you learn how to read it properly, it can give you a ton of information at once.



Sample Ichimoku Kinko Hyo Indicator

Most traders use at least three different indicators to make their trades on FOREX. Unless and until all three indicators are giving them the same signal, they won't make a trade. The indicators you ultimately use will depend on which ones work best for you. So you'll need to give them all a try until you find the right combination.

Part 9: Time Zones

As mentioned previously, the FOREX market is open 24 hours a day between Sunday night and Friday night. This means it is an excellent opportunity for traders to trade whenever it is most convenient for them. However, as traders gain more experience, the time of the trade becomes more critical. This is because the best time to trade is when the most trades are being made. This will give traders a great chance to take advantage of good trading opportunities and reap the profits. Slow markets can actually be a waste of time and effort.

You need to know when the various markets are open so you can find the busiest time of the trading day to make your move.

New York FOREX market:	**8:00 a.m. to 5:00 p.m. EST**
Tokyo FOREX market:	**7:00 p.m. to 4:00 a.m. EST**
Sydney FOREX market:	**5:00 p.m. to 2:00 a.m. EST**
London FOREX market:	**3:00 a.m. to 12:00 p.m. EST**

When you look at these hours of operation, you can see that there are three sessions that overlap. New York and London overlap between 8:00 a.m. and 12:00 p.m. EST, Sydney and Tokyo overlap between 7:00 p.m. and 2:00 a.m. EST and London and Tokyo overlap between 3:00 a.m. and 4:00 a.m. EST. So, if you are looking for the best times to trade, the EUR/USD and the GBP/USD currency pairs would likely provide good profits during the 8:00 a.m. to 12:00 p.m. EST overlap session. You are going to find the most trades during this time and other overlap times. These are the times you will have more opportunities to make good trades.

Part 10: Types of FOREX Orders

The word “order” refers to the ways in which you will enter or exit a trade on the FOREX market. You will want to verify which kinds of orders your broker will accept before you decide which ones you want to use.

1. Market order. This is an order to buy or sell a currency at the best available price. For example, if the bid price for EUR/USD is 1.215 and the ask price is 1.219 and you want to buy this currency at market, you would be buying it at the ask price of 1.219.
2. Pending Limit order. This is an order that you would place to buy a currency below the market or sell a currency above the market at a specific price. For instance if EUR/USD is trading at 1.2070 you will want to go short if the price gets

to 1.2090. You can sit at your computer and patiently wait for it to get to that point and use a sell market order. Or, you can set a sell limit order at that price and you can go do something else. Your order will be automatically executed at the price you set.

3. Pending Stop order. You would place this type of order to sell below the market or buy above the market at a specific price. You use this type of order if you think that a price is going to move in one direction.
4. Stop-loss order. This is an order that is designed to help traders keep from losing additional money if the price goes against what you thought. This order will remain in place until you have to use it or until you cancel it. This kind of order is very useful if you don't want to sit in front of your computer all day, constantly worrying about losing all your money.
5. Trailing stop. This is a specific kind of stop-loss order that moves as the price moves. Your trade will stay active as long as the price does not move against you by 20 pips. If your trailing stop is hit, your stop-loss will be triggered and your trade will be closed.

Be aware that some brokers will charge rollover fees if you keep a trade active for more than a day. It is important to check with your broker before you place any orders.

Part 11: Pips

A pip is a unit of measurement that expresses the change in value between a currency pair. For instance, if EUR/USD is at 1.2360 and it moves to 1.2361, that .0001 increase in value is one pip. Typically, a pip is the last decimal place of a quote. Most currency pairs are quoted to four decimal places, but some pairs, like pairs involving the Japanese Yen, are only quoted to two decimal places.

Some brokers will quote currency pairs that go beyond four decimal places, which means they are quoting fractional pips, which are also referred to as pipettes. If the EUR/USD moves from 1.23600 to 1.23601, the .00001 would be called one pipette.

You will need to calculate the value of a pip for each currency pair you are considering trading because each currency's value is different when going against a second currency.

To determine the pip value of your account, you will need to multiply or divide the "found pip value" by the exchange rate of the currency in your account. However, brokers almost always do these calculations for you, so you won't need to do the math yourself. Even so, it is beneficial to know how they calculate it just in case you find a discrepancy.

