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CHAPTER 1: INTRODUCTION TO FOREX what is Forex?

Forex is actually short form of Foreign Exchange. It refers to the simultaneous buying or selling of one currency against another. In Forex, currencies are always traded and quoted in pairs. For example, USD/JPY refers to the US Dollar and Japanese Yen pair. Some of the most highly traded currencies are the Swiss Franc (CHF), the Euro (EUR), the British Pound (GBP) and the Japanese Yen (JPY). All of these currencies can be against the US Dollar (USD), or against any other currency in what is referred to as a cross.

Currency Pairs

As we said, all currencies are traded in pairs. Within the pair itself, the first currency is known as the base currency, while the second currency is known as the quote or counter currency. All quotes in Forex are made in terms of the base currency. When you ask for a currency quote, you will be given two prices, the Bid price first and then the Ask price. The Bid price is the price a bank will buy at, i.e. the price that you will get for selling a currency while the Ask price is the price that the bank will sell at, ie the price you will get if you buy a currency pair. Both of these prices are expressed in terms of the base currency.

A particular currency exchange rate then is the rate at which one currency can be exchanged for another.

Market Watch: 04:25:38

Symbol	Bid	Ask
EURUSD	1.34007	1.34025
GBPUSD	1.67815	1.67837
USDJPY	102.131	102.150
EURCHF	1.21405	1.21430
USDCHF	0.90586	0.90608
EURGBP	0.79844	0.79865
USDCAD	1.09724	1.09750
AUDUSD	0.92832	0.92854
NZDUSD	0.84698	0.84724
AUDCAD	1.01871	1.01903
AUDCHF	0.84100	0.84132
AUDJPY	94.817	94.846
AUDNZD	1.09584	1.09618
CADCHF	0.82542	0.82575
CADJPY	93.060	93.092
CHFJPY	112.722	112.753
EURAUD	1.44337	1.44360
EURCAD	1.47055	1.47086

Let us say that the exchange rate for the USD/CHF currency pair is 0.90586 / 0.90608. This means that if you sell 1 Dollar, you will receive 0.90586 CHF; and if you buy 1 Dollar you will have to pay for it with 0.90608 C

The ability to Profit from a Bull or Bear Market

Regardless of whether the market is moving up or down, a trader is able to profit from the market depending on whether he undertakes a “Short” or “Long” position. When you take a short position, you are speculating that the price of the trading product is going to fall. Conversely when you take a long position, you are speculating that the price is going to rise.

Advantages of the Forex Market

Highly Liquid Market

Over $4 trillion dollars’ worth of currency is traded daily on the Forex market, where market orders are executed almost instantaneously. This means that the market is too large for any single individual or institution to control.

24 Hour Market

Because the Forex market is not tied to a single physical location, 24 hour trading is possible in this market. The market operates from 5am Monday morning in Sydney (+10 GMT time) to 5pm Friday evening in New York (EST time).

No Fees or Commissions

Most brokers in the Forex market do not charge commissions when you buy or sell a currency pair. Instead; what you pay is the "spread". This is the difference between the Bid price and the Ask price.

Leverage

The majority of Forex brokers provide margin trading accounts for their clients. This allows traders to leverage their trading and take positions of a higher value that the money they deposit.

For example: At THEGLOBALFX a leverage of up to 1:400 is given to our MT4 clients. This means that with just $1,000 investment, you could trade up to $400,000 worth of base currency. Of course, you would be leveraging yourself too much and would be immediately stopped out. Traders only require a small amount of capital in order to take a much larger position in the market. If the market position taken by the trader happens to incur heavy losses, and your losses cause the balance of your trading account to fall, your broker may then close your market positions. The deposit is essentially a deposit against potential losses.

The 'Leverage' refers to where a trader effectively borrows money from the Forex brokerage firm and uses that money specifically for trading in the Forex market.

As stated THEGLOBALFX offers up to 1:400 leverage and it is common to find brokerage firms offering ratios of over 1:100. In contrast, in the equity market, a trader needs to come with 100% of the transaction value for every trade that they make.

Leveraging is all about profit maximization as well as risk minimization. With leverage, the Forex trader is able to profit more with each trade that he makes. At the same time, the risk factor of his transaction is also multiplied many times over, and there is a greater need for proper risk management.

