

How to trade the

FOREX MARKET

Vince Stanzione

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Vince Stanzione has been trading markets for over 30 years and has shared his knowledge and experience in a number of books. He is the New York Times bestselling author of *The Millionaire Dropout* and has created the “Making Money from Financial Spread Trading” course. He has been quoted and featured favourably in over 200 newspapers, media outlets, and websites including CNBC, Yahoo Finance, Marketwatch, Reuters.com, Independent, Sunday Independent, Observer, Guardian, The Times, Sunday Times, Daily Express, What Investment, Growth Company Investor, New York Times, Bullbearings, City Magazine, Canary Wharf, Institutional Investor China, and Shares Magazine.

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The background is a dark gray or black. It features a large, stylized number '1' in the upper left quadrant, formed by a series of parallel, light gray diagonal lines. Another similar pattern of parallel diagonal lines runs vertically along the right side of the page. A third pattern of parallel diagonal lines runs horizontally across the bottom of the page. The word 'INTRODUCTION' is centered in the middle of the page, written in a bold, red, sans-serif font.

INTRODUCTION

INTRODUCTION

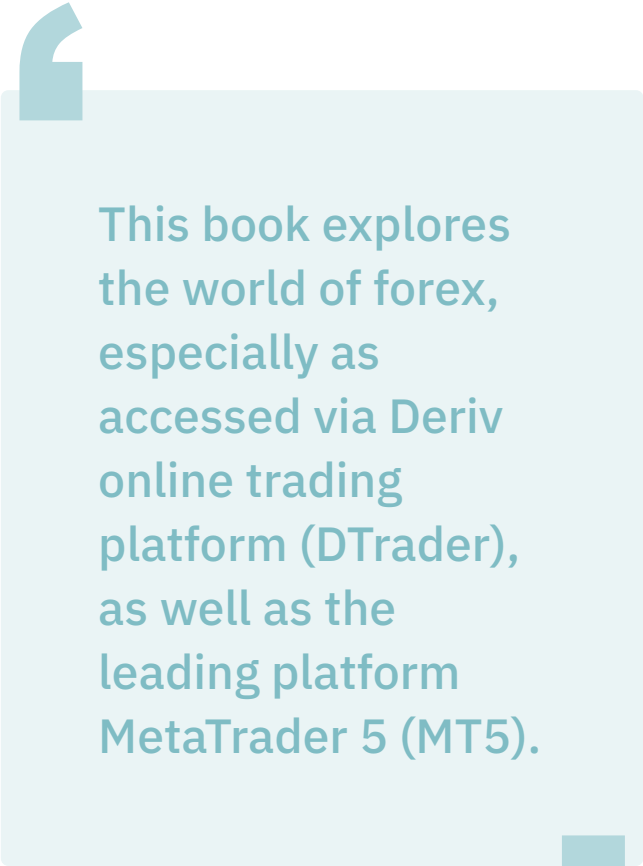
Foreign exchange – forex or the FX market, as it is commonly known – is one of the biggest marketplaces in the world. Here, no trading floor exists; banks, brokers, companies, and governments trade among themselves through high-tech computer networks, such as those offered by Reuters and Bloomberg.

It's hard to comprehend the colossal amount of money traded in this market on a daily basis, which totals around 6.6 trillion USD per day, as reported in a 2019 survey by the BIS Triennial Central Bank Survey. Approximately 10% is fuelled by companies trading overseas, needing to convert currencies for routine commerce, such as import/export businesses; the rest is pure speculation and investment.

As these figures clearly show, this is a very active trading sector, with the potential to yield significant gains through smart, consistent money-management principles.

This book explores the world of forex, especially as accessed via Deriv online trading platform (DTrader), as well as the leading platform MetaTrader 5 (MT5).

You will be able to practise trading forex with a demo account. So you can see it in action without risking any money. As you become more confident, you can start using a real trading account. The great advantage of using Deriv services, which are available for clients above the age of 18, is that you can start trading with just a small deposit.



This book explores the world of forex, especially as accessed via Deriv online trading platform (DTrader), as well as the leading platform MetaTrader 5 (MT5).

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THE BASICS OF FOREX

THE BASICS OF FOREX

For many years, to participate in the FX market, you would have needed a substantial amount of trading capital, as well as an FX broker or bank to manage your trades.

Today, it's possible for anyone to trade currencies – even with a small amount of money. You can also trade in the FX market regardless of which country you are in. Prices are always being quoted and are universally accessible.

The currency market offers nearly 24 hours of seamless trading – starting on Sunday at 9:00 pm GMT, which is early morning in Asia, and carrying on all the way until Friday evening in New York, or 10:00 pm GMT. Although the FX market is liquid almost all the time, the most active times are typically around 1:00 pm GMT to 4:00 pm GMT when the London and US markets are both open. This is also known as the **overlap sessions**. Another busy time is around 8:00 am GMT, when London initially opens and the Far East is closing down for the day.

Whilst FX is a global market, the two biggest trading centres are London and New York, accounting for 50% of the trading volume. This timeframe also coincides with many US economic data releases which are reported in the morning New York time, such as unemployment numbers, and these can cause sharp moves in currencies.

Although cryptocurrencies such as Bitcoin are starting to be more frequently used for cross border transfers, the total volume of crypto exchanges is still tiny compared to the FX market.

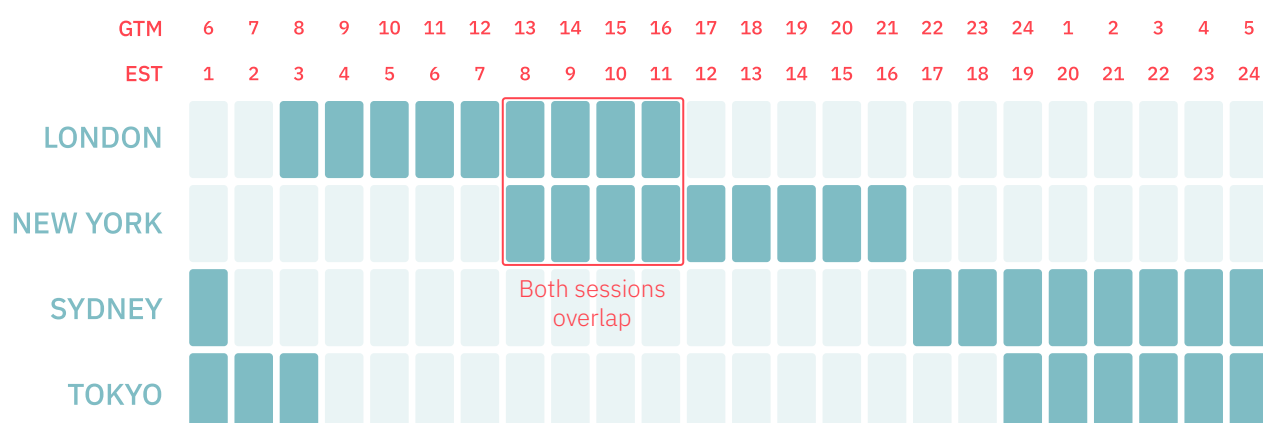


Figure 1. The most active times in FX are when London and New York are open; however, there is adequate liquidity 24 hours a day with Sydney and Tokyo trading overnight.



**WHO USES THE
FOREX MARKET?**

WHO USES THE FOREX MARKET?



Online consumers, tourists, foreign workers

Consumers may purchase goods online in a foreign currency, using their credit card or payment service. The amount consumers pay in the foreign currency will be converted to their **home** currency on their credit card statement, which will require an FX transaction. Credit card companies will exchange smaller transactions together in **block trades**.

Tourists will also go to a bank or currency exchange bureau to convert one form of currency (i.e. their home currency) into another (i.e. the **destination** currency) when using cash to pay for goods and services in a foreign country.

Increasingly, credit, debit, or prepaid currency cards are being used in lieu of cash, but each still requires an FX transaction. So do overseas ATM withdrawals.

Foreign workers may also send money home to their native countries, also requiring FX transactions. Popular services such as Western Union and MoneyGram allow funds to be sent to another country, where the destination currency may be different. For example, a worker earning USD can wire these funds back home to New Zealand, where the recipient can collect this sum in the local currency.



Businesses

Businesses often need to convert currencies when they conduct trades outside the boundaries of their home countries. Large companies need to convert huge amounts of currency.