Part 12: The Importance of News

In addition to being able to analyze charts, trends and indicators, you should also know what causes movement in the FOREX market. World news is the underlying force of market movement. It affects the decisions traders make. Unlike on the stock market, the earlier you hear or see news that will affect the FOREX market, the better it is for your trades. You will not go to jail for insider trading. In fact, you can greatly profit from it.

CHAPTER 3:

FUNDAMENTAL ANALYSIS

Part 1: What is Fundamental Analysis?

When you start looking deeply into the FOREX market, you are going to be examining specific forces that affect the price of currencies. This is known as fundamental analysis. You will be scrutinizing the economic, political and social forces that impact the supply and demand of a currency. Basically, fundamental analysis is no different from the fundamental principles you learned in your first economics class. Supply and demand determine price.

The ultimate goal for you as a FOREX trader is to determine which countries have healthy economies and which ones have struggling economies. In order to make this deter-mination, though, you must understand the reasons why specific events, such as a rise in un-employment, affect not only that country's economy, but also the demand for that country's currency.

Essentially, the reason why traders perform fundamental analysis is to attempt to fore cast countries' future economies. You are looking for economies that are strengthening which should increase the need to buy those countries' currencies. To begin learning fundamental analysis, you simply need to understand that this type of analysis is a way to look at currency prices through the weakness or strength of a country's economy.

Part 2: FOREX Economic Calendar

If you are going to analyze countries' economies, you must be aware of what is going on in the world in terms of economics. For this reason, every successful FOREX trader uses an economic calendar to keep track of events that are sure to impact the market.

Certain economic news is released at roughly the same time each year. These are events that will be documented on a FOREX economic calendar. In addition, most economic events are planned early enough to give traders a warning that fluctuations in the market are on the horizon. For instance, if the European Central Bank is meeting to discuss interest rates, the date of that meeting will be put on the calendar so that you and other traders will all get the information released from the meeting at the same time.

Most brokers have a live online economic calendar that is updated automatically whenever economic or political news is released. Typically, calendar tells you when the data will be released, what the data is when it is released, the previous numbers and what kind of impact the data will have on the market. Many traders use these numbers to decide their next trade.

Yesterday | Today | Tomorrow | This week

GMT+2	Country	Priority	Event	Period	Previous	Forecast	Actual
Jul 7, 2016							
02:30	Japan	●●●	Bank of Japan Governor Kuroda Speech				
06:30	Netherlands	●	Consumer Price Index n.s.a (YoY)	Jun	0%		0%
08:00	Germany	●	Industrial Production (MoM)	May	0.5%	0.0%	-1.3%
08:45	France	●	Current Account	May	€-2.1B		€-0.3B
09:00	Austria	●	Wholesale Prices n.s.a (YoY)	Jun	-4.1%		-3.4%

Part 3: Trading on News and Announcements

Trading on news can be extremely risky, but there is also the potential for a huge profit as well. As a beginner FOREX trader, you might want to get your feet under you before you try to trade on news and announcements. The concept is relatively simple. You want to make a trade either right before or right after an important news announcement. The reason for this timing is that there is a high probability of market prices moving either up or down when the announcement is made.

For instance, if the U.S. Federal Reserve is going to announce an increase in interest rates, FOREX traders might buy U.S. currency, expecting that it will increase in value. They will probably trade right before the U.S. Federal Reserve is scheduled to make the announcement, because once it's made, the currency will likely start to rise and traders will miss out on potential profits.

However, there is a risk that the news might not go the way you expect. If, for example, the Federal Reserve does not raise rates as expected, you could lose your money very quickly if you bet that the price of the U.S. dollar would go up. If you are on the wrong side of the trade, you won't even have time to manually close your trades.

To be successful at trading on news and announcements, you have to have an extremely reliable and fast news source. You also have to be skilled enough to get your trades in at the right time. The upside is that you don't have to spend hours researching indicators and price indexes. You simply wait for the news announcements and make your move then.

There are many news items that can cause the FOREX market to move. However, the most important events that will definitely lead to price fluctuations include news about interest rates, retail numbers, FOMC rate decisions, the consumer price index (CPI) and other inflation indicators, the producer price index (PPI), industrial production announcements, unemployment numbers, and business and consumer confidence.