Margin

Before a trader can capitalize on the leveraging factor in Forex trading, he needs to first put up margin. Only once a Forex trader has fulfilled the margin requirements of the brokerage firm, he can then place an order much larger than he has in his trading account. In the event of trading losses when the funds in the trading account fall below the margin requirements, the broker may then close some or all of the trader's market positions to make up for the shortfall. When the trader is close to margin, he/she will receive a 'Margin Call' from the broker, i.e. be careful, you run the risk of being liquidated.

For example, if a trader has $10,000 in his trading account, this means that he has $10,000 of useable margin. Suppose he uses $6,000 to buy several lots of a currency pair; this would mean that he has $4,000 of usable margin remaining. The trader can lose up to $4,000, (ie Equity at $6,000 level) before the broker will advise the client that he is on Margin Call. Should the positions continue against the client and the client sees his Equity drop to $3,000 then the client may be stopped out. This is 50% Margin Level in MT4 terms.

Pips

In Forex, any reference to fluctuations in the rates is done so in terms of "pips". A pip in the FX market was traditionally the smallest amount a currency pair could fluctuate; and is normally the fourth decimal. There are cases, for example in the USDJPY where the pip is the 2nd decimal. Nowadays, many brokers including THEGLOBALFX show pricing to the 5th decimal, which is 1/10th of a pip (referred to as a point).

A move in EURUSD from 1.3280 to 1.3281 is a one pip move higher.

Spread

As mentioned above, a foreign exchange quote consist of two prices, the price a bank / broker will buy at (i.e. you can sell) on the left, followed by the price they will sell at (i.e. you can buy) on the right.

Naturally; someone will buy something cheaper than they will sell it, so the ask price will always be higher than the bid price.

The spread in effect is the transaction ‘cost’. For example if the EUR/USD is quoted as 1.32**652**/**666**, then the spread is equivalent to 1.4 pips. What this means for the trader, is that any opening position will immediately show an open loss. Theoretically was a trader to buy at 1.32666 then immediately close at 1.32652, he would show a loss of 1.4 pips.

In reality there are other factors that are a real cost. We shall cover those later.

Chart Basics

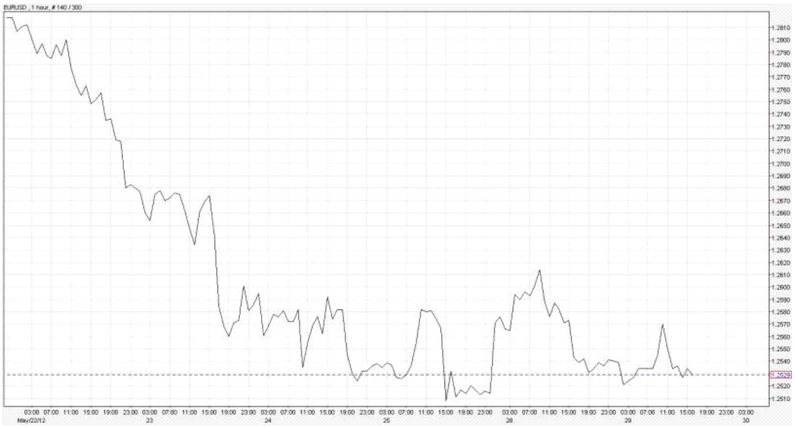
A Forex chart is a graphical representation of the market prices. There are two fundamental elements within the chart itself, the price element and the time element. There are also several types of charts that a Forex trader can use.

Line Charts

Line charts have the ability to present an overall view of the fluctuations within a specific timeframe. They are not as detailed as “Bar Charts” or “Candlestick Charts”, but they are simple and easy to decipher. In essence, line charts are just simple lines that connect with all the closing prices of a currency pair. An example of a line chart is illustrated below:

Bar OHLC Charts (Open, High, Low, Close)

These are more detailed charts. The span of the bar depicts the spread of the prices within a specific timeframe. If there is a wide difference between the low and high of the prices, this will be shown by an extended bar. Opening prices are shown on the left tab while the right tab denotes the closing price. Thus, with one glance, you can see which way the prices are moving as well as how big the movements are. Due to the fact that these charts are fairly detailed, when printed out on paper, they can be quite difficult to peruse. The following chart shows what a bar chart looks like:



