Free!

Improve Your Current Financial Situation Through Trading Foreign Currencies.

An Introduction.

By

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I. Introduction to a new possibility

Before jumping into the introduction of the Foreign Exchange market, let me point out why I decided to write this book. The main reason is that I have been working so hard for long hours and for a pay that is not worth mentioning. I found that with that job that I had, I had neglected my loved ones, and even worked myself sick! I found myself not enjoying my work days, as I dragged myself out of bed to go to work and hoping the nightmare would end. Health problems started coming, and we all know that the costs just to visit a doctor and getting your medicines can be costly.

I started questioning my worth. I talked to my superiors and did get my increments, but I knew I was still underpaid. I knew I can get more. I knew that I am worth more than what they gave me. I can make more in less time than working from others for long hours and getting the same paycheck. In my line of work, I was already exposed to the foreign exchange market but did not utilize it until I was sick and tired of my work.

Severely overworked and underpaid, with theories in hand, I opened my currency trading account, and experimented with trading techniques and styles, and learning through experiences and external sources on how to trade better, while working full time.

There were losses incurred at first, but the frequency of losses made reduced, and the gains started coming. I know I can make more. I know I am worth more, and I feel better day by day.

Trading this flexible market does help in bringing in more cash, and I can even trade this market during working hours or after that when I am at home. And, I know that I can trade this market full time if I wanted to.

Why did I write this book? Maybe I want to let more people, who are like me, know about another option of making money and not to be stuck in a situation that they are not happy at day by day. So, let me start with the introduction of this flexible and rewarding market.

II. What is the Forex market?

The foreign exchange market, or usually called the forex or FX market, is the largest and most traded financial market in the world. Foreign exchange is the simultaneous buying of one currency and selling another, and will be present when a Japanese father is looking to buy some Kiwi dollar for his children studying in New Zealand, a Malaysian company looking to invest in China and having to hedge the Malaysian Ringgit to the Chinese Yuan, a U.S. company buying parts from Canada having to pay in Canadian dollars, to an Australian traveler planning to travel to Bangkok having to buy some Thai Baht to use for his or her stay there.

There will be more examples to the above listed, but the 2 main reasons to buy and sell currencies are that about 5% of daily trades come from companies and governments that buy or sell products, or services, investments, and other interests in a foreign country or must convert profits made from foreign countries in foreign currencies to be converted into their own domestic currency. The other remaining daily trades come from speculation.

A most commonly traded market, and most liquid, will be the best market for any traders, as it will be faster and easier to buy and sell the stock or commodity. Also, liquidity is very important as it determines how quickly prices move between trades. Thus it will be easier to buy and sell at your target prices in a liquid market.

The above holds true for the foreign exchange market, and there are even more trading opportunities with the most commonly traded and most liquid currencies, which are the major currencies. It has been estimated that more than 85% of all daily transactions are taking place in the major currencies like US Dollar, Japanese Yen, Euro, British Pound, Swiss Franc, Canadian Dollar, and Australian Dollar.

III. Trading hours

The currency market opens for 24 hours for six days a week, normally from Sunday 5:00 PM ET to Friday 5:00 PM ET, and trading normally begins in Wellington, New Zealand and moves around the international financial centers to like Sydney, Tokyo, London, and New York, enabling traders to react to news and events as they happen.

Currency trading does not stop for holidays and will be open even if the other financial markets, like stocks or futures exchanges, are closed. The only holiday for the currency market is New Year's Day, where the rest of the world stops to celebrate the arrival of a new year.

It is also the place where a hundred million dollar trade can take place in a matter of seconds and a click of a button. That will be the domain of the banks and the hedge funds. But, we do not have to worry about that, as with a daily average turnover of US$2 trillion, the hundred million dollar trade looks small in comparison. It has been stated that to understand how big the average daily turnover is, it is about 10 to 15 times the size of daily trading volume on all the world's stock markets combined.

Currency trading can be divided into 3 sessions. As the market starts in Wellington, the currency markets begin in the Asia-Pacific session. The principal financial trading centers are Wellington, Sydney, Tokyo, Hong Kong, and Singapore. That means news and data reports from New Zealand, Australia, and Japan will have an impact on the market during this session.

As we move across the globe, the European financial centers begin to open, giving us the European/London session. News and data reports from the Eurozone (countries like Germany), Switzerland, and London will have an impact on the market during this session. As a result, European currencies like the British Pound, the Euro, and the Swiss Franc will likely be the biggest movers here.

Continuing our move across the globe, we will come to the North American session, where the key U.S. economic data will make an impact on the U.S.

Dollar. Reports are usually released at around 8.30 to 10.00 AM ET and the Canadian data coming out at around 7.00 to 9.00 AM ET.

With the overlapping of the European session with the Asian trading hours and the North American hours, this is the session where you can find the most market interest and liquidity.

Thus, after knowing the trading hours, you can plan your trading time.

IV. Differences of FX to other markets

Due to the large volume of participants in the market, the risk of insider information is greatly reduced. The market usually moves in anticipation to news that is released in the market. News like whether the Bank of Japan will increase lending rate etc. Thus, the news will be made known to everyone.

Also, the volatility of the major currencies rarely exceeds 1% per day, in contrast to the volatility of stocks, which may fluctuate by up to 10% over one trading session.

Trading is not centralized on an exchange and can be conducted between two counterparts over the telephone, or via an electronic network, as the currency market is considered an Over-The-Counter (OTC) or interdealer market. Thus you do not go to the New York Stock Exchange to place your currency orders, but you will have to go through a brokerage firm to place your orders. Placing your orders can mainly be done through the trading platform that your broker will provide to you, or through telephone calls to your broker.

Of course, the biggest advantage that you will get from trading the Forex market is that this market is open 24 hours for 6 days in a week instead of the standard a few hours of trading hours per day for some other financial and commodity futures and equities markets. With the continuous trading hours, you can easily enter into a trade at your preferred time, and correct your positions at any point in time. So, you can trade when you are in the office before your lunch, during your teatime if you have that privilege, before your boring meetings, before dinner, after dinner, during supper, while watching your late night movies… You decide.

Also, with the large number of players in the market, with the narrow spreads provided, you can easily meet your target profit level faster.

Remember, the best difference that the Forex market can provide you is to trade on your schedule, day or night, instead of you having to follow a certain trading hour for the day. You are the master of your trading time. This is useful for people who are burdened with a 9 to 5 work, or other

professions with long working hours. This opens the game to many individuals who might not have the time available to trade normally. You can also be traveling in another country and still be trading on your currency account.

V. How Currency Trading Works.

As you know from above, currency trading is the simultaneous buying of one currency and selling another. In a stock market, when a participant buys a share, he or she will own that share. When the participant wants to exit from the position, he or she will have to sell that share.