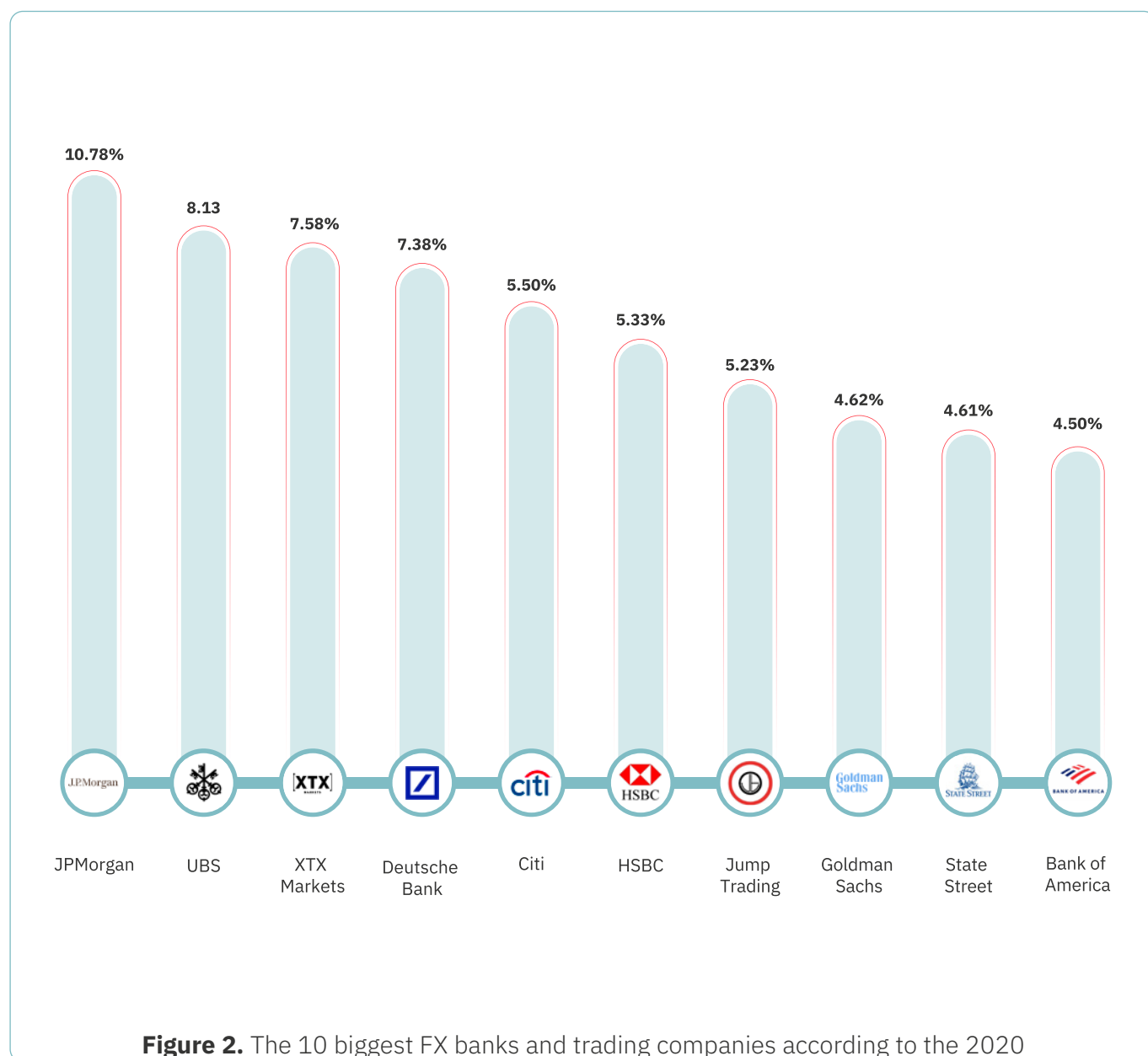
A multinational company, such as Apple, converts tens of billions of dollars each year from sales made outside of the United States. Apple makes 60% of its revenue outside the US.

Companies trading commodities will likely do their transactions in USD. For example, gold is traded in USD per ounce. Yet the gold was likely mined in a non-USD country, probably accumulating additional costs in other countries with their different local currencies along the way.



Commercial and investment banks

Commercial and investment banks trade currencies as a service to their commercial banking, deposit, and lending customers. These institutions also participate in the currency market for hedging and speculative purposes.

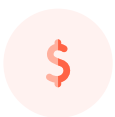
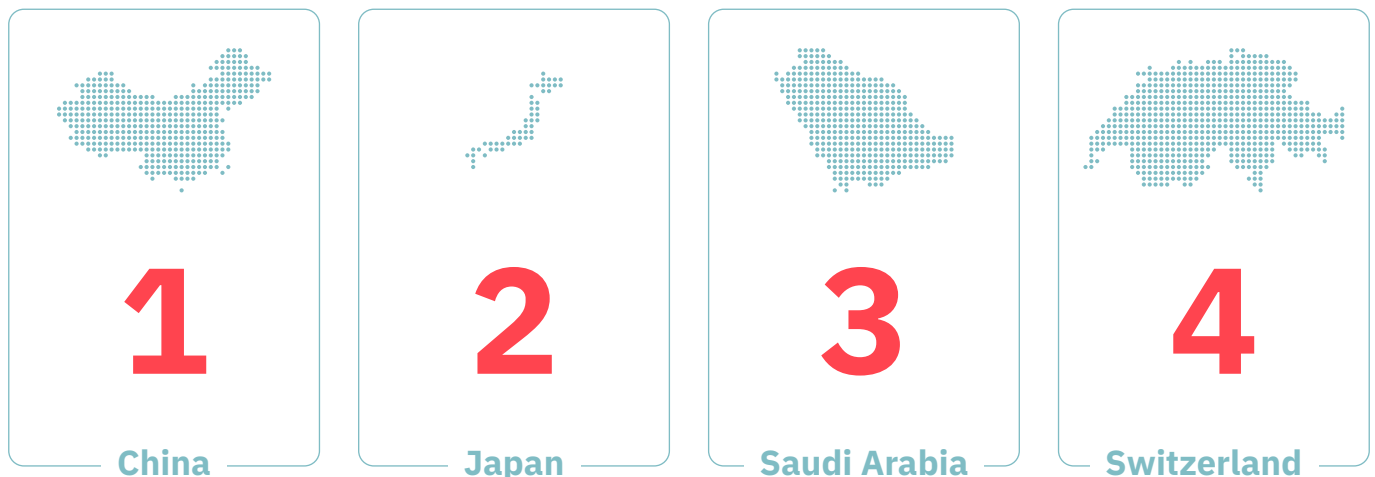




Governments and central banks

Governments and central banks trade currencies to improve economic conditions or to attempt to adjust economic or financial imbalances – also known as **currency intervention**. Because they are non-profit by nature, governments and central banks do not trade to earn a profit. However, because they tend to trade on a long-term basis, it is not unusual for some trades to earn revenue.

According to the International Monetary Fund (IMF), the following countries hold the biggest amounts of USD reserves:



Investors and speculators

This is the category that applies to most readers of this book. Investors and speculators require currency exchange whenever they deal in any foreign investment – be it equities, bonds, bank deposits, or real estate. For example, when I bought my home in Spain, I needed euros to settle the purchase; however, my source funds were in GBP and USD.

Investors and speculators trade currencies in an attempt to benefit from movements in the currency exchange markets. They do not intend to use the money itself for any practical purposes; instead, their motives are purely driven by speculation and a simple desire to profit from the price differences. The actual principal is not changing hands.

The background features a dark, abstract shape on the left side, possibly representing a mountain or a stylized letter 'A'. The rest of the background is filled with a pattern of fine, parallel diagonal lines in a light gray color, creating a textured effect.

**WHICH CURRENCIES ARE
ON THE FOREX MARKET?**

WHICH CURRENCIES ARE ON THE FOREX MARKET?

By far, the US dollar remains the key currency in the forex market.

The table below shows 42 currencies that people use around the world. Yet the majority of all FX trades – i.e. approximately 80% – involve the US dollar (USD). The USD remains the world's reserve currency, used when trading commodities such as

Gold and Oil (which are quoted in USD per ounce or barrel). Companies that do business throughout many parts of the world still report in USD. Even kidnappers, criminals, and drug dealers prefer to be paid in USD!

ARS	Argentine peso	LTL	Lithuanian litas
AUD	Australian dollar	LVL	Latvian lats
BGN	Bulgarian lev	MXN	Mexican peso
BHD	Bahraini dinar	MYR	Malaysian ringgit
BRL	Brazilian real	NOK	Norwegian krone
CAD	Canadian dollar	NZD	New Zealand dollar
CHF	Swiss franc	OTH	Other currencies
CLP	Chilean peso	PEN	Peruvian new sol
CNY	Chinese yuan (renminbi)	PHP	Philippine peso
COP	Colombian peso	PLN	Polish zloty
CZK	Czech koruna	RMB	Renmibi; see CNY
DKK	Danish krone	RON	New Romanian leu
EUR	Euro	RUB	Russian rouble
GBP	Pound sterling	SAR	Saudi riyal
HKD	Hong Kong dollar	SEK	Swedish krona
HUF	Hungarian forint	SGD	Singapore dollar
IDR	Indonesian rupiah	THB	Thai baht
ILS	Israeli new shekel	TRY	Turkish lira
INR	Indian rupee	TWD	New Taiwan dollar
JPY	Japanese yen	USD	US dollar
KRW	Korean won	ZAR	South African rand

Table 1. The 42 currencies used around the world



Cryptocurrencies such as Bitcoin (BTC) are on the rise, but they are still in their infancy. And yes, Bitcoin is mainly quoted in USD, so you cannot escape the mighty dollar. This currency essentially sets the bar throughout the globe.



The background is a solid black field. Overlaid on this are several large, semi-transparent shapes. A large, light gray 'L' shape is positioned in the upper left. A large, light gray 'S' shape is positioned in the lower right. These shapes overlap each other and the background. The text 'WHY TRADE FOREX ON DERIV' is written in a bold, red, sans-serif font, centered horizontally and partially overlapping the 'L' and 'S' shapes.

**WHY TRADE FOREX ON
DERIV**

WHY TRADE FOREX ON DERIV

Deriv offers attractive advantages over other brokers for trading FX.

Let's first examine what it's like to trade FX with regular brokers who only offer margin trading, often with no safety measures (see Appendix G to learn more about margin trading and leverage). Imagine a broker who is offering you 100:1 leverage. This offer would immediately enable you to trade \$100,000 in currency with just 1% margin. At first, this seems like a bargain since all you would need is \$1,000 deposited into the account. The broker provides the remaining 99% (i.e. \$99,000). However, if a position goes against your prediction, you will either have to quickly put up more funds – the dreaded situation known as a **margin call** – or your trade will be closed out. As you can see, trading on margin is risky because it can suddenly leave you way in above your head, forced to refuel your account with additional funds to stay "alive".

Now, let's take a look at trading the forex market on Deriv. With Deriv, you have two choices:

- Trading FX through digital options² and multipliers on DTrader
- Trading FX through contracts for difference (CFDs) on Deriv MetaTrader 5 (DMT5)

We shall see what advantages each can offer below.

² This trade type is not offered to Deriv clients in the United Kingdom, and any point on digital options throughout this book does not apply to Deriv products and services provided for the UK residents.

ADVANTAGES OF TRADING FOREX ON DTRADER



Enjoy the thrill and stay safe

DTrader gives you the chance to trade FX via two types of options: digital options and multipliers. Let us see how you can put each to good use.

Digital options have a fixed payout and a fixed premium. Before purchasing each trade, you'll know the exact cost of each trade and how much you stand to gain or lose. At worst, the maximum that you could ever part with is the price initially paid to purchase the trade; at best, you'll win back your initial stake plus the payout amount displayed for your consideration when you first bought the trade. Thus, as forex trading goes, the digital option route is clear-cut and predictable in terms of the potential outcomes. Your risk on DTrader is strictly limited to your premium.

