THE COMPLETE GUIDE TO FOREX

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Forex Defined & the Way to Trade Forex

Introduction:

Forex is actually the short form of the word Foreign Exchange. It refers to the simultaneous buying and selling of a currency pair. In Forex, currencies are always traded against one another and quoted in pairs. For example, USD/JPY refers to the US dollars and Japanese Yen pair. Some of the major currencies being traded on the Forex market are Swiss Franc (CHF), Euro (EUR), British Pound (GBP) and the Japanese Yen (JPY). All these currencies are traded against the US dollar (USD).

All currencies are traded in pairs. Within the pair itself, the first currency is known as the base currency while the second currency is known as the quote or counter currency. All quotes for Forex are quoted in terms of the base currency. When you ask for a currency quote, you will be given two prices, the bid price and the ask price. The Bid price is the price that you will get for selling a currency while the Ask price is the price that you will get for buying a currency. Both these prices are expressed in terms of the base currency. Let us say that the exchange rate for the USD/CHF currency pair is 1.6550. This means that one dollar is equivalent to 1.6550 Swiss francs.

As mentioned earlier, all currency quotes have two prices. For example if you requested a quote for EUR/USD, you will be given a quote like EUR/USD 1.4550/55. The price on the left side of the quote is the Bid price (1.4550) while the price on the right side is the Ask Price (1.4555). In Forex, any fluctuation of the rates is referred to by how many "pips". A pip is actually the smallest movement a currency quote can have. For example, if the EUR/USD Bid price moves to 1.4553, this means the rate had move by 3 pips from 1.4550. In this case, depending on the account type that you are trading with, a pip can worth $1 (for a mini account) or $10 (for a 100K account).

The Advantages of Trading In the Forex Market:

Leverage:

The majority of Forex brokers provide margin trading accounts for their clients. This allows the traders to leverage their trading by up to a ratio of 1 to 100. Thus with just $1,000, a trader can trade up to $100,000 worth of contracts. Traders only require a small capital outlay in order that they can take a larger position in the market.

If the market position taken by the trader happens to be incurring losses, your broker will then close your market position if your losses reach the balance of your trading account.

Highly Liquid Market:

Around $3 trillion dollars worth of currency are traded daily in the Forex market. This means any market orders are almost executed immediately. It also means that the market is too large for any single individual or institution to control.

24 Hour Market:

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

Ability to Profit from a Bull's or Bear's Market

Regardless of whether the market is moving up or down, a trader is able to profit from the market situation depending on whether he undertakes a "Short" or "Long position".

No Commission Charges Payable:

In the Forex market there is no commission charges payable when you buy or sell a currency. Instead what you pay is a "spread". This is the difference between the Bid and Ask price.

Currency Pairs and Their Significances:

A particular currency pair actually reflects the rate which two currencies can be exchanged for each other. In our previous example for the EUR/USD, this pair denotes how much one Euro can be exchanged for the US dollar.

Symbol	Bid	Ask	Open	High	Low	Chg. %
EUR/USD	1.4182	1.4185	1.4182	1.4182	1.4182	0.000
GBP/USD	1.6682	1.6686	1.6682	1.6682	1.6682	0.000
USD/JPY	97.56	97.59	97.56	97.56	97.56	0.000
USD/CHF	1.0807	1.0811	1.0807	1.0807	1.0807	0.000
AUD/USD	0.8371	0.8375	0.8371	0.8371	0.8371	0.000
USD/CAD	1.0810	1.0815	1.0810	1.0810	1.0810	0.000
NZD/USD	0.6716	0.6721	0.6716	0.6716	0.6716	0.000
USD/ZAR	7.9769	8.0019	7.9769	7.9769	7.9769	0.000
USD/TRY	1.4580	1.4680	1.4580	1.4580	1.4580	0.000
USD/MXN	12.9434	12.9634	12.9434	12.9434	12.9434	0.000
USD/PLN	2.8783	2.8883	2.8783	2.8783	2.8783	0.000
USD/SEK	7.1565	7.1615	7.1565	7.1565	7.1565	0.000
USD/SGD	1.4403	1.4410	1.4403	1.4403	1.4403	0.000
USD/DKK	5.2473	5.2503	5.2473	5.2473	5.2473	0.000
USD/NOK	6.1173	6.1223	6.1173	6.1173	6.1173	0.000
USD/ILS	3.9040	3.9290	3.9040	3.9040	3.9040	0.000
XAG/USD	13.6150	15.6150	13.6150	13.6150	13.6150	0.000
USD/HUF	188.96	189.56	188.96	188.96	188.96	0.000
USD/CZK	18.1780	18.2280	18.1780	18.1780	18.1780	0.000
USD/THB	33.6900	34.2900	33.6900	33.6900	33.6900	0.000
USD/AED	3.6726	3.6736	3.6726	3.6726	3.6726	0.000
USD/JOD	0.7045	0.7145	0.7045	0.7045	0.7045	0.000

An example of how a currency pair is traded:

In this scenario, a Forex trader is of the opinion that the Bank of England will intervene in the financial market

by lowering the interest rate. If this happens, this will result in the value of the British pound decreasing against the US dollar. In such a situation, he will take a “Long” market position for the USD/GBP. He will then proceed to get the “Ask” price for the USD/GBP pair with the view of buying this currency pair. Conversely, if the trader believes that the value of the British pound will rise in relation to the US dollar, he will then proceed to get the “Bid” price for the USD/GBP currency pair with the view of selling this currency pair.

Leverage and its Significance.