In currency trading, the purchase of a currency will have to involve the simultaneous sale of another currency. To put it simply, remember the example of the Australian traveler? For the traveler to be able to pay for food and expenses while he or she is staying in Bangkok, the traveler will have to buy some Thai Baht, and sell the Australian dollar, the domestic currency. Thus, when the traveler is at the money changer in the airport in Australia, he or she will have to sell the Australian dollar carried in the pocket, and buy the Thai Baht.

The logic of buying and selling simultaneously is easy if you see that you are looking to buy or sell the desired currency against another currency.

So if a trader is looking for the U.S. Dollar to strengthen, the trader will have to think that the dollar will have to go stronger against another currency. Thus currency trading comes in pairs, and traded or exchanged against one another.

For the major currencies that we have discussed above, the following will be the codes for the most frequently traded currency pairs:

Major U.S. Dollar Currency Pair:

- EUR/USD, or Euro-Dollar
- USD/JPY, or Dollar-Yen
- GBP/USD, or Sterling-Dollar
- USD/CHF, or Dollar-Swiss
- USD/CAD, or Dollar-Canadian
- AUD/USD, or Aussie-Dollar

- NZD/USD, or Kiwi-Dollar

Major Cross Currency Pairs:

- EUR/CHF, or Euro-Swiss
- EUR/GBP, or Euro-Sterling
- EUR/JPY, or Euro-Yen
- GBP/JPY, or Sterling-Yen
- AUD/JPY, or Aussie-Yen
- NZD/JPY, or Kiwi-Yen

If the above Australian traveler wants to go to the United States of America, the traveler will require some U.S. Dollar to spend there. Therefore, the traveler will have to sell the Aussie and buy the Dollar, or exchanging the Aussie for Dollar, or selling AUD/USD. If the traveler is going back to Australia and has some excess Dollar that is not required, the traveler will sell the Dollar and buy Aussie, or buy AUD/USD.

In AUD/USD, the first currency in the pair, the Aussie, is the *base* currency, and the Dollar is the *quoted* or *secondary* currency. The base currency is what you are buying or selling against the secondary currency. Thus, when you are thinking that the Euro will strengthen against the Dollar, you are looking to buy Euro and sell Dollar. Thus, you will be buying EUR/USD. If you are looking to buy the Yen against the Dollar, you are selling USD/JPY, because you have to sell the Dollar to buy the Yen. Similarly, if you are looking to buy Yen against the Euro, you are selling EUR/JPY. Get the pattern?

To explain further, the base currency is what you are buying or selling. Thus, when you buy 50,000 EUR/USD, you are buying 50,000 Euros and selling the equivalent amount in the US Dollar. If you sell 50,000 EUR/JPY, you are selling 50,000 Euros and buying the equivalent amount of the Japanese Yen.

The secondary currency will be the profit and loss that you will make, or what you get at the end of the day. If you buy EUR/JPY today and you take profit after it goes up two days later, your profit will be in Japanese yen and not in Euros.

An easy way to understand this is to think that you have some Euros on hand and you are planning to go to Japan next week for a holiday. You feel like going to the money changer today to sell your Euros and buy some Japanese Yen. But you feel that the Euro will strengthen against the Yen, so you wait for two days. In two days, the Euro did strengthen against the Yen and you went ahead to the money changer to make the change.

In reality, you have gained more by selling your Euros and buying the Yen today than from two days ago. So, if you bought the EUR/JPY two days ago, and sold the EUR/JPY today, you actually buying the Euros and selling the Yen two days ago, the Euros strengthened and the Yen weakened in comparison, and by squaring your trade today, you are actually selling the Euros at a higher rate, and thus buying the Yen at a comparatively cheaper price.

VI. What Is Long or Short?

As a participant in the Foreign Exchange market, there is one thing that you have to understand. Imagine that you have just opened a currency trading account. You think that the Euro will strengthen against the dollar and bought the EUR/USD. Your position in your account will be *long* EUR/USD. No matter if the Euro weakened or strengthen against the Dollar, as long as you still have this position open in your account, you are still *long* EUR/USD. When the Euro strengthened against the Dollar and you decide to take profit, you will sell EUR/USD, thereby *squaring* your position. Having no position is to be *square*.

If after squaring, you feel that the Euro will weaken against the Dollar, you will be selling the EUR/USD. Thus you are now holding a *short* position in your account. You will only be square when you buy back the EUR/USD and close the position.

Thus, when you have just opened your currency trading account, you have zero, or no, position in your account. Your position in your account will be long when you make a fresh purchase of a currency pair, and will be square when you sell that currency pair. Think of it as going back to square one.

With a square position, if you made a sale on a currency pair, your position in your account will be short.

VII. What price to buy and sell?

If you have seen the prices on any trading platforms or websites for any securities and commodities, you will know that there are two prices that you will see for each security. This is also the same for the currency trading. The price on the left is called the *bid*, and the price on the right is called the *offer*. Sometimes the offer is also called *ask*. The bid price is where you sell the base currency, while the offer is where you buy the base currency.

Since the bid price will always be quoted lower than the offer price, you may ask why you are buying at a higher price and selling at a lower price. The brokers will have to make something as they provide a service or trading platform for you, and thus, they will have to sell you basis the offer price when you are looking to buy. The price difference between the bid and offer is called the *spread*, and this spread will vary from broker to broker and by currency pairs.

Generally, the more liquid the currency pair is, the narrower the spread will be. Intuitively, the less liquid the currency pair is, the wider the spread will be.

Let us not forget that currencies are also affected by what is happening in the world, one of them being inflation. If there is something happening in Australia, the AUD/USD or other AUD crosses will be affected. Changes in the relative interest rates will also exert a major influence on the Foreign Exchange markets.

Taking into account that the United States of America is the biggest economy in the world, the following are some of the data releases that may affect the currency markets:

- Institute for Supply Management (ISM): An index watched closely for changes in business sentiment. This monthly index shows production trends and covers both the service and manufacturing sectors.

- Retail sales: This monthly data, released by the US Department of Commerce, captures consumer spending.
- Non-farm payroll data: This is the port of call when looking for signs of a rise in employment. Released every month by the US Labor department.
- Consumer confidence: The closely watched monthly consumer sentiment index from the University of Michigan tracks consumer spending, which accounts for two-thirds of all economic activity in the USA.

Do note that there will be other news indicators, political voting seasons, comments made by the Federal Reserve, among other news, that will have an impact on the overall economic growth, and thus an impact on that country's currency.

VIII. Calculating your P&L

First of all, we have to understand that all prices in the foreign exchange market are quoted with 4 decimal points in a quote. An example will be EUR/USD 1.3888. Only a small percentage of currencies are quoted otherwise. Take example the USD/JPY, which is quoted with a 2 decimal points, USD/JPY 81.87.

Following that we will have to understand what a *pip* is. A pip, or Percentage in Point, is the smallest increment in the fluctuation of the prices for the currency. We can also refer a pip to a point.

