

FOREX TRADING – AN OVERVIEW

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PART ONE – INTRODUCING THE FOREIGN EXCHANGE MARKET

What is Forex?

The **Foreign Exchange** (Forex or FX) market is a global currency market where traders from different countries speculate on the exchange rate between two currencies. In so doing, traders buy and sell currencies in the hope of making a profit when the value of the currency rate changes in their favor.

The forex market is the largest financial market in the world and reached a reported daily volume of \$1.9 trillion in 2004.^{**} This huge trading volume provides the forex market with excellent liquidity, which benefits the large number of traders that invest there. It is thus the most exciting market for trading.

The growth of the forex market has been spurred by the development of electronic trading networks and the increase in globalization.

The OTC Forex Market

Unlike the other financial markets, such as the New York Stock Exchange (NYSE), the FX market has neither a physical location nor a central exchange. The FX market is considered Over The Counter (OTC) or “interbank” market, due to the fact that the entire market is run within a network of banks, continuously over a 24-hour period.

The Forex Market as a Spot Market

A *spot market* is any market that deals in the current price of a financial instrument. The forex market is considered a spot or cash market as it deals with the current prices of currencies.

Why You Should Participate in the Forex Market

Until recently, the forex market had been the domain of large financial institutions, corporations, central banks, hedge funds and extremely wealthy individuals. With the advent of the Internet, which facilitated electronic trading and globalization, forex trading is now available to virtually anyone with access to the Internet anywhere in the world.

It is estimated that about 5% of the daily turnover of volume in the forex market comes from banks, governments and large corporations. The other 95% is up for speculation and profit by the private traders. Someone said it better,

*“Trading forex is like picking money up off the floor.
Not trading forex is like leaving it there for someone
to pick it up.”*

Another said,

“It’s like having an ATM machine on your own computer.”

The sweetest part is that you’re “picking money up off the floor” and collecting the money from “an ATM machine in your computer” right from the comfort of your room. You are forever shielded from all the hassle, pain and discomfort of working 9 – 5 for someone else. You become your own boss and you have enough time, money and freedom to live the life you ever wanted.

The forex market is indeed the *World’s Most Powerful Home-Based Business*.

^{**} Triennial Central Bank Survey (2004), conducted by the Bank for International Settlements.

Advantages of Forex Market over Other Markets

The forex market has some advantages that make it the first port of call for anyone with an avid desire to make fast cash.

- **Sheer volume** – The forex market is the largest financial market in the world. With a daily trading volume of over \$1.9 trillion, the spot (cash) forex market can absorb trading sizes that dwarf the capacity of all the markets (stocks, futures, options, equities, etc) combined. Its immense volume gives millions of traders almost infinite liquidity and flexibility.
- **High liquidity** – Because the FX market is so enormous, it is also extremely liquid. This means that with a click of a mouse, you can instantaneously buy and sell at will. You are never “stuck” in a trade. You can even set your online trading platform to automatically close positions at your desired profit level (a limit order) and/or close a trade if the trade goes against you (a stop-loss order).
- **24-hour market** – The forex market is a continuous electronic (online) market that never closes. There is no waiting for an opening bell as in the case of trading stocks. The FX market never sleeps. Trading positions can be opened and closed at any moment. With the ability to trade during the overlapping US, Asian and European market hours, traders have the advantage of customizing their own trading schedule.
- **High leverage (up to 400:1)** – In forex trading, you are permitted to trade on a highly leveraged basis – in some cases up to 400 times your investment with some brokers. This is primarily attributed to the higher levels of liquidity within the forex market. Standard 100,000-unit currency lots can be traded with as little as 10% margin or \$1000, while Mini accounts are permitted to trade with just 0.5% margin. In other words, just \$50 allows you to control a 10,000-unit currency position. The FX market, thus, provides you with an efficient use of trading capital.
- **Highly predictable price movements** – Although currency prices in the forex market may be volatile sometimes, they generally repeat themselves in relatively predictable cycles, creating trends. The strong trends that currencies develop are a significant advantage for traders that use the Technical Analysis methods and strategies to trade forex. Your objective then as a trader is to get into a trending market and ride until you hit your target objective.
- **Commission-free trading and low transaction cost** – FX brokers are compensated for their services through the bid-ask spread (explained below). As a result, no other fees, commissions, brokerage fees, or government fees are charged on your account or trading volume. Because currencies trade Over The Counter (OTC) via a global electronic network, in forex trading, what you see is what you get. This allows you to make quick decisions on your trades without having to worry or account for fees that may affect your profit/loss or slippage.
- **Instantaneous order execution** – In the FX market, there are no exchanges, no traditional open outcry bells, no floor brokers, and consequently no delays. Execution of market orders is done electronically, and because you are trading via an Internet-based platform, instantaneous order execution is the routine.
- **Equal profit opportunities in rising and falling markets** – Trading opportunities exist in the forex market regardless of whether a trader is long or short (explained below) and irrespective of what direction the market moves. Hence, a trader has an equal access to trade in a rising or falling trend.
- **No fixed lot size** – In some markets, for example, futures and options, lots or contract sizes are determined by the exchanges. For instance, the standard contract size for silver in futures is 5,000 ounces. In spot FX, you determine your own lot size, thus enabling you to increase your expected profits.

- **Free “demo” accounts, news, charts and analysis** – Most online FX brokers offer “demo” accounts to practice trading, along with breaking forex news, market analysis and charting services – all FREE! These are very valuable resources for “poor” traders and smart traders who would like to acquire some skills before they open a live account and make real money.
- **Mini and micro trading** – Compared to stocks, options or futures, it costs very little to get started in forex trading. Online FX brokers offer “mini” and “micro” trading accounts, some with a minimum of \$300 or less. This makes forex trading much more accessible to the average individual who doesn’t have a lot of startup capital.
- **No entity can corner the market** – The foreign exchange market is so huge and has so many participants that no single entity in the world can influence or control it for an extended period of time.

