

1st Edition

Forex Trading

All - In - One

FOR

DUMMIES®

Learn to:

- Manage forex market risks
- Manage your capital
- Make passive income by trading forex online.

Mamta mishra



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Forex Trading

For Dummies

By

Sourav Mishra

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Basic of Forex trading



1. What is Forex trading?

Forex, which is also known as FX or currency trading, alludes to a decentralized global market where all the world's currencies are traded. Forex trading can also be referred to as a global over-the-counter (OTC) market where institutions, traders, banks, and investors speculate, exchange, buy as well sell world currencies. Usually, forex trading involves buyers and sellers who transfer currencies between them at an agreed price .

Additionally, the forex market is actually one of the largest markets in the world, and that is in terms of liquidity since it usually has an average daily trading volume that exceeds 45 trillion, which is not even close to the world's combined stock markets. Usually, forex trading is commonly practiced with the aim of making profits given the fact that the amount of currency converted on a daily basis influences some currencies to become less or more volatile. It's also important to note that volatility makes currency trading much attractive to trades since the lesser the volatility, the less risky the currency. Unlike other assets, currency trading can be conducted in whatever market is open at a given time since it has no centralized marketplace. The currency markets operate 24 hours a day five and a half days a week.

2. History of Forex trading?

Forex is known as the foreign exchange transaction or trading. It can also be

described simply as foreign exchange. Historians had it that this form of trade started with the Babylonians. It means exchanging one form of currency to another form of currency. This also started as a form of barter trade where one exchange goods for another. However, a problem arose when it became extremely difficult for such an exchange to be based on the real values of items. The introduction of gold as a medium of exchange tends to narrow down the problem because items can now be exchanged on the real value of gold. In international trade, the gold value was used as the basis of foreign exchange. This was removed in the year 1931, and this allowed the emergence of FOREX.

The introduction was helpful to the market and the global economy because it brings about reliability and stableness in international transactions. Because of the role played by the US in stabilizing the world economy and bringing about a stable global financial system, the denomination of the foreign exchange was done in US Dollars, and that was around the year 1944. This was the time the Second World War was ending where Americans led the western front of the war.

It can be said that the formation of global financial institutions such as the World Bank, IMF, and GATT created the fertile ground for the formation of that foreign exchange currency. The agreement in the denomination of that foreign currency is that the value for Gold would be put at \$35, and this would serve as the standard value for one ounce of gold. This also made it possible for the other currencies to have a constant standard. It thus stabilized and standardized the global financial system. This is good because it makes it easier to avoid any form of the financial crisis that would have arisen if such standardization was not done.

Foreign exchange also has to do with currency trading. Currency trading did not even start today. Any form of exchange in those days was considered a form of trading. It can be said that currency trading is as old as man. People were doing different forms of transactions and exchange, and one form of commission or the other was paid, and this has existed since history. It can, therefore, be said that forex trading did not start today.

Currency trading has also evolved over the centuries. The first documented information about the currency and trading currency started about the year 2500 years ago, and that was the time the Egyptians and the Greeks traded currencies and goods using silver and gold coins. The value at that time was based on the size and the weight of the gold and coins. This continued until 2000 years ago when the Roman empire decides to mint the currency, which was centralized in Rome. The government monopoly on currency trading was done, and it was based in Rome. The current state of that market represents what exists today where central banks can decide and rule on monetary policies.

The process continued until one thousand years, and that was precisely in the Middle Ages, and at that time, copper was accepted as the best material for coin minting and currency trading. It became easier to create coins with copper, which is easier and more affordable than gold. Thus it became possible to have coins that have different values. Those made of gold have higher value while that made with copper has a lower value. The first global forex trade was made about 500 years ago, and that took place in Amsterdam. The forex trade, as it is done today, started from Amsterdam forex trades, and it is the same principle that applies to the world today. Forex trade was able to thrive then because of the introduction of the Gold Standard, which was done in the year 1875. This made it possible for countries to mint as much of their national currencies as they like and in reserve was gold. This, therefore, ensured that the value of a currency is always guaranteed. However, the end of the first world war made it possible for countries to print more monies to finance their projects. By 1913 many companies have started to trade foreign currencies.

3. How does the forex market work ?

As stated in the text above, the currency marketplace is not centralized, and for that, currencies can be traded anywhere and at any given time. It's also important to note that currencies are traded worldwide in major financial centers such as Paris, London, Tokyo, New York, Singapore, among others. Financial markets within these centers are extremely active as the price quotes are constantly changing due to volatility.

Normally, currency trading involves the buying of one currency and, at the

same time, selling another. What happens in the forex market is that buyers and sellers actively speculate on the direction to which currencies are likely to take in the future. Again, the forex market occurs basically in three types that is; spot market, future, and forward markets.

The spot market, which also referred to as the cash market, is a type of currency market where currencies are bought and sold for immediate delivery or within a couple of days depending on the local regulations. Again, the price quoted for the buying and selling in the spot market is referred to as the spot price. Also, buying and selling is strictly done in cash at the current price set by the market. It's also important to note that spot markets can occur as organized markets. As an exchange or even over-the-counter and whether there is an infrastructure in place where the transactions are conducted, the spot market will still operate.

Forward forex market, on the other hand, is an over-the-counter marketplace where prices of financial instruments are set today for future delivery. Usually, the purpose of the forward forex market is to create contracts to be delivered at a specific future date. Importantly, forward contracts can be customized to fit a customer's preferences as they also have a characteristic of maturity. Again, prices within the forward forex market are interest-rate based, which is derived from a differential interest rate between two currencies.

Lastly, we have a future forex market which is associated with contracts agreed upon to buy or even sell a given currency at a set or rather agreed price and time in the future, and unlike forward contracts, futures contracts are legally binding. Futures contracts also have a maturity date or rather a termination date to which the delivery of a given currency must occur and not beyond.

4. Benefits of Forex Trading

High Volume and Liquidity: -usually, the forex market is highly liquid as it can handle any transaction, even those are reaching beyond \$1.5 trillion every day. Again, both buyers and sellers are ever-present regardless of the currency type, and for that, if a buyer wants to buy, there will always be a seller available to sell.

It's a 24-Hour Market for Five Days and a Half: -as stated earlier on in the text above, the forex market is a worldwide market that is continuous as long as there is an open market somewhere in the world. It's actually the largest market in the world, as roughly \$4 to 5 trillion dollars are traded on a daily basis.

Low Barriers to Entry: -the forex market is for everyone, and getting started at the market doesn't cost you a lot of money and most especially when compared to trading other financial instruments such as stocks. Again, the market is not owned by anyone; in other words, there is no single institution or rather trader that controls the forex market prices as the market quickly calibrates itself as well levels the playing field.

Low Transactional costs: -typically, the transactional costs are built into the prices within the forex market in the form of the spread. It's also important to note that their enormous potential profits between the rising and falling prices, even considering the involved transactional costs.

5. Risks Associated with Forex Trading

Exchange Rate Risk: -this is generally a risk caused by changes in the value of the currency. Normally, currencies are associated with the effect of continuous volatility shifts in the forex market. The risk can be enormous as it's determined by the perception of a market of which currency might shift towards based on the possible outcomes that occur. Also, as a country's exchange rate falls, its currency will weaken and vice versa.

Transactional Risks: -Many are the times when forex markets are associated with the time difference that is between the beginning of a contract and when it's been settled. Normally, the forex market operates on a 24-hour basis and which makes it possible for exchange rates to change before trades are settled, and for that, the associated transactional costs might be risky.

Country Risk: -Basically, before one makes a decision on which option to invest in, it important to assess the economic structure of a country and how stable it is. Maintaining a stable economy is quite a challenge, and for that, the value of a given currency might fall at any given time and which can extremely affect the investment of an investor.

Other associated risks include; counterparty risk, which is the risk of default from a dealer or broker in a given transaction leverage risk, which is associated with small price fluctuations and settlement risks.

6. The Basic concept of Forex trading.

What is Spot Price?

Generally, a spot price is the current market price at which a financial instrument is being bought and sold for immediate delivery. The spot price is differentiated from forwarding price, and future price since the assets in these two are delivered in the future. Importantly, spot prices are used to represent a base indicator for pricing indicators. Spot prices are quite essential in the spot market as they are used to make a representation of what buyers and sellers use to value their assets. Further, spot prices are continuously changing as they vary in response to the variation of supply and demand.

What is an Order Book?

Notably, an order book alludes to an electronic list of buy and sell orders that comprise of specific financial instruments organized in order of price levels. Normally, the order book is updated in real-time, depending on the market volatility. Importantly, the order book is quite crucial as it also indicates the market depth. The key players in forex markets use the order book to gauge the state of play at any given time that they want to trade. Order books are also important as they help in increasing transparency within the financial markets as they state the specific price levels of the financial instruments. It indicates how many bids as well offer a specific instrument has at each price level.

What is the Bid Price?

A bid price is a price at which a trader is willing to sell an underlying financial instrument, and from the perspective of a buyer, a bid price alludes to the price at which they are willing to purchase an underlying financial instrument. Usually, while trading financial instruments, a bid price is the price at which an instrument is quoted. Usually, a bid price for a given instrument is displayed in the market; nonetheless, investors are not restricted to buy or sell the instrument at the quoted prices, they are normally free to

specify their bids.

What is the Ask Price?

The asking price, on the other hand, alludes to the lowest price a seller is willing to sell their financial instrument at the current moment. Similarly, like other prices in the financial markets, the asking price changes continuously as investors react and, at the same time, make moves. The ask price is typically a fairly good indicator when it comes to valuing instruments at a given time despite the fact that it can't be taken as the true value of an instrument. Again, investors are not restricted from buying or sell their instruments at the ask price level, and for that, investors can specify their bid while executing a trade .

What is the Spread?

Importantly, forex trades need to familiarize themselves with FX spreads as they are the actual cost of trading currencies. Usually, spreads are based on the buying and selling price of a currency pair; the costs, on the other hand, are based on forex spreads and lots sizes. Normally, a forex spread can be viewed as the price difference between where a trader might buy or sell an underlying instrument. Just like other spreads, forex spread is quite crucial as it presents a way through which investors can take advantage of market imbalances. Forex spread can also be utilized as a conservative hedging strategy that lowers the volatility of a portfolio, reduces the associated biases, and ultimately generate profits.

Currency



1. History of Currency?

In the world today, there are hundreds of currencies. Each nation has its currency. Even when such currencies have the same name, there is still a difference between them. One is that they may not be the same in color, and values in those currencies may not be the same. Currencies have undergone various stages of evolution before they result in what is available in the world today. Those various stages of evolution can indeed represent the various stages of human and economic development and evolution .

Whenever one talks of the history of currency, one is at the same time talking about money. This is because there is no way you can talk of currency without talking about money. The two are inseparable, and they represent the same thing. The history of currency is about the history of money because the two are closely intertwined.

When you talk of the history of money, you have to think of the time money started performing the functions of medium of exchange or any of those functions that money is supposed to perform. It is not easy to tell when money was first invented; it was assumed that it started even before man starts to record events. This means that money may have been prehistoric. Because of that, most stories about the origin of money could be conjectural. It would not be easy to determine any logical sequence about the evolution of any currency. For that reason, also, there could be variations in history as to when and where it started.

Most of the information about currency origin assumes that things were exchanged in the trade by barter form. There is the uniformity of agreement here, but the processes and how that happens may not be the same. Several things were exchanged in the process, and this range from grain to livestock. It extended to those things that were very useful. Later it shifted to certain attractive items ranging from cowrie shells and beads, and so on. Different things were exchanged for more needed commodities. What determines what could be exchanged include individual needs. You have to look for somebody that has the kind of commodity you need. When you agree, then you can exchange what you have.

It is not easy to determine when to trade by barter was replaced by a single item with a defined value such as shekel, coin, and so on.

As stated before, there is no historical evidence that can suggest that barter was the main mode of exchange, and it was globally accepted. However, accounts by historians tend to suggest that. It has not been scientifically proven. Money or currency must have evolved from somewhere, and that many historians agree that exchange was the first mode of transactions and that other things evolved from that.

David Graeber, a popular anthropologist, argues that money was developed to take over from the barter system. He also maintained that the problem with that is that there is no documented evidence to back that claim.

The researcher agreed that the gift economy, which barter was part of started as the medium of exchange in the agrarian era. It was also believed that elaborate credit systems must have started from that era. As soon as it became difficult for the gift exchange to be used as a quantifiable obligation, society started to think of other means to quantify exchange in the real value. Later, society started to look for something that can also serve as a store of value. In the gift economy, goods and services were often offered without any form of future or immediate rewards. It means that in the earlier society, there was no form of quid pro quo. However, the exchange then was considered as reciprocal altruism. This means that relationships existed then based on the type of exchange. You can exchange with someone who has value and the

need for what you have. There must be the element of reciprocity in all these.

How did money emerge?

Currency emerged centuries ago, and it was believed that it started with the domestication of cattle as well as crop cultivation. This was estimated to be around the period 9000 to 6000 BC. During this time, crops and livestock were used as money. These items were chosen as money then, because of the reliability and utility. Many people rely on them because of their importance. Furthermore, it was widely acceptable to society at that time. This means that they were accepted as money because they can be re-traded, and they can be reused. Acceptance is an attribute of anything that can serve as a currency. It must serve as an exchange of money because they are marketable. When you exchange them, you will value them.

As society continues to evolve as a mode of production continues to improve with the division of labor taking center stage, it becomes certain that a new form of exchange becomes inevitable. Physical separation of activities becomes possible with skilled laborers ready to offer their skill and clients who are in need of such skill ready to engage them. This means that a new form of exchange that would be acceptable to all concerned becomes imminent.

The emergence of coin

It was around the period 7th millennium BC that people of Western and Central Asia evolved a means of transaction. This centered on the rich mineral deposits, which are often extracted from the ground, such as gold, tin, copper, and so on. The practice continued until centuries later when gold bars were accepted as the standardized weights. Apart from that, it became the value of exchange in the advanced societies of that time, such as Egypt and Mesopotamia, other neighboring countries were copying from them. At the same time, other regions of the world were experimenting with different forms of trade and payment transactions. In some societies where gold was not used, other items such as cowrie shells were common in some areas like Africa and East Asia. Others also use such instruments as beads, stones, animal skins, and so on. Some even used spearheads and weapons, and so on. These continued to exist, and it was later reformed, but it took years to develop. These continued for centuries until coin emerged as the form of monetary exchange.