Let us take a look at how we calculate pip increases and decreases. When a base currency is stronger, the value of the quoted currency will appreciate, and if the quoted currency is lower, then the base currency is depreciating. Let us take the EUR/USD example at 1.3888. If the EUR/USD increases to 1.4088, that means the EUR has strengthen by 200 pips. Thus you ignore the decimal points when quoting the pips. Thus, if the EUR/USD goes up to 1.4195, we can say that the EUR has increased by 307 pips.

Calculating the profit is also straightforward. For a 100,000 EUR/USD position, the 200 pips increase can be calculated as EUR 100,000 x 0.0200 = $2,000. For a smaller lot size of EUR 50,000 with a pip increase of 307, the profit will be calculated as EUR 50,000 x 0.0307 = $1,535. Remember that we have covered previously that your profit and loss will be in your secondary currency, and in this case, the USD.

If we take the example of the EUR/USD increasing from 1.3888 to 1.4088, thereby increasing 200 pips, we can expand the calculation further. If we take into account the 1% margin requirement, your initial margin deposit will be (EUR 100,000 x 1.3888) x 0.01 = $1,388.80, when you enter into the position and buy the EUR/USD at 1.3888. When the EUR/USD reaches 1.4088 and you take profit, the profit can be calculated as follows: you bought (EUR 100,000 x 1.3888 = $138,880) and you sold (EUR 100,000 x 1.4088 = $140,880), the difference of ($140,880 - $138,880 = $2,000) will be your profit. Thus, taking into account your initial investment for the margin deposit at $1,388.80, your return on investment (ROI) will be ($2,000/$1,388.80) x 100 = 144%.

It is easy to calculate the profit and loss (P&L) for EUR/USD because the P&L accrues in dollars. (Remember that the P&L is denominated in your secondary currency).

If we take the USD/JPY example, there will be an extra step in calculating your P&L because your P&L will be in Japanese yen, which is the secondary currency. If you have just sold USD 100,000 USD/JPY at 81.87 and the USD/JPY declined to 81.23, your profit will be what you sold (USD 100,000 x 81.87 = Yen 8,187,000) – what you bought (USD 100,000 x 81.23 = Yen 8,123,000) = Yen 64,000. To convert it into USD terms, you will need to divide the Yen 64,000 by the last done USD/JPY rate, which is at 81.23. Thus, you will get Yen 64,000/81.23 = USD 787.89.

Basis the above, understanding how profit and loss works is very important, because this will affect the sizes of your trades and how long you can keep your trades open.

If you are trading via an online FX broker or platform, like most of the traders do, chances are they will provide you with a real-time update of the bids and offers of the quoted currencies available in your trading platform, the margin used, the margin available, balance, your P&L among others. Thus, you will also be able to see your margin balance, realized P&L, and unrealized P&L, and are provided in real-time and mark-to-market.

When you have an open position in a particular currency, say long EUR/USD, and the market is going in your favor, the mark-to-market calculation will be using the point where you go long on the currency and taking the difference of where the bid price (or the price that you can sell) is currently at, thereby informing you your potential gain if you so decide to take profit at that particular time. This potential gain will be shown as a positive in your unrealized P&L. If the market is going against you, your unrealized P&L will be negative.

Of course, if you have a number of open positions, say long EUR/USD, short USD/JPY, long AUD/USD, short USD/CHF, the combined profit and loss from the 4 positions will be reflected in the unrealized P&L, and will continue to fluctuate with the movement of the market.

If you decide to take profit and close the EUR/USD position above, the profit taken will be reflected in the realized P&L. Thus, your EUR/USD position will be shown as closed instead of open, your unrealized P&L will not capture the P&L movement of the EUR/USD that you have closed, and the profit that you have made will be added into the realized P&L, among the other profit and loss that you have made previously.

Your margin balance will thus be calculated as the total sum of your initial margin deposit, your unrealized P&L, and your realized P&L. Do note that your margin balance will always fluctuate as the foreign exchange prices change because you mark-to-market unrealized P&L fluctuates with the movement of the market.

Understanding how to calculate your P&L will help to you to make informed trades and prevent making mistakes like entering into a trade that is too large for your account to handle, putting a stop loss order that is way too far from what the market is trading that your account balance will fall below the margin requirement. Understand that most of the trading platforms out there will have a program that will not execute your order when you placed something too large for your account to handle, but it is good to know that you are in control.

If you decide to trade overnight and carry open positions, there is another thing that you should need to know about the FX market. What happens when you make a deposit in a bank? You will earn on the interest. What happens when you borrow money? You will have to pay interest for the loan. Trading the currency has the same principles as the above. When you go short on a currency, it is like borrowing a currency that you do not have to sell it first, and incurring a charge for the short. When you go long a currency, it is like making a deposit and earning the interest.

Thus, when you enter into a trade and leave it open past the settlement date and is rolled over into another date, say in the EUR/USD, you will earn the interest in the currency that you are long, and will incur an expense for the currency that you are short.

If you have sold the EUR/USD, you will earn the interest rate for the USD that you have bought, and will have to pay the interest for the EUR that you have sold, if you kept the EUR/USD position overnight.

As the euro and the dollar will have different interest rates, the rollover rate is the difference between the two rates for the currencies that are in your open position. If the dollar pays you more interest rate than the euro, a net interest will be paid to you since you are long the dollar and short the euro. If the dollar pays less interest rate than the euro, an interest charge will be deducted from your account, since you are short the euro and long the dollar.

Of course, the amount will be small in comparison, depending on the size of your open positions, and that you do not have to worry about the rollovers if you do square your positions at the end of your trading day.

IX. What is a margin?

A margin is a deposit needed by the brokerage when you open an account with them. The cash deposit will be your collateral to support the margin requirements.

When you first deposit cash into your new trading account, the cash that you have deposited will be your *initial margin* deposit, and that becomes your margin balance. All of your trades after deposit that will be collateralized basis that margin balance, until you decide to make more deposits into your trading account to support your increasing trading volume, or to withdraw a portion of your profit and cash from trading account, thereby reducing your trading volume to the amount of margin balance left in your account.

The good thing about currency trading is that it has the lowest margin requirements among all other trading financial instruments in the market, and unlike other financial and commodity futures markets, your foreign exchange brokers will not call you up asking for top ups (called a *margin call*) when your open positions are going against you. Instead, currency trading goes by margin ratios.

The margin ratio in currency trading is usually 100:1 or 1%, the percentage needed for your minimum margin requirement. Thus, if you are looking to have an open position of $50,000, you will only need $500 in your account, which is 1% of the open position. If you are looking to have an open position of $10,000, basis the 100:1 ratio, you will need $100 in your account, again 1% of the open position.