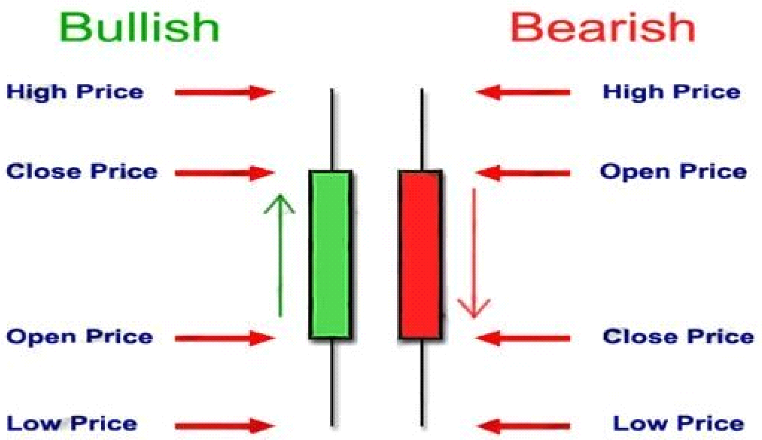
Candlestick Charts

These charts bear a resemblance to a bar chart, but they also show the prices of the Open and Close time frames, Highs and Lows. When compared to bar charts, they are easier to peruse as they are used to denote price movements. In the chart below, a blue color is used to show prices on the upswing while a red color is used to show the opposite direction of the prices. An example of a candlestick chart is depicted below:

Reading Candlesticks

A candlestick displays the high, low, open, and close for a security over a specified period of time. For example: In a 30 minute chart each candlestick represents 30 minutes. The open is the first rate that was received in the beginning of the 30 minutes and the close is the last rate. If the open rate is lower than the close rate it means the rate has increased during the candle and the candle

Will be blue, if the rate decreases the candle will be red. The upper wick shows the highest rate during the candlestick. The lower wick shows the lowest rate during the candlestick.



In the picture below, the green represents the bullish candle.

CHAPTER 2: INTRODUCTION TO FUNDAMENTAL ANALYSIS Fundamental Factors

Influencing Price Movements

In order for a Forex trader to make a profit from trading in the market, he should be able to predict the movements of prices. To do this, he can resort to "Fundamental Analysis" or "Technical Analysis" to help him formulate his prediction about Forex price movements. Fundamental analysis looks at the macro economic factors that can affect a currency exchange rate such as news and economic events and indicators.

Financial Calendar

Date	Time	Currency	Importance	Event	Actual	Forecast	Previous
13	01:30	EUR		French CPI (MoM)		0.60%	0.50%
	02:00	EUR		German WPI (MoM)		1.30%	1.40%
	03:15	CHF		PPI (MoM)		0.40%	0.20%
	04:30	GBP		Claimant Count Change		-3.00K	-10.20K
	04:30	GBP		Unemployment Rate		8.00%	8.00%
	04:30	GBP		Average Earnings Index +Bonus		2.60%	2.30%
	05:00	EUR		Industrial Production (MoM)		0.80%	0.20%
	07:00	USD		MBA Mortgage Applications			-2.00%
	08:00	PLN		Polish CPI (YoY)		3.90%	3.60%
	08:30	USD		Retail Sales (MoM)		0.50%	1.00%
	08:30	USD		Core Retail Sales (MoM)		0.80%	0.70%
	10:00	USD		Business Inventories (MoM)		0.80%	0.90%
	10:30	CAD		BoC Monetary Policy Report			
	10:30	USD		Crude Oil Inventories			2.00M
	10:30	USD		Gasoline Inventories			-0.40M
	13:00	AUD		RBA Governor Stevens Speaks			
	14:00	USD		Beige Book			
	18:30	NZD		Business NZ PMI			53.70
	19:00	KRW		South Korean Unemployment Rate		4.00%	4.00%
	Tentative	GBP		Nationwide Consumer Confidence		40.00	38.00
	21:00	AUD		MI Inflation Expectations			3.60%
	21:30	AUD		New Motor Vehicle Sales (MoM)			0.20%

Some traders use a financial calendar like the one shown below in order to stay on top of these events:

Interest Rates

In each country whose currency is traded in the Forex market, the Central bank of the respective country will determine the overnight lending rate for the commercial banks. Control of interest rates is essential for the central bank of a country to implement its monetary policies. The interest rate can also be used as a tool to expand or contract the money supply. Generally, a lower interest rate will cause a country's currency to depreciate, due to Forex traders indulging in Carry Trades. Carry Trading is a trading strategy where a Forex trader sells a currency that is yielding low interest for another currency that is earning a higher interest rate. This is because currencies with higher interest rates will normally rise in value. In addition, with trading rollovers / swaps, traders are also able to earn interest daily.

