

The Foreign Exchange (FOREX) Market Explained

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Intro to FOREX

The Foreign Exchange Market – more commonly known as FOREX - is a the global market for trading currencies. It handles a huge volume of transactions 24 hours a day, 5 days a week.

Daily exchanges average approximately \$2 trillion (US dollars). In comparison, the United States stock markets, like the New York Stock Exchange and the NASDAQ, handle only about \$100 billion a day. (Only about 5% of the size of the daily FOREX market)

The Foreign Exchange Market was established in the early 1970s with the abolishment of fixed currency exchanges under President Nixon. Currencies became valued at 'floating' rates determined by supply and demand.

The FOREX grew steadily throughout the 1970's, but it was the technological advances of the 80's that allowed FOREX to grow from trading levels of \$70 billion a day to the current level of around \$2 trillion.

The FOREX is made up of about 5,000 trading institutions such as international banks, central government banks (such as the US Federal Reserve), and commercial companies and brokers for all types of foreign currency exchange.

There is no centralized location for the FOREX – major trading centers are located in New York, Tokyo, London, Hong Kong, Singapore, Paris, and Frankfurt, and all trading is by telephone or over the Internet. Businesses use the market to allow them to buy and sell products in foreign countries. However, most of the activity on the FOREX is from currency traders who use it to generate profits from small movements in the market.

Even though there are many huge players in FOREX, it is accessible to the small investor thanks to recent changes in regulations. Previously, there was a minimum transaction size and traders were required to meet strict financial requirements.

With the advent of Internet trading, regulations have been changed to allow large interbank units to be broken down into smaller lots. Each lot is

worth about \$100,000 and is accessible to the individual investor through 'leverage' or 'margin' – loans extended for trading. Typically, lots can be controlled with a leverage of 100:1 meaning that US\$1,000 will allow you to control a \$100,000 currency exchange.

There are many advantages to trading in FOREX.

- Liquidity - Because of the size of the Foreign Exchange Market, investments are extremely liquid. International banks are continuously providing bid and ask offers and the high number of transactions each day means there is always a buyer or a seller for any currency.
- Accessibility – The market is open 24 hours a day, 5 days a week. The market opens Monday morning Australian time and closes Friday afternoon New York time. Trades can be done on the Internet from your home or office.
- Open Market – Currency fluctuations are usually caused by changes in national economies. News about these changes is accessible to everyone at the same time – there can be no 'insider trading' in FOREX.
- No commission – Brokers earn money by setting a 'spread' – the difference between what a currency can be bought at and what it can be sold at.

FOREX versus Stocks

Stocks have been a popular investment for hundreds of years. Companies issue stocks to raise capital for expansion and new projects, and each share of the stock represents a partial ownership in the company.

When the company does well and makes a profit, the value of the stocks rise. Stock owners can sell their shares for a profit or hold on to the stock for even more gain in the future. Sometimes companies will issue

dividends – part of the profits that are distributed to share holders.

Stocks are traded on stock exchanges. Most stocks are bought and sold through brokers who charge a commission or fee for this service. American stock exchanges include the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotation System (NASDAQ). Most stocks are only listed on one exchange, although large companies may have listings on several exchanges.

Stocks were traditionally seen as long term investments. So called 'blue chip' stocks - those having proven value over many years - may form the backbone of an investment portfolio. Short term trading is a relatively new phenomenon made possible with the advent of Internet trading.

Day traders attempt to take advantage of large daily fluctuations in the market by buying and selling many times in one trading period. It is relatively risky and any profits realized are reduced by broker commissions charged on each transaction.

Stocks may sometimes be bought on margin, meaning that the investor borrows money to buy the stocks. Margin rates are usually around 50% - the investor can borrow as much as half the value of the stock.

FOREX

The Foreign Exchange Market (FOREX) is quite different from the stock exchange. In contrast to the stock exchange, the FOREX is primarily a short term market. Most traders enter and exit deals within a 24 hour period – sometimes within a few minutes.

Many FOREX trades can be made in one day without building up a large brokerage fee because FOREX trades are commission free. Brokers earn money by setting a spread – the difference between asking and selling prices.

The FOREX is the largest financial market in the world. It handles transactions worth around \$2 trillion every day. The huge volume of FOREX means that it is one of the most liquid markets in the world. There is always a buyer and seller for any type of currency because the world

economy relies on the movement of goods from country to country. The stock market is less liquid because participants may choose to hold their investments or move on to other markets.

The FOREX is not located in any one location. Trading markets are located world-wide and because of difference in time-zones trades can be made 24 hours a day, 5 days a week. Trading begins in Sydney, Australia on Monday morning (Sunday afternoon New York time) and continues non-stop until Friday afternoon New York time.

Stock exchanges have more limited trading hours. While it is possible to trade on exchanges world-wide, each exchange is independent and operates for just 7 hours a day. There is no way to buy or sell a certain stock that is only traded on one stock exchange when that exchange is closed.

FOREX versus Futures

The origins of today's futures market lies in the agriculture markets of the 19th century. At that time, farmers began selling contracts to deliver agricultural products at a later date. This was done to anticipate market needs and stabilize supply and demand during off seasons.

The current futures market includes much more than agricultural products. It is a worldwide market for all sorts of commodities including manufactured goods, agricultural products, and financial instruments such as currencies and treasury bonds. A futures contract states what price will be paid for a product at a specified delivery date.

When the futures market is played by speculators, the actual goods are not important and there is no expectation of delivery. Rather, it is the futures contract itself that is traded as the value of that contract changes daily according the market value of the commodity.

In every futures contract there is a buyer and a seller. The seller takes the short position and the buyer takes the long position. The futures contract specifies a buying price, a quantity and a delivery date. For example: A farmer agrees to deliver 1000 bushels of wheat to a baker at a price of

\$5.00 a bushel. If the daily price of wheat futures falls to \$4.00 a bushel, the farmer's account is credited with \$1000 ($\$5.00 - \4.00×1000 bushels) and the baker's account is debited by the same amount. Futures accounts are settled every day.

At the end of the contract period, the contract is settled. If the price of wheat futures is still at \$4.00 the farmer will have made \$1000 on the futures contract and the baker will have lost the same amount. However, the baker now buys wheat on the open market at \$4.00 a bushel - \$1000 less than the original contract, so the amount they lost on the futures contract is made up by the cheaper cost of wheat.

Similarly, the farmer must sell his wheat on the open market for \$4.00 a bushel, less than what they anticipated when entering the futures contract, but the profit generated by the futures contract makes up the difference.

The baker, however, is still in effect buying the wheat at \$5.00 a bushel, and if they hadn't entered into a futures contract they would have been able to buy wheat at \$4.00 a bushel. They protected himself against rising prices but they loses if the market price drops.

Speculators hope to profit by the daily fluctuations in the futures market by buying long (from the buyer) if they expect prices to rise or by buying short (from the seller) if they expect prices to fall.

FOREX

The foreign exchange market (FOREX) has several advantages over the futures market. FOREX is a more liquid market – as the largest financial market in the world it dwarfs the futures market in daily exchanges. This means that stop orders can be executed more easily and with less slippage in the FOREX.

The FOREX is open 24 hours a day, 5 days a week. Most futures exchanges are open 7 hours a day. This makes FOREX more liquid and allows FOREX traders to take advantage of trading opportunities as they arise rather than waiting for the market to open.

FOREX transactions are commission-free. Brokers earn money by setting

a spread – the difference between what a currency can be bought at and what it can be sold at. In contrast, traders must pay a commission or brokerage fee for each futures transaction they enter into.

Because of the high volume of trading FOREX transactions are almost instantly executed. This minimizes slippage and increases price certainty. Brokers in the futures market often quote prices reflecting the last trade – not necessarily the price of your transaction.

The FOREX is less risky than the futures market because of built-in safeguards in the trading system. Debits in futures are always a possibility because of market gap and slippage.

How does FOREX work?

Currencies are always traded in pairs – the US dollar against the Japanese yen, or the English pound against the Euro. Every transaction involves selling one currency and buying another, so if an investor believes the Euro will gain against the dollar, they will sell dollars and buy Euros.

The huge potential for profit exists because there is always movement between currencies. Even small changes can result in substantial profits because of the large amount of money involved in each transaction. At the same time, risks can be minimized for the individual investor. There are safeguards built in to protect both the broker and the investor and a number of software tools exist to minimize loss.

However, that being said the FOREX market like any other investment has it's own risks involved. I strongly recommend that you familiarize yourself with all of the risks involved in investing in FOREX before you actually begin actively trading.

I have outlined some of the more common risks below but please be advised that this is no way a complete list. **I will not be held responsible for any losses financial, emotional or otherwise that may result from potential losses suffered from the FOREX market.** I assume that you are a fully functioning adult and can take responsibility for your actions, if that doesn't sound like you then FOREX trading is NOT FOR YOU!

Thus, please read the following section carefully and really consider if FOREX trading is for you. While there is unquestionably an enormous potential for profit from trading currencies, it is by no means guaranteed and therefore no shame in admitting that this kind of investment is not for you.

Risks of FOREX Trading

Despite the claims you may see on some FOREX web sites, FOREX is not risk-free. You are trading with large sums of money and there is always a possibility that trades will go against you.

There are several trading tools, however, that can minimize your risk, and with caution, and above all education, the FOREX trader can learn how to trade profitably while minimizing losses.

Scams

FOREX scams were fairly common a few years ago. The industry has cleaned up considerably since then, but you still need to exercise caution when signing up with a FOREX broker. Do some background checking – reputable FOREX brokers will be associated with large financial institutions like banks or insurance companies and they will be registered with the proper government agencies.

In the United States brokers should be registered with the Commodities Futures Trading Commission (CFTC) or a member of the National Futures Association (NFA). You can also check with your local Consumer Protection Bureau and the Better Business Bureau.