In Forex, the concept of leverage refers to the situation where a trader borrows the money of the Forex brokerage firm and uses that money specifically for trading in the Forex market. Because of leveraging, a trader with just a small capital outlay is able to invest in significantly larger value contracts. It is common to find Forex brokerage firms offering up to a ratio of 1:100 for an account holder. In contrast, in the equity market, a trader needs to come with 50% of the transaction value for every trade that they make.

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

Margin:

Before a trader can capitalize on the leveraging factor in Forex trader, he needs to put a margin first. This is actually a deposit of good faith or performance bond. Only when a Forex trader fulfills the margin requirement of the brokerage firm can he then place an order much larger than what he has in his trading account.

in the event of trading losses and the funds in the trading account fall below the margin requirement, the broker will then close some or all of the trader’s market positions to make up for the shortfall. And if even after closing all the trader’s market positions, there is still a shortfall for the margin requirement; the trader is subjected to a margin call by the broker. In such a case, the trader is required to pump in more money into his trading account in order to meet the margin requirement.

For example, if a trader has $10,000 in his trading account. This means that he has $10,000 useable margin. Supposing he uses $6000 in buying several lots of a currency pair, this would mean that he has $4,000 usable margin remaining. Thus, a trader can lose

up to $4,000 before his broker will act to close his market position in order to prevent further losses.

Transaction Costs:

In any Forex trade, there are two rates that are applicable depending if the trader is buying or selling a currency pair. If he is selling a currency pair, he will request for the "Bid" price of the currency pair. Conversely, if he is buying a currency pair, he will then look at the "Ask" price of the currency pair. The Ask price will always be higher than the Bid price. Nevertheless, the trader will never be trading exactly at the market rate. Because there is no commission payable in Forex trading, he pays what is known as the "Spread" to the broker. As mentioned earlier, this is the difference between the Bid and Ask price. The spread is only applicable on the buying side of the transaction. The trader will not incur this cost when he is selling the currency pair.

In other words, the spread is a round turn cost. In our previous example of the EUR/USD 1.4550/55 quote, the spread is equivalent to 5 pips. In trading terms, what this entail is that any starting position is a loss making position for a Forex trader until he accumulated some profits to cover the Spread of the transaction. Thus, if a trader takes a market position at the Ask price and immediately closes his market position at the Bid price, he will then incur a loss exactly equal that to the Spread.

Factors Influencing the Movements of Forex Prices From a Fundamental Analysis Point of View:

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

Global Economic Calendar (GMT -5:00) Date Range Filter Results

Adjust Timezone Add to your site

Date	Time	Currency	Importance	Event	Actual	Forecast	Previous
Jul 13	00:00	JPY		Household Confidence	37.60	36.80	35.70
	02:15	CHF		PPI (MoM)	0.00%	0.10%	-0.30%
	05:30	EUR		ECB President Trichet Speaks			
	13:00	USD		Monthly Budget Statement	-94.30B	-65.50B	-189.70B
	18:01	GBP		BRC Retail Sales Monitor (YoY)	1.40%		-0.80%
	18:01	GBP		RICS House Price Balance	-18.10%	-40.10%	-43.80%
	20:30	AUD		NAB Business Confidence	4.00		-2.00
Jul 14	03:30	GBP		CPI (YoY)	1.80%	1.80%	2.20%
	03:30	GBP		RPI (MoM)	-1.60%	-1.60%	-1.10%
	03:30	GBP		Core CPI (YoY)	1.60%	1.60%	1.60%
	03:30	GBP		DCLG House Price Index (YoY)	-12.50%	-12.60%	-13.00%
	04:00	EUR		German ZEW Economic Sentiment	39.50	48.00	44.80
	04:00	EUR		Industrial Production (MoM)	0.50%	1.10%	-1.40%
	04:00	EUR		ZEW Economic Sentiment	39.50	44.30	42.70
	07:30	CAD		New Motor Vehicle Sales (MoM)	1.00%	1.00%	0.00%
	07:30	USD		Core Retail Sales (MoM)	0.30%	0.50%	0.40%
	07:30	USD		PPI (MoM)	1.80%	0.90%	0.20%
	07:30	USD		Retail Sales (MoM)	0.60%	0.40%	0.50%
	07:30	USD		Core PPI (MoM)	0.50%	0.10%	-0.10%

Interest Rate:

In each country whose currency is traded in the Forex market, the Central Bank of the respective country will determine the overnight lending rate the commercial banks. The control of interest rate is essential for the central bank of a country to implement its monetary policies. Hence, the interest rate is used as a tool to expand or contract the money supply. Generally, a lower interest rate will cause a country's currency to depreciate.

This is because of the Forex traders who indulge in carry trades. This is a trading strategy where a Forex trader sells a currency that is yielding low interest for another currency that is earning a higher interest rate. This is because currencies with higher interest rates will normally rise in value. In addition, with trading rollover, traders are also able to earn interest daily.

Unemployment Rate:

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

Geopolitical Scenario:

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

Using Fundamental Analysis:

The use of fundamental analysis is particularly useful in predicting the long term trend of a currency and its corresponding pair. By concentrating on those long term factors which affects a country economic growth, traders are able to generally predict which way a currency pair will move in the long term.

Examples of Fundamental Analysis Application in Trading Major Currencies:

EUR/USD

Typically, when the US dollar weakens, the Euro will rise in relation. Conversely, when the US dollar strengthens, Euro's value will decline in relation. Thus, when the US economy faces increasing higher unemployment rate, this will result in the US dollar weakening. Therefore a trader will buy (Ask) the Euro with the expectation that it will appreciate against the US dollar.