PART TWO – THE BASIS AND BASICS OF FOREX TRADING

How Does the Forex Market Work?

When you trade forex, you are simultaneously buying one currency and selling another, or vice versa. Currencies are quoted in pairs (explained below) and each pair has an exchange rate (i.e. rate at which one currency exchanges for another). A typical FX trade goes thus: you buy a currency at a lower exchange rate and wait for the rate to go up. You then sell the currency at a profit. Conversely, you sell a currency when the exchange rate is going down and buy it back when the rate has dropped and make a profit.

The compelling attraction to the FX market is that *you have an equal opportunity to profit from the market whether it is moving up or going down.*

Major Currency Pairs and their Common Names

Some currencies are traded more heavily than the others. These are also known by unique names in the forex world. They include:

Country	Currency	Symbol	Nickname
United States	Dollar	USD	Buck
Great Britain	Pound	GBP	Cable
Japan	Yen	JPY	Yen
Switzerland	Franc	CHF	Swissy
Canada	Dollar	CAD	Loonie
Australia	Dollar	AUD	Aussie
New Zealand	Dollar	NZD	Kiwi

Currency “Majors” and “Cross” Currencies

Since the US dollar is the centerpiece of the forex market, currencies that pair up with the dollar are usually traded more heavily than other pairs. These currencies are called the *majors*. They include the USD/JPY, USD/CHF, USD/CAD, GBP/USD, EUR/USD, AUD/USD, etc.

Currency pairs that do not involve the US dollar are called *cross currencies*. The premise remains the same. For instance, a quote of EUR/JPY: 127.80 signifies that 1 euro is equal to 127.80 Japanese yen. However, cross currency pairs exhibit erratic behavior since the trader has, in effect, initiated two USD trades. For example, initiating a long (buy) EUR/GBP trade is equivalent to buying a EUR/USD currency and simultaneously selling a GBP/USD. Cross currency pairs often carry a higher transaction cost.

Quoting Convention

Currencies are quoted and traded in pairs, such as EUR/USD. In the first pair, the first currency (EUR) is known as the *base currency*, while the second (USD) is referred to as the *quote* or *counter currency*. When you place an order to buy the EUR/USD, for instance, you are actually buying the EUR and at the same time selling the USD. You would buy the pair if you believed that the base currency would appreciate (go up) relative to the quote currency.

If you were to sell the pair, you would be selling the EUR and simultaneously buying the USD. You would sell the pair if you thought the base currency would depreciate (go down) relative to the quote currency. Viewed from the above illustration, the base currency is thus the *basis* for the buy or the sell action.

The Basis of Currency Trading

We illustrate the basis of currency trading with four potential trading options:

EUR/USD

In this example, euro is the base currency and thus the “basis” for the buy/sell.

If you believe that the US economy will continue to weaken and this will hurt the US dollar, you would execute a buy EUR/USD order. By doing so, you have bought euros in the expectation that they will appreciate versus the US dollar.

If you believe that the US economy is strong and the euro will weaken against the US dollar, you would execute a sell EUR/USD order. By doing so, you have sold euros in the expectation that they will depreciate versus the US dollar.

USD/JPY

In this example, the US dollar is the base currency and thus the “basis” for the buy/sell.

If you think that the Japanese government is going to weaken the yen in order to help its export industry, you would execute a buy USD/JPY order. By doing so, you have bought US dollars in the expectation that they will appreciate versus the Japanese yen.

If there is evidence that Japanese investors are pulling money out of US financial markets and repatriating funds back to Japan, and you believe that this will hurt the US dollar, you would execute a sell USD/JPY order. By doing so, you have sold US dollars in the expectation that they will depreciate against the Japanese yen.

GBP/USD

In this example, the GBP is the base currency and thus the “basis” for buy/sell.

If you think the British economy will continue to be the leading economy among the G7 nations in terms of growth, thus buying the pound, you would execute a buy GBP/USD order. By doing so, you have bought pounds in the expectation that they will appreciate versus the US dollar.

If you believe the House of Commons were going to pass a vote of no confidence on the government and that this will weaken the pound, you would execute a sell GBP/USD order. By doing so, you have sold pounds in the expectation that they will depreciate against the US dollar.

Currency Exchange Rate

The *exchange rate* of a currency pair is the rate at which the base currency will exchange for the counter currency. For example, assuming the pair EUR/USD last traded for 1.2680. This means that 1 Euro is worth 1.2680 US dollars. Thus, if you were buying the pair, you would pay 1.2680 US dollars for 1 euro. And if you were selling the pair, you would do so at the rate of 1 euro for 1.2680 US dollars.

Bid Price and Ask Price

More commonly, FX currency prices are listed like this: USD/JPY:117.46/53 or 117.46:53. The first component (117.46) refers to the *bid* or *offer price*; what you obtain in JPY when you sell USD. The second component (117.53) is the *ask price*; what you have to pay in JPY if you buy USD.

Spread

The difference between the bid price and the ask price is referred to as the *spread*. In the example above, the spread is .07. The spread is the facility that enables forex brokers and dealers to extend commission-free trading to you for any round-turn trade. *Round-turn* means both a buy (and sell) trade and an offsetting sell (or buy) trade of the same size in the same currency pair.

Pip and Pip Cost

It is the standard practice in the forex world to express the spread in terms of pips. This is done by multiplying the value by 100. Thus, in the above example, the spread is 7 pips.

Pip is short for price interest point. Your profit or loss is first measured in pips. When you have gained some positive pips, you must convert them to cash. The *pip cost* gives the pip value for each currency in real time. On the standard account (explained below), the approximate value is \$10 per pip and on the mini account (also explained below), the pip value is \$1 per pip.

The “Big Figure Quote”

This is the dealer’s expression referring to the first few digits of an exchange rate. The first digits are often omitted in dealer quotes. For example, the EUR/USD rate might be 1.4730/34, but would be quoted without the first three digits as “30/34”.