There are 2 types of accounts for you to choose from when you decide to open a currency trading account. The first one will be a Standard account where 1 pip value is $10, a lot size is $100,000, and your minimum margin requirement is $1,000. The second one will be a Mini account, where 1 pip value is $1, a lot size is $10,000, and your minimum margin requirement is $100.

Remember that your P&L is denominated in your secondary currency? When you have a mini EUR/USD open position, the value of 1 pip is USD$1,

but your lot size is EUR$10,000, and your minimum margin requirement EUR$100. When you have a standard USD/CHF open position, your lot size will be USD$100,000, and the value of 1 pip is CHF$10.

Note that your broker may have the right to close your positions without any notice if your account's margin balance falls below the required ratio. This will mean that your loss in that currency is locked as that currency is squared, and your margin balance is reduced.

It will be best to check with your preferred and favorite brokerage when opening a currency trading account to understand how much you will need to put up cash as collateral to support the margin requirements established by your broker, what is the liquidation and trading policies etc.

X. Suitable trading styles for you

First of all, you have to know the time and money that you are able to spare for currency trading. Knowing the 2 main resources will help you to establish your trading goals.

If you are working full-time, do you have the additional time to study charts and economic data to help you in your trading? How much time can you spare during work, and off work? What about the capital that you are planning to use to start your currency trading? Is the capital that you are going to use, money that if lost will not materially affect your daily life? A friendly advice is to trade with your spare cash, and never with borrowed money.

The above will have less of an impact if you have time and/or money on your side.

If you are short on time and cash, you will most likely trade in a short-term basis. This means that you will hold a position for a few hours and no less than a day, depending on your comfort zone and risk appetite.

Short-term trading allows you to enter and exit the market within your limited time. This is called *scalping*, where a small profit is enough for you to close the position. If you are doing this on a regular basis, the profit will be small, but you will see it grow, if have a plan and follow that plan. Scalping usually requires fast hands, and mental discipline, as you want to capture your small profits while not allowing greed to take over. If you belong to this category, remember to trade the most liquid currency pairs and during times of peak of liquidity.

If you are not so short on your trading capital, you will likely consider trading on a medium-term basis. This means that you will be holding a position for a few days, and again, will depend on your comfort zone and risk appetite. Trades here will usually involve a market direction and where the market will be during the time that you hold your position. A scenario will be that you might enter into a buy for the falling EUR/USD after studying that there will be swing to the movement of the EUR/USD, and you are expecting the EUR/USD to make a reversal. Therefore, you will

be trading basis your views of where the market is going to be in the medium-term.

If you have a very deep pocket, you will most likely trade on a long-term basis. This will involve holding long positions, for weeks, and even months. Holding this long a position requires that you have sufficient trading capital to weather the short-term volatility of the market.

If you have access to charts and react purely on the movement of the charts, you will be trading basis the technical data. Thus, you will sometimes be referred to as a technical trader. If you are moved by news that you heard in the market, or from economic data, you are trading on a fundamental basis. Naturally, there are those who will rely on both data. Let us cover on the technical and fundamental in the next section.

XI. What kind of trader are you?

As we have mentioned previously, you can be a technical trader when you trade basis the technical data, or you can trade basis the fundamental data, or both.

Technical trader

For the technical trader, you will mainly study the market movements and patterns to determine what the movement of the market is going to be through charts. We learn from our past mistakes, but we usually repeat them, with a high probability, again and again. It is the same with any market that has the human element in it. As the players and traders of the currency markets are human, we tend to repeat the same mistakes again and again, and thus, the history is captured in the graphs of the instrument that you are reading. The future is just a repeat of the past, and thus, if you are a technical trader, you will be looking out for these patterns.

Another thing to note is that we are also moved by trends. If the current trend is to wear tight fitting jeans, you will see more people joining the crowd and wear tight fitting jeans. Sales of tight fitting jeans will increase, and more brands will produce tight fitting jeans until a new fashion trend make an appearance in the fashion market and those tight fitting jeans will be soon forgotten, until the next tight fit jeans craze. It is also the same with the market. If a currency is slowly climbing, more and more people will look into going long in that particular currency and you will now have a trend. Thus, the trend is your friend. For the technical trader, they will be looking for the early stages of a trend so that they can enter early and follow the trend before the trend reverses.

Do note that the pure technical traders will not bother themselves with the fundamental news of the market and will just keep it simple with what they see in the charts.

Let us try to understand some of the basics that a technical trader needs to know.

Getting to know your charts

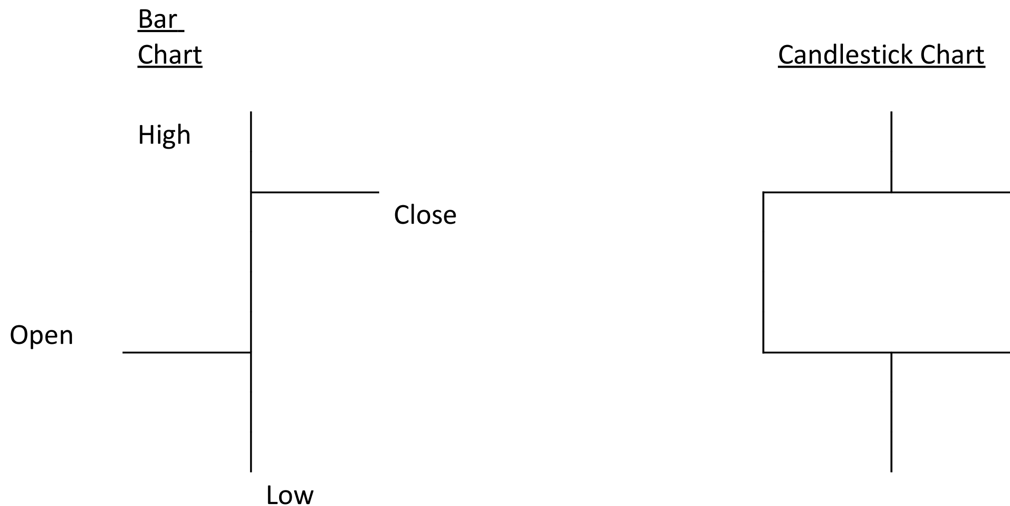
On a chart, you will usually see lines that resemble waves, moving up and down. The lines can be a form of small bars and candlesticks, or even a connected line drawn across the charts. By itself, it does not mean anything, but if you look closely, you will notice three basic movements in a chart: an upward trending move (in a bullish market), a downward trending move (in a bearish market), and a sideway trending market called range trading.