Similarly, if there is a surge in demand for US financial instruments like treasury bonds or equities, this will help push the value of the US dollar up in relation to the Euro. In this case, a trader will want to sell (Bid) the Euro as the value of US dollar will appreciate.

USD/JPY

If the Japanese Government wishes to boost the demand for their exports, they will seek to try to weaken the Japanese yen in relation to the US dollar. When that happens, the USD/JPY will rise in its price. Traders wishing to benefit from this scenario should buy the USD/JPY (Ask) in anticipation of the increase in US dollar. Similarly, when the level of Foreign Direct Investment (FDI) increases in Japan, this will help push up the value of the yen in relation to the US dollar. If that is the case, traders should sell (Bid) the USD/JPY hoping to profit from the appreciation in the yen.

GBP/USD

If the money supply in the UK economy increases, this will result in the supply of money exceeding the demand of money. This will mean that the banks will have more money to lend resulting in lower interest rates as a result will depreciate the value of the British pound in relation to the US dollar. Hence, a trader will want to sell (Bid) the GBP/USD currency pair. Conversely, due to prudent monetary policies, the UK's economy is enjoying robust growth as reflected in the increasing growth rate of its Gross Domestic

Product (GDP). This will result in the value of the British pound appreciating in relation to the US dollar. Therefore, traders will want to buy (Ask) the GBP/USD currency pair.

USD/CHF

The Swiss franc is normally seen as a safe haven currency. Thus, during times of global instability, the Swiss franc becomes a highly demanded currency. Therefore, it will appreciate in value in relation to the USD. Therefore, traders should sell (Bid) the USD/CHF. On the other hand, during times of stability, the demand for the US dollar will increase as people will see less need for parking their money in Swiss franc as a safe haven currency. In this situation, traders will buy (Ask) the USD/CHF as the US dollar continue to strengthen against the Swiss franc.

EUR/CHF

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

AUS/USD

One of the biggest export earners for Australia comes from the mining sector. Hence, any increase in commodities prices will boast the export earning of Australia. This will benefit the value of the Australian dollar. Here, traders will react by buying (Ask) the AUS/USD currency pair since the Australian dollar will strengthen against the US dollar. Another major export earner for Australia comes from the agricultural sector. Therefore, if Australia is facing widespread drought, this will cause the agricultural sector to decrease its contribution to export earning for the Australian economy. As a result, the Australian dollar will depreciate in relation to the US dollar. Therefore for traders to profit for this situation, they should, sell (Bid) the AUS/USD currency pair as the Australian dollar will slide in value against the US dollar.

USD/CAD

Continuing high unemployment rates suffered by the Canadian economy will result in the Canadian dollar depreciating against the US dollar. In order to take advantage of this scenario, traders should buy (Ask) the USD/CAD currency pair. On the contrary, if the Canadian economy is going to rebound due to lower unemployment rates, this will result in the Canadian dollar appreciating against the US dollar. For traders to profit for this, they should sell (Buy) the USD/CAD currency pair.

NZD/USD

New Zealand controls a third of the global trade in dairy and meat products. In essence, this country's economy is centered on its agricultural sector. Therefore any factors that affect this sector of its export earnings will affect its exchange rate. As such, a decline in dairy output in the US as a result of natural disaster will result in increased demand for New Zealand dairy exports. This will definitely cause the New Zealand dollar to appreciate in value in relation to the US dollar. To benefit from this, traders should buy (Ask) the NZD/USD currency pair. On the other side of the coin if however due to widespread foot & mouth disease, this will cause a decline in dairy and meat production in New Zealand. The subsequent effect will be a decline in export earnings and hence a depreciating New Zealand dollar. To profit from this, traders ought to sell (Bid) the NZD/USD currency pair.

Technical Analysis:

Another method which a Forex trader can use to help him formulate his trading strategy is by using Technical Analysis. Although Technical Analysis can be mentally challenging initially, once you master the techniques of Technical Analysis, it is extremely easy to apply it your trading strategies. It is also an extremely useful tool that makes up for the shortfall in Fundamental Analysis.

The main problem that traders face with technical analysis is because there are so many ways that one can analyze the market information derived from Technical Analysis. Any misinterpretation will lead to the wrong conclusion and result. On the flip side, because the majority of the market participants are relying on Technical Analysis, it becomes a self fulfilling prophecy. Thus, with everyone watching the same technical indicators, it is a foregone conclusion that the market will move in a direction that is indicated by the technical indicators derived from Technical Analysis.

The Relevancy of Technical Analysis in Forex Trading

The main objective behind technical analysis is to identify trends when they initially develop. This will permit the trader to capitalize in on the trend until it switches direction. The reason why technical analysis plays such an important part in the Forex market is because the Forex market comprises mainly of trends. Due to the nature of the Forex market, traders are able to trade on both sides of the market. It is in this situation where Technical analysis is most effective in helping traders predict the movements of the trends.

As opposed to the other financial markets, technical analysis is widely used within the

Forex community. In part, the market movement is predicted by technical indicators. However, due to the fact that the majority of the traders are relying on the same technical indicators to predict the price movements, the market movements also become a self fulfilling prophecy. Thus, if technical analysis predicts that the price of a currency pair will decline, because the majority of the traders are acting in response to their analysis, this will result in the price declining further.

Resistance & Support:

One of the fundamental concepts in technical analysis is the concept of support and resistance. Resistance in Forex trading refers to a situation where prices have reached their peak and have difficulty moving further upwards. The level at which price cannot seem to break through is known as the "Resistance Level". This is actually a subjective level and at times it can be extremely difficult to determine where this level is at precisely.