The coin was introduced around the year 7th century BC. It was believed to be first used in the ancient kingdom known as Lydia, which is located on the western coast of what is currently known as Turkey. The first coin was known as electrum, and it was a combination of gold and silver. These coins were rare, and they are available in different shapes and sizes. These coins were written on one side of it. They are significant because they are available in the standardized weight, and this can range from anything 0.15 grams to 14 grams. Some of the old coins have names inscribed on them, and some of them include the names Kalil and Walwel, and these were believed to be the kings of that kingdom at that time.

This was where coin emanated, and from there, it spread to other parts of the world, which include the Greek regions as well as the Asia Minor coast. From there also reached the Greece Mainland. Soon it paved the way for nations and kingdoms at that time to produce their coins or currencies.

Paper currency

Just as Lydia, Greece, and other kingdoms were busy producing their various forms of currencies, China has a different idea. They used a form of coin, and this is based on the miniaturized metallic representation, and it involves the use of such tools like agricultural implements, knives, and agricultural tools such as axes. With time China refined its currency and started to use a rounded coin that has a Chinese inscription in them. The Chinese were the people to invent what is today known as paper currency. The first of such currency was manufactured around the year, 100, and the first paper currency uses such materials as bamboo, hemp, linen, as well as mulberry bark and so on. Just as they were making the currency paper, the Chinese were also implementing credit notes on paper as well as deerskins as a long-distance trade guarantee. It was believed that the first of such a paper bill made its appearance during the period 7th BC, and it was during the reign of the Tang Dynasty.

This finally paved the way for the emergency of paper currency, and this was attributed to lighter weights. Furthermore, this can substitute thousands of coins. It paves the way for higher and larger trade transactions to be carried across a long distance.

The government at that time facilitated foreign trade because they made it easier for foreigners to exchange their metallic coins in the treasury, and this means that they would get paper currency in exchange.

The development of banknote

As the Chinese were developing their paper currencies, the Europeans were equally doing the same. However, the paper currency did not grow faster in Europe as it did in order parts of Asia. It was introduced to Europe by foreign travelers such as William Rubruck and Marco Polo. At that time, the materials to use for paper currency were not widely available in Europe.

It was actually in the 13th century that paper money finds its way to Europe. It was also in Europe in medieval Italy and Flanders that promissory notes were first introduced. This arose because of the problems of transporting large sums of money from distant places. These were written personally when it started, but the system improved later when it turned to written order to pay somebody that amount of money in possession. It is assumed that the promissory notes paved the way for the emergence of the regular banknotes.

Trade bills of exchange

The expansion of the European trade zone made way for the emergence of trade bills of exchange, and this happened around the end of the Middle Ages. This expanded because of the growing Italian wholesale trade on such commodities as woolen clothing, cloth, tin, wine, and other products. These merchants depend on this for the growing business. The arrangement made it possible for goods to be transacted based on the bill of exchange. This means that the buyer enters a promise to make the payment on an agreed date. The arrangement works on the premise that the buyer is credible or that such a buyer gets a credible guarantor. The bill would be presented before a merchant banker who would make that payment on the discounted note before the due date. This method is to help travelers and buyers who usually travel to longer places to make a purchase. There is a danger when they travel with huge sums of money with them. Cash would be deposited with a banker in a town, and the redemption would be done with another banker in another town. With time this becomes a method of payments, and the system becomes widely accepted not only in Europe but also in other parts of the

world.

When it started, it was widely used as a currency because it served as a medium of exchange as well as storage of value. The credit system now becomes a way of creating new money for the system. It becomes a prominent form of trade in the last quarter of the 18th century in places like England. This was replaced by banknotes, cash credit, as well as checks, which were widely available at this time in Europe and many other parts of the world.

Currency deposit s

Around the 1500s, banking institutions developed, and currency deposits started. Receipts were received in exchange for any deposited money. The receipts were made to the person who made that deposits and the money would be withdrawn when he presents the receipts. Even if another person presents that receipt, the money would be withdrawn.

The national currency started first in Sweden as the country became the first to issue state currencies in Europe. This happened around 1661, while England started the same in the year 1694. Pounds was introduced in England right from the time of King Offa in the Middle Ages. The largest quantities that were issued then were fifty pounds, and because it was higher than what most people could earn at that time, people resorted to coin, which was more affordable.

The dollar currency

As at the time the Bank of England was issues banknotes in Pounds, some of its colonies were still using other currency forms. When the war independence broke, the Americans were using what was then known as the Continental. The dominations of that were in dollars. When the war ended, and ten years of independence, the US Congress passed the law that paved the way for the issuance of dollars as the national currency.

Currency innovations

With the development of the computer and the technology that comes with it, there was a significant innovation in currency. Instead of talking about

physical currencies, today, one can talk of digital currencies. Purchasing, transfer, and exchange of currency from one part of the world can be done within seconds because of the computer and internet technology. These days there are different forms of transferring currencies. Most currencies in the world now existed in the digital form, and all these are transferred in the bank databases. This also makes foreign exchange transactions possible. More about forex in the course of this work.

Today the world is talking of cryptocurrencies. These kinds of currencies are mined, and they are in various forms. This is the form of digital form. The most popular form of digital currency available in the world today is Bitcoin. The fact remains the currencies are continuing to evolve, and the world is yet to hear the last of it. Perhaps, time may come when the whole world would be under one currency.

2. Currency Pairs

On the foreign exchange market, national currencies from two different countries are matched against each other and used for trading. The value of one currency (the base) is quoted against the other (the quote). This phenomenon is known as Currency Pairs. All transactions within the Forex market, whether buying, selling, or trading is done through currency pairs. The exchange rate of currency pairs is said to be floating, which implies that it changes from time to time. This change is brought about by several factors, including change in the respective value of the currencies. In all cases of currency pairs, one currency holds stronger than the other.

Major Currencies in the Forex Trading

Almost all currencies from various nations can be used to trade, but there are those currencies that pair more frequently than others. They include:

- USD/JPY - this pair sets the US dollar against the Japanese Yen
- USD/GBP - commonly known as pound-dollar, this pair sets the US dollar against the United Kingdom pound.
- AUD/USD - in this case, the US dollar is set against the Australian dollar, and the pair is commonly known as the Aussie

dollar

- USD/CHF - the US dollar is set against the Switzerland money and this set is known as the dollar Swissy
- USD/CAD - the US dollar is set against the Canadian dollar, and the pair is known as the dollar-loonie
- NZD/USD - here, New Zealand's currency is set against the US dollar. This is known as the kiwi dollar

Minor Currencies in the Forex Trading

These are the currencies that are not used frequently. They are not paired with the US dollar, but they consist of the UK pound, the Euro, and the Yen. They have a smaller market share as compared to the currencies paired with the US dollar. This makes these minor currencies exhibit lower market liquidity.

They include:

- EUR/GBP - Euro/British pound
- EUR/CAD - Euro/Canadian dollar
- EUR/AUD - Euro/Australian dollar
- GBP/CHF - British pound/Swiss franc
- NZD/JPY - New Zealand dollar/Japanese yen
- GBP/CAD - British pound/Canadian dollar
- EUR/NZD - Euro/New Zealand dollar

3. Forex market structure

1. What is the interbank market?

Ideally, the interbank market is the global network that is used by financial institutions to trade currencies between themselves, and in this case, when people are talking about currency markets, they are simply referring to the interbank market. In most cases, interbank trading is usually done by banks on behalf of large customers; banks also use the interbank markets to manage the exchange rate as well as interest rate risks. Importantly, most transactions within the interbank network are for a short duration and anywhere between overnight transactions up to six months transactions. It's also important to note that the interbank market is not regulated.

2. Who are the major forex market players

As the world's largest financial market, the forex market not only has quite a number of players but rather many types of players who make the market much active. Some of the key players comprise of :

Commercial Banks and Investment Bank s ➤

It's within the interbank market where banks of all sizes trade currencies with each other and through electronic means. Both commercial and investment banks account for the largest percentage of transactions that they make on behalf of the clients as well as to conduct speculative trades from their own trading desk.

Central Bank s ➤

Central banks, on the other hand, represent the nation's government and who are quite crucial players in the forex market. Importantly, open market operations as well as interest rates policies of the central banks highly influence the currency rates extensively. Again, central banks have the responsibility of fixing the prices of their home currency on the forex, which is usually the exchange regime that its currency will be traded in the forex market. Actions taken by central banks within the forex market are believed to intervene in any instance of currency appreciation or depreciation.

Multinational Corporation s ➤

Again, companies that engage in activities of importing and exporting also undertake forex transactions to pay for goods and services. Again, they also trade forex to hedge risks relating to foreign currency translation and which adds safety levels to investments.

Investment Managers and Hedge Fund s ➤

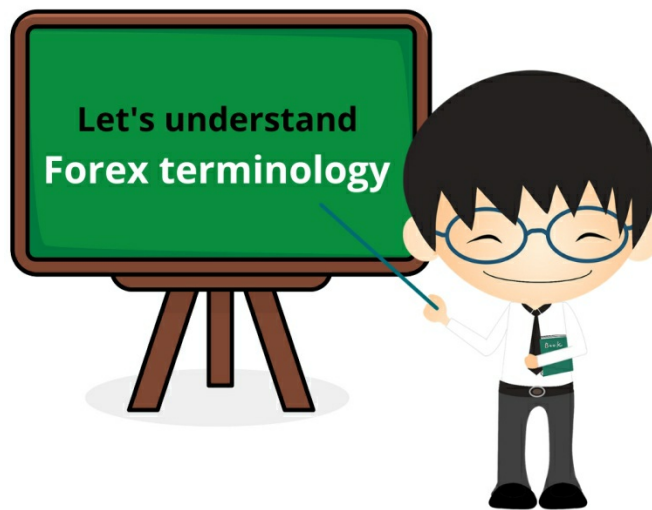
Affirmatively, portfolio managers, pooled funds, and hedge funds make up the second largest collection of forex market participants that's right after banks and central banks. In most cases, investment managers trade currencies for large accounts inclusive of endowments, foundations as well as pension funds.

Individual Investor s ➤

Lastly, we have individual investors who are also referred to as retail

investors. Their volume of investments is extremely low compared to multinational companies and institutions. Nonetheless, individual investors are popularly growing rapidly as forex market players. Its also important to note that individual investors base their forex trade on a combination of fundamentals inclusive of monetary policy expectations, inflation rates, as well as interest rate parity, among other technical factors.

Forex terminology



Lots and pips

1. What is a lot?

A lot is a quite simple concept of the forex market that alludes to bundles or rather units within which a trader can trade. In other words, it's the size of the trade a trader is willing to make. A lot can also be viewed as the number of currency units a trader is willing to trade. For instance, before a trader starts trading, they have to make a decision on how much money they are willing to put into the trade, and for that, they have to a bundle or rather a lot of currencies that they are willing to spend on.

Types of lots

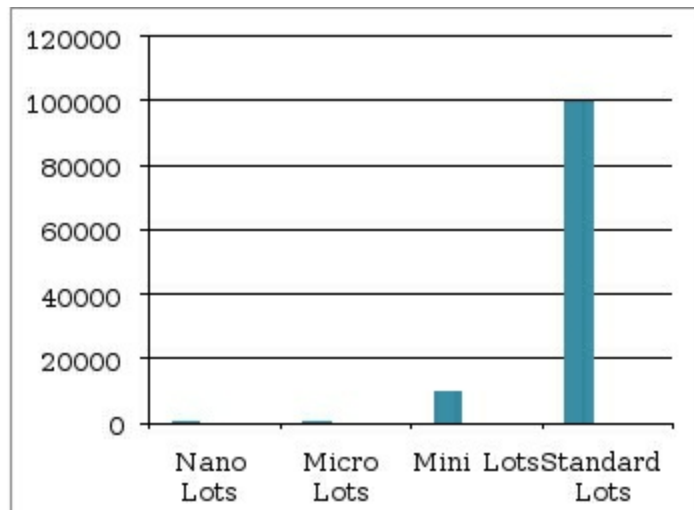
Lots differ according to sizes. Types if lots include:

Standard lot (100,000 units)

Mini lot (10,000 units)

Micro lot (1000 units)

Nano lot (below 1000 units)



For example, in the case of a standard lot that represents 100,000 units of currency pair, If you buy one standard lot(100,000 units) of AUD/USD at the exchange rate of 1.20, then you will receive \$120,000USD.

2. What is a pip, and what does it represent?

A pip which is commonly referred to as a percentage in point is basically a representation of the smallest change in a currency pair can make, and its usually counted in for decimal places. For instance, in the case of a change in currency pair between EUR and US, the pip is given in the form of 1.3463. In other cases, some currency pairs can be given in two decimal places. For instance, in the case of a change in currency pair between JPY and US, the pip is given in the form of 109.70. Importantly, a pip is represented by the last decimal of price or rater quotation. It's also important to note that; pip can be measured in terms of the quote or again in terms of the underlying currency. A pip is a standardized unit of measure and, at the same time, the smallest amount to which a currency quote can change.

How to calculate pip s

Calculative a pip value is simple and straightforward. Let's say you want to

trade a standard lot of EUR/USD at an exchange rate of 1.30. In this case, one pip equal to 0.001

So the pip value will be $0.0001/1.30 \times 100,000 = 7.692$ Euros

3. What is the Spread?

Ideally, within the forex market, a spread can be viewed to as the difference in pips that is between the BID price which is the price at which a buyer is willing to buy and the ASK price which is the least price a seller is willing to sell their financial instrument in a given currency pair. Traders need to calculate the nature of the spread between the paired currencies for the purpose of ensuring that they come up with better trading strategies that are primarily automated as well to adopt better technical analysis skills on how to handle the current situation. The nature of spread between paired currencies highly depends on liquidity in the sense that the greater the number of market participants involved in a trade, the closer the prices at the time of the transaction. Spread is also highly influenced by the current market situation in the sense that the current economic and political of a given country will determine the nature of the spread between paired currencies.

It's also important to note that there are two types of spread inclusive of A fixed spread, which is a constant value despite the currency fluctuations, and it's usually set in the most liquid currency pairs. We also have Variable spread, which is commonly set by brokers within the lower limit, which may fluctuate given the value of the currency.

Leverage and short selling

1. What is Leverage?

When you invest a certain amount of money, let's say \$1000 to trade with, your broker may lend you some extra funds like \$500 or so to increase your trading capital. The goal here is to increase your potential returns. After all, in Forex, your potential returns depend on the size of your capital. In other words, the larger the capital, the bigger the potential returns on investment

and vice versa. Therefore, in nonprofessional's language, leverage can be defined as the amount of money that a trader borrows from their broker for trading purposes in an effort to increase potential returns.

That said, it's worth noting that nearly every broker offers leverage, which can actually be more than the size of the invested capital. Furthermore, the size of leverage may vary from one broker to another, and depending on the prevailing market conditions.