Let us take a look at an example of a candlestick chart of the USD/JPY:

A candlestick chart is a modification of a bar chart, where each candlestick represents one day's action. The most commonly used are the opening, the high, the low, and the close. The best way to understand an individual candlestick is that it is basically a bar chart but with two lines joining the open and close points to make the body of the candlestick. Notice from the hourly USD/JPY chart that from November 9th to November 10th (14:00) the market has been moving in an upward trend. Also note from November

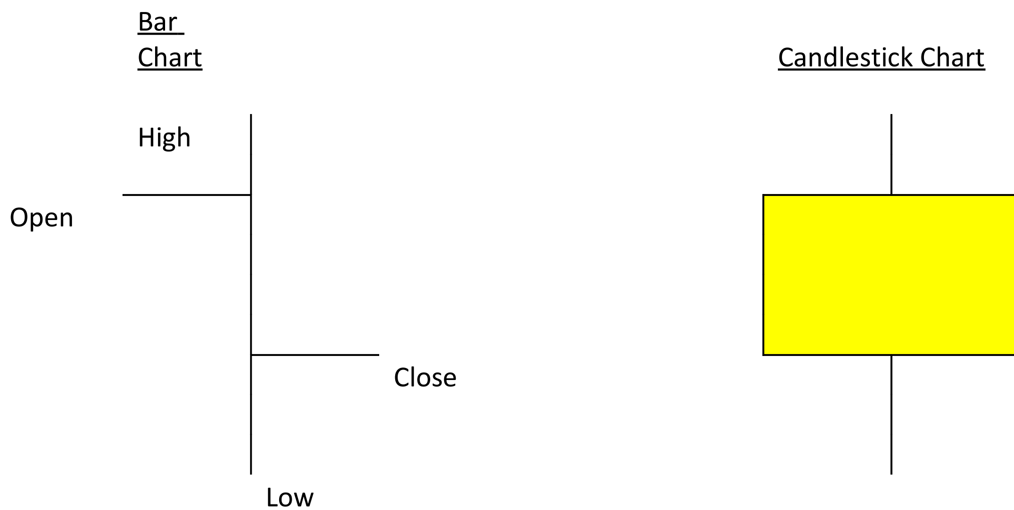
12th (06:00) to November 15th (07:00) that the USD/JPY has been moving in an uptrend.

To understand each bar, we will have to look at it individually.



Look at the individual bar above. The market opened for the session lower, and closed higher, thus indicating that the market traded stronger and ended higher for the session. The low, or the tail, was created possibly after the market opened, or after the market hit the high, went down to hit the low, and then climbed back to close slightly lower than the high. You will need a volatile market to see this happening. The high is the peak during session before the close. For the candlestick, the above scenario will be depicted with a plain candlestick.

Let us take a look at another bar chart.



Notice that the bar chart is showing an opening higher than the close. Thus, it can be said that during the trading session, the market closed weaker and thus a bearish bar appeared. The high can be generated just after the market opened and before the market dropped to a low before closing, or in another scenario, the high is generated after the market opened and hit the low before climbing back to the high and closing slightly lower than the high. Again, it will have to be a highly volatile market for the second scenario to take place.

The bearish candlestick, though looking similar to the bullish candlestick, will generally be depicted in a grey colored candlestick. Of course, you can always adjust the colors with the colors that you want in your trading platform. For me, I have chosen green as the color of the bearish candlesticks in the previous USD/JPY chart example. You have the power to decide on the colors of your graph.

The above is the same hourly USD/JPY chart in bars.

The above is the same hourly USD/JPY chart in lines.

It will depend on you, the user, as to what kind of charts will help you to see the market clearly. I am sure that you will have your preference as you go along with your trades.

We will cover the basics of technical trading in the next section.

What is a trend?

Remember that the trend is your friend. Thus it will be very important know how the market is trending at the moment, as covered in the USD/JPY charts above. Remember that if the market is trading higher than the previous days like an upward staircase, the market is trending upward, like the example that we have covered in the hourly USD/JPY charts.

If the market is trading lower than the previous days like a downward staircase, the market is trending downward. Look at the below daily USD/JPY candlestick chart for the example. From the chart, you can see that the USD/JPY has been moving at a downward trend from July 8th to around September 14th, and around September 24th to October 28th.

Now, let us take a look at the daily EUR/USD chart below. We can see upward trends from July 8th to around August 1st, and another from September 14th to around October 18th. Also, do notice the downward trend around the start of November to the 5th of November. Keep in mind that there is a good example of the market trading in a big range. Notice from the 11th of August to around September 14th, the market has been trading in a range of 1.2580 to about 1.2895.

The above daily EUR/USD chart is also a good chart for the next topic that we will be touching on, which is the support and resistance.

Support and Resistance

A *support* level is the point where there is a fresh buying interest entering the market and stopping the downward trend or selling pressure, thus creating a support for the falling market. It is also known as a *floor*. A *resistance* level is the opposite of a floor, where the selling interest is strong enough to halt an upward trending market, thus creating a resistance to the rising market. It is also known as a *ceiling*.

Look at the daily EUR/USD chart. At the trading date of around the 8th of August, the high for EUR/USD traded past the price 1.3315, before closing slightly below that price. The next day, the market tried to continue to test the 1.3315 level but due to the stronger selling pressure, was not strong enough and the market closed lower. Thus, 1.3315 became the resistance level for the EUR/USD at that point in time. From the chart, you can see that the price of 1.3315 was not reached again until around the 22nd of September.

Another good resistance level in the daily EUR/USD chart will be the 1.2895 level, as the market tested that point a number of times. Starting from August 12th, the market has tried to move beyond that level, but faced strong selling pressures for the next 6 sessions. The market then traded lower, but rebounded to try and test that point again on the 3rd and the 4th of September, before trading lower again. On the 13th of September, the market tried to test that resistance level again, falling short that day, but traded through the following day. With the resistance level broken, fresh buying interest seems to enter into the market, and we see the EUR/USD soaring.

Let us now discuss about the support level.

From the same chart, we can see that the support level of 1.2580 was created on the 9th and 10th of July. The market then rebounded with the fresh buying interest and it was not until the 24th of August that the market tested that support level again and was unsuccessful.

To simply put it, the support and resistance levels can give a picture to the market sentiment. The resistance level is the point where the participants are likely to take their profit and start unwinding their positions. The support level will be the point where the participants are likely to go long into that market, renewing buying interest.

A support level can become a resistance level and vice versa.

Let us take a look at the above daily USD/JPY chart, where the point of around 86.40 seems to be a good support / resistance levels. On the 18th and 19th of July, the market tried to trade lower than the 86.40 level but was unsuccessful. The market tried to test that support level again on the 22nd and yet again, was unsuccessful. When the USD/JPY traded lower than the support level on the 30th of July, that support level became the new resistance level for that market. Notice that the market tried to trade higher than the resistance level of 86.40 on the 10th and 13th of August, and the 16th and 17th of September, among the many days of trying and failing, but was unsuccessful.