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

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

though technical analysis is more of a scientific and mathematical concept, there is no precise way at arriving at where the support and resistance levels for a particular currency pair will be at. These levels are more or less determined through intuition gleamed from trading experiences. When you have a support line you want to buy as close as possible to that line, take a look at the picture below.

Prices around these two levels normally have difficulty breaching their support or resistance levels due to the lack of opposing market orders. These are the areas which the market outlook is that the market is going to turn soon and hence the lack of participation during these situations.

Range Trading:

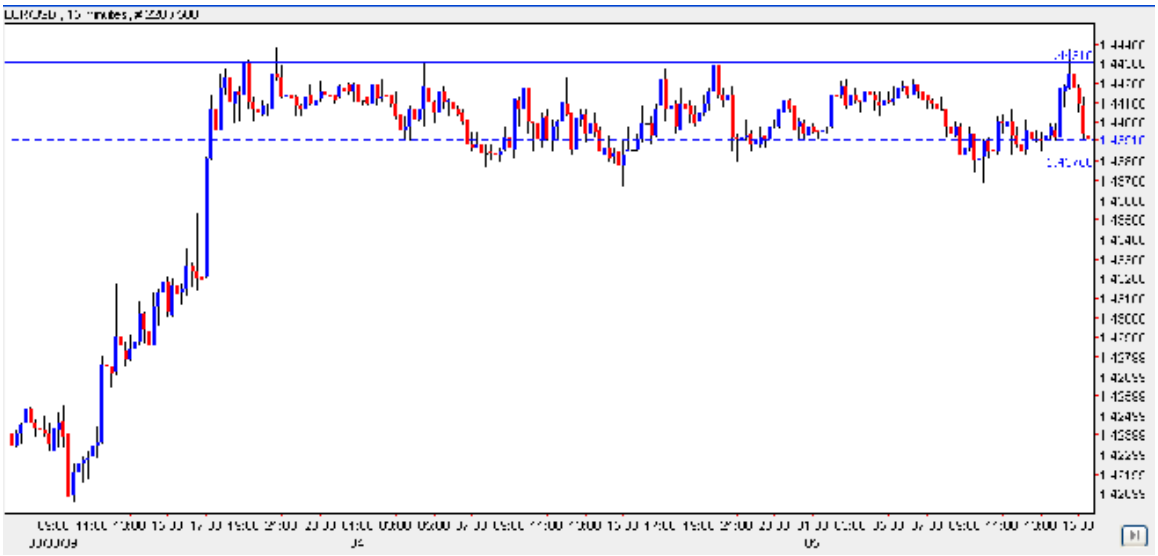
Although it is difficult to pinpoint where these levels are at precisely, traders are still able to utilize these concepts because they can trade within these ranges. Thus, within the support level regions, traders just adopt a “Long” market position while at the resistance region; they just adopt a “Short” market position.

Drawbacks of Range Trading:

One of the major drawbacks of range trading is that there are little chances for extraordinary profits within the ranges. The market generally spikes or crashes suddenly when it breaks the threshold of these levels. And when that happens, traders adopting range trading strategies will find themselves incurring huge losses when the prices jump

or drop suddenly.

Below is a chart illustrating the concept of range trading:



Momentum Markets:

An alternative trading strategy to range trading is by utilizing the concept of support and resistance to trade beyond the range. When one adopts this trading strategy, one is anticipating the market to break the threshold of these levels. Thus, a trader will place an "Ask" market order above the resistance level and a "Bid" market order below the support level. The underlying principle is that the market will gain impetus once these thresholds are breached. This will allow traders to profit from this situation once the prices breach these levels.

The diagram above shows an uptrend pattern meaning when the momentum is positive you can draw the trend line and join the trend.

This diagram shows a downtrend line meaning when the momentum is negative you want to sell the currency pair.

Oscillators:

Oscillators are a set of technical indicators that will help a trader determine whether a

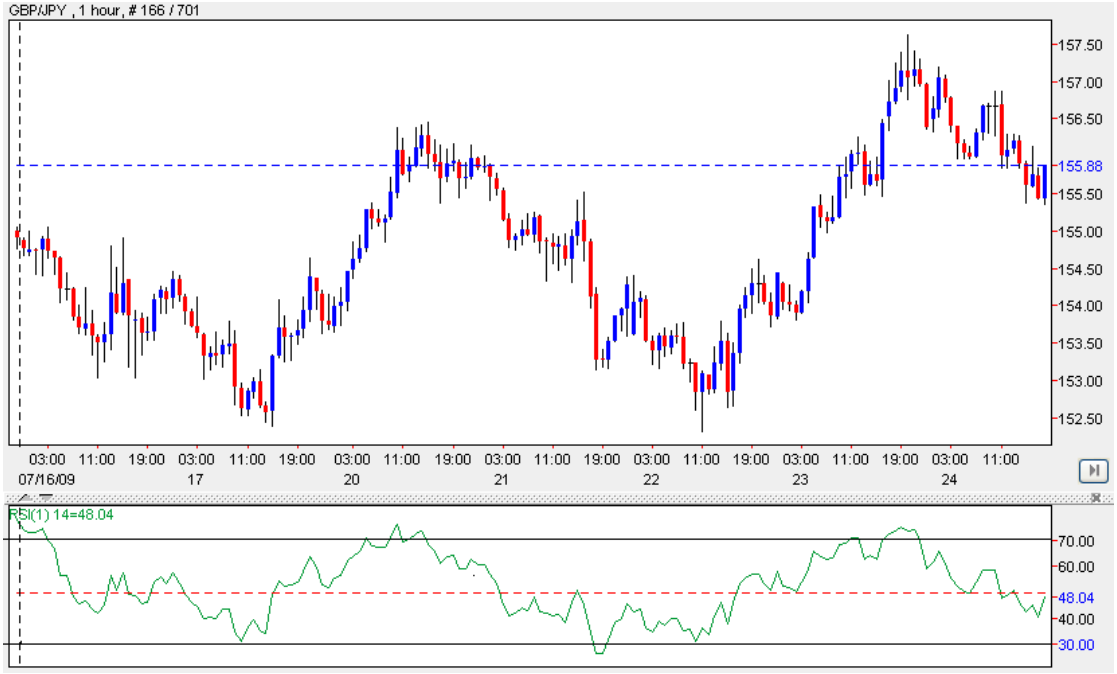
market is overbought or oversold. One such oscillator that is commonly used by Forex traders is the Relative Strength Index (RSI).