Multipliers allow you to multiply your potential profit up to 1,000 times without risking more than your stake. You'll enter your stake and choose the multiplier you want. You may earn a profit by closing your trade when the market moves in your favour. By setting **take profit** and **stop loss** amounts, you can manage your risk and minimise possible loss. With **deal cancellation**,

you can cancel your trade within 1 hour if the market moves against your prediction. Deriv charges a small fee for this, but you'll get your whole stake back. The **stop out** feature also ensures that you'll never lose more than your stake because if your potential loss reaches your stake amount, this feature closes your trade automatically.

Multipliers allow you to multiply your potential profit up to 1,000 times without risking more than your stake. You'll enter your stake and choose the multiplier you want.



Be in control

When you're trading digital options on DTrader, you can decide the length of your FX trade upfront. This length can range from ticks to seconds to days. With digital options, your trades settle automatically with no need to make a closing trade. If the trade moves according to your prediction, any profit that you make is added to your account balance automatically with no waiting for settlement.

When trading FX on multipliers, it's of course completely up to you when to close your trade.

You can also have several trades open simultaneously. For example, you could have a Rise (buy) trade on USD/EUR to settle in 1 hour and also have a Fall (sell) trade on AUD/JPY to settle in 1 minute.



Enjoy flexibility

You can have multiple trades open on various FX pairs and other markets with Deriv at the same time.

With digital options, you can also have different timeframes on the same pair, so, for example, you could go long on EUR/USD over the next 5 days but short on the same pair over the next 1 hour, and you could potentially profit on both.

Multipliers give you even more flexibility. You can close the trade when you want, depending on the market movement, and you also have factors you can set such as the multiplier, take profit, stop loss, and deal cancellation to have more control over how the trade goes.



Trade with low amounts

Traditional forex brokers require currency to be purchased in standard contract sizes. Currency pairs are generally traded as fixed unit quantities of the base currency (i.e. 100,000 units). For example, if you were buying GBP/USD at 1.4559, you would be paying US dollars for British pounds as follows:

$100,000 \times 1.4559 = \$145,590$ USD for 100,000 GBP

A non-leveraged trade would oblige you to pay the whole sum.

Whilst multipliers use leverage, because of their unique structure, they still protect you from the risks of margin trading and leaning on leverage, as do the non-leveraged digital options. They both also remove the 100k lot barrier to entry to the forex market. You can jump right into trading by purchasing contracts as low as \$1, working your way up at your own pace, as you gain greater confidence in your forex knowledge and skills.



Have choices

When you trade forex on DTrader, there are three digital option trades that you can currently choose from. Deriv plans to add more. Below, you are introduced to those offered on DTrader at the time that this book is being written.



Rise/Fall

Predict whether the exit spot will be strictly higher or lower than the entry spot at the end of the contract period. Select the **Allow equals** checkbox to win the payout if the exit spot is higher than or equal to the entry spot for **Rise** or if the exit spot is lower than or equal to the entry spot for **Fall**.



Higher/Lower

Predict whether the exit spot will be higher or lower than a price target (the barrier) at the end of the contract period.



Touch/No Touch

Predict whether the market will touch or not touch a target at any time during the contract period.

Setting a Rise/Fall forex trade

Let's take a quick look at a Rise/Fall option to see precisely how this all works using the DTrader platform:

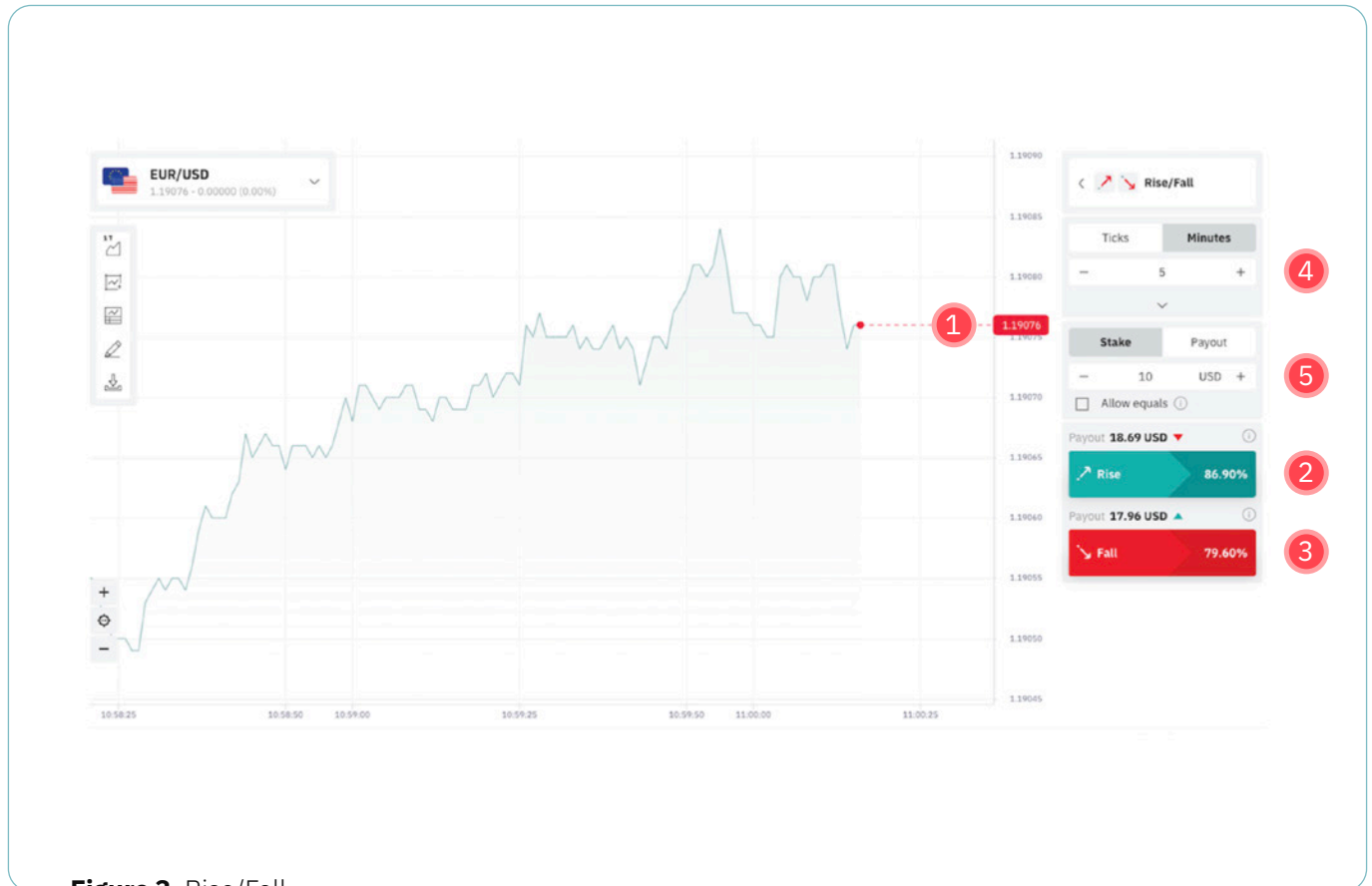


Figure 3. Rise/Fall

Here we have the EUR/USD. The current spot price is **1.19076**. **1**

We can predict that the first currency, the euro, will go higher or lower against the USD. If we think the euro will go higher, we select **Rise**, **2** and if we think it'll go lower, we select **Fall**. **3**

We can set the trade duration from a few seconds to days as long as the contract expires on trading day. In the above example, we've set the duration to **5 minutes**. **4**

Our stake is **\$10**. **5** You can trade as little as \$1 on most markets. The returns offered can be seen. If the trade is successful, we will be credited the investment (\$10) plus the payout amount. If we lose, we only lose the initial \$10.

Some forex digital options trades allow selling the contract before it expires to either gain a profit or close at a loss depending on the market position at that moment, but most options run until expiration.

Result of a Fall forex trade

Here you can see a trade I placed on USD/CHF for the USD to go lower against CHF after 2 minutes. Notice it does not matter that the USD went higher at the start of the trade. What matters is the final closing price of the contract, which was lower, and so the trade won.

In this case, yielding 84.4% was not bad for 2 minutes!



Figure 4. The result of a Fall trade

ADVANTAGES OF TRADING FOREX ON DMT5



Access the MT5 powerful platform with your Deriv account

MetaTrader 5 (MT5) is a robust online trading platform developed by MetaQuotes Software. Whilst, at first sight, MT5 can look a little overwhelming, take it a bite at a time and you'll easily be able to rise to the challenge.

Some brokers still offer the older MT4 version which was mainly used for forex trading. Deriv, on the other hand, believes in staying at the forefront and provides access to the latest MT5 platform which has more tools and gives you access to not only the forex market, but also commodities, stock indices, and Deriv's own synthetic indices. I strongly recommend upgrading to MT5 if you have been using MT4. MT5 can be used on

Android or iOS mobile devices as well as desktop.

Whether you're a new or experienced trader, you can easily access the MT5 platform via DMT5. Select Deriv as your broker to gain access to trade CFDs on forex with your Deriv account.

The screenshot below shows MT5 used by a Deriv client. You can use your demo or real account to trade CFDs via DMT5. We can have multiple windows and arrays of indicators. We can trade directly from the chart in real-time. MT5 also allows for Algo trading and can be preset to make trades automatic per your set parameters.