Risks

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

- Exchange Rate Risk – refers to the fluctuations in currency prices over a trading period. Prices can fall rapidly resulting in substantial

losses unless stop loss orders are used when trading FOREX.

Stop loss orders specify that the open position should be closed if currency prices pass a predetermined level. Stop loss orders can be used in conjunction with limit orders to automate FOREX trading – limit orders specify an open position should be closed at a specified profit target.

- Margin Risk – Refers to the risk from buying currencies on margin or credit. Many brokers offer margin account giving you a margin of 100:1, meaning you can buy \$100 worth of a foreign currency with just \$1 in your account. This means that both profits and losses can be magnified by 100X. Thus, you can both make and lose a lot of money very quickly.

Therefore, I recommend exercising caution when using margin accounts. Never go for a margin account with a ratio greater than 100:1, (Some go as high as 400:1) because the potential for extreme losses is too high. Also, please use stop loss orders (outlined above) to further minimize risk.

- Interest Rate Risk – can result from discrepancies between the interest rates in the two countries represented by the currency pair in a FOREX quote. This discrepancy can result in variations from the expected profit or loss of a particular FOREX transaction.
- Credit Risk – is the possibility that one party in a FOREX transaction may not honor their debt when the deal is closed. This may happen when a bank or financial institution declares insolvency. Credit risk is minimized by dealing on regulated exchanges which require members to be monitored for credit worthiness.
- Country Risk – is associated with governments that may become involved in foreign exchange markets by limiting the flow of currency. There is more country risk associated with 'exotic' currencies than with major currencies that allow the free trading of their currency.

Limiting Risk

FOREX trading can be risky, but there are ways to limit risk and financial exposure. Every FOREX trader should have a trading strategy – knowing when to enter and exit the market and what kind of movements to expect.

Developing strategies requires education - the key to limiting FOREX risk. At all times follow the basic rule: **Do not place money in the FOREX that you cannot afford to lose**. I can't overemphasize this enough, if you can't afford to lose then money then FOREX trading is not for you.

Every FOREX trader needs to know at least the basics about technical analysis and how to read financial charts. They should study chart movements and indicators and understand how charts are interpreted.

There is a vast amount of information on FOREX trading available both on the Internet and in print. If you want to be successful at FOREX, know what you are doing.

Two of the best places for in-depth training are the following sites:

[The Trading Authority](http://www.free-forex-training-guide.com/TradingAuthority.html) - This is far and away the best online FOREX training system anywhere. A little pricey but well worth it. Sign-up for free trial to find out why:

(<http://www.free-forex-training-guide.com/TradingAuthority.html>)

[Straight FOREX](http://www.free-forex-training-guide.com/Straight-FOREX.html) - Just as the name says this is a straightforward, no-nonsense way to learn FOREX. Best of all you only pay a one-time membership fee and get ongoing support.

(<http://www.free-forex-training-guide.com/Straight-FOREX.html>)

Even the most knowledgeable traders, however, can't predict with absolute certainty how the market will behave. For this reason, every FOREX transaction should take advantage of available tools designed to minimize loss.

Stop-loss orders are the most common ways of minimizing risk when placing an entry order. A stop-loss order contains instructions to exit your

position if the currency price reaches a certain point.

If you take a long position (expecting the price to rise) you would place a stop loss order below current market price. If you take a short position (expecting the price to fall) you would place a stop loss order above current market price.

As an example, if you take a short position on USD/CDN it means you expect the US dollar to fall against the Canadian dollar. The quote is USD/CDN 1.2138/43 - you can sell US\$1 for 1.2138 CDN dollars or sell 1.2143 CDN dollars for US\$1.

You place an order like this:

Sell USD: 1 standard lot USD/CDN @ 1.2138 = \$121,380 CDN
Pip Value: 1 pip = \$10
Stop-Loss: 1.2148
Margin: \$1,000 (1%)

You are selling US\$100,000 and buying CDN\$121,380. Your stop loss order will be executed if the dollar goes above 1.2148, in which case you will lose \$100.

However, USD/CDN falls to 1.2118/23. You can now sell \$1 US for 1.2118 CDN or sell 1.2123 CDN for \$1 US.

Because you entered the transaction by selling US dollars (buying short), you must now buy back US dollars and sell CDN dollars to realize your profit.

You buy back US\$100,000 at the current USD/CDN rate of 1.2123 for a cost of 121,223 CDN. Since you originally sold them for CDN\$121,380 you made a profit of \$157 Canadian dollars or US\$129.51 (157 divided by the current exchange rate of 1.2123).

OK, well if I haven't scared you away yet it means either you don't understand the risks, don't care about the risks or hopefully you fully understand the risks involved and want to find out how you can profit from the world's largest market.

Thus, I will now explain how you can get started trading in the FOREX.

Getting Started In The FOREX Market

You have read about the foreign exchange market (FOREX) and some of the investment advantages it offers. So now you would like to try it out, but don't know where to start. This section will give you the basics in FOREX and tell you what you need to participate in this fast growing investment field.

Foreign exchange used to be limited to large players such as national banks and multi-national corporations. In the 1980's the rules were revised to allow smaller investors to participate using margin accounts.

Margin accounts are the reason why FOREX trading has become so popular. With a 100:1 margin account, you can control \$100,000 with a \$1,000 investment.

FOREX is not simple, however, and education is needed to make wise investment decisions. Although it is relatively easy to start trading on the FOREX, there are risks involved, so finding out as much as possible about the market is a good move for any beginner. (Some of the risks were outlined above, but others do exist and it is up to you to find out as much as you can about them)

FOREX traders usually require a broker to handle transactions. Most brokers are reputable and are associated with large financial institutions such as banks. A reputable broker will be registered as a Futures Commission Merchant (FCM) with the Commodity Futures Trading Commission (CFTC) as protection against fraud and abusive trade practices.

Opening a FOREX account is as simple as filling out a form and providing the necessary ID. The form will include a margin agreement that states that the broker can interfere with any trade it deems to be too risky. This is to protect the interests of the broker – most trades, after all, are done using

the broker's money. Once your account has been established, you can fund it and begin trading.

Many brokers have different types of accounts to suit the needs of individual investors. Mini accounts allow you to get involved in FOREX trading for as little as \$250, while standard accounts may have a minimum deposit of \$1000 to \$2500 depending on the broker.

The amount of leverage – using borrowed money – varies with accounts. High leverage gives you more money to trade for a given investment. Remember though, I do not recommend a margin ratio of larger than 100:1 because of the increased potential for very large losses.

Paper Trades: A Must For All New FOREX Investors

Beginner traders are STRONGLY advised get accustomed to FOREX by doing paper trades for a period of time. Paper trades are practice transactions that don't involve real capital. They allow you to see how the system works while learning how to use the various software tools that are at provided by most FOREX brokers.

Each broker has their own set of software tools to aid in making transactions, but there are a few tools that are common to all FOREX brokers. Real time quotes, news feeds, technical analyses and charts, and profit and loss analyses are some of the features you should expect to see on most online brokers' web sites.

Almost every broker operates on the Internet. To access their online services you should have a reasonably modern computer, a fast Internet connection, and an up-to-date operating system such as Windows XP.

Once your account is set up, you can access it from any computer – just enter your account name and password. If for some reason you are not able get access to a computer, most brokers will allow you to make trades over the phone.

Remember, trades are commission free, meaning that you can make many trades in one day without worrying about incurring high brokerage fees. Brokers make their money on the 'spread' – the difference between bid and

ask prices.

My two favourite online brokers are the following:

1. [Easy FOREX](http://www.free-forex-training-guide.com/Easy-FOREX.html) - As the name implies, Easy FOREX is about one of the easiest FOREX trading platforms on the internet today. Features include: opening an account from as little as \$25 US, guaranteed rates and stop-loss and best of all no hidden fees!
(<http://www.free-forex-training-guide.com/Easy-FOREX.html>)
2. [Marketiva](http://www.free-forex-training-guide.com/Marketiva.html) - This is another great FOREX trading platform that I highly recommend. Great features include virtual trading, extremely easy sign-up and best of all a \$5 bonus just for giving it a try.
(<http://www.free-forex-training-guide.com/Marketiva.html>)

Margin Accounts Explained

The key to FOREX popularity is margin. Without margin, the FOREX would be beyond the reach of the average investor. So, what exactly is margin and how does it work?

Margin accounts allow FOREX traders to control large amounts of currency with a relatively small deposit. Establishing a margin account with a FOREX broker enables you to borrow money from the broker to control currency lots which are usually worth \$100,000.

The amount of borrowing power your margin account gives you is the leverage. Leverage is usually expressed as a ratio – a leverage of 100:1 means you can control assets worth 100 times your deposit.

What this means in FOREX is that with a 1% margin account you can control standard lots of \$100,000 with a \$1,000 deposit. Trading on margin increases both profits and losses, and the potential exists for the trader to lose more than his original deposit.

With proper safeguards, however, loss can be limited, and usually brokers will terminate a transaction that extends beyond the margin deposit.

Benefits

As we mentioned above, trading on margin gives you more buying power and the potential for more profits (and losses). How does this work, exactly? A 1% margin account allows you to control a currency lot of \$100,000 for \$1,000. When dealing with \$100,000 small changes in the price of the currency can result in large profits or losses.

FOREX currencies are traded in much smaller units than cash. The American dollar, for example, is traded in units down to 4 decimal places. Instead of \$1.32 FOREX quotes are seen as \$1.3256. The smallest unit in FOREX currencies is called the pip, and when you have a \$100,000 each pip of your total lot is worth \$10 (when trading American dollars).

If the price of American dollars changes from 1.3256 to 1.3356, that's a difference of 100 pips which represents a profit or loss of \$1000. Without margin, if you had \$1000 of currency, the price change from 1.3256 to 1.3356 represents a difference of \$10. Significant to the tourist, perhaps, but not the investor.