Relative Strength Index (RSI):

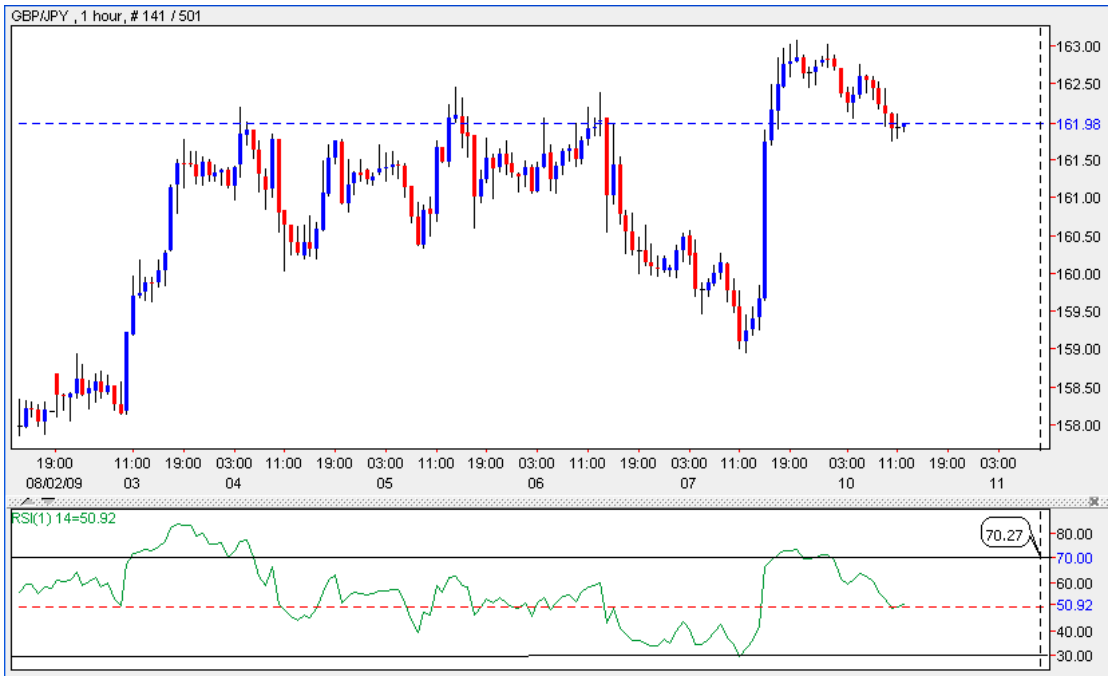
The RSI, developed by J. Wilder, contrast the downtrend and uptrend prices over a period of time. The RSI gives more emphasis to the latest data and provides a better indication than what is provided by other oscillators. As the RSI is less sensitive to sharp price fluctuations, it helps to sift unwanted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

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

The chart below indicates a RSI reading of below 30:



This chart shows an RSI reading of above 70 meaning that the currency pair is getting over bought



Five Different Ways of Using the RSI:

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

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

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

4. To indicate chart formations more clearly. Chart patterns like "double tops" or "Head & Shoulder" can be seen more clearly with the RSI than on the price chart itself.

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

Risk Management:

Before any trader embarks on a trade, there are three questions that he must bear in mind.

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

   A trader can utilize "Limit Orders" to close his market position when he reaches

his profit target. Thus, if you hold a "Short" market position, you can place a limit order just under the current market price as this is your profitability zone. On the other hand, if you are holding a "Long" market position, you should utilize a limit order above the market price. With the use of limit orders, a trader is able to adopt a more disciplined and systematic trading stance. He can still benefit from the price movements even if he is not monitoring the market constantly.

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

   With a Stop/Loss order, traders can specify a closing point for a losing market position. If you stake a short market position for a currency pair, then you should place a stop/loss order at a price higher than the current market price. Conversely, if you had taken out a long market position, then the stop/loss order should be placed lower than the current market price.

3. **Where to place the Stop and Limit Orders?**

   As a norm, stop orders should be placed nearer to the opening price as opposed to limit orders. If this philosophy is strictly adhered to, a trader only needs to be correct roughly half the time for him to remain profitable.

   As an example, with a 30 pip Stop/Loss order and a 100 pip Limit order, a trader only needs to be correct 30 % of the time in order to make a profit. Precisely at which point to place these orders will actually depend on how much risk a trader is willing to take. Furthermore, the stop order should not be too close so as not to render it obsolete by normal market fluctuations.

   With regards to limit orders, they should be placed at the point of realistic profit expectation taking into consideration the duration of the market position and market sentiments.