Going Long (Buying) and Going Short (Selling)

If you want to buy a currency pair (which actually means buy base currency and sell the quote currency), you want the base currency to rise in value and then you would sell it back at a higher price. In traders’ talk, this is called “going long” or taking a “long position”. Just remember: *long = buy*.

Conversely, if you want to sell a currency pair (which actually means sell base currency and buy the quote currency), you want the base currency to fall in value and then you would buy it back at a lower price. In traders’ talk, this is called “going short” or taking a “short position”. Just remember: *short = sell*.

PART THREE – WHEN TO TRADE

When Can Currencies be Traded?

The FX market is a unique market that virtually follows the sun around the world. So you can trade late at night (if you're a vampire) or early in the morning (if you're an early bird). You can schedule your own trading time to fit into your daily routine.

Trading Sessions

The global FX market swings like this: As the Asian markets led by the Tokyo Session are closing, the European and African markets led by the London Session open and as they close, the North and South American markets led by the New York Session swing into action. Below are the open and close times for the three major sessions:

Market	Open (GMT)	Close (GMT)
Tokyo	0.00	9.00
London	8.00	17.00
New York	13.00	22.00

You can see that in between each session there is a period of time where two sessions are open at the same time: from 8.00 – 9.00 GMT, both the London and the Tokyo markets are open, and from 13.00 – 17.00 GMT, both the London and the New York markets are open. Naturally, these are the busiest times in the markets because there is more volume traded. Such times are the most ideal for trading as large volumes are followed by corresponding price movements.

Market Hours

Yes, it's true that the FX market is open 24 hours a day, but that doesn't mean it's always active the whole day. You can make money in forex when the market moves up or when it moves down. However, you will have a very difficult time trying to make money when the market doesn't move at all. That is, when it is consolidating (moving sideways). This section will help you determine the best days of the week and the best times of the day to trade what currencies.

Trading Volumes for the Major Sessions

Next, you want to have an idea of the volume of each of the three trading sessions. Some are busier than others and thus, presenting better trading opportunities.

Average pip range of the 4 majors during each session:

Session	EUR/USD	GBP/USD	USD/CHF	USD/JPY
Tokyo	68	79	100	68
London	80	99	121	74
New York	67	78	101	60

As you can see, the London session shows the most movement.

Best Days of the Week to Trade

Okay, now we do know that the London session is the busiest of all the other sessions, but there are also certain days in the week where all the markets tend to show more movement. Below is a chart of average pip range for the four major pairs for each day of the week:

Average pip range for the four major pairs for each day of the week:

Day of the week	EUR/USD	GBP/USD	USD/CHF	USD/JPY
Sunday	24	31	38	25
Monday	92	110	141	95
Tuesday	102	128	162	104
Wednesday	101	123	158	108
Thursday	83	98	121	77
Friday	80	96	117	72

You can see that the middle of the week is where the most movement is seen on all four major pairs. Fridays are usually busy until 12.00 pm EST (5.00 pm GMT), and the market pretty much drops dead until it closes at 5.00 pm EST (10.00 pm GMT). This means we only work half-days on Fridays. The weekend always starts early! Yippee!!

So based on the above three tables, we have learned when the markets are busiest. These are the best times to trade because they give us a higher chance of success.

When Not to Trade

There are certain days of the week or year when it is generally advisable not to engage in trading. These are public and bank holidays in the countries whose currencies you are trading. Banks and other financial institutions are closed on these days. For convenience, we list the days below:

- Afternoon on Fridays.
- International holidays, e.g. Christmas, Easter, Labour day, etc.
- Specific holidays in some western countries, e.g. Thanksgiving Day (US), Labour Day, National holidays in the countries whose currencies you are trading, etc.

PART FOUR – BROKERS, ACCOUNT SIZES, TYPES OF TRADERS

Who is a Broker?

In simplest terms, a *broker* is an individual or a company that buys and sells orders according to the trader's instructions and decisions. Brokers can earn money by charging a commission or a fee for their services.

How to Choose a Broker

The foreign exchange market is largely an unregulated market, which means that the prices you see and get from one broker could vary from those of another broker. Deciding on a broker then requires a little bit of research on your part, but the time spent will give you insight into the backgrounds of various brokers, the services available and fees charged by them. Before you finally settle for a prospective broker, you should find out the following information about the broker:

- **Are they registered with the regulatory authorities** – Find out with which regulatory agencies it is registered with. In the United States, a broker should be registered with the three regulatory agencies: the Futures Commission Merchant (FCM), the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA). The CFTC and NFA were created to protect the public against fraud, manipulations, and abusive practices.

To check up on a broker for complaints, infractions, sanctions, fines, and penalties, etc, go to:

<http://www.nfa.futures.org/basicnet/>

You will need the brokerage's registration # usually found on their website. If you can't find their registrations # on their website, chances are good that they are not registered for some reason (may not be US-based or temporarily or permanently bared from membership due to infractions). If they are located outside the US, be sure to check on the regulatory agencies in the country where they are headquartered. Most of them normally display this information on their website.

Use this link to check on the financial health of a brokerage in the US:

<http://www.cftc.gov/marketreports/financialdataforfcms/>

- **Customer services** – Forex trading is a 24-hour business, so 24-hour support is a must! Try contacting the firm by phone, email, chat, etc. Do they respond fast enough to your enquires? Do the reps seem knowledgeable? Be sure to assess the quality of their support before opening an account. Seeing how quickly they respond to your questions and how satisfactory the answers they give to your questions can be a key to gauging how they will respond to your future needs.
- **Trading platforms** – Almost all brokers allow their clients to trade over the Internet relatively easily. The backbone of any trading system is their ordering system. So trading software is very important. Get a feel for what is available by trying out a demo account at a few online brokers.

Closely examine the broker's screen layout. It should include:

- The ability to view real-time currency exchange rate quotes.
- An account summary showing your current account balance with realized and unrealized profit and loss, margin available, and margin locked in open positions.

It is also important to consider the type of trading platform your prospective broker has.