Nevertheless, it's worth noting that leverage is usually expressed in ratio forms such as 50:1, 100:1, or 200:1. Today, the average leverage offered to traders in the Forex market is; 50:1, 100:1, and 200:1. Leverage of 50:1 means the broker offers a maximum credit that's equivalent to fifty times the size of the investor's capital, and so on.

2. How to calculate leverage in forex trading

Suppose I am a trader with \$1000 trading capital in my account and then my broker decides to lend me some extra \$10,000 such that my capital is now \$11000, I can calculate my leverage as follows :

(My Initial Capital/the lender's amount X 100)% i.e. $(\$1000 \div \$10,000 \times 100)$ % = 10% or 1/10 or 1:10. Remember that leverage can be expressed in different forms, including percentage, fraction, or ratio.

3. How to Manage a Leverage Risk

The best way to manage a leverage risk in Forex trading is to keep your leverage to the bare minimum. For instance, if your broker offers flexible leverage between let's say 20:1 to 50:1, choose the former. That way, you will be able to keep your risk to the lowest level possible. Remember, the higher the leverage, the higher the risk, and vice versa.

In addition, when you obtain leverage, avoid investing in currencies with high volatilities contingent upon many factors; including political and economic situations of the countries associated with those particular currencies, at the moment. For example, if I was trading using leverage, I

would go easy on buying the dollar and the Chinese yen, due to the political situations currently existing in the US and Hong Kong(China). There is also the issue of a trade war, which is currently going on between the two countries. All these factors make the two currencies so volatile right now that their values could drop by more than a half overnight.

4. What is the best leverage for you?

Beginner traders should avoid higher leverage because these credits come with financial risks. Instead, they should opt for a lower leverage to reduce the risks. Starting with lower leverage between 5:1 (credit worth up to five times the amount of one's capital) and 10:1(credit equivalent to ten times or less the amount of one's capital) isn't a bad idea.

Final Thoughts

Leverage can enable you to multiply your potential returns in Forex trading. At the same time, it can cause you to lose so much in this form of trade. As a result, it's imperative that you master the concept of leverage thoroughly before getting started. With that regard.

1. What is short selling?

Ideally, short selling is an investment or rather trading strategy that allows traders to speculate on the decline of the value of financial instruments. Normally, short selling occurs when an investor borrows a security and sells it in an open market to purchase it back on a later date for less money. In most cases, traders use short selling as a result of benefiting from a drop in a security's price. The practice of short selling is done with the expectations of currency falling in value, and once the price drops, the trader purchases the same instrument that was initially borrowed and returns it to the lender.

2. The Benefits of Short Selling

Short selling gives traders the opportunity to access instruments that they would have otherwise not been able to trade with. For instance, if one wanted to take advantage of a decrease in an instrument's drop in value, then they could do so even without owning the instrument.

Another benefit is that short selling minimizes the risk that a trader takes

when it comes to purchasing instruments in real-time since traders borrow an instrument sell it and wait for it to fall in price, then they buy it and by so doing returning it to the lender.

With short selling, a seller is able to monitor as well control their investment, that is, with the use of varied market orders and by so doing mitigating the losses.

It's also crucial to note that you can also employ leverage when it comes to short selling.

3. Risks Associated with Short Selling

For starters, short selling can cost you your money. That is when a trader makes the wrong prediction about the price movements. A trader may also lose more than 100% of their original investment since short selling has no ceiling for the instrument prices. ➤

Short selling is also associated with the risk of wrong timing. Even in the case of an overvalued instrument, the instrument might take time for the prices to decline, and for that, a trader is left vulnerable to interests as margin calls.

There also exist regulatory risks when it comes to short selling. In some cases, the regulators of a given financial market might impose bans on short sales within a specific sector or even within a broad market with the aim of avoiding panicking as well the presence of unwarranted selling pressures. With such actions, there might be some occurrences of spiking prices, and as a result, short-seller are forced to cover short positions, thus making huge losses.

Short selling is also associated with going against the trend risks. Usually, most instruments appreciate, and in the case of short selling, it means traders are betting against the overall direction of the market.

Lastly, short selling is also associated with risks to do with a short squeeze. Generally, short squeeze normally occurs when an instrument starts to rise, and on the other hand, short-sellers cover their trades through buying their short positions back.

Brokers and orders

Brokers

1. What is a Broker?

Also referred to as currency trading broker or retail forex broker, forex brokers are firms that provide access to trading platforms. Forex broker act as a medium between traders and the forex market. They are intermediaries who buy and sell assets for a commission.

To help you understand the forex broker well, let's use this simple example. When people look for property to buy, they usually seek assistance from a real estate agent. Real estate agents are experts in the real estate field who understand the real estate market, including the prevailing market price of properties in a certain period and properties available for sale. In simple words, real estate agents are middlemen.

A forex broker performs the same function. The only difference is that their area of specialty is the forex market. Accessing the forex market on your own is very difficult. Many decades ago, forex trading was only available to large, well-established corporations, very wealthy individuals, and financial institutions. However, the entrance of forex brokers into the industry changed the game completely. Forex brokers gave ordinary people with little capital to trade on the forex market. They have bridged the gap between big financial institutions selling currencies and small traders who want to make a profit from the forex market.

The strategy that forex brokers use is simple: they gather as many forex traders as possible to get enough capital that enables them to trade with the banks selling currencies. This allows traders to participate in forex trading even with small capital outlay. That explains why the forex is the largest and the most liquid market. Forex brokers make profits on commission, which depends on the volume of traded currencies.

2. What is the role of a broker?

They offer easy access to the forex market

Accessing the forex market on your own is not easy. You need to have huge sums of money to trade with banks selling currency pairs. The primary role

of the forex broker is to offer easy access to the forex market to traders. Forex brokers have made it easy for people to invest in the forex market even with small capital outlay because they capitalize on the power of numbers. By attracting many traders on their platform, there can raise sufficient capital to trade with a financial institution that sells currencies. Forex brokers have a platform where traders are supposed to sign up the deposit a certain minimum trading amount to start trading. Most brokers offer simple and easy to use interface.

They give traders education materials

Forex broker knows that they can only profits if traders are happy. That is why they have taken it upon themselves to offer educational materials to traders to increase their chances of making profits. Although forex brokers make money regardless of whether the trader make profits or not, they are happier when traders make profits. After all, if a trader makes losses all the time, he/she may quit, and that is a significant loss to the broker. Forex brokers give educational material to help traders make an informed decision when making trades. All brokerage firms have put in strategies to help them keep up with the changes that occur in the forex market to help their traders make profits.

Trade of behalf of traders

Forex brokers also buy and sell currencies on behalf of the trader. When it comes to forex trading, traders have two options: to either trade on their own or to allow the broker to trade on their behalf. If you are new to forex trading, but you want to make money, or if you want to make money from forex trading without so much hustle, then you can let the broker trade on your behalf.

3. What things should you consider when choosing a forex broker?

The number of brokers has nearly tripped over the last decade. Surprisingly, nearly all of them claim to offer the best brokerage services to traders. As a result, most traders are usually confused on which brokerage firm to choose. The brokerage firm that you choose is significant and will determine your overall experience in forex trading. In this section, we are going to discuss

important factors to consider when choosing a forex broker.

1. Check if the broker is regulated

The first thing that you need to check before choosing a forex broker is if a relevant accredited agency regulates the firm. Not so many brokerage firms are regulated. This is because they are supposed to comply with stringent regulations include having tight security features, being well-capitalized, among many others. If a broker is regulated, then it means that the firm has complied with all laws governing the forex market industry. By dealing with a regulated broker, you will be assured that the broker has met the operating standards put in place by the regulatory agency. So ensure that you choose a broker is that is regulation to guarantee the safety of your hard-earned money. Crosscheck the registration number provided with the agency to verify if it is genuine. Countries that have regulatory agencies include India (SEBI), Australia (ASIC), Japan (JSDA and FSA), USA (SEC and CFTC) and the UK (FCA)

2. Consider if the platform is secure

Hacking is a big challenge that most forex brokers face. Many brokerage firms have gone down because of not putting tight security measures. Remember that you will be required to submit sensitive personal and financial information when opening an account. So, you need to be sure that your data will be in safe hand. It is very difficult to know if the brokerage firm has put stringent security features to protect trader money and data, especially if you are not an IT expert. So the best way to know if the interface is secured is by reading customer reviews to know what current traders using the platform are saying. Only choose brokerage firm whose platform is full proof. This way, you will be certain that your personal and financial information will not fall into the hands of the wrong person.

3. Consider products that the broker covers

Sometime back, forex brokers were only allowed to trade currencies, but today they are at liberty to trade over the capital market through a single forex account. So if you want to earn more profits from your investments, then it is prudent to choose a forex broker who offers many products to traders such as Bitcoin, bonds, stock indices, precious metals, among many others. Diversifying your investment will increase your chances of making

more profits from your investments .

4. Consider how the brokerage firm executes trades

This is an important factor that many traders overlook when choosing a brokerage firm. Forex brokers use different execution strategies. If you want to make good profits from your investment, then you should choose a forex broker who fills trades timely and at the best possible market rates. The forex broker should use technology to predict how the market will be in the future. The broker should also be able to take calculated risks to help you make maximum profits from your investments.

5. Consider the trading cost that you will incur

Before you make your final decision, it is important to consider the trading cost to see if it is friendly and affordable. Choosing a broker who charges high trading costs means less profits on your side. No one wants to earn less profits simply because the broker charges high trading costs. This factor is particularly important for traders who are planning to trade in high volume. You don't have to pay a high trading cost to get quality service from a forex broker. Choose a broker who charges a reasonable fee. However, you should not compromise on quality service just because you want to save money.

6. Consider the quality of customer service offered

You will some point need to ask something or seek clarification. It is there important to choose a trading platform that offers quality customer care service to its clients. Forex trading is a 24 hours market. So when choosing a forex broker, prioritize those who offer quality customer care service 24/7. This way, you will know that you are just a phone call away from help.

7. Consider if the trader offers educational materials and other trading tools

Does the forex broker offer useful educational materials and other trading tools that are useful to traders? This is an important thing that you need to inquire about when choosing a forex broker. The main aim of the forex broker should not make profits at the expense of traders. Instead, their aim should be to help traders make profits by providing them with educational materials, including webinars, trading videos, seminars, e-courses, among many others to help traders make informed decisions when placing their

trades. A forex broker firm that provides educational tools to traders not only makes the work of the trader easier, but it also indicates that the brokerage firm cares about its clients.

8. Consider the trading platform

Take your time to analyze the trading platform to see it is user-friendly. A good trading platform should be straight forward and easy to use. Even a beginner should not struggle to use the platform. The trading platform should also be secured and mobile-friendly. Also, the broker should offer a demo account to help novices familiarize themselves with the trading platform before they open a live trading account. Only choose a forex broker that has a secure, easy to use, and mobile-friendly trading platform.

4. Best brokers at the current time?

1. Saxo bank

Saxo bank Danish-based bank was found in 1992. The company provides forex trading and is regulated by various financial authorities, including the UK Financial Conduct Authority (FCA) and the Danish Financial Services Agency (FSA). We recommend Saxo to traders who are looking for a forex broker firm that provides a secure and easy to use trading platform. It also charges favorable commissions.

2. TD Ameritrade

TD Ameritrade is one of the most prominent stockbrokers in the US. It is regulated by agencies like the Commodity Futures Trading Commission (CFTC), the security and Exchange Commission, and the Financial Industry Regulatory Authority (FINRA). We recommend TD Ameritrade for traders looking for a forex broker with excellent customer support, a great desktop trading platform, and a low trading fee.

3. City index

Founded in 1983, the City index is one of the top forex brokers in the world. The company is listed on the New York Stock Exchange and is regulated by reputable agencies, including the Monetary Authority of Singapore and the Australian Securities and Investment Commission. We recommend City

Index to traders looking for a forex broker that offers several research tools, low trading fees, and fast and smooth account opening.

4. Forex.co m

Established in 2001, forex.com is a global forex broker that is regulated by agencies such as the Financial Conduct Authority (FCA) and the US Commodity Futures and Trading Commission (CFTC). We recommend Forex.com for traders who are looking for a forex broker firm that offers diverse currency pairs, various research tools, and charges affordable forex fees.

Platforms and charting software

Platforms

There are lots of platforms out there in the market for trading forex, but let's see the most popular platform.

1. What are the popular platforms for forex trading?
2. Best platform for you to get started

Charts

1. What is the chart?

:- A forex trading chart is basically a geographical description of rate exchange between two different currencies. The chart will illustrate how the exchange rate of currency pairs has been changing over time.

2. **Basics overview of a chart**



On the right side of the chart, there are lots of tools that you can use while trading.



Live and simulation account

What is a live account in the forex market?

In the forex market, a live account is where you trade using real money. Unlike a demo account where there is no capital risk, a live account exposes you to all market risks. This means that if you make a wrong trading move, then you may end up making losses, and if you make brilliant trading moves, then you will earn good profits from your trades.

Newbie traders are encouraged to first practice on a demo account to understand the basics of forex trading before they open a live account. This is because once they start trading on the live account, then profits and losses will be real.

What is a simulation account?

Also known as a demo account, a simulation account is a virtual account that gives forex traders nearly identical experience of a live account without the risk of losing capital. Simulation account is recommended for novice traders who have little knowledge of forex trading. It is a risk-free account because the money that you will be trading with is virtual.

A simulation account gives traders a chance to practice different trading strategies. It also helps traders to familiarize themselves with the trading platform. Most trading platforms usually give their clients an option to open a simulation account.

Why simulation account is essential for beginners?

A simulation account allows beginners to trade with liberty. The absence of capital risk means that beginners can try different trading strategies without worrying that they will lose their money. A simulation account also enables novice traders to gain access to the latest market data in real-time and expert for advice.

It also helps them learn how to manage their emotions. Overconfidence and euphoria can easily kick in after winning a few trades, while doubt and frustration can lower morale after losing a few trades. A simulation account help to manage these emotions .

A demo account also helps traders to test their trading strategies and create a trading route that suits them.

Technical Analysis



There is, at all times, huge loads of cash at stake and especially while trading in the share market, and this makes it seem like it is a tensed field of war. These tensing situations usually create needless anxiety levels amongst the traders. Technical analysis typically calms these levels of anxiety. , technical analysis foretells the direction of the prices of securities. Technical analysis helps to study the past market information, mainly the price and the volume.

Technical analysis is an imaginative as well as an effective procedure that places you in the seat of the driver and generally with high accurateness. Through studying technical analysis, a trader gets prepared with sensible analysis power that assists him to not to choose beneficial bids but to keep away from the less pleasing or the incorrect ones too. Also, if the trader is on the losing side, it helps in managing that loss with high effectiveness. This article explains several things regarding the technical analysis.