A Trader's Psychology:

Before beginning to trade in the Forex market, a trader must analyze his potential positions properly and give thoughts to the trading plan for the next day. Many novice Forex traders always neglect this part of their training and because their anxious to make money jump into trading based on hunches and guesses. It is only through careful analysis and planning that a trader can keep his losses to a minimum and at the same time maximize his profitability. Thus, make sure that you have a trading plan to limit your

losses and lock in your profits before starting out on your Forex trading.

It is important that once you have a trading plan in place, you should adhere to it. This is another area where the majority of traders fail to keep in check. Without strong discipline, one can easily deviate away from one's trading plan and start to trade based on guesses and hunches again. They stop closing their position at their profit target or hold on to a declining market position for too long in the hope that it will rebound back.

One other major psychological mistake that traders make is the assumption that all trades are profitable. They might have reached this assumption because of particular instances where the stop order is triggered and later the market rebounded back favorably. This can easily lead to these traders forgetting to place Stop orders on their subsequent trades.

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

Forex traders must also guard themselves so that they will not become emotionally entangled with their trading. What happens when they become emotionally entangled is that when they make a trade, they cannot let go even if it is a losing trade. What a trader must do is to always maintain his original stance and never deviate from it. He must always be objective in his investment decision so as not to cloud his judgment. It is not uncommon for a person to want to justify his action by making excuses through an alternate analysis. Because he is already emotionally entangled, his subsequent analysis becomes tainted and biased without any objectivity.

This sort of mentality causes a person to lose sight of their initial goal. And coupled with the fact that they can leverage their trades, this can cause a trader to multiply their losses more than they anticipated. They easily slip into the mode of overtrading hence opening them up to a situation of more liability without any objectivity. They forget that their liability, is not limited to the amount that is available in their trading account but on the transacted value of their contracts. As the norm, a trader should never try to use more than 20% of their margin account at any one time.

Trading Accounts:

Forex traders generally have a choice of two types of account. UFX Bank offers four

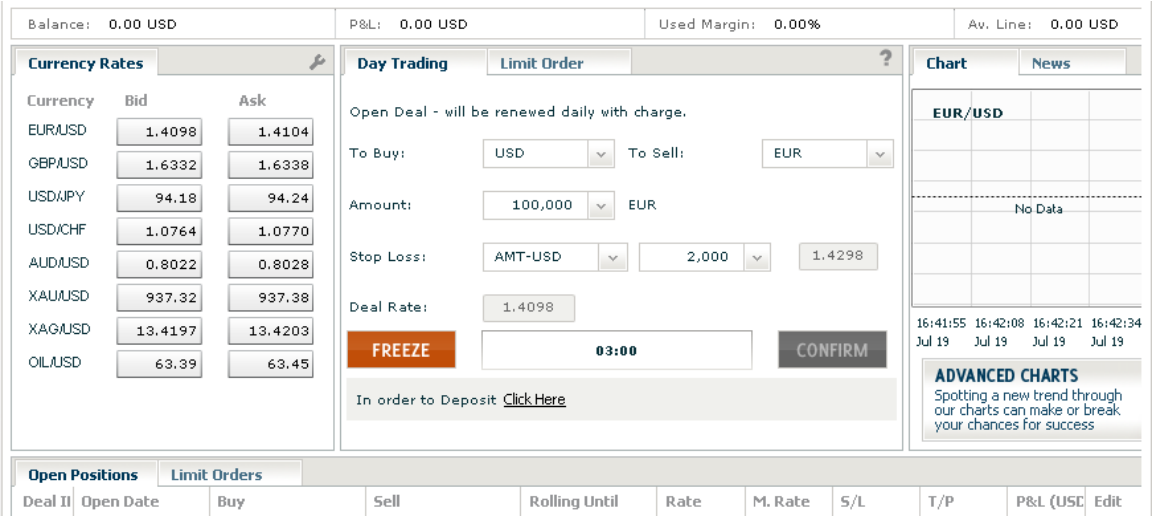
types of accounts Mini, Standard, Gold and Platinum. Standard account holders can trade a minimum of $10,000. So if there is a leverage ratio of 1 to 10, traders are required only to deposit $1000 of their own money into their trading account.

Nevertheless, the advantage of leveraging can cause a trader to lose more than he has in his account.

Trading Platforms:

There are two kinds of trading platforms. A trader can use a web based platform like the UFX one, which they can monitor without the need for a download. Alternatively, a trader can download a Forex trading software to setup his trading platform. This second option is normally more complicated than a web based platform.

This is how the UFX Bank trading platform appears:



Before commencing trading, a Forex trader must always familiarize himself with his trading platform first. The demo account that is available should be fully utilized to get you fully acquainted with the trading platform. You also need to accept that there is also an element of risk when you take a position in the market. With that in mind, you have to place Stop orders and Limit orders to minimize your losses. No market position is foolproof and it is a given fact that your stop orders and limit orders will hit sooner or later. At least with a Stop order, losses are curtailed the minute the prices drop to the threshold of the stop order.

Take note that the nature of the Forex market is always fluid and fluctuating. Whenever

you position your stop order or limit orders, ensure that it is not too tight or too wide. Otherwise, it will defeat the purpose of you using the stop or limit orders. If the Stop orders are too wide, this will result you incurring more losses than necessary before the stop orders are triggered. If the stop orders are positioned too close, the stop orders will be triggered prematurely due to the volatility of the Forex market. Always keep your composure when trading and don't let your emotions cloud your judgment. By preparing yourself mentally beforehand, you will be aware of what to expect and not let the situation get the better of you.