- *Web-based platform* – A web-based trading platform is hosted on your broker's

website. You won't have to install any software on your computer, and you will be able to log in from any computer with Internet connection.

- *Client-based software program* – One that you will have to download and install its program in your PC. You will only be able to trade on your own computer (unless you install it in all the PCs you use).

Whichever your prospective broker has, be sure to open a demo account and test it out before opening a real account.

- **Transaction cost** – Transaction costs are calculated in pips. The lower the number of pips required per trade by broker, the greater the profit that the trader makes. Comparing pip spreads of half a dozen brokers will reveal different transaction costs.
- **Margin requirement** – The lower the margin requirement (meaning the higher the leverage), the greater the potential for higher profits and losses. Low margin requirements are great when your trades are good, but no so great when the odds are against you. Be realistic about margins and remember that they act as a double-edged sword.
- **Minimum trading size** – Be sure to check out your broker's lot sizes. What kind of lot sizes do they offer – \$100,000 (standard), \$10,000 (mini), \$1,000 (micro) or fractional unit sizes called "odd lots", which allows you to create your own unit size?
- **Rollover charges** – Be sure to check out the rollover charges of your prospective broker. Are they higher or lower compared to other brokers?
- **Margin account interest rate** – Most brokers pay interest on a trader's margin account. The interest rates normally fluctuate with the prevailing national rates. If you decide to take an extended break from trading, the money in your account will be accruing interest. Keep in mind though that most brokers DO NOT allow you to accrue interest unless your margin requirement is at least 2%.
- **Trading hours** – Nearly all brokers align their trading hours of operation to coincide with the hours of operation of the global FX market: 5.00 pm EST (10.00 pm GMT) Sunday through 4.00 pm EST (9.00 pm GMT) Friday.
- **Other policies** – Be sure to scrutinize a prospective broker's trading policies section to be fully aware of all the constraint that a specific broker may impose on a new trader.

IMPORTANT – Conventional wisdom dictates that you deposit as little money with your broker as you need for trading and withdraw your profits when they exceed a certain amount.

Trade Sizes (Lots)

In the forex market, the size of a trade transaction is expressed in lots. A *lot* is the smallest trade size that can be transacted. It's like buying a crate of eggs from a grocery store in dozens or "lots" of 12. Most brokers offer three different types of lots:

- **Standard lot** – This comes in units of 100,000.
- **Mini lot** – This comes in units of 10,000.
- **Micro lots** – This comes in units of 1,000 (most brokers do not offer Micro lots).

Account Sizes

Most forex brokers allow traders to keep three different types of accounts:

- **Standard account** – The standard account is traded in units of 100,000, which is equivalent to 1 lot. This type of account requires a large capital base. Big time traders, large corporations, banks, government agencies, etc therefore maintain this type of account.
- **Mini account** – The mini account trader trades in smaller contract sizes of 10,000 units, which is equivalent to 1 lot or 1/10th the size of the standard account. The smaller trade size gives the trader the opportunity to trade live with less overall risk or exposure to the market.

The differences between mini and standard accounts are given in the table below.

Feature	Mini Account	Standard Account
For whom?	Traders new to FX market	Seasoned traders
Account size	1 lot = 10,000 units	1 lot = 100,000 units
Pip/tick value	1 pip = \$1	1 pip = \$10
Leverage	100:1 – 200:1	100:1 or 50:1 if margin is set at \$20
Default margin	0.5-1% (i.e. \$50-\$100 per lot)	1% i.e. \$1,000 per lot
Starting capital	\$300 - \$1000	\$5,000

- **Demo account** – With no commitment or cost, you can open a virtual trading account. The account has the full capabilities of a “real” trading account including live market rates, access to real-time market analysis, free charting software and the ability to execute trades off streaming prices. The “virtual account” (or “demo account” or “paper account”) gives you the ability to learn about the forex market and test your trading skills without any risk. Almost all brokers allow their newly registered traders to trade a demo account for a period of time before upgrading to mini or standard account.

Use the time you have trading your demo to make a trading plan:

- Develop and perfect your trading system.
- Choose the right currency pair. Find out based on your risk parameters, which currency is best suited for your trading style. Some may be too volatile and some too slow, so decide which currency pair is most appropriate for your trading strategy and time frame.
- Decide on how long you plan to stay in a trade. If you are an inter-day trader, decide on the average time of your trade, few minutes, couple of hours, a full day, swing trade (couple of days to a week).
- Before you enter a trade you should also have a clear exit plan. Place your stops and limits accordingly.
- Know how much you are willing to risk and how much you are looking to gain.
- Keep track of important news events which may be tested within your time frame.
- Study carefully the entire features of your broker’s charting software and their trading platform and familiarize yourself with them.
- Ensure that you can place a trade correctly without mistakes.

Types of Traders

The type of trader you choose to be would depend on how much time you want to devote to trading currencies and how long you plan to stay comfortably in a position. We can identify different trading personalities by time frames.

- **Scalpers** – Scalpers are very short-term traders, usually in and out of trades within minutes. Most forex brokers discourage this type of trading. It is also extremely dangerous due to the high number of lots required to make a decent profit off a couple of pips. It's sure not for the faint of heart or the shallow pockets.
- **Day traders** – Day traders open and close their positions in the same trading session.
- **Swing traders** – Swing traders hold trades for days.
- **Position traders** – Long-term position traders hold trades from weeks to months.

PART FIVE – MARGIN, LEVERAGE, ROLLOVER, EQUITY AND EQUITY (MONEY) MANAGEMENT

In order to manage your forex account and place trades successfully in the forex market, you must be conversant with the concepts of margin, leverage, rollover, equity and equity (money) management.

Margin

Margin is the percentage of the total value of a trade that you are required to deposit as *collateral*. Before you trade a live account, you would be required to deposit a certain amount of money, which allows you to control huge trading positions many percentage times larger than your initial *collateral* or *security* deposit.