Also, you may have heard of the term 'psychological' support or resistance levels. If it is the 86.40 support level as per discussed above, this is just the level where a lot of traders and participants 'feel' that the USD/JPY will not go any lower and will rebound. But once that support level was broken, the 86.40 level became the new 'psychological' level for the traders, as they now 'feel' that there is no stopping the USD/JPY from going lower and this point should hold and became the new ceiling.

The psychological support and resistance levels are also a good level where you might see a lot of stops being placed. For the 86.40 support level, you might see some sell stops placed at around the 86.40 level. If you feel that the market will not go lower than 86.40, will you not buy at that level, expecting the market to trade higher? When the market traded past that support level, the stops will be hit, and those who have bought at higher than the 86.40 will have to cut loss below that level.

After the market traded lower than the 86.40, and that point becoming the new resistance level, you might see some buy stops at that level or higher, but until this point, the resistance level still holds.

<u>Trend lines</u>

Let us now look at trend lines.

Have you noticed the straight line on the chart? This is a down trend line, where a straight line is drawn over a few successive lower highs. This trend line can be your resistance level in a downward trending market. From the above daily chart, we can see that the USD/JPY is trying to test the resistance level created by the downward sloping trend line. Will the trend line resistance level hold on the fourth arrow?

Let us now look at an upward trending trend line.

From the monthly USD/JPY chart, we can see an upward trending line starting from around January 2005 to July 2007, where the USD/JPY hit the highs of around 123.70. The upward trending trend line became the support level for the USD/JPY during that upward trending period, and the market traded close to that line before trading past that support and the USD/JPY has traded lower since then.

Channel line

Sometimes, you can see that the prices are moving along two upper and lower parallel trends, called a *channel line*. Take a look at the above monthly USD/JPY chart. The USD/JPY was initially trending upwards within the trend lines A and B, or channel line AB, until the point where the *bearish engulfing pattern* (we will cover this on the next section) appeared in July, as pointed out by the big arrow. Trend line B failed to hold, as this pattern traded lower than the support created by trend line B. The USD/JPY then proceeded to trend lower and traded within the support created by new trend line C and resistance created by the new trend line D.

Reversals

Another important thing to note will be a reversal. A market is not a one way ticket up to higher prices forever. An upward trending market must come down, and vice versa. Thus, a reversal will be something that we will have to look for. Let us take a look at some of the basic ones.

The above is a weekly USD/JPY chart. Look at the point where I have drawn the upward trend line, around the October 11th. That trading day can be called the *bottom reversal day*, or a *bullish engulfing pattern*. The bottom reversal day takes place during a downtrend when that trading day creates a new low, but manages to close higher than the previous day's open.

The bullish engulfing pattern, though similar, needs the following requirement to take place: the trading day will have to open lower than, or the same as, the previous day's close. Thus, the previous day's candlestick will have to be a bearish candlestick as the market continues the

downtrend, but the reversal will be a bullish candlestick that engulfs the smaller bearish candlestick.

From the chart, though the USD/JPY has been declining, we can see that renewed buying interest took place at around October 11th, and the dollar gained strength and has been climbing up since. That day became the signal for a trend reversal.

Now let us take a look at the *top reversal day*, or *bearish engulfing pattern*.

From the daily USD/JPY chart above, we can see that the dollar has been climbing until May 4th. The reversal day took place on May 5th, where the market opened at the same point, and closed lower than the previous day's close. The bearish candlestick on May 5th completely engulfs the candlestick from May4th. This might indicate that the traders who were long USD/JPY started to liquidate their positions and exited the market. Some sell stops were also triggered for those who went long and the USD/JPY continued its fall the next trading session. Since May 5th, the

market reversed its trend and traded lower. The dollar tried to climb back up again, but another top reversal day, or bearish engulfing pattern, took place at around June 6th, and the USD/JPY continued its descent since.

Moving averages

Patterns can be interpreted differently by different people, and I am sure that you might have noticed something that I have not. It is subjective. A moving average, on the other hand, is easy to compute and precise. First of all, an *average* can be considered the midpoint of an ordered sum numbers or values. Thus, the average for the following numbers (1,5,3,8,9,7,2,2,5,8,9) will be (1+5+3+8+9+7+2+2+5+8+9) divided by the number of values (there are 11 numbers) = (59/11) which is equals to an approximate 5.36. You may now ask why is the average *moving,* as the name implies? Let me explain further below.

Let us look at the above daily USD/JPY chart. The single red line that travels from the start of the graph is the 20-day Moving Average line, since the point of interest is on the 20-day average of the closing prices. On the 17th of November, the Moving Average is 81.60. This number is basically calculated by taking the sum of the closing prices for the last twenty trading

days, and the total divided by twenty. On the 16th of November, the 20-day moving average was 81.49. On the 15th of November, it was 81.41. Since the averages are constantly changing every day, it can be considered moving. That is why it is called the *moving average*.

The moving average is a follower of the trend. From the chart, you will notice that the 20-day moving average is traveling above the market prices on a downtrend, while it will be above the market prices if there is a change in trend. However, because of the 20-day delay, the moving average will have a lagging effect, as the market prices will react faster than the moving average line. A shorter time line will be able to follow the market prices closer as compared to the 20-day moving average. However, the time lag will still be there.

Look at the above daily USD/JPY chart again. Instead of the previous single red 20-day moving average line, I have added some new moving averages to give you a better comparison. The purple line is the 7-day moving

average line, the blue line is the 13-day moving average line, and the yellow line is the 200-day moving average line.

If a moving average period is shorter, it moves closer to the market prices, and is more sensitive to the market movement.

A shorter term moving average is usually better when prices are moving sideways as it will allow you to capture the market swings due to its sensitivity. But when prices begin to trend, the shorter term moving average will give false signals, giving the impression that the trend is reversing even though it is not.

That is where the longer term moving averages come in. Because the longer term moving average does not get caught in minor corrections, it is a better tool to use to look at the major trend.

That is why it might be good to utilize both the shorter term and the longer term moving averages to capture both non trending and trending movements.

You can also use the longer term moving average to identify trends, and the shorter term moving average to time your entry into the market, which is known as the *crossover* method. Generally speaking, when the shorter term moving average crosses the path of the longer term moving average, it will produce a signal for you to enter into the market.

We will basically use the purple 7-day moving average line and the red 20-day average line for the *double crossover* method. Look at the daily USD/JPY chart again. At point A, the 7-day moving average crosses above the 20-day moving average, producing a buy signal. However, because of the big jump on the 15th of September, the 7-day moving average moved up prematurely. At point B, the 7-day moving average crosses below the 20-day moving average, producing a sell signal, and point C, a buy signal.

The signals from the moving average crossovers are generally quite accurate, but due to the lag, you will not be able to enter at the low or the high of the trend.

There is also a *triple crossover* method, where instead of using 2 lines, you will be utilizing 3 lines.