What is Technical analysis?

Technical Analysis is the act of predicting the changes in the price of a financial mechanism {such as shares} or marketplace in general. It helps to analyze past price changes as well as to look for relationships and patterns in the price history. Technical Analysis is the ability to estimate the trends, the momentum, and also the general opinion behind the price progress of a stock

or whichever security. Therefore, it helps in deciding on the investment. Setting the technical analysis foundation are many of the indicators that are customarily used, contrast, screen, and after that, applied as a component of a fundamental investment strategy. Nevertheless, it is fascinating to know that no even single indicator has yet been found to be conclusive.

- Technical analysts merely care just price action. A business' news events, potential earnings, and further fundamentals don't matter. It is assumed that every one of these things is factored already in the stock price.
- Technical analysts typically examine past price action to calculate future price achievement.
- Stock charts are the primary source of information for technical analysts. For every instrument, every day and weekly charts are usually analyzed to identify different kinds of technical analysis openings. Several of the trials are bullish suggestive of an increasing price, whereas others are bearish suggestive of a dropping price.

History of Technical analysis

The theories of technical analysis originated from hundreds of years in the past. It started after people have begun studying product prices.

In Europe:

Joseph de la Vega, who was based in Amsterdam merchant, used several of the Technical Analysis features in the 17th century in Dutch's financial markets .

In Asia:

Homma Munehisa came up with a technique of studying the value of rice in the early 18th century, and this developed into the utilization of Candlestick methods.

The Modern

The current Technical Analysis is typically based on the gathered writings of Dow Jones, the co-founder, and editor Charles Henry Dow, who evolved a theory, which was afterward referred to as Dow Theory. This theory expresses his opinion on price dealings in the stock market. This man,

Charles Dow, is now regarded as the father figure of the modern Technical Analysis. There are other Technical Analysis pioneers, including Richard Wyckoff Ralph Nelson Elliott and William Delbert Gann, who evolved their methods at the beginning of the 20th century. Additional technological tools, along with theories, have been evolved and improved in recent decades, with a growing emphasis on the employment of computer software .

Advantages of technical analysis

Here are some of the benefits of technical analysis

Gives all the up to date information

The up to date price reflects all presently known data regarding an asset. Even as rumors might continuously whirl that the price can fall or surge, in the end, the actual cost is the balancing spot for all the information. As traders and investors wave from one side up to the other, sellers or buyers, the asset usually moves and reflects the up to date perception of value. If it is true, the only information that we then require is a price chart because all the information and the perceptions of value are usually documented in the price twist on that chart. Thus, you need not worry yourself as to why the price is rising or falling, and the reality is that it lets you know that there is more selling interest than the buying interest, or more buying interest than the selling interest, in that order.

This allows trading to be much secure since, with technical analysis, you will focus much more on the price chart. There are no those hefty financial statements or wasting your time to read the most up-to-date financial information. All these are reflected in the price .

Prices usually Move in Trends.

If the prices just rotated wildly and at random, it can be very complicated to make money. When wild gyrations occur, the overall prices usually move in style, whereas a directional bias is available to the price that provides the traders with a benefit. Most of the technical analysis is on the subject of determining when there is a trend and when there is not (known as a sideways market, a range, or a correction) or when there is a reversed trend.

The majority of the money-making trading techniques that are used by traders are the trend following strategies. It means isolating the trend, and after that finding, chances to enter in the similar direction just as the trend, hence capitalizing on the directionally prejudiced movement of the price. Trends take place on different “degrees.” For instance, you might have a long-standing uptrend on every day or weekly chart, but on short period frames, or at the far of the map, you might get a downtrend.

Timing

One significant benefit of technical analysis is that it offers you techniques to timing your trades. With an essential approach in your research, you might uncover some good news regarding the stock of a particular company that you sense might cause it to go up in the days to come. With technical analysis, you may wait and make use of your money for other chances until the time when price notifies you that the stock is now ready to go higher.

Any Time Frame or Market

Once you study about technical analysis, which is also a broad field, you can employ many of these concepts that you have too many markets, like forex, stocks, binary options, futures, CFDs, and still housing along with art prices. Every market trading is typically based on the patterns of individual activities, models which, after that, show on the price charts across the markets. It means that you don't have to be trained on how to analyze each market mainly. While there might be several little differences that are between analyzing the stocks and the highly-influenced forex market, the majority of the technical analysis information will help you well in every market.

Besides, technical analysis may be applied on whichever time frame, if you trade daily or on weekly charts, or trade sixty-second double options. The Financial markets are regarded as “fractal, and this essentially means that patterns that show on the minimum scale shown on the largest also, and vice versa. This once more means that nearly all of your build-up technical analysis knowledge might be just as simply useful to a one minute chart as it also can to a daily chart.

The risks of technical analysis

After learning about several of the advantages of technical analysis, it is good to know that there are as well as risks associated with using technical analysis. Fortunately, there is some good news because the majority of the risk associated with technical analysis is typically connected to the biases or judgment of a person or his/her company since the market is more often right than wrong. It is very tricky to be 100 percent unbiased (objective) in the stock market; however, the most excellent market analysis usually sticks to the up to date facts (what is already known) and avoids forecasts /predictions of the future (what is not known). Technical usually work, but the market analysis may perhaps be wrong.

Sometimes people poke fun regarding technical analysis; however, just a look at the present technical structure of the market is a precious way of managing risk and staying on the perfect side of the market. Sorry to say, but it is the person's market analysis that is usually wrong, but not it's technical.

This might happen for at least these three reasons :

Failing to use the stock charts -there are lots of people who do not use stock charts. However, a stock chart assists you to read how most investors are investing in the market. With no stock chart, you don't have a way of getting the available opinions in the market. As a result of this fact, many people are still yet to understand the case between technical and fundamental analysis.

Both of them are useful; however, technical is crucial to navigating the market.

Lack of keeping an eye to detail; to Provide a complete and objective technical research, it calls for the analyst to reflect on the market history as well as sufficient current charts to find a feel for the tone of the market (the bearish bullish, or the neutral). Looking at just a few charts in a week plus ignoring the market history will only make you miss vital details regarding the health of the market.

Firm / Individual Biases - individual opinions are detrimental in the stock market and especially if they are not supported with ideal market facts (what is already known). A lot of people usually seek advice regarding the stock market. If they get a recommendation from a biased (bearish or bullish) source, they will be given the wrong impression and especially if their assistance is not supporting the market. Keep in mind that the market usually

corresponds to the majority opinion, and personal or group research might be reflective of the minority opinion only because of biases, and so on.

Going too far ahead

Going too far, much of the present data can be detrimental to dependable market analysis. Predicting rather than interpreting/reading the market is not the best way to apply technical analysis. No one can continuously foretell the market; thus, how can you? Indeed, there will be some times when you will be accurate for the reason that you foresaw what would come about in the stock market; however, there will be lots of cases where you will be inaccurate. Some people foresee what might happen based on personal feelings/everyday activities of the price, but to foretell and to stick to an outcome while the market is telling otherwise is not useful in technical research.

Reluctance to change regardless of the changing markets

Having strict rules that rule your emotions or behavior is very critical in investing, and having a belief or being adamant that the market is obliged to at all times do one thing might be a lousy tendency that confuses your market or stock point of view. History tends to repeat itself, but you should as well be open to new perspectives and outcomes since the market dynamics typically change .

Technical analysis is so much misinterpreted, but the truth is that the majority of the fault in the discipline crops up from the "analysis" part. As earlier mentioned, the risks do not mostly come from the market, but from a group or a person himself. Fortunately, many of the risks in "technical analysis" can be amended.

The Difference between technical analysis and fundamental analysis

Technical and Fundamental analysis are both methods that are applied by investors internationally to make stock decisions. However, they are different in quite a few ways. These differences include;

Purpose:

Fundamental Analysis: It tries to find predicted stock prices based on industry, economic, as well as company statistics. Nevertheless, the vital

variables that are considered when deciding the stock prices are the earnings as well as dividends.

Technical Analysis: It focuses mostly on internal market information.

Long-term & Short-term Price Movement :

Fundamental analysis: It typically foresees long-term security values. Generally, the fundamentalist is a traditionalist who invests typically his money in the long term. Then, Long-term investors purchase a stock that pays a high dividend and takes hold of it for a lot of years through the market fluctuations.

Technical analysis: Technical analysis typically determines the short-term price activities of the securities. A technician is a seller who purchases and trades securities for short-term earnings. He doesn't trust in buying as well as holding of securities but instead gives meaning to total returns, that is to say, the apprehended price less the price rewarded, plus the received dividend.

Value of Share

Fundamental analysis: a fundamental analyst approximates the inherent value of shares and buys them when the market price is lower than the inherent value. He later sells the shares while the market value is above the inherent worth and thus earning a profit. As a result, he trades long-term.

Technical Analysis: The technician thinks that there is no actual value to whichever stock. In accordance with him, the stock prices usually depend on the demand along with the supply forces, which are, in turn, managed by irrational and rational factors.

Decision Making

Fundamental analysis: it studies the monetary statements carefully, quality of the management, demand forecasts, earnings as well as growth. After that, they evaluate securities prices. Therefore, fundamental analysts make decisions on their own (personal) opinions.

Technical Analysis: It pays attention to whatsoever the market says. Hence, the market analysis is the most vital factor to determine stock prices.

Finding the trend

Fundamental analysis: it has no scale for detecting the precedent trend of the

share as well as the variations in the price trend also.

Technical Analysis: Technicians trust that the precedent trend will again be repeated, and the present movements may be employed to study the upcoming trend. To understand this, in the value of all the securities, some trends and cycles will crop up over and over. With technical analysis, tools and charts are employed to evaluate different movements of the price. The technicians observe the price changes along with their pattern primarily by price and volume figures along with tools like the Elliot Wave theory, Dow Theory, identification of pattern moving standards, charting styles, advance or decline, short selling, odd lots, relative power of indicators, put or call ratio, and Fibonacci levels.

Assumptions

Fundamental analysis: no assumptions.

Technical analysis: it works based on different assumptions that have been earlier outlined.

Usefulness

Fundamental analysis: It assists in identifying overvalued or undervalued shares.

Technical analysis: It helps to time a sell or buys order

Drawing tools



What Is Drawing Tools?

In technical analysis, drawing tools are essential in the design and construction of charts. There is a wide range of drawing tools that may help you in your report and identifying price patterns, confirming trends, and predicting the possible trends in the development of the chart. Drawing tools enable you to draw trendlines, trend channels, Fibonacci Retracement, Arcs, and other technical analysis components of a chart.

The primary chart drawing tools are trendlines and channels and horizontal support and resistance lines. These lines drawn by technical analysts must be accurate and useful in identifying vital structural points of the chart. They must also understand how to determine how technical traders are drawn and use these lines to trade in financial markets.

What Is The Use Of Drawing Tools?

Technical drawing tools are an essential part of the analysis charts and are a vital component for any Technical Analyst's toolset. They help the technical analyst in technical analysis, perfect market timing, finding support and resistance levels, and obtaining price patterns. Some of the uses of drawing tools are described in detail below .

Trend line -



A trend Line drawing tool will help you to draw lines to show the direction of movement of the price on assets. It is also used to mark trending, the definition of patterns, and the connection of essential points of analysis on a chart.

Horizontal line tool -



These are used to indicate the price level. You can draw more than one line to point support and resistance levels.

Support and resistance area, also known as supply and demand zones –



These formed by joining support and resistance lines near each other. These zones are created when the price comes to a halt or goes reverse. They can be used in identifying high probability trade points of entry and exit.

Price channel- The price channel tool is used to draw a pair of parallel lines that will outline the channel where the price moves. The upper line of the price channel is the resistance line, and the lower line is known as the support

line.

Vertical line - used to mark a time level of importance on the chart.

Uptrend –



Also known as the ascending channel, this is a series of higher high points and higher low points. The upper horizontal line is described as the resistance line, and the lower horizontal line the support line.

Downtrend-



This is a series of lower high points and lower low points on the chart. A downtrend channel is usually a falling pattern. It is also known as Descending Channel.

Horizontal Band- this is a pair of horizontal parallel lines that outline the corresponding distance channel in where the market trades.

Vertical Band- this is a pair of vertical parallel lines that are useful in marking a particular time level on the chart.

What Is The Use Of Support And Resistance?

Support and resistance, without a doubt, they are the two most discussed attributes in any technical analysis. They are a critical part of analyzing patterns in charts. They are used by forex traders to refer to the price levels visible on the charts that act as a roadblock and stop the price of a commodity from being steered in a different direction. Support and resistance can come from various forms. The concept may seem easy to grasp at first, but when this aspect is introduced, it becomes a bit harder.

Support can be described as a price level found on a downtrend, which is expected to stop because of a shift to high demand. When the price of assets and securities of down, the need for their shares goes up. This forms the support line. Resistance zones, on the other hand, increase because of a sell-off when prices go up.

When an area of support or resistance is found, it gives valuable trade entry and exit points. This is due to the price, reaching a point of support or resistance. When this happens, two things can happen, it can bounce away from the support or resistance level, or it can disregard the price level and continue in the direction up to the next support or resistance level further on.

Almost all forms of trades are conducted on the base of reliable support and resistance zones. If the price is stopped by the support or resistance level, or it breaks, the traders can quickly invest in the direction and determine if they are correct. The price moving in the wrong direction means that the position can be closed at a reasonably small loss. If it moves in the right direction, the move may, however, be substantial.

How to Use Support and Resistance Tool

Fadeouts

Breakouts of support and resistance levels can sometimes be authentic or fake. A False breakout will misdirect traders because the price broke over the level, which initially should be on a sound wave. Still, it to be complete the opposite, making the price go back behind the level, heading in the opposite direction.

Rebounds

It happens the price of an asset nears the levels that it initially bounced back from in the past. When this occurs, it can rebound again and form a price channel. If you have a price movement in a flat and with clear boundaries, then the upper limit on the flat will serve as resistance for the market, and the lower limit becomes the as support. Traders may sometimes treat the rebound as a point of entry, and only close the deal when the price reaches to the upper limit boundary.

Breakouts

Support and resistance breakouts sometimes allow a trader to ride a strong trend. The trader needs to constantly watch the markets at all times to not miss an entry point. This makes the technique quite harder in comparison to the other one. Traders who take advantage of the breakouts do not enter immediately but await retracement after breakouts and then make their entry.

Trend Line

What Is Trendline?



A Trendline is an indicator of the direction of a price movement. They are created by using the local maximum of the downtrends and minimum of the uptrends. They are the levels used in technical analysis that is drawn along a trend to show resistance and support. This depends on the direction the pattern follows. They can be thought of as the equivalent of the support and resistance, which are horizontal.