Economic news and announcements will have varying effects on the market, but be aware that you are looking for news that has an effect that lasts at least a few minutes or hours. It is very risky to attempt to trade on the minute fluctuations that occur right after announcements are made. Combining the expected news with your chart analysis will make your job as a trader easier. So, if you decide to trade on news and announcements, don't abandon everything you learned in terms of chart analysis. It will still come in very handy.

Part 4: Benefits of Fundamental Analysis

At its core, fundamental analysis helps you decide if a country's currency is a good or poor trade choice. It is the study of what causes market movements. The biggest benefit of fundamental analysis is that you have the potential to make a huge profit in a relatively short amount of time. The traders who are most successful at fundamental analysis are long-term investors, but that doesn't mean you can't be a medium or short-term investor and do well.

There are other benefits of fundamental analysis that give you an advantage in the FOREX market. For instance, you will increase your knowledge of the global market and understand better how it works. Therefore, you will have a better picture of the overall health of the world economy.

You will also be able to explain certain unexpected movements of the market. This gives you an advantage because you can understand what factors cause prices to move lower or higher. When you know what a certain event will do, you can exploit that news to make a profit.

There are some drawbacks to fundamental analysis as well. Along with the fact that it can be risky, you also have a lot of information to sort through in order to make sense of it in terms of trading. Moreover, you have to be careful not to be lured into reading a false signal that can cause you to get caught up in a significant loss.

After all is said and done, you can make a lot of money using fundamental analysis on the FOREX market. You just have to be sure you are willing to accept the risks associated with investing based on economic news.

CHAPTER 4:

TECHNICAL ANALYSIS

Part 1: What is Technical Analysis?

You just learned that fundamental analysis is the study of the causes that lead to price changes on the FOREX market. Technical analysis is also a study of price movements, but it is the study of the effects of market movement based on what has already happened. Traders use both types of analysis to predict how the market is going to move. Essentially, traders who use technical analysis believe that all market variables come down to price movement, so there is no need to use other means of analysis to trade FOREX.

When you are performing technical analysis on a currency, you are looking for patterns on a chart that repeat themselves. The basic belief is that because price movement is dictated by humans, the patterns will continue to repeat as long as humans run the market. Humans make repetitive actions based on repetitive emotions and those repetitions can be analyzed to predict price movement.

Technical analysts study trends, support and resistance levels and FOREX indicators to forecast the direction in which a price is going to move. You can use these factors to your advantage, since when you know what signals to look for you can time your trades in the best way possible to make a tidy profit.

Part 2: FOREX Charts

FOREX charts are the basis of technical analysis. They provide the information traders need to evaluate and manage currency movements. As mentioned in Chapter 2, Part 1, all currencies are quoted in pairs with one currency expressed in value relative to another currency. All FOREX charts will consist of two currencies and their relative values.

Monitoring currency movements is critical if you want to be able to time your trade to maximize your profit. You will need to study price quotes over a single day, several days, a month, several months, a year and even several years. This will allow you to get the overall picture of a currency's movement. You won't be distracted by abnormal fluctuations.

The other types of FOREX charts include line charts, bar charts and candlestick charts as discussed in Chapter 2, part 3. You will want to learn how to analyze chart patterns that represent price movement. At that point, you can then apply the technical indicators you have chosen to use and be able to make a successful trade. If you didn't get these live feeds on the charts, you would be trading blind, which is never a good idea. You always want to make informed trading decisions and FOREX charts are one way to get informed.

Part 3: Price Trends

FOREX price trends are simply identified price movement patterns. When you watch prices over a time period, you will begin to see patterns emerge. You can examine these patterns and learn to predict price movement. You can time your trade to take advantage of a repeating pattern, or price trend. You are looking to predict areas of value that will help you earn a profit.

Your goal is to identify a price trend as early as possible, make your trade and then exit your trade as soon as the trend starts reversing. Remember that you are using past price movements to predict where the price is going to go in the future. You are not using external factors, such as news, to forecast the future price.

You are making assumptions that a price is going to move in a specific direction. Your assumption could very well be wrong; however, the better you get at technical analysis, the better your odds are of making a correct prediction based on price trends. You need to expect that you will make some losing trades, but if you learn from them, you can make better trades in the future.