For instance, just a \$50 – \$100 margin deposit in the mini account allows you to trade lots worth roughly \$10,000. In the standard account, a \$1,000 margin deposit would allow you to place trades worth \$100,000. Securing \$99,000 with only \$1000! By trading on margins, traders thus, have the ability to control positions much larger than their initial deposits. It is this huge “investment loan” that allows traders to make extraordinary incomes in the forex market.

Margin Requirement

Each time you execute a new trade, a certain percentage of the amount in your margin account is set aside as the initial *margin requirement* for the new trade based upon the underlying currency pair, the current price and the number of units or lots traded.

Margin Call

All traders fear the dreaded Margin Call. This occurs when your broker notifies you that your margin deposit has fallen below the required minimum level because an open (trade) position has moved against you. Getting a margin call simply means that you don't have enough money in your account to place a new trade. When that happens, you must either close some open positions or send in more money.

Margin calls can be effectively avoided by monitoring your account balance on a regular basis, and by utilizing stop-loss orders (discussed below) on every open position to limit risk.

Leverage

Leverage simply refers to margin trading. Put another way, it is the ratio of the amount used in a trade to the required security deposit needed by the broker for that trade. So on a mini account, a margin deposit of \$50 that allows you to place a trade of \$10,000 (1 lot or 1 contract) gives you a leverage of 200:1 (\$10,000/\$50). If you secure a \$100,000 contract (1 lot) with a deposit of \$1,000 on your standard account, your leverage is 100:1 (\$100,000/\$1000).

Besides being generous with their margin requirement (leverage), brokers are also flexible by allowing you to select the degree of leverage. It must be noted that leverage itself works like a double-edged sword for without proper risk (equity) management, this high degree of leverage can lead to large losses.

Rollover

Earlier on, it was said that the spot FX market is open 24 hours. Yes, but there is an established official end of the market day at 5.00 pm EST (New York time, 10.00 pm GMT). For trading positions open at 5.00 pm EST, there is a daily rollover interest rate that a trader either pays or earns, depending on your established margin and position in the market.

If you do not want to earn or pay interest on your open positions, simply ensure that you close them before 5.00 pm EST New York time. Be sure to keep an eye on the system time on your Trading Platform.

Why does rollover take place? Rollover is a necessary part of forex trading. Since every currency trade involves borrowing one currency to buy another, interest rollover charges are an inherent part of FX trading. Interest is paid on the currency that is borrowed, and earned on the one that is purchased.

Equity

Equity refers to the amount of money that is immediately available to you to place a trade. Equity thus represents the amount of money you are going to put on a trade and the associated risk you are going to accept for the trade. It is the most critical factor in any trading system. It was proved that if 100 traders start trading at the beginning of the year using a strategy with 60% winning odds, only 5 traders would be in profit at the end of the year. In spite of the 60% winning odds, 95% of traders will lose because of their poor equity (money) management.

Equity (Money) Management

What is money management? Well, we are in the business of making money, and in order to make money we have to know how to manage it. Ironically, this is one of the most overlooked areas in trading. Many traders are just anxious to get right into trading with no regards to their total account size. They simply determine how much they can stomach to lose in a single trade and hit the "OK" button. There is a term for this type of investing..., it's called GAMBLING!

When you trade without money management rules, you are in fact gambling. You are not looking at the long term return on your investment. Instead, you are just looking for that "jackpot." Money management rules will not only protect you, but it will make you very profitable in the long run. Gambling is certainly not the way to get rich.

PART SIX – FOREX ORDER TYPES

What is an Order?

The term *order* refers to how you will enter and exit a trade. Different brokers accept different orders. Let's examine the different types of trade orders.

Market Order

A *market order* is an order to buy or sell a currency pair at the market price the moment the order is received and processed. When you place a market order, you are simply saying that you will buy or sell the currency pair at whatever price it is at when your order is processed. Of course, this happens within seconds after you hit the OK button on your trading platform screen.

Let's illustrate with an example. You see a dealing price of 104.02/07 for USD/JPY. If you wanted to buy at this price, you would click buy and your trading platform would instantly execute a buy order at that exact price. You are strongly advised NOT to use market order to place a trade.

Entry Order

This is a highly recommended option to market order. An *entry order* is an order to buy or sell a currency pair when it reaches a certain price you set. The order essentially contains two elements: price and duration. When you place an entry order, you are saying, "I want to buy or sell this currency pair at so-so price. If it never reaches this price, I don't want to buy or sell the pair."

As an example, supposing the EUR/USD is in an uptrend and the current quote price is 1.3300. Your analysis shows that the upward move would eventually hit 1.3330 or beyond and you want to cash in on the up move. You can either sit in front of your monitor and wait for the price to hit 1.3330 where you will then click a market order. Or you can, while the price is still showing 1.3300, click a *buy limit order*, then set your limit order at 1.3330, then walk away from your computer and attend a ballroom dancing class. If the price goes up to 1.3330, your trading platform will automatically execute a buy order at that exact price.

The duration aspect of the limit order demands that you also specify how long you want the order to remain active (GTC or GFD, both explained below).

Stop Order

A *stop-loss order* is an order that is linked to an open position for the purpose of preventing additional losses if the price goes against you. A stop-loss order remains in effect until the position is liquidated or you cancel it.

Let's assume that you have an open position on USD/JPY, which you *bought* at 105.70, and you want to set a stop order in case the dollar starts to depreciate against the yen. To *stop* or *limit* (whichever term you prefer) your loss, you could set a stop-loss order at 105.40, thus closing your position at a 30-pip loss.

Stop-loss orders are extremely useful if you don't want to sit in front of your monitor all day worried that you will lose all your money. You can simply set your stop-loss order alongside your trade and check out the guys at the gym or just play around with the kids.