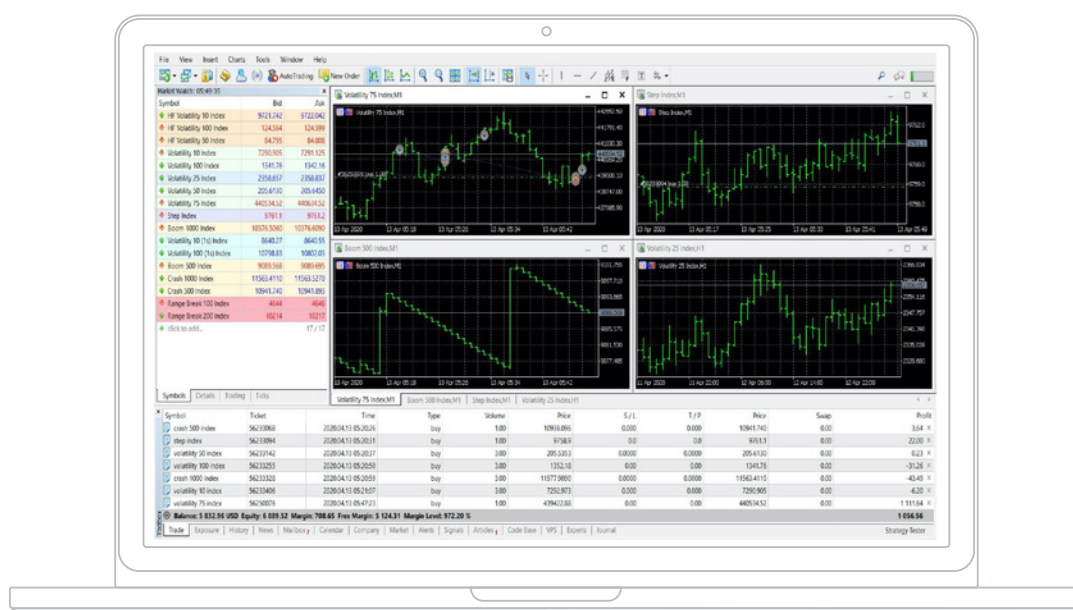


Figure 5. The MT5 platform



Get stopped out when things go south

As mentioned in detail in Appendix G, CFDs do not have a fixed payout and are more akin to a futures contract than an option. A CFD is a derivative product that you can use to speculate on the future direction of a market's price. You'll never take ownership of the underlying asset (in this case, currencies). Profit or loss results only from the difference in the price of the underlying asset when the contract is closed. A CFD gives you exposure to a market and allows you to go long (trade for the price to go up) or short (trade for the price to go down). The CFD will remain open until you close it or it gets stopped out.

Stop out occurs when your margin level (percentage of the equity to margin) reaches a certain level that depends on your account type. Before this, your account will be placed under margin call, which also depends on your account type. This does not affect your ability to open new positions; it serves to alert you that your floating losses have added up to a certain level. It is best that you top up your account to keep your positions open.



Set an automatic brake to lower your risk

Using DMT5 to trade CFDs on forex gives you an additional tool to manage your risk. You can set a stop loss when you want to purchase the contract so that if the market moves against you, your position gets closed automatically if your loss reaches that preset level. In this way, your loss will not exceed what you judge to be affordable.

A CFD is a derivative product that you can use to speculate on the future direction of a market's price. You'll never take ownership of the underlying asset.



**CURRENCY PAIRS YOU CAN
TRADE ON DERIV**

CURRENCY PAIRS YOU CAN TRADE ON DERIV

Each currency has a standard three-letter code (see Table 1) regardless of which bank or broker you use. Deriv utilises this same currency code system.

Deriv offers three types of currency pairs for online trading:

1

Major pairs

The most popular, commonly traded currency pairs, such as EUR/USD and USD/JPY. All major pairs include USD since it's the world's most traded currency.



Figure 6. Major pairs offered on Deriv

2

Minor pairs

Currency pairs that don't include USD, but still encompass the currency of developed countries.



Figure 7. Minor pairs on Deriv

3

Exotic pairs

Currency pairs consisting of one major currency and the currency of a developing country, such as Turkey (available on DMT5).

 AUD/SGD	 CHF/JPY	 EUR/HKD	 EUR/ILS	 EUR/MXN
 EUR/SGD	 EUR/TRY	 EUR/ZAR	 GBP/SGD	 GBP/TRY
 HKD/JPY	 NZD/CHF	 NZD/SGD	 SGD/JPY	 USD/HKD
 USD/ILS	 USD/RUB	 USD/SGD	 USD/THB	 USD/TRY

Figure 8. Exotic pairs on Deriv

The background is a dark, textured surface with a pattern of fine, light-colored diagonal lines. A large, dark, irregular square shape is positioned in the upper left quadrant, partially overlapping the diagonal line pattern.

FOREX IN MORE DETAIL

FOREX IN MORE DETAIL

What makes a currency go up or down in price?

The easiest way to look at a currency is to pretend that it is a share of a given country, such as Switzerland Inc. If the country is in good shape economically and politically, this hypothetical share will be strong. If the country is in trouble, has defaulted on debt, is plagued by riots in the streets, or has no political leadership, the share will be weak. If you look at the currency crisis in nations such as Zimbabwe, you will see what makes a currency weak and how it can be devalued, sometimes to the point of making it virtually worthless.

Here, we're mostly discussing fiat money, currencies issued by governments that aren't backed by a commodity like gold. **Fiat** comes from a Latin word, which translates to **it shall be**, showing how the worth of these currencies is determined by order and accepted based on trust.

A strong currency likes stable political and economic conditions. Money flows to the strong and away from the weak.

Traders are continually looking at fundamental data issued by a country, checking the various vital signs regularly to gauge its financial health. For example, unemployment figures, gross domestic product (GDP), and inflation numbers are all closely watched. Sociopolitical events such as referendums and elections are also closely monitored for potential changes in government policy.

If you would rather trade an option that is not subject to major real-world events, then take a look at the **synthetic indices offered by Deriv**. They are not affected by the news and are available round the clock. I also have a book that covers these. You can find more details at deriv.com.



Figure 8. Zimbabwe 100-trillion-dollar note, which is worth a few US dollars as a novelty item and is no longer legal tender



You're always trading a pair

Unlike buying a company stock or a commodity, in currencies, you are always trading in pairs. So if you believe that the Japanese yen (JPY) will weaken, this is only one half of the equation. You still need to figure out the other side of the coin. The second part that still needs to be reasoned out is to decide **against which currency will it weaken?** The JPY may weaken against the US dollar (USD) or euro (EUR). As previously mentioned, the majority of trades are against the USD. However, you can undoubtedly trade currency pairs that do not include the USD as one side – for example, the Australian dollar/Japanese yen (AUD/JPY) or the Swiss franc/euro (CHF/EUR)

When quoting currency pairs, the first currency is referred to as the **base currency**. The base currency is always equal to one monetary unit of exchange.

Examples:

- 1 US dollar
- 1 British pound
- 1 Euro

The second currency is known as the **counter currency** or **quote currency**.



Buy High and Sell Low

Many of us have traded currencies on a small scale. If you have ever spent time abroad, you have purchased Swiss francs, euros, Japanese yen, US dollars, and the like. When you are looking to buy a currency, you are interested in receiving as much foreign currency in return for your home currency as possible. Let's say that your home currency is the British pound (GBP) and you want to buy euros. In such a case, you would prefer to have 1.20 EUR to the GBP rather than 1.10. You wish to **Buy High** so that the

higher exchange rate gives you a greater amount of the destination currency in return for your home currency.

Now suppose you've come back from your trip overseas with unspent euros. You now want to exchange this currency back into British pounds at the lowest EUR/GBP exchange rate available. You now wish to **Sell Low** so that your euros will return maximum value in British pounds.

Learning the lingo: points, pips, and ticks

Points, pips, and ticks are terms that traders use to talk about price changes in financial markets.

Point

Point is the smallest price change on the left side of the decimal point — for example, if the price of an asset changes from \$15.00 to \$17.00, the asset has moved 2 points.

Pip

(percentage in point/price interest point)

Pip is the smallest price change on the right side of the decimal point that an exchange rate can make based on the market convention.

For most currency pairs, such as EUR/USD, a pip is the fourth decimal place (the **1** in **0.0001**). In other pairs, such as USD/JPY, a pip will be the second decimal point (the **1** in **0.01**).

Tick

In forex trading, a tick has the same meaning as a pip. However, in other markets, ticks aren't necessarily measured in factors of 10.

For example, if the minimum price movement in a market is measured in increments of 0.25, each tick will equal 0.25, and each point will be 4 ticks.

Three states of forex market movement

Before we go into more depth with analysing currency price movements, it should be noted that the FX market movement can only have three states:



Trend higher



Trend lower



Sideways range

We shall now explore each of these states in greater detail.



Trend higher

The lows are becoming higher. The highs are also becoming higher.

In other words, whenever the market sells off, it rebounds at a higher price than the previous time. This is considered to be **positive** or **bullish** activity because market participants are willing to pay more than in the past.

The types of trades that you would look to make on DTrader during these market conditions are:

- **Rise/Fall:** choose Rise when the market is trending higher
- **Higher/Lower:** choose Higher when the market is bullish
- **In/Out³**

With a CFD on DMT5, you would want to buy (long) the strong currency.



Figure 10. EUR/GBP: the euro is gaining against the British pound

³ Available on SmartTrader, a platform accessible to Deriv clients who do not live in the European Union or the United Kingdom



Trend lower

This is a **downtrend**: lows become lower, and highs become lower too.

Any **up** moves are quickly sold off, as the market is losing energy. A helpful analogy is a boxer being knocked down gradually, taking longer and longer to get up each time.

This is considered to be **negative** or **bearish** activity because market participants are willing to pay less than in the past. The currency is losing strength.

The types of trades you would look to make on DTrader during these market conditions are:

- **Rise/Fall**: choose Fall when the market is trending lower
- **Higher/Lower**: choose Lower when the market is Bearish
- **Touch/No Touch**
- **In/Out**

With a CFD on DMT5, you want to go short, so in the example below, you should sell (short) the USD.



Figure 11. USD is weak against the CHF. Traders would rather hold CHF.



Note that in the USD/CHF chart seen in Figure 10, we also see a trading range over the last few months. There's a resistance (top) of 0.93 and a support (bottom) of just over 0.90. For most traders, this would be dead money, but with Deriv, there's the chance to profit from range digital options.