A trendline is a line that is drawn over high or under low pivots and it shows the direction of price. They are a visual representation of support and resistance at any time, showing both direction and speed of price. Trendlines also explain patterns at price contraction.

Trendlines can be used to show areas of potential which have increased supply and demand and can potentially make the market move up or down. The trendline is one of the essential tools used in technical analysis.

Trendlines help technical analysts make the current direction in market prices. Technical analysts can identify trends, and this is the first step in the right direction of making a good trade. Technical analysts always look for patterns in price.

Uses of Trendline?

Using a Trendline to Define a Trend

A trendline is created when an analyst has at least two points on a price chart. Analysts can use different time frames and intervals on the chart or the tick intervals rather than time intervals. Trendlines are used and preferred by most analysts because they can help identify trends regardless of the period or

frame or even intervals used.

If the price is below a downward sloping trendline, the trend can be said to be down, and you should look for short trades. On the other hand, if the price is above an upward sloping trendline, the trend is up, and you should look for long trades.

Using Trendlines to remain in a Trade

Using trend lines to remain in trade can be a bit tricky. But as long as price stays above the drawn in trendline, you could hold on to part of our position. This is how one can use trendlines to stay in a trade.

Using a

Trendline to Decide When to Enter a Trade

Another use for trendlines is to help you decide when to get in a trade. As the price moves up in a supply zone, you get in a short term uptrend. You can use a trendline break to allow yourself a chance to go short. If the price stays above the trendline, you would have to wait for an opportunity break to hit the quick button. If the price does not break the line before trading all of the ways through the supply zone, you would not have made the trade, preventing a losing trade.

How to Draw a Trendline?



When drawing trendlines in a downtrend, they are drawn above the price. When you draw trendlines in an uptrend, they are outlined below the price. The highs on a downtrend and the lows on an uptrend are the ones that will determine a trend line. You need a minimum of two swings to draw a trendline in each direction.

The trendline will be valid if you use either three lows or highs. The goal here is to make the trendline valid this is by the prices reaching the highs. This is because more traders are using them as support or resistance in their market trading.

When drawing trend lines, some traders may use candlestick bodies. Others may learn more on the wicks, but the majority of traders and analysts will use the wicks to draw trendlines. The use of the bodies is not prohibited when you are drawing trendlines. You are encouraged to use what you feel comfortable with as trend lines are subjective but avoid deviating from the method that you choose.

It is important to remember that it takes a minimum of two tops or bottoms to draw a trendline that is valid, and also, it will earn three points to confirm the trend line. A steep trend line is a less reliable trend line, and it will break. If the trend lines do not fit the market, then that trend is not valid.

How to Use the Trendline

Trend line as support or resistance

If a trend line is holding as support or resistance, you can use the trend line to enter into the market once the price comes back to it. Trend lines are simply lines drawn at an angle above or below the estimate. They are used to give indications as to the trend which can be upwards or downwards. They also indicate when a trend has changed. Trend lines can also be used as support and resistance and provide chances to open and close positions.

Trend channel



What Is The Trend Channel ?

Trend channels are tools in technical analysis that help one understand, draw, and use market charts. They can be used to stay in trades and enter new trades. The slope on a trend line and trend channel line may alter from parallel to convergent. This will form descending triangles, and divergent and also form ascending triangles.

A trend channel can also be said to be the movement of the price of an asset between two parallel trend lines where the upper trend line joins the high swing points of the price, and the lower trend line connects the low swing points.

The trend channel will be sloped upwards in a slight manner. If one is at the top position of the trend channel trading off on the upper resistance line, a downward trend may occur because of the nature of the channel. This becomes the perfect place for an exit price. On the other hand, if you are positioned on the upward trending lower support line point, this would be a good point of entry because of the direction of the trend channel.

What Is The Use Of Trend Channel?

We are finding entries when the price gets to the trend line and trading back to the channel on the inside .

Trend channels are a tool that can be used with other different types of technical analysis. They can be used to find range trades inactive channels or breakouts. You have to make sure that you were waiting for the confirmed

break and not entering the too new on-trend line to make your trade. Trend channels help one see where the currency is trading and at a particular point in time.

Looking for breakouts on the trend line

When you are looking for a rebound on a trend line, you should avoid using pending orders and always wait for a confirmed rebound. The most trend line traders encounter the problem of entering too early and then getting caught on the breakout. A trader on breakouts should make a decision of trade on the closing of candles. More than Often, the price will enter the trend line and then go back to the range. Traders of breakouts can potentially make a significant loss on money on any fake breakouts if they make a trade decision too early.

How to Draw a Trend Channel?

Trend channels have two trend lines that connect the swing highs and lows of trending and also attach a sideways moving market. When drawing the trend lines, one can use both the wicks and the bodies of the candles. The important thing is to find trend lines that show price action and the trend waves and not draw the perfect trend lines.

There are several ways a trend channel line can be plotted. You can duplicate the trend line and carry it to the other side of the price action. One can use the best-fit technique to draw the trend channel lines. Finally, you can also draw it on the other side of the price action disregarding the trend line and connecting at least two price extreme points.

Trend channels are drawn with a defined slope at the resistance and support levels of a price series. These channels are not suitable for price analysis on a long term basis because they cannot flow through reversals. The trend channel heavily depends on the trend cycle. Trend channels generally can be either flat, descending or ascending.

The breaking of a trend channel is valid only when the price closes and remains under the trend line. It is vital to know that trend channels do not necessarily have to be parallel ultimately. It may be possible that one part of the trend channel is horizontal resistance or support. If there is such a case,

they are referred to as triangles or wedges.

Candlesticks

Candlestick pattern

If you are a stock trader or even a stock analysis, you must have come into contact with several excellent stock analysis tools. They not only include tools but charts as well. Things like line and bar graphs help you analyse your stocks better and simplify your work. But once you get in deep into the stock trade, you realize that you need an even better tool to help you with your analysis. That where candlesticks come in. This is a perfect stock analysis tool that enables you to measure and check the stocks on the market. One good thing you will love about candlesticks patterns is that they give you a better view of how a stock is. You get to analyse your inventory from a different and more broken down angle compared to using other tools. So what is the candlestick pattern all about?

What is a candlestick pattern?

So you are wondering what these candlestick patterns are. Well, first let's understand the origin of the candlestick pattern. They were initially used in

the rice trade by one famous Japanese rice merchant. So he realized that for his rice business to bloom, he needed to know the market trends in every location he was trading his rice. He went ahead to send people to all this location. The people would then inform him of how the market was, including what kind of rice was bought most and the price levels for every location .

From this information, he knew his active market holds, and his weak market holds. He would then go ahead to strategies on how to work around that. Mnehisssa Homma, the father of the candlestick patterns and the famous Japanese rice trader as highly assisted by this technique to grow his rice business. However, most people, according to Over the years, the candlestick patterns have been defined and modified to fit our current stock markets. They are enabling every trader to use it effectively. From just a rice selling strategy, the technique took off to become one of the most used market analysis tools in the world. Most people would prefer this tool because they brand it as a more technical tool compared to other tools.

The chart received its name because its indicators are that of the shape of candles with lines that resemble a wick like that of a candle. This is usually called shadow or a trail.

Candles can be described as critical information that is measured for a specific period. For instance, if you are evaluating a stock in the market, let's use the information on the price for maybe four months then that its candle: the amount you check and analyses for those four months. People sometimes confuse a candlestick pattern chart as a combination of a bar and line graph, which might be true sometimes putting into consideration its graphics and how it's diagrammatically represented.

The candlestick pattern enables traders to check and track the movement of securities. Most would brand it as a tremendous financial analysis tool. The fact that it is more graphic and appealing compared to graphs and line graphs makes it even more comfortable to use.

If you want to understand these patterns, you have first to know what candlesticks are. They help show when a stock is open or closed. Apart from that, they also show the stock price, including the level at which it is. Is it very low or very high in terms of pricing? It helps you know where to put your focus on, therefore saving you a lot of time and effort. They help you

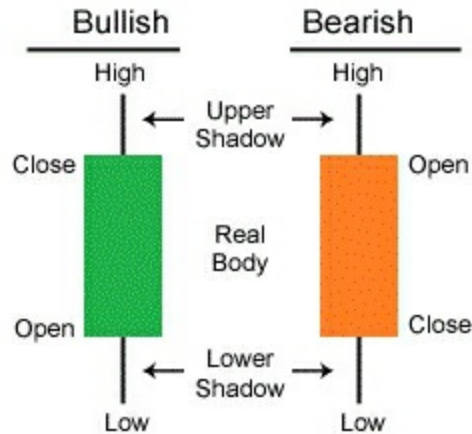
understand the trends, thus enabling you to understand how to make significant financial divisions.

What is the use of a candlestick?

Why the candlestick? What makes it stand out from other price analysis tools? Most price analysis traders prefer to use this tool because it enables them to technically analyze the prices and other components of the trade. The one most important thing that helps support price traders is that they can get wholesome information in a graphical way that is easy to interpret. They can understand prices over a certain period as well as comparing other factors all from the same chart.

Each candlestick is a part or piece of the more significant part of the full price, each giving flesh to the amount. They help develop the price narrative. Each wick or element of the candlestick symbolizes a critical description of the cost. They enable the traders to know how to push prices to favor them. The reoccurrence of candlestick patterns has gone ahead to help traders to understand the future market price behaviors, therefore, preparing them for what is to come. It helps them to know the most advantageous part of the year and how best to penetrate the market at that time. The ability for the price trader to read the candlestick pattern makes them great analysts enabling them to fully and effectively strategize while taking into consideration the market behaviors previous, current as well as the future. Candlestick patterns are like the dictionary for price traders

How to read a candlestick pattern



Every candlestick part or pattern describes or indicates an event. Most of the time, they show a day's worth of price data, just as www.investopedia.com. Every candlestick has data for price about the following; opening price, closing price, highest price, and lowest price. The color of the real body, which is the rectangular part of the candlestick, tells whether the price was high or low. That is for the opening price and closing price. From there, the investors know how to read on the price variation.

When the candlestick is all black at the rectangle or filled, it means that the closing price was higher than that of the opening price. This is what we call bearish. It shows the selling pressure for this stock. However, when the rectangle is hollow or not filled, it means that the opening price is higher than the closing price was. This then is what is called bullish and thus indicates the buying pressure. From both, you can analyze the market pressure from either the demand or the supply. The lines that are at the end of the candlestick are what are known as shadows. The shadows are an indication of the price actions for the period set. This means from this; you will be able to measure price highs and price lows. The upper shadow shows that the stock's highest price and the lower shadow indicate the lowest stock price.

The set of numbers usually used before the start of another candle are called ticks; however, the ticks don't take into consideration the number of contacts within the trade. It is, yet, only about the number of trades. The time frame it depends on how the candlestick reads. Depending on the period set, then that is how you will analyse. The good thing about this chart is that it can be

created virtually; therefore, you can use technology gadget to follow through it the analysis.

The candlesticks body usually comes in colors as from the www.thebalance.com. A white or green candle tends to mean that the price might or finished at its highest over that period that had been set. A black or red candle means that the amount the closing price was lower over that period. Therefore you have to know that the top part of the body is the open price while the bottom is the closing price.

There are different types of movement within the patterns. They can be either in a continuation or reversal trend. This is what highlights the opportunities and threats one has within the trade. Sometimes you might be required to use your chart with a different indicator. This enhances the information you get as well as bringing in more clarity. However, you might have to be careful with the indicators you will be using.

While dealing with candlestick patterns, it is essential to understand the principles that run the pattern. They include;

1. Most bullish reversal information must come with a kind of confirmation that shows that something had changed or happened before the reversal occurred. This is seen by a price move upwards. This can include the gap or space filled or a high volume of trade. The confirmation is observed after three days of monitoring the pattern.
2. A bullish reversal trend forms within a price moving downwards, or else this may not be termed as a bullish reversal trend.

Within a period, while monitoring the pattern, the trader will realize that they fall into some sync. From this, this is where the different kinds of patterns are categorized into depending on some factors or movement.

Short and long periods

As the name states, the long period usually has long bodies while their shadows appear short at the ends. Its short shadow shows that at that particular period, the market was one-directional. On the other hand, the short candlestick bodies try to show that there is little price movement between the

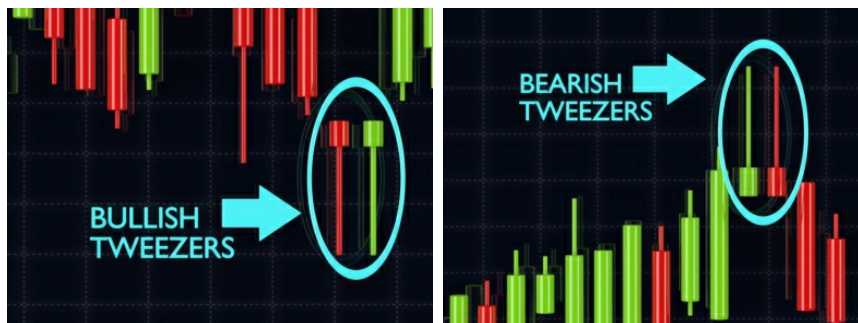
closing and opening costs at the entire period of trading. During the short period, the short shadows take over at the end of the candlestick body.

Marubozu



This is another vital candlestick used to read the trend of the stock market at large. The red and green colored Marubozu is long-existing candlestick bodies that carry no shadows with them at their ends. This candlestick means that there was a high price at the closing period and low at the opening time. It shows a reversal or continuing trends in the forex market.

What Are Bearish and Bullish Tweezers Candlesticks, and What Do They Indicate?

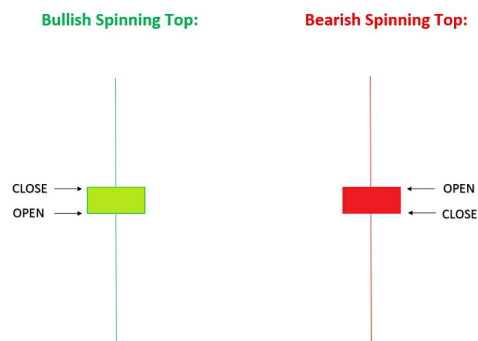


The Tweezer Candlestick is one of the 42 recognized patterns that help traders to predict specific movements in the Forex market. The pattern involves two candles, which have highs (Tweezer tops) and lows (Tweezer bottoms), which are equal or almost equal. Sometimes, the Tweezer tops or bottoms have three candlesticks. It is the only candlestick pattern whose highs and lows are more vital than both the body and shape of the candle. Both the Tweezer top and bottom formations consist of two candlesticks, namely **Bearish** and **Bullish** candles.