NOTE – A stop-loss order is always placed *below* the current market value of that currency pair if you are in a *long* trade or *above* the current market value if you are in a *short* trade. *Never place a trade without a stop order.*

Limit Order

A *limit-profit order* (again it is highly recommended that you use it) is used to cap the amount of profits you are willing to take on your trade. Supposing you placed an entry order to buy GBP/USD for 1.6100. You might place the *stop-loss order* at 1.6070 (limiting your potential loss to 30 pips) and, at the same time, you could place a *limit-profit order* somewhere around 1.6130. If the exchange rate reaches that level, the limit-profit order becomes a *market order* to sell, or *close out* the buy (long) position for a 30-pip profit.

You might be wondering: Why would anyone want to limit the amount of profit he/she makes in a trade? Limiting losses – yes, makes sense but, limiting profits! – Not much sense there! The answer is that both stop and limit orders serve as *triggers* for closing out a trade automatically without manually clicking the OK button of your online trading platform. *You are strongly advised to always use both of them when placing your trades.*

GTC (Good Till Canceled) Order

A *GTC order* remains active in the market until you decide to cancel it. Your broker will not cancel the order at any time; therefore, you have the responsibility to remember that you have the order scheduled.

GFD (Good For the Day) Order

A *GFD order* remains active in the market until the end of the trading day (5.00 pm EST, New York time or 10.00 pm GMT).

OCO (Order Cancels Other) Order

An *OCO order* is a mixture of two limit and/or stop-loss orders. Two orders with price and duration elements are placed above and below the current price. When one of the orders is executed, the other order is canceled. For example, the price of EUR/USD is 1.4650. You want to either buy at 1.4680 if the price hits above the resistance level in anticipation of a breakout or initiate a selling position if the price falls below a support level say at 1.4630.

The understanding is that if 1.4680 is reached first, your buy order will be triggered and the 1.4630 sell order will be automatically canceled. Conversely, if 1.4630 is reached first, your sell order will be triggered and your buy order will be automatically canceled.

Be sure to be able to place all of the above orders correctly if your broker offers them in their trading platform. Any mistakes in placing an order can cost you a lot of money. You may not even realize that you are losing your trades because of improper placement of orders. So use the time you have trading your demo to master how to place the various orders specified in your broker's trading platform.

PART SEVEN – TRADING APPROACHES

Every trader approaches the market differently. It is how you derive data about market conditions that helps you decide your trading style. There are basically two types of trading approaches: the fundamental analysis approach and technical analysis approach.

Fundamental Analysis

Fundamental analysis is, as someone describes it,

“Everything that makes a country tick.”

These include releases of economic news, fiscal and financial policy pronouncements, inflation, consumer spending, producer price changes, government spending and borrowing, political climate, international events, etc. Any or a combination of these can set the forex market in a frenzy. They have to be considered when making the decision whether to trade or not.

In order to benefit from the mix of fundamental factors that bear on your trading decision, you should:

- Keeping track of the schedule of economic indicators will also help you make some sense out of otherwise unanticipated price action in the market.
- Understand what particular aspect of the economy is being revealed in the released data.
- Know which indicators the markets are keying on, and know before hand market expectations with regard to the released data.
- Keep your ears tuned to economic and political events in other countries.

Technical Analysis

Technical analysis is a way of using historical data (employing charts) in different ways to predict the future price of a currency pair. The foreign exchange market is a strongly trending market, and is therefore, a place where technical analysis can be very effective. Your aim then as a technical analytical trader is to identify the current trend, enter a trade and ride the market until the trend fades out.

Identification of the trend, though a relatively easy task, involves the use of advanced statistical and econometric analytical methods. You should not worry, 95% of the job has already been done for you. You only need to be able to ascertain that a line is headed up or down to place a trade.

Fundamental Analysis versus Technical Analysis

In real trading situation, we rarely have a purely fundamental analysis approach or a purely technical approach. It would be an invitation to disaster, to trade in disregard to impending economic releases, such as interest rate policy statements by the Chairman of the US Federal Reserve or the British Exchequer or to ignore major political events within and outside the borders of the countries whose currencies you are trading.

Fundamental analysis however, cannot forecast *exact* market prices, which technical analysis does. You need *exact* market prices to enter and exit a trade. Charts provide you with *exact* market prices. Charts are good, and indeed needed. There are three premises for relying on charts:

- **The numbers don't lie** – All the recent available economic and political information and their impact on traders and the market are already reflected in a currency's price.

- **Prices move in trends** – The foreign exchange market is mostly composed of trends and is, therefore, a place where technical analysis can be very effective.
- **History repeats itself** – Over time, certain chart patterns become consistent, predictable and very reliable.

So which is better? The answer is NONE. Wise traders use a combination of both methods to analyze price movements; technical analysis to determine immediate short-term trends and fundamental analysis to derive data on market volatility. Technical analysis will follow many currencies at the same time, while fundamental analysis focuses on market data of a particular currency. Technical analysis works well in strong trending markets like that of forex, but fundamental analysis serves as good indicators for currency trend duration.

The gist then is to keep yourself tuned to all the major economic and political news breaks, while staying with the market as revealed by your technical charts. Always remember that every term of the equation below is necessary to balance the equation:

Fundamental analysis + technical analysis = profitable trade

PART EIGHT – YOUR TRADING PLAN

Developing Your Trading Plan

You must have a trading plan. Think of your trading plan as your map to success. It will be a constant reminder of how you will make money in this market. So without a good trading plan and the discipline to stick to it, you will NEVER be in profit. Your trading plan will be your “holy book”. Read it everyday and stick to it.

Components of a Good Trading Plan

1. A Trading System

Your trading system comprises a set of factors all aimed at achieving two very important goals, namely:

- Identify trends as early as possible.
- Prevent you from being exposed to whipsaws.

In setting up your trading system, you should have clear ideas concerning the following:

- **Define your time frame** – The first thing you need to decide when creating your system is what kind of trader you are: day trader or swing trader. Do you like looking at charts every day, a couple of days, every week, or even every month? How long do you want to hold on to your positions?

This will help determine which time frame you will use to trade. Even though you will still look at multiple time frames, this will be the main time interval you will use when looking for a trade signal.