We will basically use the purple 7-day moving average line, the blue 13-day moving average line, and the red 20-day average line. Look at the daily USD/JPY chart again. At point A, the 7-day moving average crosses above the 20-day moving average, producing a buy signal. If you have used the triple crossover method, the midterm 13-day moving average will have to cross above the 20-day moving average before a buy signal can be produced at point D. Thus, that might have saved you from not taking the buy signal seriously. At point B, the 7-day moving average crosses below the 20-day moving average, but only at point E is the sell signal produced for the triple crossover method. Thus you will have missed selling a few days earlier at point B. The same can be said for point C, a buy signal for the double crossover method, and point F, the triple crossover method.

Fundamental approach

The fundamental approach concentrated on the supply and demand of the market, and you will get to know that from the news, data reports etc. If you are trading with the flow of news and economic data in the market, do remember that there will be a lot of news in the FX market for you to follow that can be overwhelming. Thus, you need to develop a plan on what to read and know. The best is to keep up with the news of the currencies that you are trading. Keep in mind to know the news of what happened while you sleep, any data reports coming for the day, what the central banks will do for the day, political events, conflicts, etc. There will be economical calendars for you to keep track via your brokers, and if you have time to access your trading platforms, brokerage websites, or even financial news websites, you can keep up with what is happening in the market. The important thing is to manage your time wisely.

Technical or Fundamental?

The above two approaches to trading attempt to determine where the prices are going to move, so that you can profit from it. So, for the technical trader, say after finding out a bearish pattern appearing in the charts, feels that the market will likely to move downward, while the fundamental trader, say heard a bearish report released in the market, and feels that the market will likely to move downward. Though the end result may be the same, the difference between the two traders will be the fact that the technical trader saw the bearish pattern appearing in the charts and will likely tell you the results, while the fundamental trader heard the bearish news released in the market and will tell you what caused the drop in the market.

Most of the traders out there are a mix of the two schools of thought.

The above approaches are not limited to trading in the foreign exchange market and can also be used in other financial markets, like in the equities markets, commodities markets, futures market etc.

If you are into trading stocks, or interested in trading stocks, I recommend that you take a look at Penny Stock Prophet, Stock Assault 2.0, and Penny Stock Psychic to help you with your stock pickings and analysis.

XII. Knowing the psychological aspects

The psychological aspect of trading is very important too, but a friendly advice that I can share with you is to remember to be disciplined. Be disciplined, as that is the key to successful trading, and successful anything that you do. Being disciplined will save you on your trades.

Also, take the emotions out of your trades. Have a well defined plan by listing down your target profit, your target loss is (so that you can set your stops), determine your entry point and exit point. Enter the market, and if your target point is reached, take profit. If the market is going against you, do not cancel your stops just because the market is near it. If the market is near your stop and does not reverse, let it be. Moving your stops further will usually lead to more losses. When the market is near your target profit, do not be greedy and try to increase your profit level, as sometimes, the market will slip and you will lose your opportunity to take profit at your initial level.

Always take your profits and losses as you have planned, and always start a new trade as a new trade. Do not see a new trade as making up for the losses that you have made just now, as this will make you impatient and emotionally blind to the trends of the market. When you try to trade as a making up for recent losses that you made, you will tend to trade in anger, and seemingly out for revenge. This will usually create more losses nine out of ten times that you enter the market. What you should do is to step out of the market, relax and do something else, and enter into the market again when you are able to remove your anger.

And, remember to take pride out of the game. I understand that sometimes you feel that your view on the market is right but the market is going against you. Instead of closing your position, you add to your position because you feel that you are right. This will usually create more losing positions for you. Admit that you are wrong and move on to a fresh start with a fresh trade.

Another friendly advice is that if you are not feeling well, do not attempt to trade. Sometimes, with the long hours at work, one of the few opportunities that you can enter into the market is when you are on a sick

leave resting at home. Instead of really resting and trying to cure your illness, you start trading. When you are not feeling well, generally you will not be in a correct state of mind. You might be feeling tired from all those medications that you have taken, you might be feeling that you head is heavy from the sinuses, you might be feeling cold from the fever, among the many other things that you feel. With those feelings, will you be able to be disciplined? You know the answer to this.

Be patient, as you are the master of your trades. You have the luxury of when to enter the market and when to exit with your target profit points and stops. Remember that you do not need to be in the market every time. And when you do enter the market, make it your best, every time, by being disciplined, patient and emotionless.

For more, I recommend looking up Secret of Successful Traders.

XIII. Getting started

There are a number of forex brokers out there in the market like AVA FX that can provide you with a trading platform for you to start on your trading journey, and many will be able to provide you with a practice account.

The best thing to do is to start a practice account with the brokers to familiarise yourself with the knowledge that you have learnt, and to know what kind of trading styles will suit you. You can find out the time that you can spare for your currency trading, as well as the time required to make your studies and analysis.

Since you do not need to put in your hard earned money into a practice account, these accounts are funded with 'virtual' cash that you will use for your 'virtual' trading. So, if you are making money in the practice account, that profit is not yours to keep. Think of the practice account as a simulation for you to experience trading currencies, without the real cash. Thus, it will be good to treat your 'virtual' cash seriously, as it will be a good opportunity for you to condition yourself to the movements of the currency market, and as to whether you can be cool headed every time you practice.

You will be given a chance to learn about how to use the trading platform, how to place your orders through a click of your mouse, how to specify amounts that you want to trade among the many other things that you will get to experience. Give the practice account a try, as this will help to boost your confidence on how you see the market, how you analyze the market, how you see the graphs, how you react to the market etc. Also, this will also be a good time for you to find out and choose your preferred currency pairs to trade, among the many pairs out there, as you will want to concentrate on these few pairs of your choice first, so that you can learn of their patterns and movements.

The most important thing is to learn how to take emotions out of your trades through you practice account.

Let us cover some of the basic orders that you can input in your trading platform. Your trading platform will provide an array of counters for you

to trade, with the major US currency and cross currency pairs to be the most common for choice. You will also be able to set your graphs to the currency pair that you will be interested to look at, and the indicators that you want to add into your graphs, among the many options that you will see on your trading platform.

The most important buttons will be your 'buy' and 'sell' buttons that you will click to enter into the market. Clicking these buttons will prompt you to put in the amount that you want to buy or sell, your take profit level, your stop loss level, etc, among the many other features that your platform can do for you.

After you have placed an order, the platform will usually give you a confirmation that your orders are placed at the amount and quantity that you have purchased or sold, and your open position list will be updated with the new order that you placed. You will also receive a pop-out confirmation when your orders are not successful, either from placing too big an order that your current margin is not able to handle, or placing the stop loss at the wrong level.

Know your Orders

You can enter into a position basically by two methods, either through a *market* order, or through a *limit* order.

A *market* order is placed by entering the market by buying or selling at what the bid or offer is showing. That means you will be buying or selling at the market price.