So the benefit of margin is increased profit potential.

Risks

As there is increased profit potential, there is also increased loss potential. If you are not careful, your entire margin account could quickly be wiped out. If your margin account is 1% and the currency moves just one cent against you, you lose \$1000.

For this reason I do not recommend a margin accounts that give you more than 100 times your initial deposit (some give up to 400 times) because of the unnecessarily high risk of large scale loss.

FOREX trading, however, has several methods to limit loss. Stop loss orders automatically close your position if the value of the currency crosses a pre-determined point. Stop loss orders allow you to limit your losses to a specified amount while still allowing potential profit taking.

An often overlooked risk is the possibility that your broker may close your

position if your potential losses approach the balance of your margin account. You may be riding out a down trend with the expectations of a market reversal, but unless you replenish your margin account you may find your position has been closed. If this happens, you lose all of your margin.

For example:

You sell EUR/USD at 1.2144 (sell 100,000 Euros and buy 121,440 US dollars) with the expectation that the Euro will fall in price. You have a 1% margin account which means the required margin is \$1,214.40. You have \$1250 in your margin account, so to enter this position your margin account is left with \$35.60.

You have not specified a stop loss order, and after you enter this position the Euro suddenly rallies, gaining 0.0263 for a price of 1.2407. 100,000 Euros are now worth US\$124,070 and your 1% margin requirements have risen to \$1,240.70. Depending on the policy of your broker, your position may be automatically closed or the extra funds in your margin account may be used to make up the difference.

In any case, if the Euro continues to gain value and you wish to ride it out (bad idea) you will have to add more funds to your margin account or risk losing everything.

Another example:

You buy USD/CHF at 1.2623 with the expectation that the US dollar will gain against the Swiss franc. You buy a standard lot of 100,000 American dollars for 126,230 Swiss francs with a margin requirement of 1% or \$1,000.

As expected, the US dollar rises to 1.2683 at which point you close your position. You sell 100,000 American dollars for 126,830 Swiss francs for a profit of 600 francs or US\$473.08 (600 francs divided by the exchange rate of 1.2683).

Remember that the sites below are a great place to open margin accounts:

[Easy FOREX](#) - As the name implies, Easy FOREX is about one of

the easiest FOREX trading platforms on the internet today. Features include: opening an account from as little as \$25 US, guaranteed rates and stop-loss and best of all no hidden fees!

(<http://www.free-forex-training-guide.com/Easy-FOREX.html>)

Marketiva - This is another great FOREX trading platform that I highly recommend. Great features include virtual trading, extremely easy sign-up and best of all a \$5 bonus just for giving it a try.

(<http://www.free-forex-training-guide.com/Marketiva.html>)

FOREX Mini Accounts

FOREX mini accounts are meant for traders who are either new to the FOREX market or want to start off with a low investment. They can open a mini account with as little as \$250, as against a regular FOREX account which typically requires a minimum investment of \$1,000.

The good thing is that owners of mini accounts don't suffer from any trading disadvantages. A mini account gives them the same benefits that the regular FOREX account gives to large traders, like free trading platform, small spreads, etc.

What's more a mini account also comes with the added benefit of leverage as outlined above. A trader who has a mini account needs to deposit only \$100 as the margin deposit for a \$10,000 lot trade. This gives the trader a leverage of 100 to 1. My recommended limit for leverage. Keep in mind that the benefits and risks of using margin accounts apply equally to Mini accounts as they do to full size ones.

Another advantage is that a mini FOREX contract size is usually 1/10th the size of the standard contracts where lot sizes are usually 100,000. This reduces the potential loss of a trader. For instance, a FOREX trader holding a regular account will lose \$250 if they set a 25-pip stop loss. The loss for a mini account trader for a similar strategy will be \$25 because the value of a mini lot is 1/10th of the standard lot. Conversely though, the potential profit upside is also smaller.

Consequently, the smaller trader has more flexibility in customizing the

size of the trades and managing the risk. Thus the traders who want to trade with less than \$1,000 would do better by opening a mini account.

This will give them more flexibility in implementing different strategies and more staying power in the FOREX market since they will be able to take advantage of multiple trades without suffering debilitating losses.

The sites below also offer Mini-accounts:

[Easy FOREX](http://www.free-forex-training-guide.com/Easy-FOREX.html) - As the name implies, Easy FOREX is about one of the easiest FOREX trading platforms on the internet today. Features include: opening an account from as little as \$25 US, guaranteed rates and stop-loss and best of all no hidden fees!

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[Marketiva](http://www.free-forex-training-guide.com/Marketiva.html) - This is another great FOREX trading platform that I highly recommend. Great features include virtual trading, extremely easy sign-up and best of all a \$5 bonus just for giving it a try.

(<http://www.free-forex-training-guide.com/Marketiva.html>)

How to Read FOREX Quotes

Currency prices are determined by a number of factors, the most important of which are economic and political conditions in the issuing country. Political stability, inflation, and interest rates are all factored into the price of any currency. In addition, governments can try to control the price of their currency by either flooding the market (to lower the price) or buying extensively (to raise the price).

Because of the immense volume of FOREX, however, it is impossible for one force to control the market for any length of time. Market forces will prevail in the long run, making FOREX one of the most open and fair investment opportunities available.

Each world currency is given a three letter code which is used in FOREX quotes. The most common currencies are USD (US dollars), EUR (European Euros), GBP (United Kingdom pounds), AUD (Australian dollars), JPY (Japanese yen), CHF (Swiss francs) and CAD (Canadian

dollars).

Prices of foreign exchange are indicated by FOREX quotes in pairs of currencies. The first currency is the 'base' and the second is the 'quote' currency. In this example:

$$\text{USD/EUR} = 0.8419$$

...the currency pair is US dollars and European Euros. The base currency (USD) is always at '1' and the quote currency shows how much it costs to buy one unit of the base currency. In this example, 1 US dollar costs 0.8419 euros.

Conversely...

$$\text{EUR/USD} = 1.1882$$

...tells us that it costs 1.1882 US dollars to buy 1 Euro.

When the price of the quote currency goes up it indicates that the base currency is becoming stronger – one unit of the base currency will buy more of the quote currency. If the quote currency falls, however, the base currency is becoming weaker.

FOREX quotes are seen in 'bid' and 'ask' prices. Bid is the price that buyers will pay for the base currency (while selling the quote currency), and ask is the price that sellers will sell the base currency (while buying the quote currency).

Symbol	Bid	Ask
USD/CAD	1.2392	1.2397

This chart tells us that we can buy one American dollar for 1.2397 Canadian dollars, or sell one American dollar for 1.2392 Canadian dollars. The most commonly traded currencies pairs are the 'Majors' – GBP/USD, EUR/USD, AUD/USD, USD/JPY, USD/CHF, and USD/CAD.

We often see exchange rates listed in cross currency charts that list many different currencies and their values against each other. An example of

such a chart is seen bellow:

	US \$	Ca \$	Euro	UK £
US \$	1.00000	1.24060	0.83935	0.56870
Ca \$	0.80606	1.00000	0.67657	0.45841
Euro	1.19140	1.47805	1.00000	0.67755
UK £	1.75840	2.18147	1.47591	1.00000

In this chart, the currencies listed down the left side of the chart are the base currencies and the currencies at the top are the quote currencies. We can convert the chart above into currency pairs by following the row beside the base currency. Using US dollars as the base currency we get the following currency pairs:

USD/CAD = 1.24060
USD/EUR = 0.83935
USD/GBP = 0.56870

...which tells us that one US dollar is equal to the corresponding value of the quote currency. To find the opposite pair e.g. CAD/USD follow the Canadian dollar row to the US dollar column - CAD/USD = 0.80606 (one Canadian dollar is worth 0.80606 US dollars).

There is no standard for cross-currency charts – some have the base currency on the top and some have it on the side. How to tell which is which? You need to know at least one pair of currencies and which one of the pair is more valuable.

Calculating FOREX Profits and Losses

FOREX currencies are traded in much smaller divisions than cash. Whereas the smallest division in US cash is the penny (\$0.01), US currency can be traded on the FOREX in divisions of \$0.0001.

This smallest division is called the pip (short for Price Interest Point – sometimes just called 'points'). Since currencies are traded in large lots of (say) \$100,000 - small movements in value can generate substantial profits and losses. In a lot of US\$100,000 one pip is worth \$10 so an increase in

40 pips (4/10 of one cent) can generate a profit or loss of \$400.

Currencies are traded in lots of various sizes. The standard lot is 100,000 units of the base currency. A unit is the currency name e.g. one unit of US dollars is the dollar. So a standard lot of US currency is worth \$100,000. FOREX trades can have lots of various sizes - a mini lot is 10,000 units, but the most trades are done using standard lots.

Various currencies have different sized pips. The US dollar is expressed in pips of 0.0001 while the Japanese yen is expressed in pips of 0.01. The value of a pip depends on the size of a lot and the currency pair traded. Currency pairs with USD as the quote (second) currency (e.g. CAD/USD) always have a pip value of \$10 per standard lot or \$1 per mini lot. A pip value calculator can be used to calculate other currencies.

Order Types

A trader has at his disposal different types of orders to make FOREX trades. A clear understanding of each type of order is necessary to be a successful FOREX trader.

Market Order – is an order to buy or sell at the current market price. They can be used to enter or exit a trade. Market orders should be used with care because in fast-moving markets there may be a difference between the price seen at the time a market order is given and the actual price of the transaction.

This is due to slippage – the amount the market moves in the few seconds between giving an order and having it executed. Slippage could result in a loss or gain of several pips.

Limit Order – is an order to buy or sell at a certain limit. They can be used to buy currency below the market price or sell currency above the market price. When buying, your order is executed when the market falls to your limit order price. When selling, your order is executed when the market rises to your limit order price. There is no slippage with limit orders and are thus strongly recommended especially for new traders.