- **Find indicators that help identify a trend** – Since one of our goals is to identify trends as early as possible, we should use indicators that can accomplish this. Moving averages are one of the most popular indicators that traders use to help them identify a trend. Specifically, they will use two moving averages (one slow and one fast) and wait until the fast one crosses over or under the slow one. This is the basis for what is known as a “moving average crossover” system.

In its simplest form, moving average crossovers are the fastest ways to identify trends. It is also the easiest way to spot a new trade. Of course, there are many other ways traders spot trends, such as breakouts/breakdowns from patterns, but moving averages are about the easiest to use.

- **Find indicators that CONFIRM the trend** – Our second goal for our system is to have the ability to avoid whipsaws, meaning that we don't want to be caught in a false trend. The way we do this in by making sure that when we see a signal for a new trend, we can confirm it by using other indicators.

There are many good indicators for confirming trends, but MACD, stochastics, and RSI really stand out. As you become more familiar with various indicators, you will find ones that you prefer over others, and can incorporate those into your trading system.

- **Define your risks** – When developing your system, it is very important that you define how much you are willing to lose on a single trade. Not many people like to talk about losing, but in actuality, a good trader thinks about what they could potentially lose BEFORE thinking about how much they can win.

The amount you are willing to lose will be different from everyone else's. You have to decide how much room is enough to give your trade some breathing space, but at the same time,

not risk too much on one trade. Learn more money management. It plays a big role in how much you should risk in a single trade.

- **Define entry and exit points** – Once you have defined how much you are willing to lose in a trade, your next step is to find when you will enter and exit a trade in order to get the most profit.
- **Write down your system rules and FOLLOW IT!** – This is the most important step of creating your trading system. You **MUST** write your trading system rules and **ALWAYS FOLLOW IT**. Discipline is one of the most important characteristics a trader must have, so you must remember to stick to your system rules! No system will ever work for you if you don't stick to the rules, so remember to be disciplined. Oh yeah, you gotta stick to your rules. You created them.
- **Test your trading system** – The fastest way to test your system is to find a charting software package where you can go back in time and move the chart one candle/bar at a time. When you move your chart forward one candle/bar at a time, you can follow your trading system rules and take your trades accordingly. Record details of your trading activity and **BE HONEST** with yourself. Record your wins, losses, average win, and average loss. If you are happy with your results then you can go on to the next stage of testing – trading live on a demo account.

Trade your new system live on a demo account for at least two months. This will give you a feel for how you can trade your system when the market is moving. You can be sure it's a different ball game when you go live than when you were backtesting.

After two months of trading live on a demo account, you will see if your system can truly stand its ground in the market. If you are still getting good results, then you can choose to trade your system live on a **REAL** account. At this point, you should feel very confident with your system and feel comfortable taking trades with no hesitation. At this point, **YOU'VE MADE IT!**

2. A Trading Routine

This is a crucial part of your trading plan because it will determine three very important things. One, when you will analyze the market and plan your trades. Second, when you will actually watch the market to take trades. Third, when you will evaluate your actions during your trading day.

3. Your Mindset

Ask any trader out there and they will tell you that one of the hardest things to do when trading is to take out your emotions from it. It is vitally important that you be in the right frame of mind when you trade. You should be able to admit that:

- I will see what is on the charts and not what I want to see.
- No matter how biased I am towards a direction, I will make sure to trade only what my eyes see and not what my feelings tell me.
- I will not get “revenge” on the market if I lose on a trade (a fatal mistake of emotional traders).
- I will not beat myself up if I make a losing trade. Instead, I will take it as a learning experience and move on.

4. Your Weaknesses

Yes, we have our weaknesses. We just don't like talking about them. But ask yourself this: how will you ever get better if you don't admit to what you need to work on? You must be objective in

keeping track of things you need to work on in order to become a better trader. Can you sincerely answer these questions about yourself?

- I tend to overtrade.
- Whenever I lose on a trade, I get upset and immediately try to get “revenge” on the market.
- I tend to exit too early on trades in disregard to my stop-losses and limit-profits.
- I don't stick to the rules of my trading system every time.
- I don't stick to my money management rules every time.

5. Your Goals

What are your goals for trading – to make a lot of money? That's not a good goal. Sit down and really think about what you want to accomplish as a trader. Do you want to trade for a living? How much return can you realistically expect from trading based on your knowledge and experience? Your goals don't even have to be about making money. Maybe you would like to be more disciplined or gain more confidence. These goals can be personal. What do you want to get out of this? Use your goals as your motivation when times get tough. These goals will be your vision, and you must always keep your eyes on the prize!

6. A Trading Journal

This will be a valuable tool to help you become a better trader. Make sure you log all your trades and why you took them. Later down the road, you can look back and evaluate your trades and see how you are progressing. This tool will help you tremendously in the future, so take a few minutes each day and log your trades. You will be happy you did.

PART NINE – THE PSYCHOLOGY OF TRADING

There is a common belief that less than 10% of the people who set out to become traders actually achieve their initial desire for consistent high returns in the long run. The other 90% fall by the wayside simply due to lack of discipline and poor mental attitudes. Paul Handforth, a forex trader once said,

*“Markets are a manifestation of human psychology.
They are driven by fear and greed. Peaks are driven
by greed, troughs by fear.”*

Just as a military man would take into account every possible move by his enemy in planning his offensive, as a trader, you must also understand your biggest enemy to becoming a successful trader. That enemy is YOU!

The enemies in YOU that work against your trades are *greed, fear* and *emotion*. You MUST, as a matter of necessity take concrete steps to keep these from interfering with your trade decisions.