Unemployment Rate

This is one of the primary indicators of how well a country's economy is doing. A high unemployment rate will indicate that the country's economy is performing poorly and this will lead to a depreciation of the country's currency.

Geopolitical Scenario

All significant global political events affect the financial Markets and not just the Forex market.

Using Fundamental Analysis to Trade Major Currency Pairs

The use of Fundamental Analysis is particularly useful in predicting the long term trend of a currency. By concentrating on those long term factors which affect a country's economic growth, traders are able to predict which way a currency pair will move in the long term.

An example:

In this example, a Forex trader is of the opinion that the Bank of England will intervene in the financial markets by lowering the interest rate.

If this happens, this will likely result in the value of the British pound decreasing against the US Dollar. In such a situation, a trader may take a 'short' market position for the GBP/USD. He will then look for the Bid price for the GBP/USD pair with the view of selling this currency pair.

Conversely, if the trader believes that the value of the British pound will rise in relation to the US Dollar, he will then proceed to get the Ask price for the GBP/USD currency pair with the view of buying this currency pair.

EUR/USD

Typically, when the US Dollar weakens, the Euro will rise in relation. Conversely, when the US Dollar strengthens, the Euro's value will decline in relation. For example, when the US economy faces an increasing high unemployment rate, this will likely result in the

Dollar weakening. As a consequence, a trader may buy the Euro with the expectation that it will appreciate against the US Dollar. Similarly, if there is a surge in demand for US financial instruments like treasury bonds or equities, this will likely help push the value of the US Dollar up in relation to the Euro. In this case, a trader will want to sell the Euro as the value of US Dollar will likely appreciate.

USD/JPY

If the Japanese Government wishes to boost the demand for their exports, they will seek to try to weaken the Japanese Yen in relation to the US Dollar. When that happens, the USD/JPY will likely rise in price. Traders wishing to benefit from this scenario should buy the USD/JPY in anticipation of the increase in the

Value of the US Dollar. Similarly, when the level of Foreign Direct Investment (FDI) increases in Japan, this will generally help push up the value of the Yen in relation to the US Dollar. If that is the case, traders should sell the USD/JPY hoping to profit from the appreciation in the Yen.

GBP/USD

If the money supply in the UK economy increases, this will result in the supply of money exceeding the demand for money. This will mean that the banks will have more money to lend resulting in lower interest rates as a result. These factors will generally depreciate the value of the British pound in relation to the US Dollar, and a trader would want to sell the GBP/USD currency pair. Conversely, if due to prudent monetary policies, the UK's economy is enjoying robust growth as reflected in the increasing

Growth rate of its Gross Domestics Product (GDP). This may result in the value of the British pound appreciating in relation to the US Dollar. Therefore, traders will generally want to buy the GBP/USD currency pair.

USD/CHF

The Swiss franc is normally seen as a safe haven currency. Thus, during times of global instability, the Swiss franc becomes a highly demanded currency, which will appreciate in value in relation to the USD. Therefore, in shaky economic times, traders may look to sell the USD/CHF. On the other hand, during times of stability, the demand for the US Dollar will increase as people will see less need for parking their money in Swiss Francs as a safe haven currency. In this situation, traders will generally buy the USD/CHF as the US Dollar continues to strengthen against the Swiss franc.

EUR/CHF

In this scenario, high inflation rates in European Union (EU) countries will drive down the value of the EUR/CHF. Traders will likely respond by selling the EUR/CHF currency pair. On the other hand, increasing GDP of the EU countries will show that the EU economies are healthy. This should drive up the value of the EUR/CHF. Hence, traders in this situation will likely react by buying the EUR/CHF currency pair.

AUD/USD

One of the biggest export earners for Australia comes from the mining sector. Hence, any increase in commodities prices

will boost the export earning of Australia, which will in turn benefit the value of the Australian Dollar. Here, traders could react by buying the AUD/USD currency pair since the Australian Dollar will strengthen against the US Dollar. Another major export earner for Australia comes from the agricultural sector. Therefore, if Australia is facing widespread drought, this could cause the agricultural sector to decrease its contribution to export earnings for the

Australian economy. As a result, the Australian Dollar will likely depreciate in relation to the US Dollar. Therefore for traders to profit from this situation, they could sell the AUD/USD currency pair, as the Australian Dollar will generally slide in value against the US Dollar.