Stop Order – is an order to buy above the market or to sell below the

market. They are most commonly used as stop-loss orders to limit losses if the market moves contrary to what the trader expected. A stop-loss order will sell the currency if the market falls below the point set by the trader. Again this type is highly recommended.

One Cancels the Other (OCO) – this order is used when placing a limit order and a stop-loss order at the same time. If either order is executed the other is canceled, allowing the trader to make a transaction without monitoring the market. If the market falls, the stop-loss order will be executed, but if the market rises to the level of the limit order, the currency will be sold at a profit.

Example OCO Transaction:

Buy: 1 standard lot EUR/USD @ 1.3228 = \$132,280
Pip Value: 1 pip = \$10
Stop-Loss: 1.3203
Limit: 1.3328

This is an order to buy US dollars at 1.3328 and to sell them if they fall to 1.3203 (resulting in a loss of 25 pips or \$250) or to sell them if they rise to 1.3328 (resulting in a profit of 100 pips or \$1,000).

Here's another example:

The current bid/ask price for US dollars and Canadian dollars is

USD/CDN 1.2152/57

...meaning you can buy \$1 US for 1.2152 CDN or sell 1.2157 CDN for \$1 US.

If you think that the US dollar (USD) is undervalued against the Canadian dollar (CDN) you would buy USD (simultaneously selling CDN) and wait for the US dollar to rise.

This is the transaction:

Buy USD: 1 standard lot USD/CDN @ 1.2157 = \$121,570 CDN
Pip Value: 1 pip = \$10

Stop-Loss: 1.2147
Margin: \$1,000 (1%)

You are buying US\$100,000 and selling CDN\$121,570. Your stop loss order will be executed if the dollar falls below 1.2147, in which case you will lose \$100.

However, USD/CDN rises to 1.2192/87. You can now sell \$1 US for 1.2192 CDN or sell 1.2187 CDN for \$1 US.

Because you entered the transaction by buying US dollars (buying long), you must now sell US dollars and buy back CDN dollars to realize your profit.

You sell US\$100,000 at the current USD/CDN rate of 1.2192, and receive 121,920 CDN for which you originally paid CDN\$121,570. Your profit is \$350 Canadian dollars or US\$287.19 (350 divided by the current exchange rate of 1.2187).

FOREX Training – Part 1

Knowledge is the key to successful FOREX trading. The knowledgeable trader has greater awareness of how the market moves and more chances of making profitable transactions. Without knowledge you are shooting in the dark. You may succeed on a few deals but the odds are that you are going to lose in the long run.

Thankfully there's lots of information available about the FOREX and how to trade. You can find hundreds of web sites with useful advice and there are just as many books about all aspects of FOREX trading. If self-learning is not your style, there are training courses available that guide you step-by-step through the intricacies of Foreign Exchange.

If you have the time and the inclination, you can find all the facts you need on the Internet or in your public library. The problem with Internet sources, however, is that the information is generally unstructured. You may find bits and pieces of useful data, but finding a source that presents it in a step-by-step fashion is more difficult.

Study courses, on the other hand, present their material in a logical and structured manner that aids in understanding FOREX trading. The investment involved in a FOREX course may well worth the time saved in seeking out similar information on your own. There are courses available for both beginners and intermediate traders.

The cost of a FOREX course varies from free to \$5,000 or more. As with most things, you get what you pay for. Free Internet courses may give you the basics needed to begin trading, but usually omit the in-depth training needed to analyze charts and plot trading strategies.

There are two basic types of study courses. You can attend a class with a group of people, or you can sign up for an online course that is taken over the Internet. Classes are available in most major cities. You can attend a class to learn the basics or sign-up for more advanced courses if you are an experienced trader. The advantage of these courses is that you get personalized attention – any questions you have can be answered directly by the instructor. The disadvantage is that you must follow the class schedule – if you miss one class it can't be made up at a later time.

Seminars are also a possibility for learning about FOREX. Seminars are usually aimed at experienced traders, but if you know the basics you could benefit from a 1 or 2 day seminar. These are available in most major cities, and you could expect to see seminars offered every couple of months. They are usually conducted by well-known FOREX professionals who can offer new insights and strategies in FOREX trading.

If you prefer to study at your own pace you should investigate online FOREX courses. You can log on to a website any time of the day or night and go through the course material as you see fit. If you have any questions, you can usually communicate with an instructor by email. Responses could take anywhere from minutes to days.

A variation of online courses are CD courses. These are done on your computer, but you order the study materials from a company and they arrive by mail. There may be little after market service offered with CD learning materials. If you have questions you may not be able to contact an instructor for answers. However, each company has their own policy

about this, so find out what their service provides before putting down your money.

Other types of home training include video lessons. These can be watched in the comfort of your living room and are similar to attending a FOREX training seminar.

The best kind of FOREX training can be with an individual trainer or mentor. This would be someone with many years of FOREX experience who can offer insights and strategies learned through the course of conducting thousands of transactions.

FOREX mentors usually charge a lot of money – thousands of dollars is not unheard of. Whether the cost is worth it is up to the individual to decide. Working with a master trader can provide valuable insight into the psychology of FOREX trading.

As mentioned earlier these are two of the best internet based training programs:

[The Trading Authority](http://www.free-forex-training-guide.com/TradingAuthority.html) - This is far and away the best online FOREX training system anywhere. A little pricey but well worth it. Sign-up for free trial to find out why:
(<http://www.free-forex-training-guide.com/TradingAuthority.html>)

[Straight FOREX](http://www.free-forex-training-guide.com/Straight-FOREX.html) - Just as the name says this is a straightforward, no-nonsense way to learn FOREX. Best of all you only pay a one-time membership fee and get ongoing support.
(<http://www.free-forex-training-guide.com/Straight-FOREX.html>)

FOREX Training – Part 2

FOREX trading is one of the most high-risk businesses in the world. The trading is done in real time, and decisions are made in split seconds. That is why brokers or traders who have undertaken FOREX trading education are able to handle the pressures and demands of FOREX trading better

than those who work on blind instincts.

They not only need to understand market mechanics but also need to know how the different software tools work, how a trade is closed or when a bid should be made.

An important skill is reading FOREX charts. Every trader should know how to chart the market movement. They should also know the reasons that make the markets behave in such a volatile manner. Such an education may not guarantee profits on every trade but it can surely reduce the risks of FOREX trading.

There are three key areas that a FOREX trading course should cover. These are:

- FOREX trading basics: The students should be taught basic concepts such as margins, type of orders, bids, rollovers, leveraging, etc.
- Technical and fundamental analysis: Market analysis is the most important tool in the armory of FOREX traders. Every trader must know how to chart and read FOREX movements. This can make a big difference in the way a FOREX trader conducts business.
- Trading psychology: The new traders must learn how to handle the psychological pressures of trading. This should inculcate building habits like discipline, patience, commitment, and risk management.

Besides this, a FOREX trading course must teach the historical evolution of the FOREX market. It should also highlight the common mistakes that are committed by FOREX traders, and teach ways to avoid them.

Thus to recap, FOREX trading knowledge can be acquired through live seminars, online web seminars, trading books, subscription services, etc.

Each training method has its own advantage. The live seminars deliver information on a one-to-one basis; the online courses provide access to trading knowledge on a 24/7 basis; and the trading books provide a wealth of information. It is for the trader to decide which method suits him most.

Again both of these sites offer great training programs:

[The Trading Authority](http://www.free-forex-training-guide.com/TradingAuthority.html) - This is far and away the best online FOREX training system anywhere. A little pricey but well worth it. Sign-up for free trial to find out why:

(<http://www.free-forex-training-guide.com/TradingAuthority.html>)

[Straight FOREX](http://www.free-forex-training-guide.com/Straight-FOREX.html) - Just as the name says this is a straightforward, no-nonsense way to learn FOREX. Best of all you only pay a one-time membership fee and get ongoing support.

(<http://www.free-forex-training-guide.com/Straight-FOREX.html>)

FOREX Tutorial

A FOREX tutorial is a good way to acquire knowledge about the working of FOREX markets. The beginner learns the market terms, the basic trading skills and the techniques to chart market movements. These are useful skills to acquire for any individual who wants to be a FOREX trader.

A few years ago there were very few FOREX trading courses available. This was because only banks and large financial institutions were authorized to trade in foreign currency. The arrival of online trading and the consequent opening up of the FOREX market has increased the demand for FOREX courses.

Today, several individuals and institutions provide comprehensive tutorials in FOREX trade. These courses are available both offline and online, and a beginner can select a course that suits his needs most.

Several traders prefer online courses because it gives them the convenience to learn during their free hours. They can do so from the luxury of their office or home. However, online courses don't provide one-to-one interaction as happens in offline courses where an instructor can answer a student's queries.

All tutorials come with the disclaimer that they provide only knowledge. They don't guarantee profits; it is for a student to make use of the knowledge to run a profitable trade. The same obviously also applies to

this guide. The disclaimer is a fair statement because FOREX trading requires very special skills.

Unlike other markets, the FOREX market works in real time, and a trader has to take instant decisions. These decisions can be based on market analysis, market intelligence or a trader's own understanding of market movement. However, each decision is fraught with danger, and the most knowledgeable traders can still make a mistake.

But this does not mean that there is no value for knowledge gained through a tutorial. The tutorials are the first building blocks. They give the traders the base to start trading. It is for the trader to build upon that base later.

Once again the following sites offer good tutorials:

[The Trading Authority](http://www.free-forex-training-guide.com/TradingAuthority.html) - This is far and away the best online FOREX training system anywhere. A little pricey but well worth it. Sign-up for free trial to find out why:

(<http://www.free-forex-training-guide.com/TradingAuthority.html>)

[Straight FOREX](http://www.free-forex-training-guide.com/Straight-FOREX.html) - Just as the name says this is a straightforward, no-nonsense way to learn FOREX. Best of all you only pay a one-time membership fee and get ongoing support.