Part 4: Support and Resistance

Technical analysis relies on support and resistance more than any other concept. Essentially, it means that the movement of a price will stop and reverse at certain levels. Resistance is the top level of a currency that the price will reach, but not break. Support is the bottom level of a currency that the price will reach, but not break. Usually, a price moves between support and resistance levels, which allow traders to buy a currency at support (when it is cheapest) and sell it at resistance (when it is most expensive).

When you are trying to determine entry and exit into a trade based on support or resistance levels, you will want to select a FOREX chart that shows a price interval period that is in line with your trading strategy and timeframe. If you are trading short-term, you will use a one-minute chart and if you are trading long-term, you will use an hourly, daily, weekly or monthly chart. When you are analyzing support and resistance, you will take indicators into account to determine when a trend is going to reverse.

Some of the methods used to analyze support and resistance include proactive methods such as Measured Moves, Dynamic or Fibonacci, Projection/Confluence (Static or Square of

Nine), Trend Lines and Moving Averages, Volatility Based, Market Profile, Calculated Pivots and VWAP. There are also reactive methods that include Price Swing Lows/Highs, Open Gaps, Volume Profile, Candle Patterns and OHLC. Some of these methods will be discussed later.

Part 5: Breakouts

As discussed earlier, breakouts occur when prices pass through support or resistance. Your job during technical analysis is to try to predict when a breakout is going to happen. There are three types of chart breakouts that happen most often:

1. A breakout that comes after a period of price consolidation
2. A breakout the comes after a period of narrowing price variation
3. A breakout that comes from within a rising or falling trend

Breakouts happen because of the varied opinions of what traders believe fair value is for a specific currency. Traders will cause the price to move up and down, hitting levels of support and resistance, but eventually one side of the trade is going to win, causing the price to move past either support or resistance and take the currency higher and lower. A breakout is usually the start of a new trend. The key to profiting on a breakout is to use technical analysis to predict when a breakout is going to occur and time your trade at the start of the breakout.

Sample breakout

Part 6: Trend Lines

Trend lines are used by technical analysts to determine entry and exit trading points. Sometimes, trend lines are referred to as Dutch lines since they were first put in use in Holland. Trend lines are formed by drawing a diagonal line between at least two price points. A support trend line is drawn below the line between points of support and a resistance trend line is drawn above the line between points of resistance. Again, when analyzing trend lines, you need to choose a chart that represents a timeframe that is consistent with your trading strategy.

The goal when using trend lines is to buy a currency at support and sell at resistance. The reason for this is that when the price goes back to a trend line, you might have a chance to open a new trade in that direction if you believe that the trend is going to continue in that direction. Analyzing trend lines also allows you to better pinpoint breakouts, when you would place a trade in the opposite direction of the existing trend and closing trades that are in the direction of the existing trend.

Part 7: Channel Lines

Channel lines are very similar to trend lines, but are often used by traders who are trading on a short timeframe. They are attempting to make a profit on small price movements. A channel line is drawn parallel to the trend line and when the price of the currency gets close to the trend line, a trader buys the currency. When it gets close to the channel line, a trader sells the currency. Some traders use channel lines to trade against the trend, but there is a greater risk when doing so.

Channel lines are often used to identify the weakening of a trend. If a price does not meet the channel line at the next high or low, it can be an early signal of a trend reversal. Although this is not always true, traders who are basing their technical analysis on channel lines will often attempt to exploit that tendency.

Sample channel lines

Part 8: Timeframes

The timeframe refers to the type of chart you are analyzing. For example, if you are analyzing an hourly chart, you are looking at prices over each hour. However, for technical analysis purposes, your hourly chart might cover several days, weeks or even months. You will simply have a price point at each hour to analyze. This is the way in which an analyst can look at the FOREX market and identify long-term trading opportunities.

It is often recommended that you study long-term timeframes first and then move to short-term timeframes as you get deeper into your analysis. On long-term charts, you are going to see less movement, so there will be less to distract you. As you move closer to the minute charts, you will start to see a lot of movement and you will have more information to study. When you have studied all of these charts, you will be able to determine your point of entry into the FOREX market. The more you study, the more precisely you can find your entry.

Part 9: Types of Traders Who Use Technical Analysis

There are many types of traders who use technical analysis. You won't know which kind of trader you are until you really get started trading on FOREX. Some strategies you will not feel comfortable with, as there is a lot of risk involved. You might become comfortable with these strategies at some point, but if you are looking just to get your feet wet, you will want to start out with a conservative strategy to hone your skills. Here are some of the types of traders who use technical analysis.