A *limit* order is placed to buy or sell at your targeted or desired level. You might see that the EUR/USD is going to drop very soon before a rebound and you are looking to buy. Instead of waiting for the market to reach your target price before you place your order to buy, you can place your order now and join the bids.

Knowing the two kinds of basic orders above, we can elaborate further on the other kinds of orders that will help you your trades. Remember that the market is open for 24 hours a day most of the week and is still trading even when you are sleeping, so anything can happen when you are not in the market. As a precautionary measure, be disciplined and place your *stop loss* orders when you place your market or limit orders.

A *stop loss* order is an order where place at the levels that you are comfortable losing your money at. It is not as bad as you think, as you will have to take control of what you are ready to lose rather than leaving it to the market. You might have bought a currency pair and the market moves against you. With the stop loss order, you know that if you get stopped, you can take a step back and draw up a new plan how you will enter the market again. The stop loss order is also good when you have an open position but you have to be away from the market, no matter if it is a meeting that you have to attend, or to go to sleep after a very long and tiresome day. If the market moves against you when you are away, the stop loss order will be there to get you out of the market, and minimise your loss. It is better to have the stop loss placed rather than not placing the stop loss order when you go to a meeting and the market moves against you to a point where the loss is bigger than you can handle when you return from the meeting.

You can also set a *trailing stop loss* orders for your trades. When the market is moving as to your expectation, and you are in the money, you will be moving closer to your target profit level. The trailing stop loss will also adjust itself closer to you target profit level as well. Let us say that you have bought the EUR/USD and placed the trailing stop loss at 30 pips below your purchased price. The market now moves up to a 50 pips above your purchased price. Your trailing stop loss will also move up by 50 pips. Thus, if the current market is at 50 pips higher than your purchased price, your trailing stop loss will be at 20 pips above your purchased price, provided the market has been moving upwards constantly from the time you purchased the currency. Why is that so? Let us say that after the market moves up to a 50 pips above your purchased price and then traded lower by 10 pips, that means that the current market price is now only 40 pips above your purchased price. What will happen to your trailing stop loss? It will still be at the 20 pips above your purchased price. Thus, when you buy into a currency, the trailing stop loss will move when the market is moving higher, but will not move when the market comes back down. The trailing stop loss is good to have in a trending market.

Of course, you can also place a *take profit* order when you enter into a position. Like the stop loss order, this take profit order will be placed at your desired profit level. Remember that the market may move towards your profit level, but move away again after that. You can safely go to a meeting with the take profit order in place and not miss a chance to take your profit when you are away.

From all the knowledge that you have learnt, remember to how you have done on your practice account. How did you fare in your trades? Are the trading plans working for you? How did you manage your time? How did you control your emotions? Are you getting enough information for you trades? Are you getting too much information for your trades? How are you feeling after you start your practice account? Are you comfortable with trading the currencies?

Once you are comfortable with the above questions, you can move on and open a true trading account and see your account growing.

XIV. Reasons to trade Forex

You may ask: “Why even bother with Forex trading? Why not just work for somebody and have a decent job? What’s wrong with my current job?” Well, let me share something with you. I have worked hard and in the past, often clocking 10 plus hours per day, and have even gotten back problems and burnouts, and reducing me to tears. And what did I get in return?

You may ask: “Why did you do that then?” Maybe it was the fear of losing my job if I did not perform. Maybe, it was also the fear of not having an income at all. If I had found other means of generating income, like trading Forex, I could have the freedom of choosing whether spending 10 hours per day working in the office and getting sick was worth it, or choosing to just trade currencies at my preferred times, and spending most of my time with my loved ones.

Thus, with the extra income generated, I found out that it comes down the matter of freedom. For those who are fortunate enough to have a good job, the extra income generated can give you more freedom to spend on what you want. Maybe that new car that you like, or that new house with more rooms for your children, or that expensive watch that you have been eyeing.

For those who are overworked, I understand how at an average of 40 hours per week of your never-to-be-had-again precious time, most people are just too tired at the end of the week to even think of being creative, starting that business that they want, or even and making real money.

And what about the situation when high unemployment is present? Will you have to work even longer hours, or having to do more, because you have to keep your job?

If your trading in currencies can generate enough income and support you, and giving you the freedom to do the things that you enjoy, do you not think that you are worth more than the pay that you are currently receiving, or have received in the past?

Nobody is going to tell you what you are worth. You do not need that, because, you set your own worth.

Is it not better to have control of your life, when you sink or swim by your own efforts and merits?

I believe that is the power of freedom….

XV. Benefits of Forex trading

As currency trading involves a simultaneous buying and selling of currencies, you can easily enter into a rising or falling market. There are no restrictions in shorting a currency, because when you sell one, you have to buy another.

Remember that at an average daily $2 Trillion dollars, the currency market is the most traded market in the world. That should give you the liquidity for instant trades.

Also, because of the fact that the Forex market is open for 24 hours, 6 days a week, you can trade on your schedule and respond to moving data at your own time. You can enter into a position whenever you want within the trading hours, and this is great for those who are short on time.

When you open a trading account with your broker, you will usually be given up to 200:1 leverage. Thus, you have more buying power for your money.

Another benefit is that there are no (or low) transaction costs. Usually, the brokers will not charge any commissions, and even if they do, the commissions will be relatively small. Remember that the brokers will usually make their money from the spreads, but the spreads will be relatively small in the major currency pairs.

As currency trading is opening up and providing opportunities to open smaller accounts, there will usually be low (or no) account minimums.

There are even some brokers who will provide practice accounts for you to try out currency trading.

Another beautiful thing about trading the currencies is that there are softwares like Gecko Software, QuantumFX Pro, Forex BulletProof, FX Child's Play System, and Vladimirs sRs Trend Rider for you to choose from that can help you with your currency trading.

To increase your trading success, I believe that there will always be room for improvements. Thus I recommend that you look up Forex Mastermind Blueprint, which can give you a comprehensive Forex course.

I hope that this book is going to be useful on your trading career. When you are comfortable with your income generated from Forex trading, maybe the freedom will give you the chance to do more of the things that you want. Maybe, that will be your call to decide where and when to travel with your loved ones for a long vacation, to send your children to a better school, and the other things that you want to do and accomplish.

Maybe you have always wanted to be a writer. Why not? You can always go to Online Home Writer to get started.

Maybe you have already thought of wanting to make more from other sources, like you own business. Why not? There are many ways to do that and you can find and learn a lot of information out there on the internet like from Retired Millionaire Super Star, and The Rich Janitor.

With the freedom that you can have, why not do what you want to do and be what you want to be? After all, we only have a certain amount of years to live. Why not make the best of it?

Maybe, it is time to quit your job and start enjoying life?

As a parting gift, I wish you good luck on your currency trading lifestyle, and I hope this will help to improve your current situation.

Good luck!