Trading Philosophies & Market Noise:

By now, you should be aware that as a Forex trader you have the option of relying on Fundamental Analysis or Technical Analysis. Nevertheless, there is no single formula that will serve its purpose in a fluid environment like the Forex market. Thus, to err on the side of caution, a prudent Forex trader will always rely on both fundamental and technical analysis to formulate his trading strategy. Use Fundamental Analysis to know how you can identify possible trends that can emerge. And then, use Technical analysis to help you confirm your hypothesis.

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

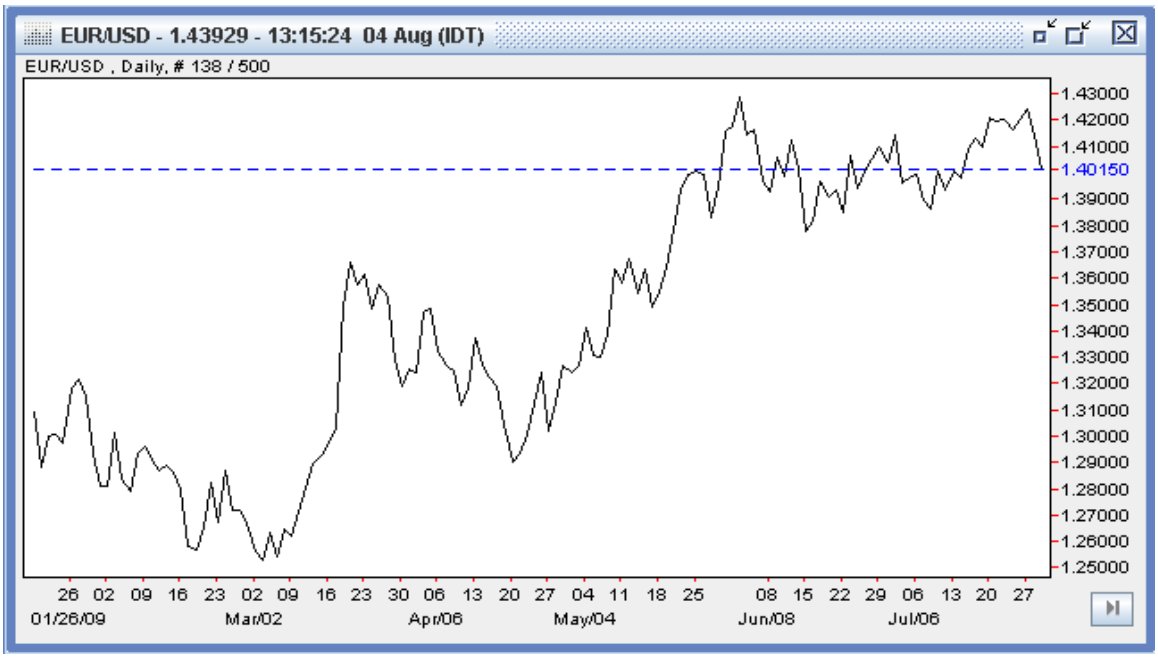
The Chart Basics:

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

Line Charts:

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

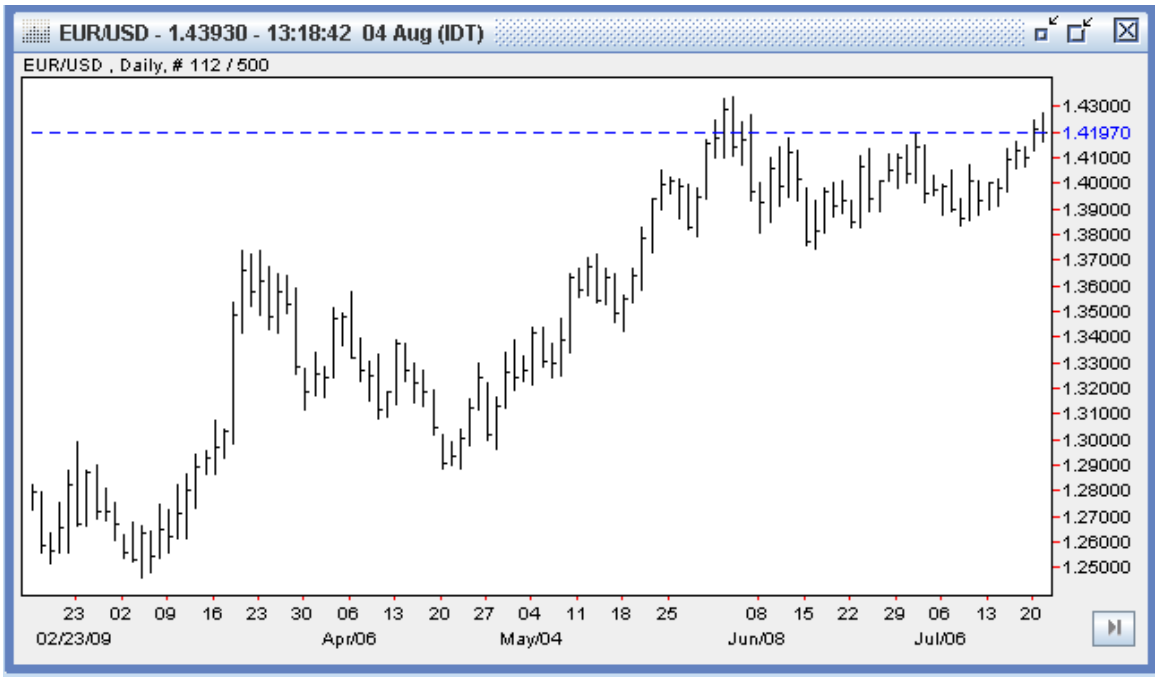
An example of a line chart is illustrated below:



Bar Charts:

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

The following chart shows what a bar chart looks like:



Candlestick Charts:

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

Forex Trading Strategies:

Generally, a Forex trader should just trade on the major currencies, especially those that are against the US dollar. This is due to the fact that these currencies have more trading volume and are more liquid and hence more chances for profitability. The British pound, Euro, Japanese Yen and the Swiss Franc are good currencies of focus as they are widely traded in the Forex Market. This will give the trader more room to maneuver in his trading strategy.