USD/CAD

Continuing high unemployment rates suffered by the Canadian economy will likely result in the Canadian Dollar depreciating against the US Dollar. In order to take advantage of this scenario, traders could buy the USD/CAD currency pair. On the contrary, if the Canadian economy is going to rebound due to lower unemployment rates, this may result in the Canadian Dollar appreciating against the US Dollar. For traders to profit from this, they could sell the USD/CAD currency pair.

NZD/USD

New Zealand controls a third of the global trade in dairy and meat products. In essence, this country's economy is centered on its agricultural sector. Therefore any factors that affect this sector of its export earnings will affect its exchange rate. As such, a decline in dairy output in the US as a result of natural disaster may result

CHAPTER 3: INTRODUCTION TO TECHNICAL ANALYSIS

Technical Factors Influencing Price Movements

Another method of research Forex traders can use to formulate a trading strategy is through Technical Analysis. Although Technical Analysis can be mentally challenging at first, once one masters the techniques of Technical Analysis, it is easy to apply to trading strategies. It is also an extremely useful tool that makes up for the shortfalls of Fundamental Analysis.

The main problem that traders face with Technical Analysis is that there are so many ways to analyze market information. Any misinterpretation may lead to the wrong conclusions and results. On the flip side, because the majority of market participants rely on Technical Analysis tools, it becomes a self-fulfilling prophecy. With traders watching the same technical indicators, it is a foregone conclusion that the market will move in a direction that is indicated by technical indicators derived from Technical Analysis.

Using Technical Analysis to Trade Major Currency Pairs

The main objective behind Technical Analysis is to work with charts to identify trends when they initially develop. This will permit the trader to capitaliz on trend until they switch decision. The reason why Technical Analysis plays such an important part in the Forex market is because the Forex market is comprised mainly of trends. Due to the nature of the Forex market, traders are able to trade on the ups and downs of the market. It is in this situation where Technical Analysis is most effective in helping traders predict the movements of the trends.

As opposed to its use in other financial markets, Technical Analysis is widely used within the Forex community. In part, market movements are predicted by adding technical indicators to Candlestick charts. As mentioned, however, due to the fact that the majority of the traders rely on the same technical indicators to predict price movements, market movements also become a self- fulfilling prophecy. Therefore, if Technical Analysis predicts that the price of a currency pair will decline, because the majority of traders are acting in response to this analysis, the price will likely decline further.

Resistance & Support

One of the fundamental concepts in technical analysis is the concept of support and resistance.

Resistance, in Forex trading, refers to a situation where prices have reached their peak and are having difficulty moving further upwards. The level at which the price cannot seem to break through is known as the “Resistance Level”. This is actually a subjective level and at times it can be extremely difficult to determine precisely where this level rests.

When you see a resistance level like the one in the figure below, you want to sell as close as you can to the resistance line:

Support on the other hand, is the opposite of resistance. It refers to a situation where prices have declined to their bottom and are having difficulty moving further down.

Even though Technical Analysis is more of a scientific and mathematical concept, there is no precise way to determine where the support and resistance levels for a particular currency pair will be. These levels are more or less arrived at through intuition gained from trading experience. When

you have a support line you want to buy as close as possible to that line, as seen in the picture below:

Prices around these two areas normally have difficulty breaching their support or resistance levels due to the lack of opposing market orders. These are the points for which the market outlook is one that the market is going to turn soon, and as a result, there can be a lack of participation in these situations.

Range Trading

Although it is difficult to pinpoint where exactly these levels are, traders are still able to utilize these concepts because they can trade within these ranges. When the pair is trading within the support level regions, traders tend to adopt a “Long” market position and while at the resistance region, they tend to adopt a “Short” market position.

Drawbacks of Range Trading

One of the major drawbacks of Range Trading is that there is little chance for profits within the ranges. The market

generally spikes or crashes suddenly when it breaks the threshold of these levels, and when that happens, traders adopting Range Trading strategies may find themselves incurring huge losses when the prices jump or drop suddenly.

Below is a chart illustrating the concept of Range Trading?

Momentum Markets

An alternative trading strategy to Range Trading is where a trader utilizes the concept of support and resistance to trade beyond the range. When one adopts this trading strategy, one is anticipating the market will break the threshold of these levels. Thus, a trader will place a ‘Buy’ limit order above the resistance level and a ‘Sell’ market order below the support level. The underlying principle is that the market will gain impetus once these thresholds are breached. This will allow traders to profit from this situation once the prices breach these levels.