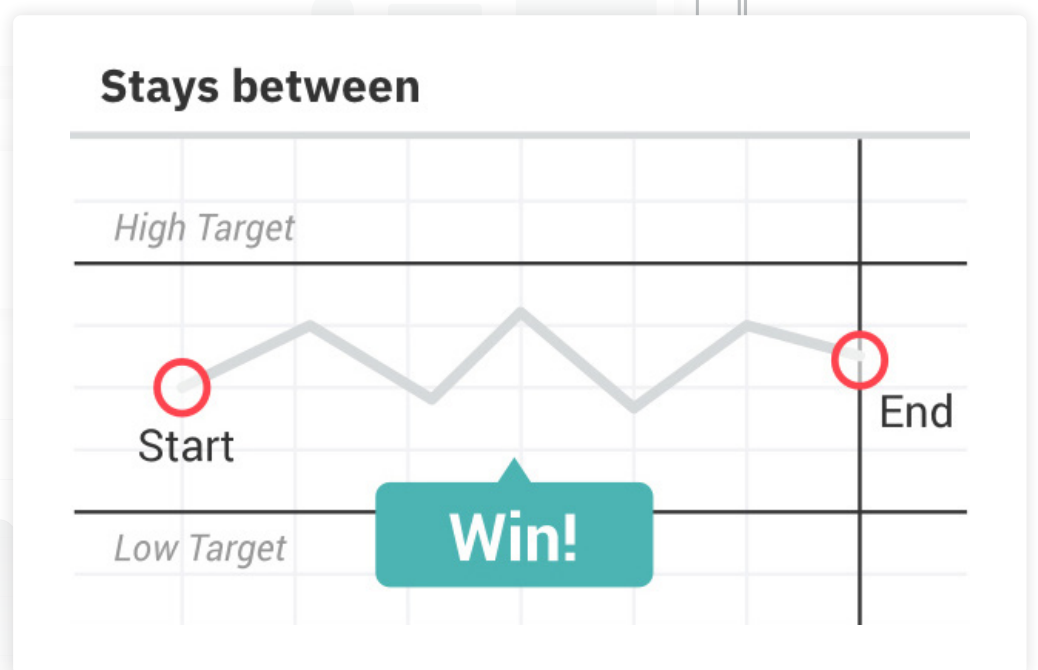
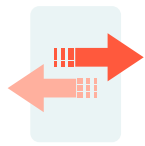


Figure 12. Stays Between: With Deriv, even a stagnant market might work to your advantage.



Sideways range

Markets can also be dull or range-bound, with very little movement in either direction. Such periods can last for weeks and sometimes months.

Let's say every time the EUR/AUD exchange rate reaches 1.61, there's support from buyers. This amount would be the lower range that can be seen in the image below. Then every time the exchange rate gets up to 1.66, we find resistance from buyers. This amount would be the higher range.



Figure 13. Sideways range

Prices can bounce between the two levels for a long period of time. At some stage, the equilibrium is broken, and a new trend or range is established. This state is often overlooked, but a currency can stay in a sideways range for weeks or even months. A sideways range is a case in which buyers and sellers are equally matched. In this case, price levels have been formed that attract buyers (or **support**) and sellers (or **resistance**).

Most traders don't profit from ranging markets. However, with Deriv, you can trade and profit from range markets. Let's see how.

Support levels occur when the consensus is that the price will not move lower. It is the point at which buyers outnumber sellers. Support can be seen as a **floor** for the exchange rate.

Resistance levels occur when the consensus is that the price will not move higher. It is the point at which sellers outnumber buyers. Resistance can be seen as a **ceiling** for the exchange rate.



Figure 14. USD/CHF settled into a range of 0.92 and 0.90 for a few months

For trading in the situation shown in Figure 13, we can choose a Higher/Lower digital option. If we take the low-risk view that this situation will continue, we can select 0.92 as the barrier over the next 7 days. The return is 21%. As long as the USD/CHF ends below 0.92, we will be paid our return, which in this example is USD 21.

21% is still a respectable return for a seven-day investment.

Let me show you another way of trading the same scenario using Ends Between/Ends Outside⁴ that you can find on the SmartTrader platform, also accessible through Deriv. This offers a little more risk but an extra 9.5% return. If we select a higher barrier of 0.92 (same as the previous example) but also add a lower barrier of 0.90, we can increase the return.

Forex
USD/CHF

In/Out
Ends Between/En... 0.91247

Guide

Duration 7 days
Minimum: 1

High barrier 0.92

Low barrier 0.92

Stake \$ 10

Ends Between Stake: \$10.00 Payout: \$13.05
Purchase
Net profit: \$3.05 | Return: 30.5%

Ends Outside Stake: \$10.00 Payout: \$19.53
Purchase
Net profit: \$9.53 | Return: 126.6%

Figure 15. Ends Between/Ends Outside

⁴ Available on SmartTrader, a platform accessible to Deriv clients who do not live in the European Union or the United Kingdom

HOW TO EVALUATE A CURRENCY

In this guide, we will spend more time focusing on technical analysis, charting, and system trading than fundamentals and economic indicators. Let's start with an overview of fundamental analysis.



Fundamental analysis

As previously mentioned, traders are always looking for clues to the vitality of a country's economy and currency. They analyse **fundamental data**, such as unemployment figures, inflation, GDP, and even new car sales. These types of figures can all provide a temperature reading of sorts to help gauge an economy's relative strength.

Key economic data releases are scheduled ahead of time so that traders can be prepared. For example, US employment data is always released during the first Friday of the month. As a more specific example, consider February employment statistics that are issued on the first Friday of March every year.

Calendars showing the significant release dates for economic data sources can be found at various sites, including:

- [Yahoo! Finance](#)
- [Investing.com](#)
- [Bureau of Economic Analysis for the US Department of Commerce](#)

Twitter is also a good source of these announcements. Below you will see an example from the Bloomberg TV [Twitter account](#).

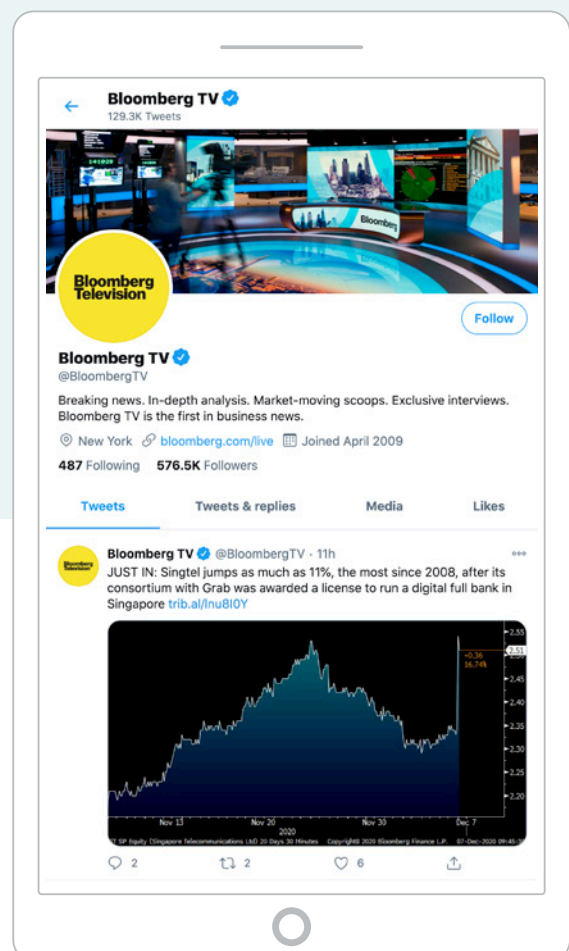


Figure 16. Bloomberg TV tweet

Typically, before and after a major announcement, a currency becomes more volatile as traders predict, interpret, and react to the news.

MetaTrader 5 (MT5), which is accessible via DMT5, has a robust calendar tool. The MT5 calendar marks events in order of significance

and helps traders remain up to date on global markets and well prepared for market movements. Below is a screenshot of MT5 in which you can see the economic calendar menu.

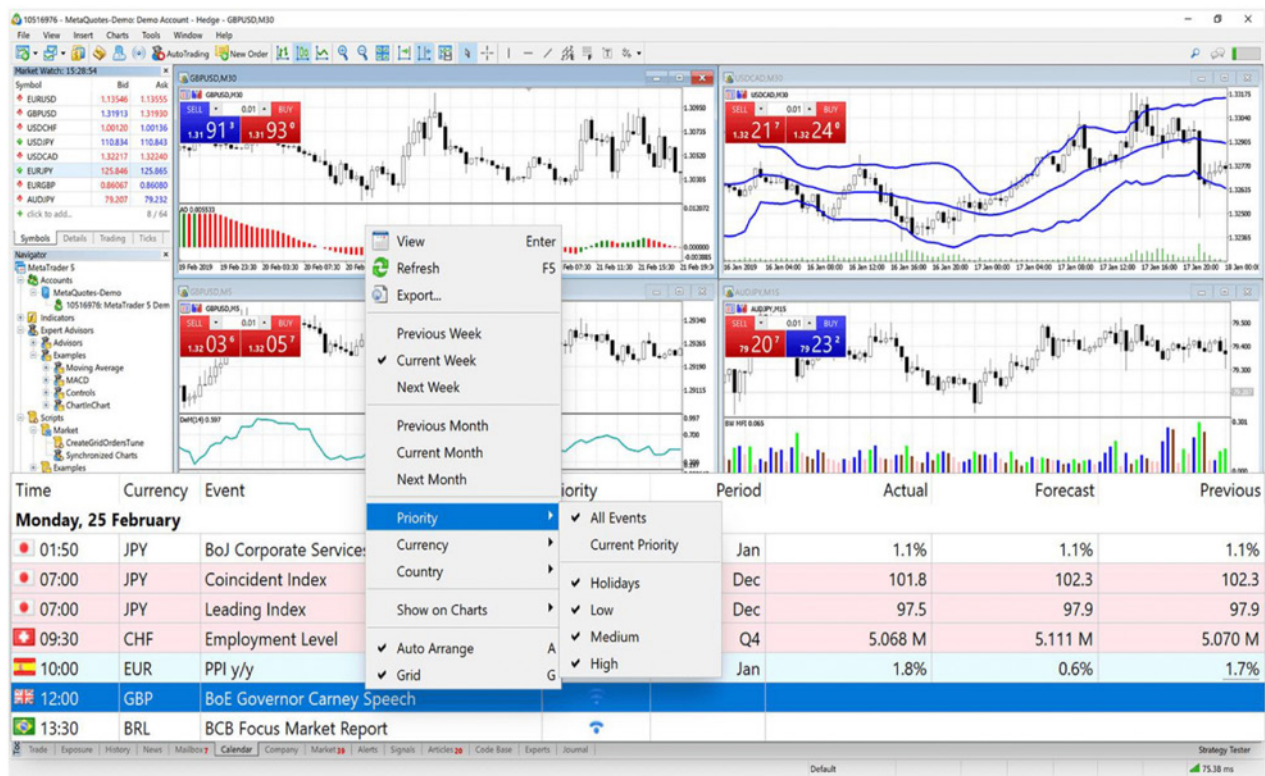


Figure 17. How to access the economic calendar on MT5

Problems with fundamental analysis

A problem with fundamental analysis – or trading based on the news – is that, in many cases, the data looks back, so it only reflects upon what has already happened.