The Tweezer top formation appears at the top of uptrends and is viewed as a bearish reversal pattern. On the other hand, the Tweezer bottom formation

appears at the bottom of downtrends, and the traders see it as a bullish reversal pattern. Both patterns indicate a transfer of power and opinions between the bears and the bulls. A **bearish Tweezer Top** takes place during an uptrend when bulls push the prices higher and close the session near the highs. On the second day, the traders' sentiment reverses completely. On the other hand, a **bullish Tweezer Bottom** occurs during a downtrend, when the bears keep taking the prices lower and closing the trading session near the lows. However, the second day is entirely the opposite as prices open and go upwards only. The bullish advance on the second day will sometime clear away the losses incurred on the first day.

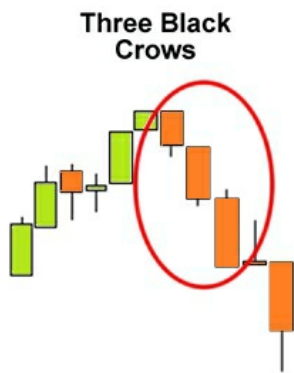
What Are Bearish and Bullish Spinning Top Candlesticks, and What Do They Indicate?



Spinning top candlesticks are patterns with small real bodies that stand vertically between long upper and lower shadows. The stock market is a competition between the bulls and the bears. These patterns show that a decision cannot be made about the direction that assets are likely to take in the future. This is because the long upper and lower shadows do not show a significant change between the open and close prices. The bulls sent the price high, while the bears sent the price low. However, there was no much difference since the day's price closed near where it opened.

The indecision of the spinning top candlesticks signals a trend reversal that is about to occur. When these patterns appear at the top of a bullish trend, it shows that the bulls are losing control. The buyers' momentum is lost, and the shorts start coming in. Conversely, when the pattern appears at the bottom of a bearish trend, it implies that the bears are losing control. The sellers' momentum is lost as buyers push the price up.

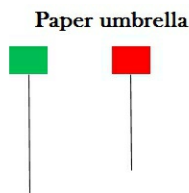
What are Three Black Crow Candlesticks, and What Do They Indicate?



This is a pattern that consists of three long-bodied candles whose opening is within the real body of the previous candle and closed lower than the candle before them. Three Black Crow patterns show that bears have overtaken the bulls in three consecutive trading periods. Additionally, the candlesticks represent a bearish candlestick pattern that predicts a reversal of an uptrend. The pattern is viewed on the chart as three bearish long-bodied candlesticks, which have short, or no shadows or wicks. As mentioned earlier, candlesticks show the opening, high, low, and the closing price of a stock.

With the three black crow candlesticks, stocks movement is shown using different colors. Those moving higher are shown using a white or green candlestick, while those moving lower, the candlestick is black or red.

The paper umbrella



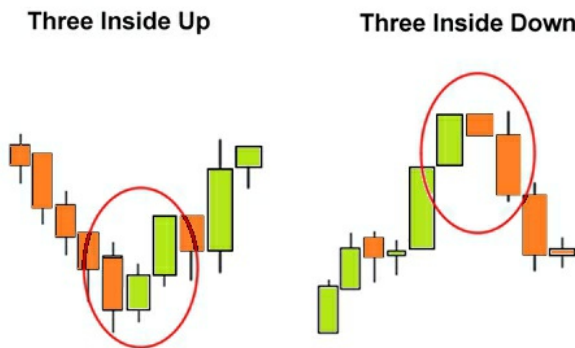
The paper umbrella type is a short-bodied candlestick having at its bottom a long shadow. It shows a strong reversal trend of the bearish market trend reversal for green and red.

Raindrops and stars

The raindrops are short candlesticks usually appearing between or below two different long candlesticks. On the other hand, the stars are short types that show between and above two different long candlesticks at large. These two candlesticks are complicated types that need further analysis; however, in the

forex market, they show a reversal pattern.

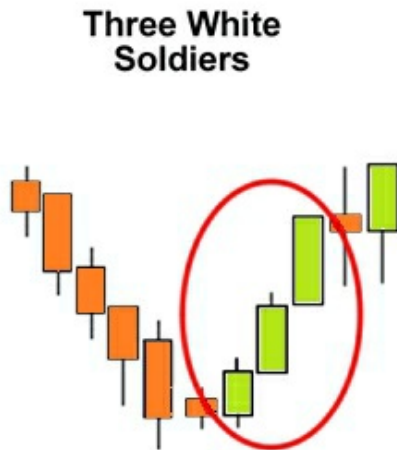
What is Three Inside Down and Inside Up Candlesticks, and What Do They Indicate?



Three Inside down/up candlesticks are patterns that appear on candlestick charts. In these patterns, three candles are aligned in a specific sequence. This sequence shows that the current trend has lost momentum, and a move in the opposite direction might be beginning. The Three Inside Up pattern consists of a large down candle, a smaller up candle contained in the previous candle, and another up candle that closes higher than the close of the second candle. This pattern is a bullish reversal.

On the other hand, the Three Inside Down pattern is a bearish reversal. It comprises of a large up candle, a smaller down candle contained in the previous candle, and another down candle that closes lower than the close of the second candle. The Three Inside Up/Down pattern signifies that the direction of the short-term price might be changing .

What is Three White Soldiers Candlesticks?

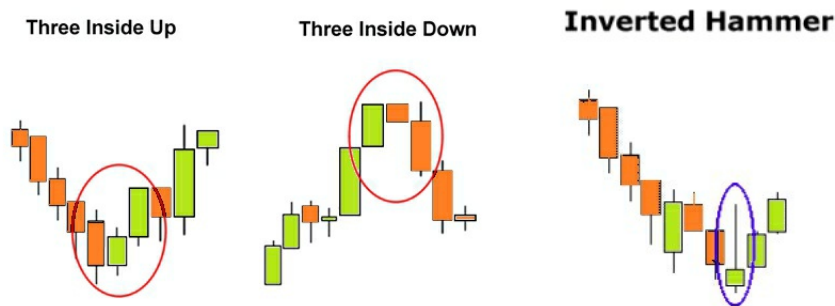


Three White Soldiers is a pattern that predicts the reversal of a downtrend in a pricing chart. The pattern consists of three long-bodied bullish (white or green) candlesticks that are aligned consecutively. The candles do not have very long shadows, and each close higher than the previous one.

Additionally, they open within the real body of the previous candle in the pattern; therefore, there should be no gaps between the candles. The upper wicks of the candles are short or non-existent. This indicates that the bulls maintained the stocks' price near the heights of that particular trading session. When it appears in a downtrend, it shows a possible reversal in the trend and the potential emergence of strength .

Nonetheless, the traders are advised to watch out for over-bought conditions if the three candlesticks are over-extended, or make significant advances. The Three White Soldiers pattern signifies a change in the market sentiments based on stock, commodity, or pair that makes up the price action on the chart. A candle closing with small or no shadow implies that the bulls have maintained the price at the top throughout the trading session. This pattern is typically considered useful by the long-term traders because it is formed in three days. The pattern indicates that a bear market has come to an end, and the prevailing attitude of the investors has turned positive.

What Are Bearish and Bullish Hanging Men, Hammer and Inverted Hammer Candlesticks, and What Do They Indicate?



A Bearish Hanging Man candlestick is a pattern that happens during an uptrend, and it signifies that the prices are likely to fall. The candle appears to have a small real body (distance between open and close), a long lower shadow, and a short or no upper shadow. The long lower shadow is at least twice the size of the pattern's real body. This pattern also indicates that the selling interest begins to go high. The hanging man pattern occurs when the open and the high prices are approximately equal. It is at this point that the pattern is considered to be a stronger bearish sign

Conversely, a Bullish Hanging Man pattern occurs when the high and close are equal. It is imperative to remember that the bullish hanging man is still bearish. However, the bullish is less than the bearish because the trading session ended with profits. Based on what happens the day after the hanging man pattern is formed, traders can predict whether prices will go high or low, or remain constant.

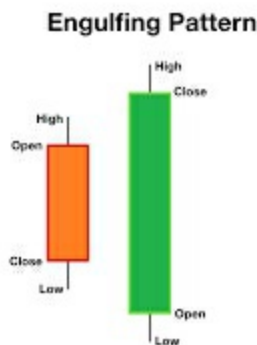
The hammer and inverted hammer patterns are common and easily identifiable reversal formations when technically analyzing the financial markets. The two patterns are characterized by a small real body and a shadow or wick whose length is twice the size of the body. A hammer candlestick is a bullish reversal pattern that appears at the end of downtrends. It has a small bullish body and a long wick on its downside. In regards to market psychology, this pattern shows that the bulls have entirely rejected the bears.

The long wick indicates that the bears had pushed the price downwards before the bulls gained momentum and pushed it back up to the opening, or high price of the candlestick. The inverted hammer candlestick is a pattern that resembles the bearish shooting star candlestick. It appears to be the upside-down version of the hammer candlestick. The pattern is made up of a

candle with a small body and a long upper wick. The body is at the low end of the trading range, and there is little or no lower shadow or wick.

Nonetheless, the inverted hammer pattern is a bullish reversal formation that appears at the end of a downtrend. In market psychology, this pattern shows that the bulls managed to push the prices up before closing at the opening price or above it.

Understand the Engulfing pattern.



This is a two candle reversal pattern. The engulfing pattern is part of the bullish trend. It is called ‘engulfing’ because the second candle engulfs the real body of the first candle. The engulfing pattern is a combination of two candles, one hollow that covers the filled candle. By the second day, the open price is lower than on the previous day; however, the buying pressure pushes the price higher than the previous high. This makes an excellent opportunity for the buyers but not friendly to sellers. If you are on the buying side, then this is the kind of pattern to follow up on. However, you must check on the downtrend and make sure it is confirmed before making any buying moves.

You can only identify an engulfing pattern when a small black candlestick showing a bearish trend is followed the next day by a white candlestick or fully engulfs the body of the previous frame.

An engulfing pattern can’t just be interpreted as by what you see. For it to form the stock on the next day has to have a lower opening price than on the previous day. The white candlestick has a smaller wick compared to the black candlestick of the last day. This means as the day goes by, the price moves upward, making sure the wick is as minimal or not at all. At the end of the day, the upper wick is nonexistent, which is in favor of the stock pricing. Most

analysts focus on the pattern because of their reversal trend. The investors shouldn't only focus on the current candlesticks only but on the previous ones too. This will enable them to understand the pattern with more clarity.

Understanding shooting star



Shootingstar Candlestick

A shooting star is a bearish pattern candlestick that has a very long upper shadow and a nonexistent lower shadow. The real body is small at the low price as the day goes by, for a pattern to be considered as among the shooting star it has to appear during the price advance. This is when you begin to notice it, not just at the price open. The distance between the high price and the free price should be twice that of the shooting star body size. You should also have no shadow below the real body at all. That is what can be identified as the shooting star.

A shooting star, most of the time, indicates a price is about to start dropping. The pattern is considered as bearish because the price tries to rise, but the traders or sellers try to push it further towards the open rate. If by any chance the price increases after a shooting star, then those were wrong signals and directions, or maybe there is some candlestick resistance that is happening.

A shooting star indicates a possible price high or maybe the reverse of that it occurs after the rise of the price several times throughout the period. The pattern might rise or fall as the day goes by. This shows the buying pressure throughout the period. The seller would step in to try pushing the price towards open, showing that the buyer is no longer in control of the price anymore.

Understanding morning and evening star

Bullish Morning Star



Bearish evening star



An evening star is a bearish pattern that indicates the reverse. It consists of three candles. They include a white candlestick, a small candle, and a red candle. The pattern is always associated with the price movement upward. It usually indicates that the price uptrend is almost reaching its optimum. It predicts future price declines for a stock — this one of the most reliable bearish patterns available. The pattern works by showing the price movement throughout the period. A long candle would indicate a significant change in price, while a short one indicates a small price change. Depending on the trend, the size of a real body means buying or selling pressure. The pattern of an evening star can be seen after at least three days. The first day shows the white candlestick showing a gradual price rise. The second day shows the smaller candle that shows moderate stock price while on the third day, the red candle shows the opening price being below the previous prices. Sometimes it might be hard to get clarified information because of the amount of price data coming in.

The morning star is a bullish pattern that indicates the start of a climb of the price that is going upward. It is a sign showing the reverse of the previous prices. The second shows the moment of market confusion, where bears let the bulls have it. The last candle confirms the reversal. This shows the downtrend of an uptrend.

You must understand these patterns before embarking on using any of their kind. This will help you reduce any kinds of confusions that come with using these patterns. One thing you will love is their easy to use techniques. Although it comes with some disadvantage, candlesticks patterns are the kind you wouldn't want to miss out

Chart patterns

Definition of chart patterns

Chart patterns are also called price patterns. These patterns are obtained when prices of a commodity are plotted against time in a graph. They show the trendlines. These are graphical representations of price deviations of products within a given period. Charts are usually chosen as they can provide a lot of information in a small amount of time. In the case of a company, charts can predict the progress of the company. One can tell whether the company's share value has appreciated, depreciated, or has been static at a specific cost over time.

These patterns are essential for fundamental and efficient market analysis. For this reason, chart patterns have become very popular among technical traders.

To understand chart patterns, one should know what the following terminologies mean:

- **Trendlines** – this is a line or a curve drawn by joining the graph plot (can either be the highs or low plots).
- **Swing low** –this is a plot of a low price of a commodity within a given time (usually the lowest). Referred to as a trough in some cases.
- **Swing high** –this is a plot of the high price of a commodity within a given time (usually the highest). Referred to as a peak in some cases.
- **Downtrend** –this is a trendline where security's price is going down. The goods fetch lower rates compared to the prices in recent history.
- **Uptrend** –This is a trendline where a security's price goes up. The commodity fetches higher prices compared to recent history. Both swing lows and swing highs are at a higher level. When the prices start to decline, the uptrend has reversed to a downtrend.
- these are plots that indicate reasonable expenses of a commodity in the market. In other words, they are the plots that show the value of your product is rising. This is what favors a specific business. The demand for your commodity is increasing at this point. Any downtrend that had been observed before stops.
- **Resistance** –this is the point where an uptrend is seen to pause

temporarily. It is usually as a result of concentrated supply. The prices tend to remain reasonably constant.

Chart patterns are of two major type's i.e.

1. Reversal patterns



Reversal patterns show that the initial trend is going to change on completion of the pattern. For example, if the trendline was an uptrend, then it will become a downtrend upon completion of the pattern.

2. Continuous patterns



Continuous pattern signals that the initial trend is going to be maintained upon completion of the pattern. For example, if the trendline was an uptrend, then the trendline remains to be uptrend at the end of the pattern.