(<http://www.free-forex-training-guide.com/Straight-FOREX.html>)

FOREX Charting

FOREX charting is an invaluable tool for any FOREX trader because these charts provide an insight into market movements. They allow the trader to study the market behavior over an extended period of time, and analyze the factors that affect FOREX trading.

The trader need not rush into making a deal when the market peaks or hits a trough; instead the trader can study the market ups and downs, and take a considered decision. Such decisions are likely to generate better results as compared to decisions made on the spur of the moment or decisions based on market gossip.

The FOREX charts are generated by charting software, which go through historical as well as current data and generate the big picture for the trader. The trader can select the charting software based on his specific needs. There are some software that analyze price data based on combinations of open, high, low or close points plotted over a period of time; there are others that use only the closing prices; while there are still others that base their analysis on volume and open interests.

A trader can also subscribe to any one of the scores of FOREX charting services available on the net. However, while doing so, the trader must keep the following points in mind:

- Ensure that the charts are as up to the minute and accurate as they claim.
- The charts should give meaningful and significant information at a glance.
- The charts should integrate with the trading platform that the trader is using.
- The trader should be able to view more than one chart at a time to get the fullest possible picture of FOREX's current behavior.

Both of the following brokers offer free charting as part of their packages:

[Easy FOREX](http://www.free-forex-training-guide.com/Easy-FOREX.html) - As the name implies, Easy FOREX is about one of the easiest FOREX trading platforms on the internet today. Features include: opening an account from as little as \$25 US, guaranteed rates and stop-loss and best of all no hidden fees!

(<http://www.free-forex-training-guide.com/Easy-FOREX.html>)

[Marketiva](http://www.free-forex-training-guide.com/Marketiva.html) - This is another great FOREX trading platform that I highly recommend. Great features include virtual trading, extremely easy sign-up and best of all a \$5 bonus just for giving it a try.

(<http://www.free-forex-training-guide.com/Marketiva.html>)

FOREX Trading Philosophy

Many beginning FOREX traders are captivated by the allure of easy money. FOREX websites offer 'risk-free' trading, 'high returns' 'low investment' – these claims have a grain of truth in them, but the reality of FOREX is a bit more complex.

There are two common mistakes that many beginner traders make – trading without a strategy and letting emotions rule their decisions. After opening a FOREX account it may be tempting to dive right in and start trading. Watching the movements of EUR/USD for example, you may feel that you are letting an opportunity pass you by if you don't enter the market immediately. You buy and watch the market move against you. You panic and sell, only to see the market recover.

This kind of undisciplined approach to FOREX is guaranteed to lose you money. FOREX traders need to have a rational trading strategy and not allow emotions to rule their trading decisions.

To make rational trading decisions the FOREX trader must be well-educated in market movements. They must be able to apply technical studies to charts and plot out entry and exit points. They must take advantage of the various types of orders to minimize his risk and maximize his profit.

The first step in becoming a successful FOREX trader is to understand the market and the forces behind it. Who trades FOREX and why? Who is successful and why are they successful? This knowledge will allow you to identify successful trading strategies and use them as models for your own.

There are 5 major groups of investors who participate in FOREX – Governments, Banks, Corporations, Investment Funds, and traders. Each group has varying objectives, but the one thing that all the groups (except traders) have in common is external control. Every organization has rules and guidelines for trading currencies and can be held accountable for their trading decisions. Individual traders, on the other hand, are accountable only to themselves.

This means that the trader who lacks rules and guidelines is playing a losing game. Large organizations and educated traders approach the

FOREX with strategies, and if you hope to succeed as a FOREX trader you must play by the same rules.

Money Management

Money management is part and parcel of any trading strategy. Besides knowing which currencies to trade and recognizing entry and exit signals, the successful trader has to manage his resources and integrate money management into his trading plan. Position size, margin, recent profits and losses, and contingency plans all need to be considered before entering the market.

There are various strategies for approaching money management. Many of them rely on the calculation of core equity. Core equity is your starting balance minus the money used in open positions. If the starting balance is \$10,000 and you have \$1000 in open positions your core equity is \$9000.

When entering a position try to limit risk to 1% to 3% of each trade. This means that if you are trading a standard FOREX lot of \$100,000 you should limit your risk to \$1000 to \$3000 – preferably \$1000. You do this by placing a stop loss order 100 pips (when 1 pip = \$10) above or below your entry position.

As your core equity rises or falls you can adjust the dollar amount of your risk. With a starting balance of \$10,000 and one open position your core equity is \$9000. If you wish to add a second open position, your core equity would fall to \$8000 and you should limit your risk to \$900. Risk in a third position should be limited to \$800.

By the same principal you can also raise your risk level as your core equity rises. If you have been trading successfully and made a \$5000 profit, your core equity is now \$15,000. You could raise your risk to \$1500 per transaction. Alternatively, you could risk more from the profit than from the original starting balance. Some traders may risk up to 5% against their realized profits (\$5,000 on a \$100,000 lot) for greater profit potential.

FOREX Trading Systems

Almost every online FOREX broker has a software package for their clients to make transactions and get information about market prices. Due to the relative maturity of online trading there is a consensus among FOREX brokers about what clients need in terms of software tools. There are two main classes of FOREX software – web based and client based.

All FOREX software needs to provide up-to-the-second market information. The fast moving pace of the FOREX demands real-time data delivery for making decisions about when to enter and exit the market. FOREX dealers claim their software performs well with a minimum of delay, but in fact there can be a number of factors that could delay data transmission.

Internet connection speed and distance from the broker's servers are the two main factors that can slow down data transmission. FOREX traders should have a reasonably modern computer and a high speed Internet connection to take full advantage of the FOREX software offered by their broker. It may also pay to choose a broker in the same area as you live. Traders in Bangkok who deal with brokers in Ohio may experience delays – especially during volatile market conditions.

Web Based or Client Based?

Web based software is on the broker's website – you don't have to install any software on your computer. Client based software requires you to download and install the software package used by your broker. Which is better?

More and more brokers are offering web based client software for reasons of convenience, safety and reliability. Web based software allows you to log on to your account from any computer – you can make trades from any location that has an Internet connection. Client based software, on the other hand, restricts you to making trades from just one computer.

Besides the convenience, web based software offers greater security. Data is secured with high-strength encryption making it impossible for outside parties to access during transmission. Client based software is also secured during transmission but there are more possibilities for data loss from the trader's computer. Viruses and hackers may be able to access valuable financial data stored in a home or office computer.

Features

FOREX software needs to access real-time quotes and offer a means to enter and exit the market. Even the most basic packages offer these functions.

Current quotes can be seen for most currency pairs and the software allows you to buy or sell at market prices or enter and exit the market using stops or limits. Ideally, trading software should have integrated charting functions with a variety of viewing functions.

Basic software packages should be offered free of charge, but many brokers also have more advanced packages available for a monthly fee. Some of the features you could expect to see in advanced software include the ability to trade directly from the chart and full analytical functions.

Technology

The backbone of FOREX software is a series of data servers that allow you to connect to your broker's web site and make transactions. Servers operated by the FOREX broker need to be reliable and secure for maintaining data integrity and assuring accurate transaction processing.

Servers are subject to power outages and natural disasters, so to ensure maximum uptime, the broker should operate at least two sets of servers in separate locations. Brokers should also offer regular data backups to guarantee the integrity of their customer's financial data in case of server failure.

My two favourite trading systems as I mentioned below are the following:

[Easy FOREX](http://www.free-forex-training-guide.com/Easy-FOREX.html) - As the name implies, Easy FOREX is about one of the easiest FOREX trading platforms on the internet today. Features include: opening an account from as little as \$25 US, guaranteed rates and stop-loss and best of all no hidden fees!

(<http://www.free-forex-training-guide.com/Easy-FOREX.html>)

[Marketiva](http://www.free-forex-training-guide.com/Marketiva.html) - This is another great FOREX trading platform that I highly recommend. Great features include virtual trading, extremely easy sign-up and best of all a \$5 bonus just for giving it a try.
(<http://www.free-forex-training-guide.com/Marketiva.html>)

FOREX Tools

There are many tools available to the FOREX trader for analyzing the market as well as for buying and selling currencies. Software tools are a necessary part of FOREX because of its volume and volatility. Software can be used to automate some of the trading procedures and safeguard against losses.

In order to make rational, successful trades, the FOREX trader needs information – lots of information. Current exchange rates are the tip of the iceberg – the trader needs historical data as well as current information about political and economic conditions that could affect currency prices. All this information is provided by many FOREX brokers on their web sites.

Successful FOREX trading relies on making accurate assessments of current political and economic conditions. Being able to predict whether a currency will fall or rise against another currency allows the FOREX trader to profit from currency movements.

There are two basic trading methods for buying and selling currencies. Reactive trading means the trader responds to changes in the political or economic climate. Speculative trading means the trader makes buying decisions based on predictions on how the market will respond to current events. While most FOREX trading is speculative, both types of trade require up-to-the-minute information and an analysis of current and historical conditions.

Traders rely on both fundamental and technical analyses. Fundamental analysis is based on news information about political conditions, economic policies, trade patterns, interest rates and unemployment rates.

Technical analysis relies on historical charting to identify trends and patterns over time. Information needed for both types of analyses is

available in real time on the Internet. Most online brokers offer live news feeds and streaming rates for observing minute by minute changes in the market.

All this information can help you decide which currencies to buy. More tools are available to help you minimize your risk and maximize your profits.

The Risk Probability Calculator (RPC) can be used to identify trades that have more potential gain than potential loss. The RPC can also help you target exit points to end the trade.