The Australian dollar, Canadian dollar and New Zealand dollar have less volatility nevertheless; there are opportunities to isolate trends with these classes of currencies. It is important to remember that there are always hidden costs that are attached with trading a particular currency. One such hidden cost is the interest chargeable for holding an overnight position on a currency. This is because we are trading on margin and this means we are using "borrowed" money to facilitate our trades. This interest is known as a "Roll Over" margin and the rate payable is dependent on the brokerage firm. Right now UFX Bank are charging a very low fee of 0.0025%.

In summary, you should trade in those currencies that are highly liquid and have good potential for profitability like the British Pound, Euro, Yen and Swiss Francs. Always take note of any hidden cost that are payable for holding a position in a particular currency pair. And lastly, as a novice trader, it is advisable to always consider a long term

market position as opposed to a short term one.

Exponential Moving Averages:

This is a type of moving average that is akin to a simple moving average except that more emphasis is given to the latest price data. EMAs are more responsive and react more quickly to the current price changes. For the short term, Forex traders normally use the 12 days and 26 day averages. For the long term, traders normally rely on the 50 days and 100 days averages to signals for long term trends. EMAs are also used to calculate the percentage price oscillators (PPO) and the MACD *(Moving Average Convergence Divergence)*. EMAs are also known as *"exponentially weighted moving average"*.

The EMAs allow us to monitor and inform us of the best point for entering or exiting a market position. These EMAs permit us to spot any changes in the trend pattern. The trigger when the trend reversal is occurring is when these EMAs crossover.

Using the EMAs:

By following a trend, we would be able to spot any changes in the trend when they are about to change. And with this, we are ideally positioned to take advantage of this reversal in the trend. All market movement will move in one of three directions, that is, upwards, downwards or sideways. Using the moving averages permit us to isolate these movements and hence capitalize on the situation. Before all else, the EMAs need to crossover in order for the trader to be in a profitable position. Nevertheless, it is important to take note of a situation where the EMAs are moving extremely close to each other and skirt over each other giving out a false signal that the EMAs had crossed.

The reason why there are EMAs for short term and long term scenarios is to try to avoid situations where there can be false signals. The picture given by the short term averages and long term averages are used to confirm the overall picture. Having said that, EMAs alone are insufficient for a trader to rely on to confirm a reversal in the trend. Traders should also look to other technical indicators to see if they give the same overall picture before forming a hypothesis. This is the main reason why Forex traders also rely on Fibonacci retracements to analyze the market scenario.

Fibonacci Retracements:

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

realize their profits.

When the market is bullish, the idea is to go long on the market position. With your trading platform software, you can calculate the Fibonacci Retracements levels so you know at which points that you have to realize your profits. Due to the fact that the majority of Forex traders are relying on the Fibonacci Retracements levels for their trading strategies, the Fibonacci Retracements levels actually become a self fulfilling prophecy.

The following example below illustrates how the concept of Fibonacci Retracements levels work.

The following chart is a daily chart of the USD/CAD currency pair. Based on the chart, the swing high is at 1.3063 while the swing low is at 1.0784. The plotted Fibonacci Retracements levels are at:

- 1.1670 (0.382)
- 1.1970 (0.500)
- 1.2200 (0.618)

Thus, if the USD/CAD currency pair retraces its movement back from its bottom, traders will react by placing sell orders at the levels indicated as the market continues its downward swing. Typically, the price will halt their gain at one of the plotted levels as

the sell order generates enough resistance for the price. With reference to the chart, they tried to rally but however just closed at 1.17 without breaching the 0.382 Fibonacci Retracements levels. Any trader who had taken out a short position at the 0.382 Fibonacci Retracements level would have been able to realize a big profit.

Summary:

Before embarking on any trading, Forex traders must always seek to educate themselves. Once they have done so, they should formulate a proper trading strategy. It is important that you should always keep to this strategy and not deviate away from it. A good trading plan is as good as a good attitude towards trading.

Once a trading strategy has been formulated, a trader must select the currency pair that he wishes to trade in. Normally it is best to concentrate on the Major currencies as they have more trading volume and liquidity. With this, traders have more chances to profit from their trading.

There are methods of analysis that a Forex trader can adopt to help him formulate his trading strategies. Fundamental analysis relies on the macro economic factors that can influence the price movements of a currency pair. Technical analysis relies on past prices to help a trader spot trends that he can capitalize on. Traders must always bear in mind that there is no single method for identifying price fluctuations. Most traders use a combination of both fundamental and technical analysis in order to arrive at a single hypothesis regarding price fluctuations.

Some of the technical tools that a trader can use are charts and moving averages. The Charts used can be simple line charts or more detailed charts like bar charts or candlestick charts. In addition to charts, trader can also use EMAS and Fibonacci ratios to help them spot trend reversal.

Last of all, there is no foolproof system where a trader is guaranteed to make profits. All trading involves an element of risk. What is important for a trader to realize is that, they should be aware of what they are getting themselves into. The best for a trader to be aware is continuous education.