The chart above shows an uptrend pattern, meaning that when the momentum is positive you can draw the trend line between the bottoms and join the trend.

The chart above shows a downtrend line, meaning that when the momentum is negative, you want to sell the currency pair.

Oscillators

Oscillators are a set of technical indicators that help a trader determine whether a market is overbought or oversold. One such oscillator that is commonly used by Forex traders is the Relative Strength Index (RSI).

Relative Strength Index (RSI)

The RSI, developed by J. Wilder, contrasts the downtrend and uptrend prices over a period of time. The RSI gives more emphasis to the latest data and provides a better indication than what is provided by other oscillators. As the RSI is less sensitive to sharp price fluctuations, it helps to sift unwanted “noise” in the Forex market.

In addition to being a momentum indicator, Forex traders also use the RSI as a volume indicator. Because of the nature of the Forex market as an ‘Over the Counter’ market (OTC), real time volume reporting is not possible. The RSI has a scale from 0 to 100. Any reading that is below 30 denotes oversold market conditions, while any reading above 70 denotes overbought market conditions.

The chart above indicates an RSI reading of below 30 while the Chart below shows an RSI reading of above 70, meaning that the currency pair is getting overbought.

Five Different Ways of Using the RSI

1. To indicate overbought or oversold market conditions. These conditions are indicated by a reading at 30 or 70.

2. Divergences – if the price of a currency reaches a new high and the RSI doesn't show the same situation, this normally indicates that a price reversal is imminent.

3. Support & Resistance - The RSI can also be used to indicate the support and resistance levels of a currency trend.

4. It can be used to indicate chart formations more clearly. Chart patterns like "Double Tops" or "Head & Shoulder" can be seen more clearly with the RSI than on the price chart itself.

5. Failure Swings – if the RSI breaches its previous peak or low, this may mean that a price breach may be on the way.

Exponential Moving Averages

This is a type of moving average that is akin to a simple moving average, except that more emphasis is given to the latest price data. EMAs are more responsive and react more quickly to the current price changes.

For the short term, Forex traders normally use the 12-day and 26- day averages. For the long term, traders normally rely on the 50- day and 100-day averages as signals for long term trends. EMAs are also used to calculate the percentage price oscillators (PPO) and the MACD (Moving Average Convergence Divergence).

EMAs are also known as exponentially weighted moving averages. The EMAs allow us to monitor

and inform us of the best point

For entering or exiting a market position. These EMAs permit us
To spot any changes in the trend pattern. The trigger for when the trend reversal is occurring, is when these EMAs crossover.

Using Exponential Moving Averages

By following a trend, we would be able to spot any changes in the trend when they are about to change. And with this, we are ideally positioned to take advantage of this reversal in the trend. All market movement will move in one of three directions: upwards, downwards, or sideways.

Using moving averages permits us to isolate these movements and then capitalize on the situation. Before all else, the EMAs need to crossover in order for the trader to be in a profitable

Position. Nevertheless, it is important to take note of a situation where the EMAs are moving extremely close to each other and skirt over each other giving out a false signal that the EMAs have crossed.

The reason why there are EMAs for short term and long term scenarios is to try to avoid situations where there can be false signals. The picture given by the short term averages and long term averages are used to confirm the overall picture. However, please take into consideration that EMAs alone are not a sufficient enough indicators for traders to rely on in order to confirm a reversal in market trends. Traders should also look to other technical indicators to see if they give the same overall picture before forming a hypothesis. This is the main reason why Forex traders also rely on Fibonacci retracements to analyze the market scenario.

Fibonacci Retracements

Fibonacci ratios are actually a series of numbers that are used to help describe a natural progression of proportions. These numbers were discovered by the mathematician Leonardo Fibonacci. The main idea behind Fibonacci ratios is to use them as indicators for resistance and support levels. They can be used to indicate the levels where traders can realize their profits.

When the market is bullish, the idea is to go long on the market position. With your trading platform software, you can calculate the Fibonacci Retracements levels so that you know at which points that you have to realize your profits. Due to the fact that the majority of Forex traders rely on Fibonacci Retracements

Levels for their trading strategies, the Fibonacci Retracements levels actually become a self-fulfilling prophecy.

The following example illustrates how the concept of Fibonacci Retracements levels work. The chart below is a daily chart of the USD/CAD currency pair. Based on the chart, the swing low is at
0.9799 while the swing high is at 1.0313.