NB

There are many other types of chart patterns but will fall in any of the above categories. Chart trend analysis is not a science. Some literature considers it as an art. They are essential for any technical business person to avoid losses, overstocking, or understocking .

Let us get a better understanding of the major patterns that are encountered in the technical trade. They include the ascending triangles pattern, descending triangles pattern, flag pattern, and the head & shoulders.

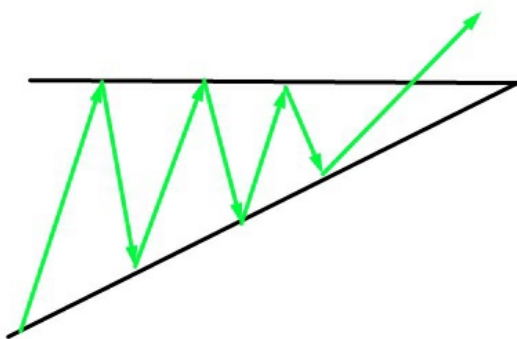
Triangles

Triangle chart patterns are not usually so clearly displayed on graphs. It requires that you are very keen to identify them. The critical element in these patterns is that two trendlines are converging. The image displayed by the converging trendlines determines the type of triangle which will be formed. There are three known types of triangle patterns.

- Ascending triangle patterns
- Descending triangle patterns
- Symmetrical triangle patterns

Understanding ascending triangles and descending triangles

a. **Ascending triangles** –Bullish pattern.



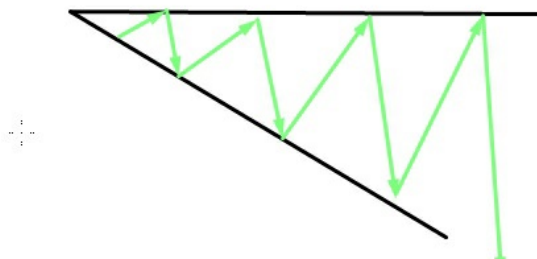
The ascending triangle pattern falls under continuous mode. It is a favorable pattern for any security. It indicates that the prices of the commodities are rising with time. On completion of the triangle pattern, it shows that as time moves on, the value of your commodity is heading higher. There is an uptrend observed during this time. The trend is maintained for some time

(maybe days, weeks, months, or years). The pattern is formed by two lines (resistance line and the supporting line). The resistance line is always flat. Its gradient is usually zero.

In some cases, the resistance line gradient may be higher than zero, but the support line gradient must always be higher. The difference between the two gradients indicates the level of support available. The higher this difference is, the more the support. The support is below the resistance line and rising. This means that there is increasing support for your business. This pattern signals that the value of your commodities will be higher in the near future if the breakout point is not yet attained. The breakout point is where the pattern changes. It is indicated when the resistance line falls below the support line. Breakout points are usually caused by concentrated supply in the market. {Any business person must be very careful about approaching this point to avoid collapsing of their business}. Getting to this point, sellers start to leave the market. Once the seller has left and the support line falls below the resistance line, the upward trend may resume.

Note that the resistance line in the ascending triangle pattern is always above the support line. You can see the sample graph here.

b. Descending triangles –bearish pattern



Descending triangle patterns are the opposite of the ascending triangle pattern. They do not favor business growth at all! This is the point indicative of business downfall if the business person is not careful! Like the ascending triangle patterns, descending triangle patterns are made of the resistance line and the support line. In this case, the resistance line is at a lower level while the support line is falling (approaching the resistance line). The gradient of the resistance line is zero or almost zero but remains above the gradient of the support line. The gradient of the support line is always negative. This means that the resistance has already overwhelmed support. This means that the

support for the business is falling, and the business is at risk of collapsing. The trend in these triangles is a downtrend. At this point, the business yield very little or no profits at all!

In some cases, there are losses incurred! The customers are fading, and the suppliers overpower them at this point. The result of this is the decline in the prices of commodities. If this continues and the support line falls below the resistance line, then, the chart pattern will have changed from downtrend to uptrend. If your business survives the downtrend, this is the time for it to recover.

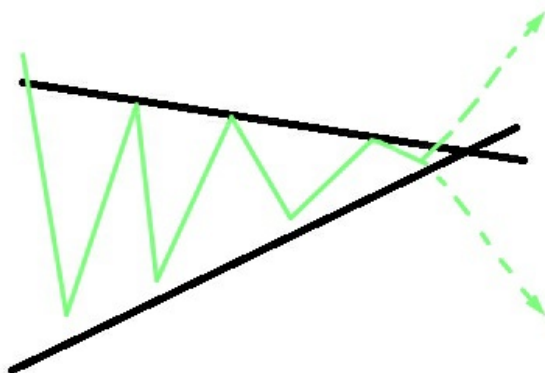
Note that, in the descending triangle pattern, the resistance line is below the support line. A sample of such a graph can be seen [here](#).

The contrast between an ascending and a descending triangle.

Ascending triangle	Descending triangle
Support line below rising towards the resistance line	Support line above falling towards the resistance line
Support line gradient is positive	Support line gradient is negative
Forms bullish pattern	Forms bearish pattern
Indicative of uptrend	Indicative of downtrend
Business is growing	Business is declining

Comparison between the ascending and descending triangles.

- a. They are both continuous chart patterns.
- b. They both have a triangle appearance with the support line approaching the resistance line.
- c. **Symmetrical triangles**



These triangle patterns are also continuous. They have both consolidation and resumption phase. They also have both resistance and support lines. Both lines have almost the same gradient. The resistance line descends while the support line ascends. The two lines converge at a point and form an apex. The trend is susceptible to resuming the initial trend after getting to the top. If it does not resume the same trend, then the pattern is said to have reached its breakout point.

All triangles fall under continuous chart patterns

Understanding flag patterns



Flag patterns closely resemble the pennant pattern. Flag patterns are rectangular. The resistance line is parallel to the support line. (Unlike in the triangle patterns, the two lines never converge). The resistance line and the support line move in the same direction. They will either follow the uptrend or the downtrend. The slope (gradient) of the two lines is almost the same, and to the side, I.E. both are negative, or both are positive. The rectangle is never flat hence the name flag. The shape will always resemble a flag that is

tilted/blown at an angle. If the gradient is positive, it means both support and resistance are rising. Look here for samples

Flag patterns differ from pennant patterns in their shape and consolidation periods, the direction of the resistance line must not be parallel to the support line, and the shape of pennant closely resemble those of symmetrical triangles.

Usually, these patterns take a shorter time to form during downtrend compared to the time they take to develop during an uptrend.

They also fall under the continuous chart patterns.

Understanding heads and shoulders



Head and shoulders are one of the most useful chart technical analysts. For this reason, they have become highly popular and need to comprehend well. Head and shoulders are good examples of reversal chart patterns. The heads are on top while the shoulders are bottom. This means that the patterns keep on changing from an uptrend to downtrend as time goes by. A series of troughs and peaks form head and shoulders.

Peaks –formed by an upward trend.

Trough –formed by a downward trend.

Heads and shoulders are made of:

- Two shoulders –these are two peaks that appear on either side of the head. They are always at a lower level than the head.
- A head –signals the highest peak in between two shorter peaks (shoulders)
- Neckline –this is a line that links the two shoulders to the head. It can be an area of support or resistance.

The accuracy of head and shoulder patterns differs depending on their plotting, but they are the most reliable chart patterns. Head and shoulder indicate a variation of prices of security where there are alternating uptrends and downtrends. The maximum of each peak marks the beginning of a downtrend while the minimum of each trough marks the beginning of an uptrend. Always, the head indicates the highest price of the security in the whole period. The shoulder is still a high price indication, but it is at a lower price than the head. There is a higher peak after every shorter peak becomes the pattern.

Over time there is a high price of a commodity (peak –shoulder) that is followed by another higher price (higher than the initial high price). This forms a pattern of alternating high and lower peaks. In between these peaks, there is a trough. On the left side of the trough, there is a downtrend, and on the right side of the trough, there is an uptrend. For more natural understanding, see samples.

There is also an inverse head and shoulder version of this pattern –where the heads are bottom while the shoulders are on top. It is also called reverse head and shoulder. They are mostly used to present a reversal of downtrend and uptrend. Here, the troughs follow the trend of one trough is lower than the next trough, so there is a lower trough after every other higher trough.

In the head and shoulder, there can be a breakout point. This can happen in the neckline. From here, it is always a throwback to a certain point in history. At this point, one must determine the trend taken since it may be an uptrend or a downtrend. The two trends are the opposite of each other and hence require opposite reactions from the business person. Any business person must be careful when approaching this point so that he/she can respond appropriately. In case there was a downtrend, and it continues as a downtrend, then the business is at a very high risk of resumption or collapse!

Volume

This is another aspect of the chart pattern to understand. Volume refers to the amount of activity in a business. It is measured by the amount of money changed. If the activity is high, it means that there was a lot of money change, and the volume is also high, and the reverse is also true (low activity=little money change=low volume). High volumes indicate that the business is high selling, and hence a lot of care must be taken to avoid the large losses that can result in case of occurrence of breakout point. Volume is the indicator of the pattern strength. High volume = strong pattern strength while low volume = low pattern strength. The volume is proportional to strength.

The slope of the neckline.

The slope of a neckline is usually negligible in most cases flat. The slope of a neckline can be a support or resistance, and hence it dictates the impacts of the occurrence of a breakout.

Price objective

The price objective is the estimation of where the prices are expected to go. It may be an elevation or depression. This is often overlooked, but it is wise to consider it as it prepares the business person to respond appropriately.

Summary

Chart patterns are graphs that show the recent history of security value. Chart patterns are essential in predicting the near future variation in commodity prices.

Chart patterns can be classified into two main categories, i.e. continuous or reversal patterns .

The continuous pattern does not show any change in trend. The trend remains as downtrend or uptrend for a given period. Reversal patterns show changes in the chart pattern.

Triangles (symmetrical, ascending, and descending) are examples of continuous chart patterns.

- Symmetrical triangles have both resistance and support lines with almost the same slope and are converging.
- Ascending triangles have a support line with a positive slope, which is rising towards the resistance with a negligible gradient. It is indicative of an uptrend. The consolidative phase.
- Descending triangles have a supporting line with a negative gradient, which is falling towards the resistance with a negligible slope and converge. It signals the downtrend of a commodity. The resorption phase.
- Flags are also continuous chart patterns. The resistance and support lines are parallel to each other in this case. They appear as a rectangle and are not flat rectangles. Both resistance and support have the same direction. They are either in an uptrend or downtrend.

Heads and shoulders are examples of reversal patterns. Head and shoulders are comprised of 1 head, two shoulders, and a neckline. Head and shoulders have peaks alternating with troughs where the head is the higher peak (between two other shorter peaks). The two peaks neighboring ahead are called the shoulders, and the line connecting the head & shoulder is drawn the neckline.

Any business requires high accuracy in chart pattern analysis to obtain reliable data. Data from these chart patterns enable the technical trade person to respond appropriately to changes in the trends since they can make accurate projections shortly.

Indicator

An indicator can be said to be, in the trading world, statistics that have been calculated to enable you to measure both the conditions currently in economics as well as to foresee the economic and financial trends.

These indicators are divided into two- :

the technical and economic indicators. The technical indicators are used to predict and forecast the changes that will occur in stock and any the patterns

in prices of any asset that would be traded. It is used at great lengths and depths in analyzing any technicalities.

On the other hand economic indicators are metrics of statistical nature that are used to calculate either the growth or retardation of any kind in the economy. It could either be the whole economy or sectors that form part and parcel of the economy. These indicators are able to provide in quantity the industrial and economic conditions that would be used to forecast and foresee the potential of public corporations, if there is any probability, in the future, for these entities to make profits. Economic indicators can be formed by many sources which can either be from the public or private sectors. These indicators can be used by the government in research to get the exact data that centers on prices of different commodities in the market, the employment and unemployment rate, and also the compensation rate of the people who have managed to acquire jobs. It can be used to quantify the working conditions and the economic productivity of the people.

This particular indicator can be used to provide information about the rate at which consumer spends in a given area, and it also has data on inflation, export, and import prices. It has been said in the western world that the real estate has been leading in the economic indicator this; therefore, a good sign of many people investing in this particular sector. This indicator can be used by the government to evaluate and analyze the economy. Other examples of economic indicators include the rate at which money is supplied in a given economy, the interest rates offered in money lending institutions, and also the sentiments of consumers of a given product.

As said earlier, technical indicator calculation that has been done mathematically and it finds is the basis on a security's volume or price. Examples of these indicators are:- relative strength index, which is abbreviated as RSI, and the moving average convergence-divergence, which goes by MACD. The RSI makes a comparison between the gains and losses that have been made of recent so to whether the price of the asset is going up or down while the MACD assumes that the price of an asset that is traded tends to reflect the trend line. Traders find the trend line by looking at the moving averages of prices of assets over different periods of time. This could be over 200 days or 50 days. The traders usually these two technical indicators are to know when to buy or sell a certain asset as they analyze the asset's price.

Traders, especially those who do technical trading first, have to analyze the price charts then make their decision based on their findings. Technical traders are of different types. These days a great percentage of traders do indicator based trading as they use many indicators to predict the future nature of the market. It is important to note that if the prices of the asset cross their own average prices, then this acts as a trading signal to the technical traders.

Understanding moving average

Moving averages are categorized into simple or exponential. Moving average is an extensively used indicator, especially in analyzing the technical nature of trading. It usually assists in clearing or from lack of a better term smoothing the price action through clearing the fluctuations in short term pricing. It can be said to be either trend-following or lagging as it is used or comes from prices in the past. As mentioned earlier, there are two moving averages the simple moving average and the exponential moving average. The simple moving average can be abbreviated as SMA is basically the simple average of any security divided by the particular number of time periods, while exponential moving average focuses on the recent prices of traded assets. Moving averages are applied in order to provide an identification of the direction in which the trend will follow. It is also used in providing a determination of the resistance and support levels. Moving averages form a basis on other indicators, which include MACD. The SMA measures or calculates the mean of security over a number of time periods, which is abbreviated as n and A , respectively. The exponential moving average is rather complex as it entails you to first calculate the SMA. It then requires you to smooth that encompasses calculating the multiplier meant for weighting. The formula is given by dividing two by the time period selected, which is usually added by one. The smoothing factor found is added with the previous EMA so as to get the current price or value. A difference between EMA and SMA is that the SMA usually gives equal weighting to all the prices while EMA generally assigns a higher level of weighting to the current prices. When you compare moving averages and current price action is moving averages have a tendency to lag behind as they use prices from the past, and as it is well known that if the time period used is long, the lag tends to be greater.