1. Trend Traders

These are traders who try to purchase a currency that is on the rise. They hold onto the currency until it starts moving downward. Then they sell it. If you are this kind of trader, you won't have to spend a lot of time managing your trades. You simply ride out the trend, which could last for days, weeks or even years. Your profits, however, are limited in the short-term.

2. Day Traders

These are traders who want to take advantage of small fluctuations in price. You have to be actively monitoring your account at all times and you must pay close attention to patterns and indicators. You can make significant profits quickly as a day trader, but you can also lose a lot of money quickly as well.

3. Range Traders

These are traders who are most comfortable trading between areas of support and resistance. They want to exit before a breakout and they usually put stop orders just outside of support and resistance so they can't lose too much money if a breakout does occur. You aren't going to make a boatload of cash as a range trader, but you also don't have to worry about technical analysis as much either.

4. Mean Reversion Traders

These traders use statistical tools to predict whether a price is too far away from its average and therefore, likely to return to it. These traders use Bollinger Bands extensively to calculate standard deviations. They trade on the likelihood that a price always returns to its average price.

5. Pullback Traders

These traders analyze various indicators and use various methods to make their trades. Basically, when a price sends a currency to a new high, the price generally pulls back a bit before going higher. The pullback trader buys the currency with the intent to sell it after the price moves back toward the current trend.

6. Breakout Traders

These traders are looking for potential breakouts so that they can take advantage of low-risk entries in exchange for potentially high profits. This type of trading is extremely popular because you can analyze charts for potential trades well in advance of making your trade. You can place buy or sell stop orders early and you don't have to keep constant vigil over your currencies.

Part 10: Fibonacci Retracements

Technical analysts use Fibonacci retracements to predict the length of corrections during a trend. They are expressed in percentage values, which 38.2%, 50% and 61.8% being the most popular retracement levels for FOREX trading.

Fibonacci retracements are named after the mathematic sequence that was discovered by a 12-century mathematician named Fibonacci. The sequence has been found in numerous situations in nature and essentially says that each successive number is the sum of the two numbers before it. So, in a sequence 1,1,2,3,5, it would mean that 1+1=2, 1+2=3, 2+3=5 and so on. Any number is about 1.618 times the number before it and 0.618 times the number following it. Also, if we divide any number by the number that is found two places to the right, we get a ratio approximate to 0.382. This is where the percentages 38.2 and 61.8% come from.

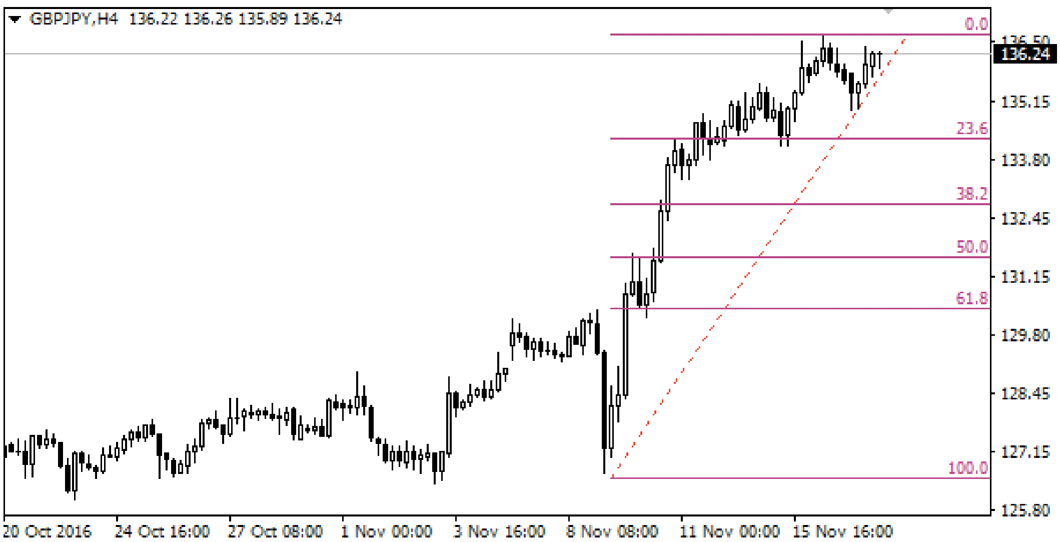
Since FOREX is the biggest market in the world, it is the market that comes closest to operating as a natural mechanism. Therefore, the way it behaves can be explained by laws that work in other natural situations. For this reason, Fibonacci retracements work well in technical analysis. The larger currency movements are naturally going to be followed by corrections of 38.2%, 50% or 61.8%.