The other problem is that data can be interpreted in many different ways. For example, a higher unemployment number can be seen as unfavourable, in that a greater percentage of people out of work can imply more benefits being shelled out at the government's expense, fewer people paying tax, and an overall weaker economy. However, on the plus side, it would also typically mean that wage inflation remains low because current employees are less likely to ask for a pay rise if others are ready to swoop in and take their jobs. It would also mean that central banks are less likely to raise interest rates.

Major banks produce a vast amount of analysis on economies, much of which is available for free.

However, it is questionable how useful this data is to the financial trader, especially in shorter-term trades. For most traders, technical trading will offer an easier way to follow the FX market, and professional tools are now available to all.

On a side note, Deriv is a pioneer of developing synthetic indices which trade round the clock and are not affected by the news. You can learn more about these in my new book [How to Trade Synthetic Indices](#).



Major banks produce a vast amount of analysis on economies, much of which is available for free.

However, it is questionable how useful this data is to the financial trader, especially in shorter-term trades.





Technical analysis

Disclaimer: There is no guarantee that analysing the past performance of the market, whether on financial or synthetic indices, can lead to successfully predicting future market movements. These technical analysis tools merely help to gain a better understanding of how markets move and how such data can be analysed for a better-informed decision when trading. Please remember that trading always involves risk, and you should consider this when trading.

Getting technical

Technical analysis ignores the news and economic data, focusing purely on price trends and volume. It primarily involves studying chart patterns, showing the trading history and statistics for whatever market is being analysed. Even traders who prefer a fundamental analysis approach sometimes use technical analysis afterwards to determine a good entry price.

Start with a basic price chart which would show the indices trading price in the past and look for a trend or pattern that could help determine future pricing.

Before delving into technical analysis tools, let's first learn more about charts and timeframes.

Candlestick charts

There are various types of charts that can be used to analyse forex. However, to keep things simple, we will look at candlestick charts here.

Candlestick charts are said to have been developed in the 18th century by the legendary Japanese rice trader Homma Munehisa. The charts gave Homma and others an overview of open, high, low, and close market prices over a certain period. This method of charting prices proved to be particularly interesting and helpful due to its uncanny ability to display five data points at a time, instead of just one. The method was picked up by Charles Dow circa 1900 and remains in common use by today's financial market traders.

Candlesticks are usually composed of the body, typically shaded in black or white illustrating the opening and closing trades, and the wick, consisting of an upper and lower shadow illustrating the highest and lowest traded prices during the time interval represented.

If the asset has closed higher than it opened, the body is white. The opening price is at the bottom

of the body. The closing price is at the top. If the asset has closed lower than it opened, the body is black. The opening price is at the top. The closing price is at the bottom. A candlestick need not have either a body or a wick. In the examples throughout this book, we have used red for a down candle instead of black, and green for an up candle instead of white.

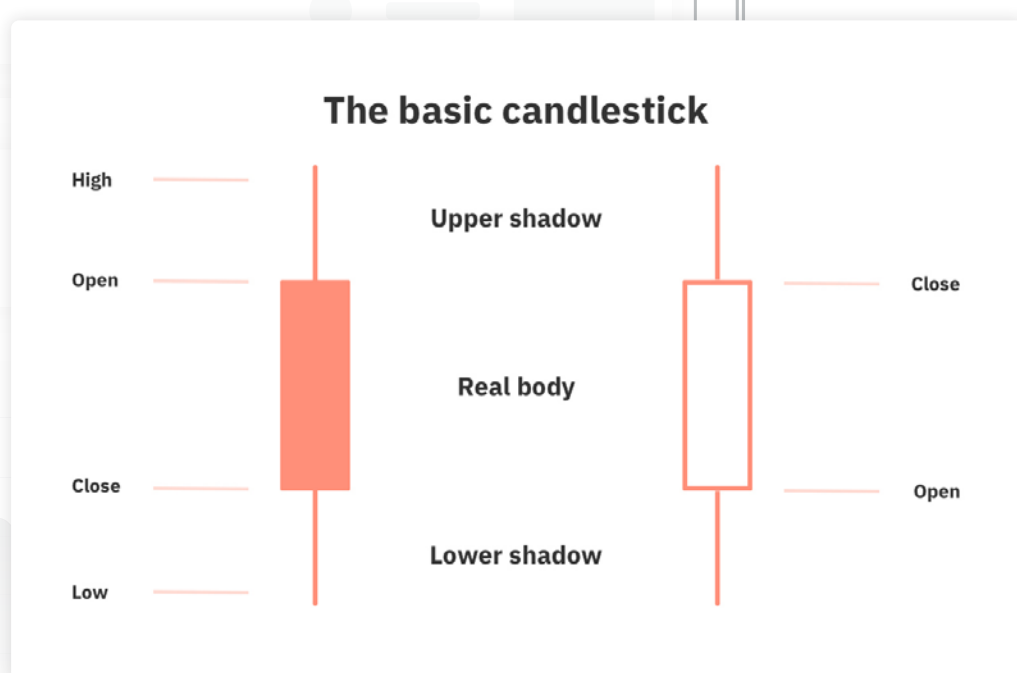


Figure 18. Basic candlestick composition

Timeframes

Depending on which timeframe you use in a chart, the trends and patterns will look very different. Many traders examine multiple timeframes for the same currency pair, such as the EUR/JPY in one-minute, one-hour, and one-day charts.

Deriv offers comprehensive charts across different timeframes, ranging from very short-term (i.e. mere ticks, or seconds) to one-day bars.

A short-term timeframe: 1 minute

Here, we see one of the most actively traded currency pairs – EUR/JPY – over five hours. Each candle represents one minute, and we see opportunities to profit from **up** or **down** trades.



Figure 19. EUR/JPY short-term timeframe

THREE TECHNICAL ANALYSIS TOOLS

This guide doesn't aim to go into the hundreds of possible technical trading tools, patterns, and indicators, but the following can give you an understanding of the main tools available. This brief overview is designed to help you get started in trading via CFDs or digital options so that you can begin to build up your knowledge. Deriv and MT5 offer access to excellent complementary charts and tools with over 30 technical indicators, but we will stick to three of the main ones here:



Moving averages



Price channels: Donchian channels



Relative strength index (RSI)

It's important to keep your trading system simple at the beginning. As you progress, you can add extra tools to refine your abilities further.



Moving averages

It's hard to trace the precise origins of the moving average (MA), although this concept is often attributed to Richard Donchian. He was a great pioneer of systematic trading in the 1950s and '60s. The methodologies that he developed over 40 years ago still serve as the basis of many complex systems used by the world's best traders.


The dictionary defines an average as **the quotient of any sum divided by the number of its terms.**

Let's suppose that you need to work out a 10-day moving average of the following numbers: 10, 20, 30, 40, 50, 60, 70, 80, 90, 100.


You would add these figures and divide by 10 (i.e. the total number of items in the set), to arrive at an average of 55.

Now when tomorrow's price comes in – let's say 105 – you would remove the oldest number (i.e. 10) and add 105 to the end of the series. The average of this set would now be 64.5.

Every charting software package incorporates the moving average, as it is one of the most fundamental aspects of trading. You will also find it on the various charts featured on the internet. You don't need to worry about working it out manually on your own.



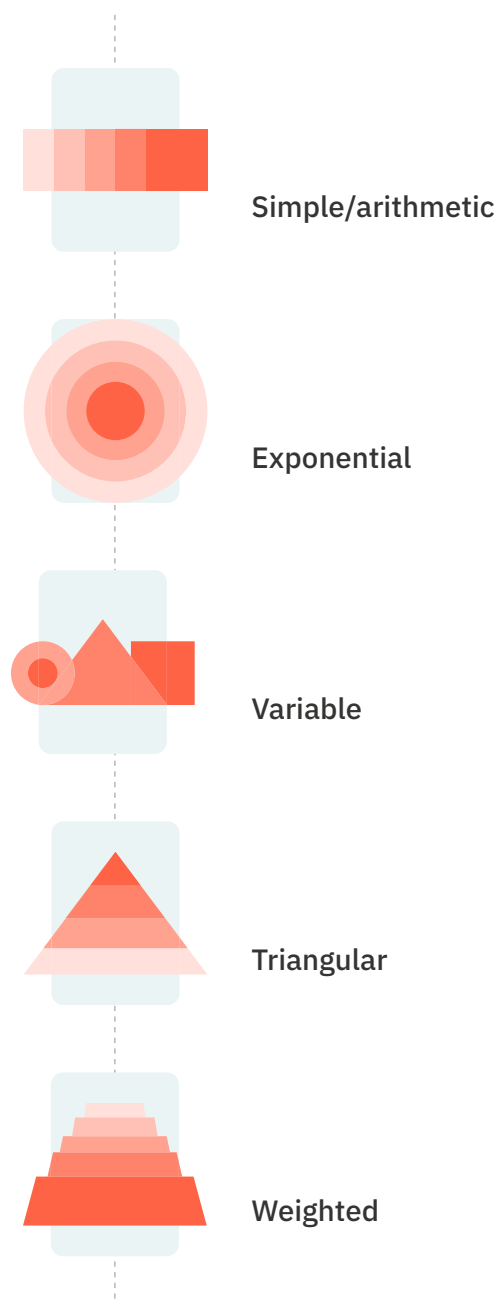
Every charting software package incorporates the moving average, as it is one of the most fundamental aspects of trading. You will also find it on the various charts featured on the internet. You don't need to worry about working it out manually on your own.