Pivot Points can be used to predict movements of currency prices. They are calculated as an average of the currencies high, low and closing prices. Pivot Point Calculators tell you whether prices fall in the normal trading range or extreme trading ranges.

Pip value calculators are used to tell you the value of each pip (smallest currency unit) according to various sized lots. Pip calculators can tell you the actual profit or loss that will result from movements in the FOREX.

Once a trader has decided which currency pair to trade, they logs on to his online account provided by his broker. The desired currency pair is entered and the current exchange rate appears on the screen.

The amount of the trade is entered (how much currency you wish to buy). Some brokers may give you the option of specifying the amount you wish to risk. This automatically enters a 'stop loss rate' into your order.

After the details of the trade are entered, you will be taken to a confirmation screen where you can accept the current price on screen. You may be given the option of 'freezing' the quoted price, meaning the price of your transaction is exactly what you see on screen without any slippage. Accept the rate and your deal is running.

Just as you can enter a 'stop loss rate' to automatically sell the currency if it falls below a certain rate, you can enter a 'take profit rate' to automatically sell the currency when it reaches a certain level. If you don't enter a 'take profit rate' you need to monitor the movement of the currency

to decide when to close the deal and take either your profits or your losses.

In addition to broker tools I have already mentioned, I have found that the following two sites offer useful tools to help you make more money:

1. [DashBoard FX](http://www.free-forex-training-guide.com/DashBoard-FX.html) - This is probably the best FOREX Signals software available today. It offers Real-Time Trade Signals on 5 major currency pairs and a 10 day free trial.
(<http://www.free-forex-training-guide.com/DashBoard-FX.html>)
2. [NetPicks FOREX Trading System](http://www.free-forex-training-guide.com/NetPicks.html) - They offer great strategies, tips and advice for making money in the FOREX. Best of all, right now, they are offering a 2 week free trial.
(<http://www.free-forex-training-guide.com/NetPicks.html>)

FOREX Research

As we have seen the FOREX market is the biggest currency market in the world with everyday transactions totaling \$2 trillion. Yet there are very few – a measly five per cent of the traders -- who make large profits. The reason is simple. Most people try to trade on instincts and intuition than on meticulous FOREX research.

They don't realize that the FOREX market moves in a wave pattern -- up, down or remains neutral. The trader therefore has to catch the wave at the right time to make money, and the only way that the trader can locate this wave is through research.

The FOREX markets are very sensitive to political developments, corporate crises, natural calamities, wars etc. A FOREX trader needs to master these external trends to make the right investment choice. Otherwise, they should buy market movement reports developed by analysts who specialize in future forecasts, or make suggestions based on past market movements.

There are two basic approaches that are adopted to analyze currency market movements - fundamental analysis and technical analysis. The

fundamental analyst concentrates on external factors to forecast price movements, while the technical analyst studies the past price movements.

Technical analysis is based on the principle that markets behave in clear patterns. The analyst only needs to find the pattern to be able to predict how the market is going to move. This analysis can be applied with ease to any time frame or currency trades.

Fundamental analysis on the other hand, focuses on the economic, social and political forces that drive supply and demand of financial instruments. The analyst tries to look at the big picture rather than concentrate on individual currency rates.

There are no hard and fast rules for this approach and different people have different ways to analyze the various macroeconomic indicators such as economic growth rates, interest rates etc.

Most traders follow a mixed approach, leaning more on technical analysis than on fundamental analysis.

You may find the following two tools useful to help you with this:

[DashBoard FX](http://www.free-forex-training-guide.com/DashBoard-FX.html) - This is probably the best FOREX Signals software available today. It offers Real-Time Trade Signals on 5 major currency pairs and a 10 day free trial.

(<http://www.free-forex-training-guide.com/DashBoard-FX.html>)

[NetPicks FOREX Trading System](http://www.free-forex-training-guide.com/NetPicks.html) - They offer great strategies, tips and advice for making money in the FOREX. Best of all, right now, they are offering a 2 week free trial.

(<http://www.free-forex-training-guide.com/NetPicks.html>)

FOREX Forecasting

FOREX forecasting helps a trader predict price movements in the highly volatile FOREX market. The trader can forecast market behavior either through technical analysis or through fundamental analysis, though some traders use a mixture of both to get the best results.

Fundamental analysis is used to forecast future price movements. It uses economic, political, environmental and other relevant data that can impact the supply and demand of a financial instrument.

This type of analyst has to be well versed with the market as they have to strategically assess where a currency should be trading based on external factors – which are always unpredictable -- and not on the current price of a currency.

Technical analysis uses the past market action to create charts that can be used to forecast market movements. Thus, it is strictly based on facts rather than hypothetical analysis.

One major advantage of technical analysis is that experienced analysts can follow many markets and market instruments simultaneously. It is based on the following three principles:

1. The actual price is a reflection of factors known to the market. There are therefore no surprises, and the analysis is based on actual price movements.
2. Market behavior shows distinct patterns. The technical analyst therefore looks for these patterns knowing that when the patterns repeat the results will be the same.
3. FOREX patterns reflect human psychology. Historically, they show that humans behave in the same manner.

Technical analysts use five distinct theories to make the forecasts. These are: indicators (oscillators such as Relative Strength Index theory), number theory (Fibonacci numbers, Gann numbers), Waves (Elliott wave theory), Gaps (high-low, open-closing theory) and Trends (following the moving average theory).

However, irrespective of the method used a great deal of data goes into making a forecast. The developments of new software tools, and availability of historical data, have made FOREX movements more precise. There is also a greater stress on analysis now as compared to the past,

when the traders only went by gut feeling.

FOREX Trading Strategies

To be a successful FOREX trader you need a trading strategy. There is no one set strategy that is good for all traders; rather, each trader needs to develop his or her individual approach to the FOREX. Some traders rely solely on technical analysis while others prefer fundamental analysis, but many successful FOREX traders use a combination of both to get a broad overview of the market and for plotting entry and exit points.

Technical analysis relies on one key concept: Prices move by trends. The common saying in FOREX is 'The trend is your friend.' Market movements have identifiable patterns that have been studied over many years and a thorough understanding of these trends and how they can be read forms the basis of a good trading strategy.

There are many analytical tools available to understand market movements. The beginner FOREX trader is well advised to study each one separately for getting a working knowledge of their concepts and application. Once one has been understood, keep on using it while studying others. Each tool tends to reinforce the others.

Support and resistance levels are used in many FOREX trading strategies. 'Support' refers to the price level that is repeatedly seen as the bottom – when the price reaches this level it tends to rise. Resistance levels are upper prices that the currency rarely trades beyond. Support and resistance levels contain price movements for a period of time.

When currency prices break through support or resistance levels, the prices are expected to continue in that direction. For example, if the price rises above the previous resistance level, it is seen as bullish – the price should continue to rise.

To find support and resistance levels, price charts need to be analyzed for unbroken support and resistance levels. Charts can be analyzed in any time frame; however longer time frames establish more important

support/resistance levels. Traders can use support/resistance levels to determine when to enter or exit a transaction.

Moving averages are another common tool in FOREX trading strategies. The simple moving average (SMA) shows the average price in a given period of time over a specified period of time.

Moving averages serve to eliminate short term price fluctuations giving a clearer picture of price movements. FOREX traders can plot a SMA to determine when prices have a tendency to rise or fall. If prices cross above the SMA they have a tendency to keep on rising. Conversely, prices below the SMA have a tendency to continue their downward motion.

These are two examples of trading strategies that can be used individually or in combination. In practice, the FOREX trader should have a repertoire of trading tools to examine market conditions and to support the findings of one study or another. If several indicators show that the market is moving in a particular direction the trader can act with more assurance than when relying on a single indicator.

Similarly, fundamental analysis can be used to reinforce technical findings, or vice versa. Ideally, the FOREX trader will take several indicators into account when plotting a trading strategy.

Every trading strategy should provide clear guidelines about when to enter a trade, what to expect in terms of market movement, when to exit a trade, and how much loss can be accepted in case the deal moves against the trader. Following these simple guidelines and learning about fundamental and technical analysis can help you become a successful FOREX trader.

The following three sites offer good tools and advice for trading strategies:

[DashBoard FX](http://www.free-forex-training-guide.com/DashBoard-FX.html) - This is probably the best FOREX Signals software available today. It offers Real-Time Trade Signals on 5 major currency pairs and a 10 day free trial.
(<http://www.free-forex-training-guide.com/DashBoard-FX.html>)

[NetPicks FOREX Trading System](#) - They offer great strategies, tips and advice for making money in the FOREX. Best of all, right now,

they are offering a 2 week free trial.

(<http://www.free-forex-training-guide.com/NetPicks.html>)

ForexMentor - This is a good if somewhat more basic system to make money in the FOREX.

(<http://www.free-forex-training-guide.com/ForexMentor.html>)

Introduction to Fundamental Analysis

FOREX traders almost always rely on analysis to make plan their trading strategies. There are two basic types of FOREX analysis – technical and fundamental. This section will look at fundamental analysis and how it used in FOREX trading.

Fundamental analysis refers to political and economic conditions that may affect currency prices. FOREX traders using fundamental analysis rely on news reports to gather information about unemployment rates, economic policies, inflation, and growth rates.

Fundamental analysis is often used to get an overview of currency movements and to provide a broad picture of economic conditions affecting a specific currency. Most traders rely on technical analysis for plotting entry and exit points into the market and supplement their findings with fundamental analysis.

Currency prices on the FOREX are affected by the forces of supply and demand, which in turn are affected by economic conditions. The two most important economic factors affecting supply and demand are interest rates and the strength of the economy. The strength of the economy is affected by the Gross Domestic Product (GDP), foreign investment and trade balance.