Currency prices will retrace a minimum of 38.2% in a strong trend. In a weak trend, corrections may trace as far as 61.8%. The 50% retracement level is the most commonly monitored level and is where many traders buy during uptrends and sell during downtrends.

To draw Fibonacci retracements, you will want to calculate the pip distance between several recent high levels and low levels. Then find the percentage of this distance that corresponds to each retracement level. For example, if you have measured the pop distance at 200 pips, 38% of 200 would be 76 pips, 50% of 200 would be 100 pips and 61.8% of 200 would be 124 pips. Then subtract those pip numbers from the high point for an upward move or add them to the low point for a downward move.

Traders use Fibonacci retracements to either add to their current trade or to start new trades based on the current underlying trend. When analyzing charts, you can see when prices become either overbought or oversold, which tells you a correction is imminent. There is a high chance that when the price starts to correct, it will stop at one of the Fibonacci retracement levels. This gives you a fairly low-risk trading opportunity that has the potential for huge rewards.

Most FOREX traders use a combination of technical analysis tools and Fibonacci retracements to confirm their predictions. When more than one indicator is telling you the same thing, you will want to listen and make your trade.



Sample Fibonacci Retracements

Part 11: Benefits of Technical Analysis

Traders who trade solely on technical analysis believe that there is no way to reliably trade on news the way that fundamental analysts attempt to do. The reason they think this is because the market moves quickly and that any news that comes out will be reflected on the charts, so ignoring them is a huge risk. Fundamental analysts believe that technical analysts are behind the times because they are analyzing what has already happened instead of what will happen. They believe that the news is the only thing that moves the market. It is up to you to decide which camp you fall into; however, here are some benefits of using technical analysis to make your trades.

First, you will be able to pinpoint entry and exit points, which is difficult to do if you are simply waiting for news to be announced. Analyzing charts will allow you to identify trends at the same time as other traders, since everyone is watching the same data. This means that because of the large number of FOREX traders that are analyzing the same information, they can actually create a self-fulfilling prophecy by making prices go in a certain direction.

Charts and indicators are not some kind of fad. They have been around since FOREX began and traders have been using them to make profits for that entire time. If they didn't work, it would have been discovered long ago. Not only that, anyone can learn to read charts, which means you can learn to read them and trade off of them too. In fact, you can use charts to plan your profits and losses with more accuracy than you can if you trade on news alone.

No matter what, you still need to pay attention to other signals that could affect a trend. Charts are providing you with lagging indicators, so you should never rely completely on the assumption that the current price of a currency is going to tell you what the future price will be. That will often be the case, but it doesn't always happen that way.

CHAPTER 5:

TYING IT ALL TOGETHER

Part 1: FOREX Trading Psychology

Anyone can read about FOREX trading and decide that they are going to make a fortune trading the FOREX market. They can learn the indicators, charts, analysis and strategies and they might be moderately successful. However, if you are going to have long-term success trading FOREX, you have to understand the psychology behind the decisions you make. You have to learn to control your emotions while you are trading because emotions get in the way of your rational decision-making capabilities. You need to know if you are cut out for the business before you ever get started.

First of all, once you set your rules of trading and create your trading plan, you cannot break your own rules. You will find yourself getting excited, scared or hopeful at certain points during the trading process and it can be easy to throw your plan out the window and break your rules. You must have the self-discipline to stay with your plan if you want to be successful.

When you lose money, you are going to experience fear, which can derail your trading system. You are going to lose money at times, but you cannot let those losses make you afraid to take advantage of another opportunity. You also cannot let fear get in your way of maximum profits by causing you to get out of a trade before you should. You have to trust that your analysis will allow you to make more gains than losses, which is all a trader can expect in the long run.

Excitement can lead to greed, which is an emotion that can also cause you to break you rules. You must be objective about your trading system so that you exit a trade even when you think you could make more by breaking your rules. Be satisfied with what you have, follow your plan and move on to another trade.