Types of moving averages

Moving averages can be calculated for any data series, including all sorts of different indicators associated with a particular currency (e.g. open, high, low, close, volume, etc.). To start, concentrate on the simple moving average. Whilst some have tried to be clever by deviating from this straightforward standard in various ways, it is best to stick with a simple approach, particularly as you first begin to trade. In software or on the internet, **simple moving average** is often abbreviated as SMA.

There are five popular types of moving averages:



Applying moving averages to currency pairs

Here's the basic rule of thumb with moving averages in the context of forex markets: when looking at the relationship between timeframes and moving averages, the choice of the period you select on the moving average indicator significantly impacts the results.

A few simple pointers: the following chart shows the AUD/USD with a 20-day simple moving average. The chart timeframe is daily. If I changed the time to 1 minute, it would then become a 20-minute simple moving average.



Figure 20. AUD/USD chart with a 20-day simple moving average

Shorter vs longer timeframes

The advantage of a shorter-term moving average, as in the case of 1 minute, is quicker results, with the moving average reacting with high sensitivity to price movements. The disadvantage is that you receive more false signals with such a short

timeframe selected, so it's a trade-off – but still worth examining. Deriv allows you to trade very short-term digital options – such as holding for two minutes and, in some cases, even less time.

Whilst you can also trade on tick charts, a moving average of less than 1 minute has no real value, and I would not advise it. Popular moving averages are 20 days, 50 days, and 200 days for longer-term trading. For shorter terms, 20 minutes, 60 minutes (1 hour), 4 hours, and 8 hours are all popular. These time intervals can be easily set up in DTrader as you can see below:

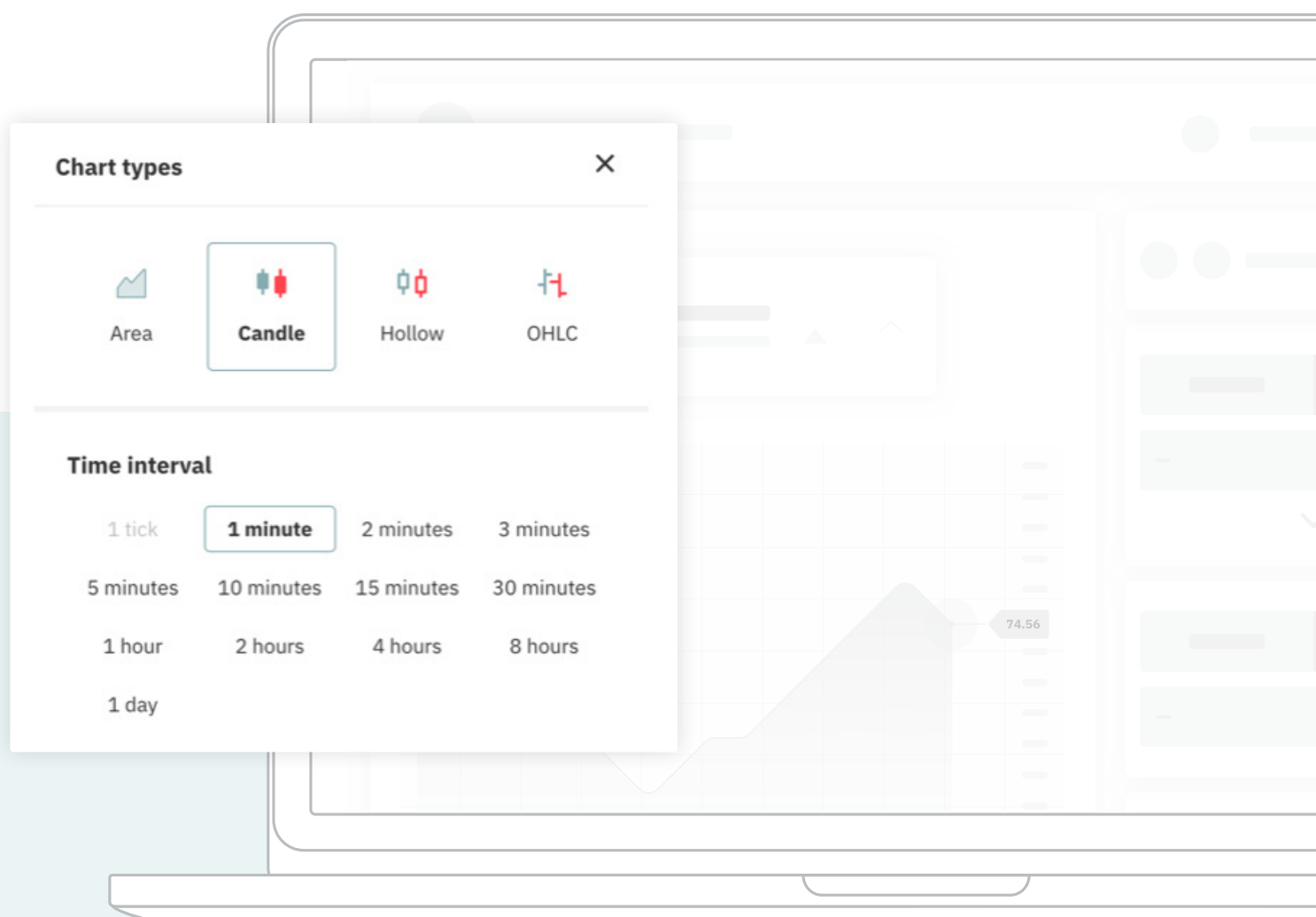


Figure 21. Setting the chart type and time interval

Advantages and limitations of moving averages

Moving averages have their limitations; however, they can be a good place to start in your quest to build a winning system. Here are key considerations to factor in along these lines:

When the price breaks below the moving average, it triggers a sell signal. Some traders also allow some leeway; they wait for one or two days after the moving average breaks before making the trade. If the price moves above the moving average, you would be looking to place bullish bets (up trades), and if it breaks below, you will place bearish bets (down trades).

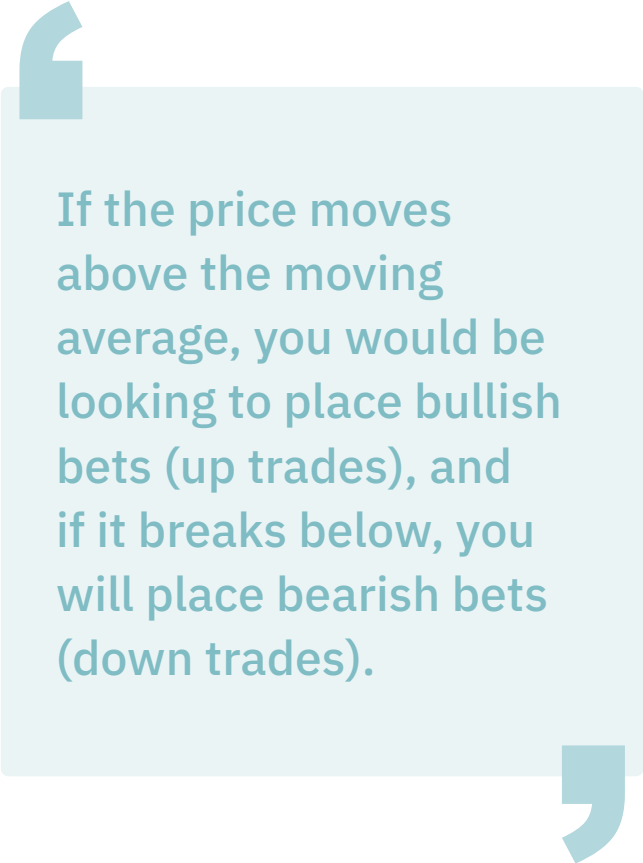
Using a technical system – such as the moving average – helps to reduce the impact of emotions on trading decisions. Rather than basing your trades solely on what you believe should happen, your trades are factually grounded in what is actually happening with the market data points. A moving average can also prevent you from making stupid mistakes, such as trading against a trend.

Moving averages work best when prices are “moving” either up or down. In a sideways range, the moving average will go flat and give out many false signals.

Popular trading systems based on moving averages

SMA crossover is a popular strategy based on the simple moving average technical indicator. It triggers if two SMA indicators with different periods are crossing over, and it uses that as a signal to purchase a contract, for example, a 20 period (longer MA) crossing a 5 period (shorter MA). You can also use just one moving average, as outlined previously.

This strategy is built to run in Deriv Bot (DBot), a free tool for creating and applying your own automated strategies. You can use DBot to trade using both virtual and real money accounts. For more information on DBot, see Appendix E.



If the price moves above the moving average, you would be looking to place bullish bets (up trades), and if it breaks below, you will place bearish bets (down trades).

An example of 2 moving averages crosses

We can have one or more moving averages on a chart at once. I personally like 2 moving averages with a slower (long term) MA and a quicker (short term) one. A buy and sell signal is given when the two cross over.

Let's use the USD/CHF as an example. We will use 1-hour charts and a 20-period and 5-period MA, so that would be 20 hours and 5 hours.

I have used 20 hours, but that could be 20 minutes or 20 days for a longer-term system. There is also nothing to stop experimenting with other timeframes, such as using 10 hours.

The image below shows the 1-hour chart with the 20 hours (green line) and 5 hours (red line). I have marked the cross-overs with arrows showing the buy and sell points.



Figure 22. Two crossed-over moving averages

SMA as a short-term system

For those looking for more signals and quicker trades, a simple moving average can be used, with the timeframe adjusted from daily to much shorter periods, such as one hour or even one minute. Thus, a “20-period simple moving average” becomes the average of the last 20 minutes or hours.

Deriv allows you to trade extremely short-term digital options – such as holding for one minute and, in some cases, even less time.

Short-term trade example

Below, we see a one-minute chart (in which each bar represents one minute), using a 20-period simple moving average of 20 minutes. This chart provides an extremely short-term view, so the next two to three minutes would be the ideal timeframe for the purchase of these trades.

If we have a buy signal (price above SMA) as in the first arrow, we will consider a Rise trade. In this example, a 2-minute Rise trade is being offered with a potential price of 95.5%. At the second arrow (sell), we would place a Fall trade.