Greed Can and Will Ruin Your Trades

If you must succeed as a forex trader, you must trade without greed. The FX market is a 24-hour market, and it would be irrational to want to scoop all possible profits in a single trade. You must not yield to any of the following signs of greediness:

- Overtrading.
- Urge to go for the “kill” (that is a bad idea. The windfall will come sometimes, but don’t enter a market hoping to make a “kill”).
- Setting very loose limit-profits hoping to rake in all the loose pips.
- Jumping too early into a trade.
- Rushing to your computer to trade after a breaking news.
- Trading based on what others say.
- Trading on rumors.
- Trading when you should be out of the market.
- Continuing to trade after a streak of losses (you should take a break at such times).
- Ignoring one of your trading rules because the pips are ticking away.

Trading Without Greed

Ask any successful FX trader and they will tell you that greed is the deadliest enemy of a forex trader. So if you engage in any of the above practices, NOW is the time to STOP! You MUST stop it NOW and continue trading or you WILL stop it sooner than later when you get a Margin Call. Greedy traders soon get kicked out of the market by their own greediness. The choice is yours.

Fear Can and Will Ruin Your Trades

The fear in you is your #2 deadly enemy as a forex trader. Signs of fear include:

- Afraid of taking a loss (all traders lose trades form time to time. It’s all part of the game).

- Prolonged hesitance to enter the market due to uncertainty.
- Setting extremely tight limit-profits for fear of losing a trade.
- Exiting your positions too early.
- Unable to go away from your computer because you think you will lose all your trading money.
- Letting good trading opportunities pass you by because you ALWAYS think the opportunity hasn't really arrived yet.

Trading Without Fear

The easiest way to conquer fear is by taking the time to develop a trading system, and sticking to your system rules like a religion at ALL times. Nothing works better or faster.

Emotions Can and Will Ruin Your Trades

Read this right! Your #3 deadly enemy is your emotions – your FEELINGS! Beware! Signs of emotional trading include:

- Tendency to see what you want to see instead of what is on the charts.
- Tendency to see what your feelings tell you instead of what your eyes see.
- Tendency to see what your feelings tell you instead of what the market is SINCERELY showing you.
- Getting upset when you lose on a trade.
- Tendency to get “revenge” on the market when you lose on a trade.
- Tendency to fight back when you lose on a trade.
- Tendency to trade IMMEDIATELY after you lose on a trade, that is, seeking “revenge” on the market.
- Tendency to trade against the trend (a very, very, very bad idea).
- Tendency to NOT sticking to your trading system rules EVERY time.
- Tendency to NOT sticking to your money management rules EVERY time.

Control Your Emotions

Someone said somewhere that if you are watching a successful trader trading, you will not be able to tell whether he/she is gaining or losing. That's how emotionally detached a “good” trader should be. Sure, you should feel good about a good trade, but be careful it doesn't get the better part of you. Always see what the market is showing you and NOT what you WANT to see.

Maintain a Disciplined Attitude

Jack Schwager, the renowned Internet guru points out in his second book,

“Discipline was probably the most frequent word used by the exceptional traders that I interviewed. Often, it was mentioned in an almost apologetic tone. I know you've heard this a million times before, but believe me, it's really important.”

That says it all. In short, discipline allows you to more effectively plan and fine-tune your trading strategies. And what is this disciplined trading strategy? It is that you must always have a trading plan that includes an entry, stop and limit levels, and your analysis should include the expected upside and downside, and you MUST ALWAYS stick religiously to your trading plan. Maintain this discipline and you will succeed in forex trading.

Be Confident and Courageous ... Trust Yourself

A forex guru once said in a conference call,

“Your perception is your reality folks. You see, it’s what you expect in your life to happen FOR you or TO you. Well, get rid of the TO you crap so it will start happening FOR you.”

You see, one of the basic traits of successful traders is that they believe in themselves first. They have the confidence and courage to stick with their plan, not stray from their rules, strategies and methods. They go against the crowd, if need be, because they see the big picture in their mind.

So how do you achieve confidence? You must gather knowledge, practice discipline, grow as a person by learning from your mistakes, study the market and more importantly, know yourself. You will become more effective in your trading if you do these. The more effective you become, the less fearful you are. Confidence is the lack of fear. When you are confident, you can win.

Be Patient and Persistent ... Don’t Rush It

Ask all successful traders and they will tell you that patience pays. You must have a special talent for watching and waiting until the market has dictated when to enter a trade. For emphasis, we repeat: *You must have a special talent for watching and waiting until the market has dictated when to enter a trade.* NEVER MOVE AHEAD OF THE MARKET.

While patience is important not only in waiting for the right time to enter a trade, it is also important in staying with the trades that are working. Although trades are held for shorter time periods, as a day trader, you must know how to wait patiently for the optimal time to close your trade. Selling a winning trade too early is not going to allow your account balance to increase exponentially at an ideal rate.

So this is where the persistence factor comes into play. You can be patient until the cows come home, but if you don’t persistently control your impulses and don’t persistently follow your exit rules, then your profits won’t balance out your losses over time. A famous trader (William Eckhardt) once said,

“While amateurs go broke by taking large losses, professionals go broke by taking small profits.”

PART TEN – WHAT YOU NEED TO TRADE FOREX ONLINE

To participate successfully in the *World's #1 Most Powerful Home-Based Business*, you'll need the following:

1. **A computer set** – *Minimum* configuration: Processor – Pentium III, RAM – 128MB, Hard drive – 5GB. These are the minimum requirements; in order to avoid delays in the execution of your trade orders, you should aim at higher configurations for greater efficiency.
2. **Internet access** – You need a fast Internet access, either dial-up or broadband connection (minimum 56K).
3. **Margin requirement** – You should have between \$300 – \$500 (Mini account) or \$5,000 – \$10,000 (Standard account).
4. **Identification documents** – You should have ready a government identification paper (international passport, driver's license, national identity card) and evidence of residential location (utility bill {electricity or gas}, statement of bank account, etc).
5. **A trading plan which must include a good trading system** – You need a trading plan as explained in Part 7 of the Forex Overview. You should have a good trading system with at least 60% winning odds. You may check out our **4X-QTS!** now that you've finished digesting this forex overview. Here's the link:

<http://www.PositiveForexPips.com>

TO YOUR SUCCESS!!