Indicators

Various indicators are released by government and academic sources. They are reliable measures of economic health and are followed by all sectors of the investment market. Indicators are usually released on a monthly basis but some are released weekly.

Two of the most important fundamental indicators are interest rates and international trade. Other indicators include the Consumer Price Index (CPI), Durable Goods Orders, Producer Price Index (PPI), Purchasing Manager's Index (PMI), and retail sales.

Interest Rates - can have either a strengthening or weakening effect on a particular currency. High interest rates attract foreign investment which will strengthen the local currency. On the other hand, stock market investors often react to interest rate increases by selling off their holdings in the belief that higher borrowing costs will adversely affect many companies. Stock investors may sell off their holdings causing a downturn in the stock market and the national economy.

Determining which of these two effects will predominate depends on many complex factors, but there is usually a consensus amongst economic observers of how particular interest rate changes will affect the economy and the price of a currency.

International Trade – Trade balance which shows a deficit (more imports than exports) is usually an unfavourable indicator. Deficit trade balances means that money is flowing out of the country to purchase foreign-made goods and this may have a devaluing effect on the currency. Usually, market expectations dictate whether a deficit trade balance is unfavourable or not. If a country habitually operates with a deficit trade balance this has already been factored into the price of its currency. Trade deficits will only affect currency prices when they are more than market expectations.

Other indicators include the CPI – a measurement of the cost of living, and the PPI – a measurement of the cost of producing goods. The GDP measures the value of all goods and services within a country, while the M2 Money Supply measures the total amount of all currency.

There are 28 major indicators used in the United States. Indicators have strong effects on financial markets so FOREX traders should be aware of them when preparing strategies. Up-to-date information is available on many websites and many FOREX brokers supply this information as part of their trading service.

For example the two brokers listed below both include this information as part of their packages:

[Easy FOREX](http://www.free-forex-training-guide.com/Easy-FOREX.html) - As the name implies, Easy FOREX is about one of the easiest FOREX trading platforms on the internet today. Features include: opening an account from as little as \$25 US, guaranteed rates and stop-loss and best of all no hidden fees!
(<http://www.free-forex-training-guide.com/Easy-FOREX.html>)

[Marketiva](http://www.free-forex-training-guide.com/Marketiva.html) - This is another great FOREX trading platform that I highly recommend. Great features include virtual trading, extremely easy sign-up and best of all a \$5 bonus just for giving it a try.
(<http://www.free-forex-training-guide.com/Marketiva.html>)

Introduction to Technical Analysis Part 1

FOREX analysis is divided into two types: Fundamental and Technical. Fundamental analysis attempts to predict movements in currencies by examining current political and economic events. Technical analysis uses historical economic data to predict movements in the FOREX. These two sections will examine the principles of technical analysis and the tools involved.

Basic Principles

Technical analysis is based on three assumptions:

1. Price movements are a result of all market forces combined. Things that can affect currency prices include political events, economic conditions, supply and demand, seasonal variations and weather conditions. The technical analyst, however, is not concerned with the reasons for market movement, but rather, the movements themselves.
2. Currency prices follow trends. Many market patterns have been recognized as having predictable consequences.
3. Price movements follow historical trends. FOREX data has been

collected for over 100 years and patterns have emerged over time. These patterns are based on human psychology and the way people react to certain sets of circumstances.

Is Technical Analysis Necessary?

Most FOREX day traders rely heavily on technical analysis and may use fundamental analysis to support their trading strategy. A major advantage of technical over fundamental analysis is that it can be applied to many different markets and currencies at the same time.

Fundamental analysis requires in-depth knowledge of the political and economic conditions of a certain country; therefore it is less likely that any one trader can do proper fundamental analyses on more than a few countries.

The beginner trader may be put off by the seeming complexity of technical analysis and wonder if it is necessary for FOREX trading. As with any investment, FOREX trading requires a strategy. Although any strategy is possible, technical analysis is a proven method for predicting movements in the FOREX.

Does that mean it's a sure thing? Nothing is 100% certain, and currency prices are affected by a variety of forces. This is why many traders use a combination of technical and fundamental analysis to plot their trading strategies.

Availability

Every FOREX online broker should provide access to a wide variety of charts for technical analysis. Some charting software is available free of charge while in-depth professional charts may carry a monthly fee. Charts can be viewed by various time scales and provide detailed information about price movements as well analytical overlays. Charts can be zoomed in to the tick level or zoomed out to see the broad picture over a period of months or years. Charts are updated in real time.

FOREX charts may be available on your broker's web site or may be included as part of their trading software.

Before beginning in FOREX trading it is a good idea to become accustomed to market behaviour by following charts for a period of time and studying their movements and learning about trends.

Many brokers provide practice accounts that can be used by beginners to place 'paper' bids – no real money is exchanged. These practice accounts familiarize the beginning trader with FOREX charts and market movement while at the same time allowing him to become acquainted with the trading software a particular broker uses.

Two brokers I recommend are:

[Easy FOREX](http://www.free-forex-training-guide.com/Easy-FOREX.html) - As the name implies, Easy FOREX is about one of the easiest FOREX trading platforms on the internet today. Features include: opening an account from as little as \$25 US, guaranteed rates and stop-loss and best of all no hidden fees!
(<http://www.free-forex-training-guide.com/Easy-FOREX.html>)

[Marketiva](http://www.free-forex-training-guide.com/Marketiva.html) - This is another great FOREX trading platform that I highly recommend. Great features include virtual trading, extremely easy sign-up and best of all a \$5 bonus just for giving it a try.
(<http://www.free-forex-training-guide.com/Marketiva.html>)

Introduction to Technical Analysis Part 2

In this second section about FOREX technical analysis we will look at the various kinds of charts and provide basic guidelines for reading charts.

Price Charts

Price Charts show information about FOREX prices at specified intervals of time. Intervals can be from one minute up to several years and everything in between. Prices can be plotted with simple line graphs or the price variation for each interval can be shown by a bar or candlestick pattern.

- Line charts are suitable for getting a broad overview of price movements. They show the close price at the chosen intervals. Line charts are very clean to read and make it easy to spot patterns, but they lack the detail of bar and candlestick charts.
- Bar charts offer much more information than line charts. The length of each bar indicates the price spread for the given period – a long bar indicates a large difference between high and low prices. The left tab on the bar shows the opening price and the right tab show the closing price.

You can see at a glance whether the price fell or rose for that particular period, and what the price variation was. Bar charts printed on paper (especially for short periods) can be difficult to read, but software charts usually have a zoom function that makes it easier to read closely spaced bars.

- Candlestick charts were invented by the Japanese for analyzing rice contracts. They are similar to bar charts in that they indicate open, close, high and low prices for a given period. They are easier to read than bar charts, however, because of their color coding. Green candlesticks show rising prices and red candlesticks show falling prices.
- Candlestick shapes - when viewed in relationship to neighbouring candlesticks - provide indicators of market movement that can aid in chart analysis. Various shapes of candlesticks are formed according to price spread and the proximity of opening to closing prices. Candlestick patterns have been given fanciful names like 'morning star' and 'dark cloud cover' and once the shapes have been learned, they are easy to pick out on a chart for identifying trends in the market.

Price charts are usually supplemented with technical indicators. There are many Technical Indicators broadly divided into different categories. Trend indicators, strength indicators, volatility indicators, and cycle indicators are just some of the analytical tools used to anticipate movement and market volume.

Some of the most common technical indicators used in FOREX are:

Average Directional Movement Index (ADX) – is used to determine if a market is entering a trend (either downward or upward) and how strong the trend is. Readings over 25 indicate a trend with higher values indicating stronger trends.

Moving Average Convergence/Divergence (MACD) – shows the momentum of the market and the relationship between two moving averages. When the MACD line crosses the signal line it indicates a strong market.

Stochastic Oscillator – indicates the strength or weakness of a market by comparing a closing price to a price range over a period of time. When the stochastic is above 80 it indicates the currency is overbought while a stochastic below 20 indicates the currency is oversold.

Relative Strength Indicator (RSI) – is a scale of 100 indicating the highest and lowest prices over a given period. When the price rises above 70 it is considered overbought and when the price falls below 30 it is considered oversold.

Moving Average – is the average price for a given time interval when compared with other prices during similar time periods. For example, the closing prices over a 3 day period would have a moving average of the total of the 3 closing prices divided by 3.

Bollinger Bands – are bands which contain the majority of a currency's price. The bands are three lines – the upper and lower lines following the price movement and the middle line showing the average price. During times of high volatility the distance between the upper and lower bands widen. If a bar or candlestick touches one of the bands it indicates overbought or oversold conditions.

FOREX Signals

One of the disadvantages of FOREX trading is the time investment needed to monitor the markets for advantageous entry and exit points. It's possible

to sit in front of a computer monitor for hours watching the markets.

Of course, you can use automated orders such as limits and stops. These allow you to walk away from your computer with the knowledge that your losses will be kept to a minimum, but by doing so, you may miss out on potential profits because your limit order kicks in too soon.

If you don't have the time to watch your computer monitor and still wish to achieve as much profit as possible, consider signing up for a FOREX signal service. These services monitor and analyze the market for you and send their findings directly to your computer desktop, email, or SMS on your cell phone or pager.

Companies that offer FOREX signals do so on a paid basis, so you have to sign up and pay a monthly or yearly fee. Some brokers may offer this service as an extra which integrates into their trading software. You can receive signals as a popup on your screen or by any of the other methods described above.

There are usually a limited number of currency pairs that are available for FOREX signals. Most services offer signals on EUR/USD, USD/JPY, GBP/USD, USD/CHF, but specialized services may offer other currency pairs.

FOREX signals are primarily based on technical analysis of market conditions. Most companies use a combination of indicators to identify main trends and entry and exit points. The results are sent to subscribers who have the option of acting on them or passing. Some services will even execute the trade for you.