The other emotion that can wreak havoc on your trades is hope. Many traders hope that they can make their money back by staying with a trade long after it should have been exited. If one of your trades goes wrong, the prudent action is to get out of it sooner rather than later. Hope is not based on any reasonable analysis and can lead to bigger losses over time.

Self-discipline is the single best quality a trader can have. You have to be able to walk away from trades that aren't profitable or from trades where the maximum profit has been reached. You cannot let yourself get carried away like a gambler that hits a big pot only to gamble it all away looking for an even bigger pot. If you are going to be a successful trader, you need to be able to see the big picture so you can link events and identify trading opportunities, use logic and analysis to make solid trading decisions and be organized, decisive and disciplined.

Part 2: Mastering Risk Management

Risk management is essential in FOREX trading. You have to take steps to minimize your losses or you will be finished trading almost before you begin. You are going to lose on some trades, and possibly on many trades. However, your goal is to use strategies to prevent continuous loss so that you still have capital to continue trading.

Stop-loss orders are critical to controlling risk. Most trading experts advise that you put a stop-loss order in for every open trade you have. This allows you to exit the trade if it starts to go against you. Novice traders are often overly worried about losing trades, so they don't exit early enough to keep from incurring more loss. They simply hope the market will reverse and their losses will be wiped out. As mentioned earlier, hope is not a strategy. Stop-loss orders will keep you from hoping too much.

Before you ever get into a trade, you need to determine how much of your initial investment you can afford to lose if your trade turns on you. This will allow you to remove emotion from your trade. If your losses reach your predetermined amount, you can get out of the trade without feeling like you lost more than you could afford to.

You must also continually evaluate your trading strategy, especially if your current strategy does not appear to be working. Again, before you ever trade a single currency, you must decide when you will re-evaluate your strategy if your trades aren't working. This point will be determined by your account size and your loss tolerance level. If you reach that level, you will need to reassess your analysis methods and determine if you would benefit from using other indicators or methods to help you succeed.

When you place your stop-loss orders and your limit orders, you must decide how much loss is too much and how much profit is enough. You should not place your orders too close to the normal market price, though, because any little fluctuation could trigger one of them. However, you don't want to place them too far from the norm either, since the further away you get, the more risk you are taking. That being said, stop-loss and limit orders are designed to help investors manage those risks, so take advantage of them for all trades.

Part 3: Choosing a Broker

After you have practiced for several months, you will be ready to open a real account. The first thing you need to do is choose a broker. You will have some experience with various brokers from your demo accounts, but you will still have a great number of brokers to choose from. Here are the steps to identifying a broker for you.

1. Research. your broker should be registered with a regulating authority. Find out if the broker offers fixed or non-fixed spreads, which is important if you want to trade in the short-term. Next, find out how much or little leverage a broker gives. As a new trader, less leverage is usually better. New traders with little capital will probably want to start out with micro lots. If you have $2,000 or less to begin with, you will want a broker that offers this feature. Not all of them do. If you are going to keep trades overnight, you will want to find out how the broker deals with rollover interest. Finally, you will also want to find a broker that offers services like charting, market commentary and news feeds. These are especially important if you intend to use technical analysis as your primary method of trading.
2. Compare at least two brokers, preferably brokers you have had a demo account with. Using common features such as business information, customer service and trading platform, decide which broker offers more of the features you want and need. Charting these features out will help you visually determine which broker is right for you.
3. On your broker's home page, there will be a button that you must click to sign up for a live account. Clicking on that button will take you through the steps to opening an account and trading with real money.

Part 4: Opening a Real FOREX Trading Account

Some brokers are going to have many requirements for a real account, while others will only need a few basic documents. You will want a broker that has a user-friendly trading platform and has tools to help you analyze FOREX.

Most brokers will give you the option of a micro, mini or standard account. Again, it is recommended that new traders with low capital open a micro or mini account. This will lower your risk until you become a seasoned trader. Only then should you open a standard account.

At this point, you will need to provide an address with proof (such as a utility bill or bank passport) and an ID with proof (such as a passport or driver's license). You will have to wait for confirmation from the broker before you can start trading on the real FOREX market. All of this verification will be done online, so you can choose just about any broker you want, regardless of location.

Now you are ready to start trading for real. Keep your goals in mind and you will be a successful FOREX trader before you know it.