The length of the moving average used usually depends on the usage. If it is

meant for trading in short terms, then the moving average also tends to be shorter if the moving average is meant for long term purposes, then the long-term moving averages is ideal. Moving averages also share trading signals, which are of great importance as showing trading signals, especially when two average happens to cross over. If the moving average is rising, then it shows an uptrend while if the moving average shows a downtrend. A bullish crossover provides confirmation on the uptrend as it occurs at the time where the short-term moving average happens to cross above the longer-term moving average. If the crossover tends to be of bearish nature, then it indicates a downtrend as the long-term moving average has been crossed below by the short-term moving average.

If there is a move above the zero lines, then this signals the traders to buy the traded asset while if the cross is below the zero lines, then this is usually a signal to sell the given the traded asset. Short signal lines are usually created when the cross is found beyond the signal line. There are also two standard deviations that are placed or located further from the SMA. If there is a movement towards the upper band, then it shows that the particular asset has been bought so many times that it has reached a point that it is said to be overbought. There is also an indication of an item being oversold if there is movement closer to the lower band. The Bollinger band is a type of indicator that is able to adjust to the conditions in the market.

Trend filter-moving average

The moving average is a way that assists you in distinguishing between the trend reversals, which are actual, and the market noise that is usually typical of any market. It is used in foreseeing the prices of the traded assets in the future. One can determine the probable direction of the market price by simply taking a look at the slope of the moving average. Moving averages generally smooth out the price actions. If the moving average is very smooth, then the reaction towards the price movement would be slower. However, if the moving average is very choppy, then it will very fast reaction to the movement of the prices. If one prefers to smoothen the moving average, then they are required to choose the average of the closing prices, which would be over a period of a long time. The trend cannot be predicted if the number of periods is shorter. However, if the length is so long that the data is too much that the price fluctuations would be so smooth that the trader would not be

able to predict or see the trend. Hence it is advisable to use a proper length that would provide great and appropriate detail of the prices that are compatible with the timeframe.

Area of value-moving average

One has to be informed on how to choose a proper length or, in other words, the number of the period as it usually affects the way the moving average would be on the price chart. If the length is short, then the data points that would be included would be so few that the moving average would be close to the recent price. This is of no use to providing information on the overall trend. It is important to provide the definition of the area of value and also to keep in mind that it is rather not a specific line. However, it is better to use a period that enables you to identify the trends quite easily.

Understanding Average true range

This is an indicator of technical nature that is used to calculate or measure the volatility of the market by reducing the range of the price of a traded asset in that particular period. This particular range can be said to be a moving average that uses 14 days as it finds its foundation from the 14-day moving average over a given series of indicators that have true range. It is usually applied in all different types of securities. If one wants to calculate the average true range, then you are required to find a number of true range values for given security. The price range and the true range are very different from one another as the price range can be said to be the difference between the highest price and the lowest price on a given trading day. If you are interested in generating a higher number of trading signals, then you need to use short periods, perhaps even shorter than 14 days, while the longer periods create a less number of trading signals. The average true range is used in indices and stock but can also be of great use for items or products. If the level of volatility that is experienced by stock is quite high, then it has a high ATR (average true range), while if the stock has low volatility, then it has a low ATR. It is of great assistance when it is added to a trading system. It can also be used to either enter or exit the trades. It is important to keep in mind that the ATR neither predicts nor indicates the direction of the price; rather, it calculates the volatility that happens because of the gaps and the limited up and down movements. In order for you to calculate the ATR, one is required to know the historical price data.

Stop-loss Average true range

The stop loss was created so as to provide protection for the capital and prevent the access of profits that were made in trades made individually. It is also used together with a trend filter so as to signal the entries. These signals can be used to exit the long position, which is to show that the price has crossed below the ATR stop line. It can also be used to exit the short position, which is buying when the price has been crossed above the ATR stop line .

Understanding Donchian channel

It can basically be said to be lines that are three numbers and are created by the calculations of the moving average. These calculations form the indicator and are generated by the lower and upper bands, which are usually around a median band. The lower band showcases the lowest prices over a certain number of time periods while the upper band shows the highest price of a given security over a certain number of time periods that are abbreviated by n. The donchian channel is basically the area that is found between these two bands. This channel was formed to enable traders to predict the trend. It seeks to get an identification of either the bearish or bullish extremes that are able to favor the emerging trends together with the breakouts. Its middle band tends to establish the average of both the highest high and lowest low to get the median. This median can also be said to be the mean reversion price. This indicator identifies the relationship between the trading ranges and the current prices over periods that have been predetermined. The relationship between the two is said to be a comparative relationship. The donchian channel is similar to the Bollinger band as it has three values show the price over time, which in conclusion indicates the bearing and bullishness for that selected period. The line found at the top is used to identify the extent of bullishness while providing a highlight of the highest price got for that particular period through the conflict that is between the bullying and the bearing. The line found at the bottom usually highlights the lowest price got.

Entry target- Donchian channel

In order to calculate the donchian channels, one has to channel the highest point and the lowest point and plotting their result separately. You can choose the time periods to be either in minutes, hour's days, weeks, or months and

also comparing the high print for every minute, hour, day, week, or month over the chosen period. The same is done when channeling the low print.

The center channel is plotted by comparing the highest and lowest print and then subtracting the two prints that are the highest high point and the lowest low print and then dividing the figure got from two. Lastly, plotting your result. <https://www.tradingwithrayner.com>

Trend filter-Donchian Channel



This indicator follows the trend, and one can long the breakouts if the price is broken above the upper band. In addition to this, if the price is found above the middle band, then you are able to trade alongside the trend. A trend filter is needed in the donchian channel as it tends to lose the potential profit, especially if you have bought the shares before the price falls or also sells them before the prices have risen. This is, however, excepted if the trend is strong.

Trailing stop loss- Donchian channel



This is a strategy in the management of custom money. It basically provides an adjustment to a stop that already exists, or if it happens that there is no stop, then it creates one. It is usually created based on the lower and upper levels of the donchian channel band. These bands are used by traders to know their stop positions as it serves as levels of support and resistance. This stop system basically does the job for you. This donchian channel application is an application with several inputs, such as the account which you would trade on. The number of periods that this channel will calculate. The time frame which it will be used to form a base on. If one is interested in the big trend found in the market to trail their stop loss. This means that one does not have any target profits, no doubts, or not giving up in the middle of your investment journey. The only acceptable time to stop is when the signal indicates you to do so. This is done by either riding in the uptrend or downtrend. If you decide on the uptrend, then you use the lower band, then when you decide on the downtrend, you use the upper band level. One is required to adjust the settings found on the Donchian Channel.

This channel usually establishes the trailing stops. Its settings are either 20 or 55 periods. However, those interested in stops that are of wider nature usually prefer a Donchian setting that is a bit higher. While those who prefer a tighter stop use setting of lower levels. One is able to trail the stop loss on the bands found in the outside part; hence you are able to ride the trend .

Fundamental analysis



What is the fundamental analysis?

Fundamental analysis, also known as FA, is a method used in measuring security's intrinsic value through examining related financial and economic factors. Fundamental analysis operates by taking into account factors such as economic, social, and political issues. These are factors associated with supply and demand for security. With fundamental analysis, you will be able to understand the factors behind price action, which is essential in forex trading.

Who are you ?

Understanding Fundamental analysis

When it comes to short-term, fundamental analysis is rendered not to be useful. Since forex trading occurs within 24 hours, fundamental analysis is considered not an essential aspect in forex trading. However, when conducting a long-term trade, fundamental analysis becomes one of the most vital elements to trade with .

Risks management



What is risk management?

Risk management is a process of identifying, assessing, and controlling threats related to financial risks. This is one of the essential aspects you will require when operating on the forex exchange market. When it comes to forex marketing, risk management is one of the most debated topics. As a trader, you would like to reduce the chances of potential loss; however, at the same time, you would like to benefit by achieving the most within a single trade. You will require taking more significant risks for you to receive some of the highest returns .

Nowadays, many individuals are engaging in trading activities that are within the forex exchange market. However, most of these individuals are not capable of achieving the profits they had been expecting. Some individuals might end up losing all their money, while others might fail to meet the result they wanted.

Why risk management is important

Every trade that revolves around the currency market is exposed to risk. In order for you to reduce any possible losses and increase your profit, using risk management will be essential. As a newbie in the forex market, trading without having any plan will lead to a loss of money. Furthermore, when you have a trading plan without putting in mind risk management, you might end losing everything.

With risk management, you will be able to understand factors that affect trading accounts, and with that, you will be able to understand more about how forex marketing is carried out. You should keep in mind that there is always no holy grail when it comes to the forex market. Therefore, learning how to lose is a critical step in every forex management plan. When you understand how to lose, you will learn how to win .

There are various factors present in the forex market that you cannot control. While you are able to come up with a prediction that is based on the fundamental analysis or even a review of the previous action, there is always an element of uncertainty present, and eliminating the possibilities of losing trade is difficult. Risk management usually separates successful traders from individuals who blew up their trading account entirely.

What are forex market risks?

There are several risks associated with forex trading, and understanding them will help you overcome them while trading. Here are some of the significant risks associated with forex trading;

- **Leverage risks.**

When it comes to forex trading, leverage often requires an initial investment that is small. This investment is known as margin; it will help you gain access to significant trade in foreign currencies. Slight fluctuation in prices will result in margin calls whereby you will require paying for an additional margin. In volatile market conditions, using leverage aggressively will lead to a significant loss of your initial investment.

- **Interest rate risks.**

Interest rates always have significant effects on a country's exchange rate. Whenever a country's interest rate rises, its currency will become stronger due to an increase in investment in the country's assets. On the other hand, when interest rates fall, the country's currency will weaken since investors will begin to withdraw their entire investment in that particular country. Forex prices can change dramatically depending on the nature of the interest rate of a specific country.

- **Transaction risks**

These are risks associated with time differences that are between the beginning and settling of a contract. Forex trading usually operates on 24 hours basis that might result in exchange rates changing before settling of the trade. Nonetheless, during trading hours, currencies can be traded at different price rates. When the time difference is high between entering and settling a contract, the transaction risk increases. Time differences allow exchange risks to vary; it is at this time you will experience an increase in transaction cost.

- **Counterparty risk**

Counterpart is a company that will provide you with assets. Therefore, counterparty risk is a risk associated with default from the broker or dealer in a precise transaction. When it comes to forex trading, forward contracts and

spots on currencies are not assured by a clearinghouse or an exchange. For spot currency trading, counterparty risk is associated with the solvency of market makers. In an unstable market condition, counterparty might refuse or be unable to adhere to the contract.

- **Country risk.**

You should always assess the stability of the issuing country whenever you want to invest in forex trading. In most third world countries and developing countries, exchange rates are based on a world leader, such as the US dollar. Therefore, in such circumstances, the central bank should sustain adequate reserves for it to maintain a static exchange rate. Usually, the currency crisis comes about due to a regular balance of payment deficits, which might result in a devaluation of a currency. These are some of the risks that have a significant effect on forex trading as well as prices.

Common mistakes people do while managing their risks?

One of the essential rules when it comes to risk management in forex trading is that never risk more than you are able to afford. With that being said, this is one of the common mistakes in forex trading, especially among beginners. Usually, forex trading is highly unpredictable; therefore, traders who invest in what they cannot afford are highly vulnerable to forex risks.

You should always keep in mind that anything can affect forex trading; even a small piece of news can have a significant impact on a particular currency either positively or negatively. Instead of investing everything, it is ideal if you follow a moderate path and always trade a conservative amount of capital.

Here are some key aspects that most individuals fail when trying to manage their risks in forex trading;

- **Failing to plan**

In forex trading, failing to plan is planning to fail. It is always impossible to operate on forex trading without having to plan. You should always have a trading plan consisting of your trading strategy as well as money management strategies. Having a plan will help you in determining when you should enter a trade, how you should exit a trade that is unsuccessful, and when you should settle your business. Without having this, then your chances

of losing are high.

- **Failure to have a stop loss.**

You should always set a stop loss even when you are 100% sure about your profit targets. Since forex trading is a highly volatile market, having a stop loss is every essential since prices can fluctuate within a second. Without a stop loss, you might end up in a moment that will lead to an economic disaster.

- **Ignoring news**

As a forex trader, you should know that every event and data have a significant impact on forex trading. Whenever an economic indicator differs from the forecast level, then the currency becomes volatile. Therefore, as a forex trader, you should always take into account the news release. Ignoring this becomes a serious mistake that is easily avoided when you plan your trade as well as consulting an economic calendar.

Forex risks management tips

Here are some essential tips that will help you reduce potential losses associated with forex trading;

- **Do not invest in one place**

This tip applies across all investment and forex trading is no exception. Your forex should always account for a specific amount of your investment; however, it should not be all. Exchanging more than a single currency pair will help you expand in forex trading.

- **You should always teach yourself**

One of the best ways of learning risk management and become one of the most active forex traders is through understanding how the market operates. However, you should always keep in mind that the forex market keeps fluctuating. Therefore, when you want to be ahead of the pack, you should always be willing to learn new things and continually update yourself on every new change in the market.

- **Using software programming for help**

In order for you to progress in forex trading, you should think of utilizing some high tech trading software that will help you in settling in your most preferred choice. However, these systems are not perfect; therefore, you should consider using them as an advisory tool as well as something you can fall back on. Do not use them as the primary basis for trading judgments.

- **Stop losses**

As previously mentioned, stop losses are essential when it comes to forex trading. Forex trading without a stop loss is similar to driving a car without brakes at high speed; the result will be catastrophic. Once you have your stop-loss limit, you should not think about bringing it down. There is no need to have a safety feature that you have zero intention of using.

- **Minimize leverage use**

It is incredibly tempting to use leverage to gain a substantial profit.

Conversely, this is capable of making it way easier to lose a tremendous amount of investment as well. Therefore, you should never take enormous leverage. A quick change in the market is all that it takes for you to wipe out the whole of your trading account quickly. However, understanding forex trading is not complicated. The only difficult part of forex trading has self-discipline that you will abide to whenever the market goes against the position.

- **Always have a trend as your companion**

You might come up with a decision to become a positive trader along with plans to hold on to this position for a long time. However, irrespective of the position you choose, you should never go against the current trends and movements in the market. Often there are active players in the market, and the only way to keep up with them is through accepting such changes. Furthermore, you should alter your strategies in order to reflect on the current trends.

Final thoughts

If you are a newbie, you should always keep in mind that forex trading is highly unpredictable; therefore, you should never invest all your assets to

avoid losing everything. Furthermore, you should always understand risk management before getting involved with forex trading. It is essential to keep in mind that the majority of forex transaction is carried out by banks and not individuals. Using forex helps reduce risks of fluctuation through the use of complex algorithms in the computerized trading system .