The plotted Fibonacci Retracements levels are at:

- 1.0116 (0.382)
- 1.0056 (0.500)
- 0.9996 (0.618)

In the chart above the USD/CAD currency pair is in an upward trend but has begun a downward swing from its top of 1.0313. Traders will react by waiting to see if the retracement stops at Fibonacci Retracement level of 0.382 and if so, will open long positions at the 0.382 Fibonacci Retracement level and be able to

realize a big profit. Typically, the price will halt at one of the plotted levels as the sell orders generate enough support for the price. If the movement manages to break support levels at the 0.382 Fibonacci Retracement levels traders will wait to see if the 0.500 levels are broken and if not, join the uptrend there. The sign that the uptrend is over is when the 0.618 levels are broken. At this point traders will open short positions on the currency pair again, being able to realize a big profit.

CHAPTER 4: GETTING STARTED WITH YOUR NEW FOREX ACCOUNT Trading Accounts

Forex traders generally have a choice of accounts.
THEGLOBALFX Offers two types of accounts: Demo and Live accounts.

Trading Platforms

Traders who trade with THEGLOBALFX can choose between Metatrader. MT4 is an award winning trading platform, and is the worlds' most used Forex trading platform. This platform can be downloaded via our website and is also available in App Store and Google Play for traders who wish to trade via mobile.

Before starting to trade, a Forex trader should in the first instance be sure to familiarize himself with his trading platform. A Demo Account should be used (which is not real money) so that he/she can become fully acquainted with the technology.

There are hidden costs / benefits when it comes to forex trading. One such cost / benefit is the interest payable / chargeable for holding an overnight position on one particular currency against another.

Roll Over/Swap Charge

The price of a currency pair is a price for ‘settlement’ in two days’ time (normally). In margin FX trading you don’t need to worry about these concepts too much, but what must be understood is that as your positions never expire until you close them, the price must change ever slightly day to day.
Suppose you buy AUDUSD for example. You will be long of AUD and short USD. If you had AUD and put them into a bank account you might earn maybe 4% interest. If you borrowed USD you might pay 1% interest. So you earn 4% and pay 1%; not a bad deal; this is a form of carry trade.
As said before the price you paid for the AUDUSD was a price for ‘Settlement’ in 2 days. If you hold the position overnight (at 5pm New York time) then an adjustment needs to be made to allow for holding the money.
The swap rates that you will receive / pay could be checked on MT4 by right clicking the currency pair on “Market watch” window and selecting the “Symbols” option, both long and short swap charges will be shown here.

Risk Management

Naturally prices move and currencies fluctuate for all the reasons mentioned above and more. Whenever you hold a position you should think about always having a Stop Loss in place alongside a Take Profit order. It is your decision where to place your orders but keep in mind that they should neither be too close to the current market not too far away.

Always keep your composure when trading and don't let your emotions cloud your judgment. By preparing yourself mentally, you will be aware of what to expect and not let the situation get the better of you.

Before embarking on a trade, the trader should keep the following questions in mind:

What is the extent of the market movement and when is the correct time for profit taking?

A trader can place a Market order to close his market position when he reaches his profit target. If you hold a 'Short' position, you could also place a Take Profit just under the current market price as this is your profitability zone, eg. You sell something at 50 and hope to buy it a 20. On the other hand, if you are holding a
'Long' market position, you should place your TP above the current market price. With the use of TP orders, a trader is able to adopt a more disciplined and systematic trading stance. He can still benefit from the price movements even if he is not monitoring the market constantly.

What is the extent of losses that a trader is willing to undertake before closing a market position?

With a Stop Loss order, traders can specify a closing point for a losing market position. You accept that your view of the market was incorrect and wish to minimize your losses. If you take a short position on a currency pair, then you should place you SL order at a price higher than the current market price. Conversely, if you had

taken a long position, then the Stop Loss order should be placed lower than the current market price.

Where to place Stop Loss and Take Profit Orders

As a rule of thumb, a Stop Loss order should be placed nearer to the opening price than Take Profit order. If this philosophy is strictly adhered to, a trader only needs to be correct about half the time to remain profitable. For example, with a 30 pip Stop Loss order and a 100 pip Take Profit order, a trader only needs to be correct 30% of the time in order to make a profit. Precisely where to place these orders will depend on how much risk a trader is willing to take. Furthermore, the Stop Loss order should not be too close so as not to render it obsolete by normal market fluctuations.

With regards to Take Profit orders, they should be placed such that there are realistic profit expectations, taking into consideration the duration of the open position and market sentiments.