Using a variety of technical studies, various types of signals can be derived from currency charts. The SMA (Simple Moving Average) indicates buy signals when currency prices rise above the average line. Sell signals occur when the price falls below the moving average line.

MACD (Moving Average Convergence Divergence) studies have a signal line that is used to generate a buy signal (above the line) or a sell signal (below the line).

Volume indicators are used to determine market interest. High volume (especially near the bottom of the market) can indicate the start of a new trend while low volume indicates investor uncertainty.

Bollinger Bands indicate potential changes in the market. Sharp price changes tend to occur when the bands tighten while prices that touch one band tend to go all the way to the other band.

Other indicators like volatility and momentum can be used to reinforce signals provided by other sources. Taken together they form a relatively reliable source of information about how the market is behaving.

Are signals a sure thing? Of course not, otherwise we would all be millionaires. Signals can give you good advice about which currencies to trade, but no signal service will guarantee their information is 100% accurate. Reputable services will show you their track record, however, and let you see for yourself how they have done in the past.

FOREX signals cost anywhere from \$50 to \$200 a month. It's up to the individual trader to decide if the cost is worth it. Don't think that signals can take the place of trader education – they are advice, and if you don't have the knowledge to analyze the advice, you should go back to the books before using a signal service.

The following website offers stand alone signals service:

[DashBoard FX](http://www.free-forex-training-guide.com/DashBoard-FX.html) - This is probably the best FOREX Signals software available today. It offers Real-Time Trade Signals on 5 major currency pairs and a 10 day free trial.

(<http://www.free-forex-training-guide.com/DashBoard-FX.html>)

Moreover, both of the brokers below also offer some form of signals service:

[Easy FOREX](#) - As the name implies, Easy FOREX is about one of the easiest FOREX trading platforms on the internet today. Features include: opening an account from as little as \$25 US, guaranteed rates and stop-loss and best of all no hidden fees!

<http://www.free-forex-training-guide.com/Easy-FOREX.html>)

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<http://www.free-forex-training-guide.com/Marketiva.html>)

Currency Option Marketplace

A currency option is a contract that gives the holder the right, but not the obligation to buy or sell a specified currency during a specific time period. It can be used to hedge a FOREX transaction and are a favoured method of reducing risk in companies that trade goods overseas.

There are two basic types of option: Call options and Put options. A call option gives the holder the right to buy a currency while a put option gives the holder the right to sell.

The worth of an option at expiry is equal to the value realised by the holder in exercising the option. If the holder gains nothing, the option is worth nothing. The value at any other time of the contract duration is the 'intrinsic value' – the value that can be realized if the holder exercises his option.

Intrinsic value is linked to the 'strike price' – the value specified by the option contract. A call option has intrinsic value if the spot (current) price is above the strike price. A put option has intrinsic value if the spot price is below the strike price.

If the option contract has intrinsic value it is said to be 'in the money', otherwise it is 'out of the money' or 'at the money' (at par). Options would only be exercised if they are in the money.

Options are priced according to complex formulas that take into consideration both the spot value and time value. Time value is calculated according to expected market conditions including volatility and the difference in interest rates between the two currencies. Options must be priced low enough to attract potential buyers and high enough to attract

potential writers (the sellers or guarantors of the option).

Currency options are used in FOREX to minimize risk against unexpected moves in the market. If you buy an option your losses are limited to the cost of the option. Those who sell options are more vulnerable. They gain the premium but they are exposed to unlimited loss if the market moves against them.

As a hedging tool, there are many different types of options available. They are often used by companies that trade overseas to minimize the potential for loss due to fluctuations in the foreign exchange market.

FOREX trades have a special type of option available known as a Digital Option. This option pays a specified amount at expiration if the criteria are met, otherwise it pays nothing.

FOREX traders who wish to use a digital option first decide which direction the market is moving. They then decide on a payoff amount if the market moves as expected within a certain time frame. With this information the cost of the option is calculated.

For example:

The price of the Euro is currently trading at about 1.2400 and you expect it to rise to 1.2800 within 3 months. You decide to buy a put digital option with a payoff of \$5000. The cost of the option is \$800.

If at the end of the 3 months the Euro is more than 1.2800 you get \$5000. If the price is less, you lose \$800.

Additional Resources

Below I have included a list of some websites whose services I have found useful. These are by no means an exhaustive list but I think they are the best of the bunch:

Brokers:

[Easy FOREX](http://www.free-forex-training-guide.com/Easy-FOREX.html) - As the name implies, Easy FOREX is about one of the easiest FOREX trading platforms on the internet today. Features include: opening an account from as little as \$25 US, guaranteed rates and stop-loss and best of all no hidden fees!

(<http://www.free-forex-training-guide.com/Easy-FOREX.html>)

[Marketiva](http://www.free-forex-training-guide.com/Marketiva.html) - This is another great FOREX trading platform that I highly recommend. Great features include virtual trading, extremely easy sign-up and best of all a \$5 bonus just for giving it a try.

(<http://www.free-forex-training-guide.com/Marketiva.html>)

Training/Education Programs:

[The Trading Authority](http://www.free-forex-training-guide.com/TradingAuthority.html) - This is far and away the best online FOREX training system anywhere. A little pricey but well worth it. Sign-up for free trial to find out why:

(<http://www.free-forex-training-guide.com/TradingAuthority.html>)

[Straight FOREX](http://www.free-forex-training-guide.com/Straight-FOREX.html) - Just as the name says this is a straightforward, no-nonsense way to learn FOREX. Best of all you only pay a one-time membership fee and get ongoing support.

(<http://www.free-forex-training-guide.com/Straight-FOREX.html>)

Other Useful Sites:

[DashBoard FX](http://www.free-forex-training-guide.com/DashBoard-FX.html) - This is probably the best FOREX Signals software available today. It offers Real-Time Trade Signals on 5 major currency pairs and a 10 day free trial.

(<http://www.free-forex-training-guide.com/DashBoard-FX.html>)

[NetPicks FOREX Trading System](http://www.free-forex-training-guide.com/NetPicks.html) - They offer great strategies, tips and advice for making money in the FOREX. Best of all, right now, they are offering a 2 week free trial.

(<http://www.free-forex-training-guide.com/NetPicks.html>)

[ForexMentor](http://www.free-forex-training-guide.com/ForexMentor.html) - This is a good if somewhat more basic system to make money in the FOREX.

<http://www.free-forex-training-guide.com/ForexMentor.html>

FOREX Glossary

Here are some of the most common terms used in FOREX trading.

Ask Price – Sometimes called the Offer Price, this is the market price for traders to buy currencies. Ask Prices are shown on the right side of a quote – e.g. EUR/USD 1.1965 / 68 – means that one Euro can be bought for 1.1968 UD dollars.

Bar Chart – A type of chart used in Technical Analysis. Each time division on the chart is displayed as a vertical bar which show the following information – the top of the bar is the high price, the bottom of the bar is the low price, the horizontal line on the left of the bar shows the opening price and the horizontal line on the right of bar shows the closing price.

Base Currency – is the first currency in a currency pair. A quote shows how much the base currency is worth in the quote (second) currency. For example, in the quote - USD/JPY 112.13 – US dollars are the base currency, with 1 US dollar being worth 112.13 Japanese yen.

Bid Price – is the price a trader can sell currencies. The Bid Price is shown on the left side of a quote - e.g. EUR/USD 1.1965 / 68 – means that one Euro can be sold for 1.1965 UD dollars.

Bid/Ask Spread – is the difference between the bid price and the ask price in any currency quotation. The spread represents the broker's fee, and varies from broker to broker.

Broker – the intermediary between buyer and seller. Most FOREX brokers are associated with large financial institutions and earn money by setting a spread between bid and ask prices.

Candlestick Chart - A type of chart used in Technical Analysis. Each time division on the chart is displayed as a candlestick – a red or green vertical bar with extensions above and below the candlestick body.

The top of the extension shows the highest price for the chart division and the bottom of the extension shows the lowest price. Red candlesticks indicate a lower closing price than opening price, and green candlesticks indicate the price is rising.

Cross Currency – A currency pair that does not include US dollars – e.g. EUR/GBP.

Currency Pair – Two currencies involved in a FOREX transaction – e.g. EUR/USD.

Economic Indicator – A statistical report issued by governments or academic institutions indicating economic conditions within a country.

First In First Out (FIFO) – refers to the order open orders are liquidated. The first orders to be liquidated are the first that were opened.

Foreign Exchange (FOREX, FX) – Simultaneously buying one currency and selling another.

Fundamental Analysis – Analysis of political and economic conditions that can affect currency prices.

Leverage or Margin – The ratio of the value of a transaction to the required deposit. A common margin for FOREX trading is 100:1 – you can trade currency worth 100 times the amount of your deposit.

Limit Order – An order to buy or sell when the price reaches a specified level.

Lot – The size of a FOREX transaction. Standard lots are worth about 100,000 US dollars.

Major Currency – The US Dollar, the Euro, the Swiss franc, the British pound, and the Japanese yen are the major currencies.

Minor Currency – The Canadian dollar, the Australian dollar, and the New Zealand dollar are the minor currencies.

One Cancels the Other (OCO) – Two orders placed simultaneously with instructions to cancel the second order on execution of the first.

Open Position – An active trade that has not been closed.

Pips or Points – The smallest unit a currency can be traded in.

Quote Currency – The second currency in a currency pair. In the currency pair USD/EUR the Euro is the quote currency.

Rollover – Extending the settlement time of spot deals to the current delivery date. The cost of rollover is calculated using swap points based on interest rate differentials.

Technical Analysis – Analysis of historical market data to predict future movements in the market.

Tick – The minimum change in price.

Transaction Cost – The cost of a FOREX transaction – typically the spread between bid and ask prices.

Volatility – A statistical measure indicating the tendency of sharp price movements within a period of time.