The Psychology of the Trader

Before beginning to trade in the Forex market, a trader should properly analyze his potential positions and also consider his trading plan for the next day. Many novice Forex traders neglect this part of their training, because they're anxious to make money and they jump into trading based on hunches and guesses. It is only through careful analysis and planning that a trader can keep his losses to a minimum and at the same time maximize his profitability. Therefore, prior to commencing trading ensure e that you have a trading plan to strictly manage any potential losses as well of course to lock in your profits.

It is important that once you have a trading plan in place, you should adhere to it. This is another area which many traders fail to keep in check. Without some sense of strong discipline, a trader can easily deviate away from his trading plan and start to trade based upon hunches.

The trader might delay closing his position at his profit target in the hope of making more money or he may hold on to a declining market position for too long in the hope that it will rebound.

One other major psychological mistake that traders make is the assumption that all trades are profitable. They might have reached this assumption because of particular instances where the Stop Loss order is triggered, and later the market rebounded back favorably.

This can easily lead to traders forgetting to place Stop Loss orders on their subsequent trades. They forget that the Stop Loss orders are there to prevent them from losing more money than they would otherwise. One has to remember that Stop Loss orders do not act as an impediment to making profits. Although, occasionally a Stop Loss order might be triggered and a trader loses a certain amount, if he maintains his original plan, his profit run will more than make up for his initial losses. This is why it is crucial that a trader should always consider adhering to his original trading plan.

Forex traders should also never become emotionally involved in their trading. What can happen is that when a trader becomes emotionally involved, when they place a trade, they cannot let go even if it is a losing trade. A trader should always be objective in his investment decisions so as not to cloud his judgment. It is not uncommon for a person to want to justify his action by making excuses through an alternate analysis. Because he is already emotionally involved, his subsequent analysis becomes tainted and biased, lacking objectivity.

This sort of mentality can cause a trader to lose sight of his initial goal. Coupled with the fact that they can leverage their trades, this can cause a trader to multiply his losses far more originally than anticipated. A trader could easily slip into a mode of overtrading, ultimately opening themselves up to a situation of far more liability with far less objectivity.

Trading Philosophies & Market Noise

By now, you should be aware that as a Forex trader you can go one of two paths or a mix of both Fundamental Analysis and Technical Analysis. There is no single magic formula that leads to success in such a fluid environment like the Forex market. Thus, to err on the side of caution, a prudent Forex trader may rely on both Fundamental and Technical analysis to formulate his trading strategy. Maybe use Fundamental Analysis to identify possible trends that may emerge, and then use Technical analysis to help you confirm your hypothesis.

The reason why we need Technical Analysis in our trading strategy is because it is purely objective. Fundamental analysis relies on an element of subjectivity in order to arrive at a possible conclusion. By focusing on Technical Analysis to confirm our hypothesis, we are able to sift out the “Market Noise” which forms the bulk of market sentiments. We cannot avoid this “Market Noise” because it is everywhere around us, in the news we read, in the comments that people make and in analyses conducted by experts.

CHAPTER 5: Summary

As a novice and like every new interest a person has it makes sense to educate oneself as much as possible. Once you have an understanding of the basics, formulate a strategy that you think should work for you based upon your interest and skills. You may have no interest in charting for instance. When you create a strategy try and stick to it by minimizing your emotion. This is emotion factor is one of the reasons why MT4 are so popular in the first place. You input a strategy and the platform takes the guesswork out; executing what you have input as you wrote it; without deviation, thought or emotion.

Once a trading strategy has been formulated, a trader should select the currency pair he wishes to trade in, then the method of analysis that suits the individual.

Fundamental Analysis relies on the macro economic factors that can influence the price movements of a currency pair. Technical Analysis relies on past prices to help a trader identify trends to capitalize on. Traders must always bear in mind that there is no single method for identifying price fluctuations. Most traders use a combination of both Fundamental and Technical Analysis in order to arrive at a single hypothesis regarding price fluctuations. Some of the technical tools that a trader can use are charts and moving averages. The charts used can be simple line charts or more detailed charts like bar charts or candlestick charts.

In addition to charts, traders could also Fibonacci ratios to help them spot trend reversals. In summing up, there is no foolproof system where a trader is guaranteed to make profits. All trading involves risk. What is important for a trader to realize is that they

Should be aware of what they are getting themselves into! Happy trading from THEGLOBALFX.

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