Figure 23. Short-term SMA chart

This is a very simple system that can be programmed to trade automatically using DBot or an MT5 trade so you would not have to keep monitoring.

It's also possible to test a system with a demo account. You could also use a CFD trade which would remain open as long as the price remains above the moving average (long trade). When it falls below, you close the trade. You can also then open a new trade (short trade).



Forex price channels: Donchian channels

The Donchian channel is an indicator used in market trading, developed by Richard Donchian. It is formed by taking the highest high and the lowest low for a set period, such as 20 days. The area between the high and the low is the Donchian channel for the period chosen. This tool is available within Deriv charts, with adjustable settings for the period length. Twenty days is the conventional timeframe, which is why the Donchian channel is often referred to as the **20-day rule** or the **4-week rule**.

In the example below, we see the AUD/CAD one-minute chart with a 20-minute Donchian channel. We can see that the price had been trending higher but is now trending lower. **Down** digital options or short CFDs would be the way to trade in this case. Whilst we see rebounds, the lows are getting lower.

If you were short on a CFD, your basic system could be:

- Enter Short when the price hits 20-minute low Donchian channel
- Close Buy When the price hits 20-minute high Donchian channel

Of course, we can also stop and reverse to do exactly the opposite for long trades:

- Enter Long when the price hits 20-minute high Donchian channel
- Close Sell when the price hits 20-minute low Donachian channel

A simple system like this can be programmed into MT5 or using DBot so trades can be automated, and I will cover more about DBot later on. I have used 20 minutes, but that could be 20 hours or 20 days for a longer-term system. There is also nothing to stop you using 10 minutes.

The Donchian channel is an indicator used in market trading, developed by Richard Donchian. It is formed by taking the highest high and the lowest low for a set period, such as 20 days.

Whilst basic, this system has some powerful advantages:

1. Winning trades are left to run.
2. You have an exact exit strategy (no guessing).
3. The system is rule-based.
4. Your risk is always defined.

Even with more losing trades than winning ones, there's a chance that you can still make money

as long as the winning trades make more points than the losing ones. You can also profit from down moves as well as up.

The middle line on the chart below is just a 50% line of the High/Low channels. Some traders may use this as a first warning sign of an impending trend change.



Figure 24. AUD/CHF Donchian chart



Relative strength index (RSI)

The relative strength index (RSI) indicator measures a share's performance against itself. It is often used to identify buying opportunities in market dips and selling opportunities in market rallies. The value of the RSI is always a number between 0 and 100. The indicator was developed and introduced into practice in 1978 by an American engineer J. Welles Wilder, real estate developer and famous technical analyst. It is still widely in use.



RSI is often used to identify buying opportunities in market dips and selling opportunities in market rallies. The indicator was developed and introduced into practice in 1978 by an American engineer.



How to trade the RSI with digital options and CFDs

The chart below shows an example of the EUR/USD, to which we can apply this tool to inform trading decisions. A low number (30 and below) indicates a more oversold market. A high value (70 and above) indicates a more overbought market. The higher and lower horizontal lines on the graph are at 30 and 70, i.e. the levels at which markets are often regarded as **oversold** or **overbought**.

When the RSI moves to 70, it's a good time to look at **down** (e.g. Fall and Lower) trades.

When we see the RSI down at 30, it's a good time to look at **up** (e.g. Rise and Higher) trades.

In this example, we can see the RSI at 50, which is fairly neutral (midway), so the RSI is not providing a clear buy or sell signal. Thus, in this case, it would be best to hold off from placing a trade, until clearer signals appear.

If we are using a CFD, we will look to buy (go long) when we see the RSI down at 30, and we would look to sell (go short) at 70 or over.



Figure 25. RSI applied to EUR/GBP



FINAL NOTE

FINAL NOTE



I hope you found this short guide of use and that you will refer back to it in due course. This book has shown the many ways that forex can be traded on Deriv via DTrader and DMT5.

Using Deriv services allows you to trade a great selection of markets. You will find additional resources, charts, and tools on the deriv.com website.

Wishing you success,

Vince Stanzione



APPENDICES

APPENDICES

General points about trading and Deriv

Appendix A

Why trust Deriv

Any trade or contract is only as good as the “counterparty”. This is also known as “counterparty risk”. Deriv has been in business for over 20 years and is an award-winning online trading service provider which, whilst at the cutting edge, is conservatively managed with zero debt. The company is regulated and audited. You can see copies of Deriv licenses on its website.

Unlike some brokers that make it easy to deposit money yet hard to withdraw, Deriv enables you to withdraw easily and securely. Please note that whilst Deriv processes your withdrawal requests efficiently and quickly, the period it might take banks or other financial institutions to perform withdrawals can be longer. Deriv tries to give you an estimate of the total waiting time.

All your money is segregated and held in secure and licensed financial institutions. In this way, in the unlikely event of Deriv becoming insolvent, all your money will be returned to you because it is never merged with Deriv’s.

Deriv has over 1.8 million trading accounts opened with more than 8 billion US dollars of total trade turnover, so you’re in good hands.

Each trade, even if the trading capital is small, is given a unique reference ID number for the opening and closing. This means that each trade has a full audit trail that can be checked, so there is no way that the outcome can be manipulated either by Deriv or the trader.

On a side note, if you place a trade and then for whatever reason, lose internet connection, your trade still continues as it’s placed with the Deriv servers. You can still check the outcome once your connection is re-established. I had this happen to me whilst travelling in Thailand.

Appendix B

Opening a real account

If you rehearse and rehearse, the curtain will never go up.

Having a demo account is a great way to practise, but for a chance to profit from markets, you will need a real account. Rules and regulations will apply depending on the country you are based in. Deriv aims to make the process as simple as possible. If you are requested for a copy of your ID, please provide it as soon as possible to avoid delays in setting up your account.

Once your real account is open, set yourself a trading goal or plan. Just keep in mind that trading should not be considered as a means to earn a living, to solve financial problems, or to make financial investments. Synthetic indices on Deriv are available round the clock, so you can always come back to trade on Deriv in your leisure time.

You can make trades in USD, GBP, AUD⁵, or EUR even if you are based in a country that has a different base currency. For example, if you're based in Indonesia, your home currency is IDR, but you can still trade in USD, which may be more stable than your home currency.

⁵ Trading on Australian dollar is not currently possible for Deriv clients residing in the European Union or the United Kingdom

Appendix C

Seven top tips for trading on Deriv

1. Start small and build up.

Albert Einstein was once asked what mankind's greatest invention was. He replied: "Compound interest." There's even one claim that Einstein called compound interest the "eighth wonder of the world."

I have been in the trading business for over 35 years, and I started small. It was through the power of compounding that I could build up to where I am now. You need to understand compounding to perceive what a powerful tool it can be. Below is an excerpt from one of my favourite fables which sums this up. The same principle can be used when trading with Deriv.

Excerpt from A Grain of Rice by Helena Pittman

The daughter of the Chinese emperor was ill, and he promised riches beyond compare to whoever could cure her. A young peasant named Pong Lo entered the palace. With his wit and bravery, he restored the princess's health and won her heart. As a reward, Pong Lo asked for her hand in marriage. The emperor refused and asked Pong Lo to think of anything else he would like.

After several moments of thought, Pong Lo said, "I would like a grain of rice."

"A grain of rice! That is nonsense! Ask me for fine silk, the grandest room in the palace, a stable full of wild stallions – they shall be yours!" exclaimed the emperor.

"A grain of rice will do," said Pong Lo, "but if His Majesty insists, he may double the amount every day for a hundred days."

So on the first day, a grain of rice was delivered to Pong Lo. On the second, two grains of rice were delivered; on the third day, four grains; on the fourth day, eight grains; on the fifth day, 16 grains; on the sixth day, 32 grains; on the seventh day, 64 grains; and on the eighth day, 128 grains. By the twelfth day, the grains of rice numbered 2,048.

By the twentieth day, 524,288 grains were delivered; and by the thirtieth day, 536,870,912, requiring 40 servants to carry them to Pong Lo. In desperation, the emperor did the only honourable thing he could do and consented to the marriage. Out of consideration for the emperor's feelings, no rice was served at the wedding banquet.

2. Manage your money wisely.

Risk too much, and a few bad trades will make you lose your trading bank. Risk too little, and it's going to be a long time before you see any decent profits. As previously explained, money management does not have to be very complicated, but a simple system will ensure that no single trade can wipe out your trading account. The mistake many new traders make is trying to grow their account too fast.

3. Don't let your emotions overwhelm you.

Trading with a demo account and trading with real money are not the same. As in most walks of life, when real money is at stake, irrational and instantaneous reactions might take over. Since trading can become addictive, it is important to know how to stay in control and remain reasonable especially when trading with real money. Besides reading the following tips, please visit [Secure and responsible trading](#) and [begambleaware.org](#) for more information.

It may not be possible to trade logically all the time; after all, we are humans, with occasional impulsive decisions. But by using a system and steadily applying practical experience, you can train your reasoning powers to have a more permanent presence. Be careful about taking in too much news and over-monitoring your position. It is easy to overreact to a news story that may cause a short-term spike but is actually not that important in the long run.

Using mobile devices and apps can cause you to make snap decisions that you may later regret. The same sound judgment should be used with all trade purchase decisions, no matter how or where they're ultimately executed.

4. Profit potential exists in all markets.

Many still believe that in order to make money, the price of a share, market, currency, or commodity must go up. However, this is not true. As I have outlined in this guidebook, you can profit from up, down, and even sideways movements, so don't see falling markets as a negative.

5. When in doubt, sit it out.

If you watch financial news channels such as CNBC or Bloomberg, it seems that you should always be doing something, since the channels are filled with "breaking news." Remember: these channels have to fill their airtime, and in many cases, the best trade is, in fact, no trade. If you are not sure, or do not see an opportunity you are happy with, then do nothing and just wait for the next one. With the many markets offered by Deriv, you will likely find plenty of opportunities at any time of the day or night.

6. The higher the returns, the lower the chance of a payout.

Deriv offers a vast selection of trading opportunities ranging from lower-risk trades with returns of 5-10% to those with higher returns of 100% or more. Deriv prices trades based on mathematical probabilities. Of course, unexpected events do happen, but overall, if you are being offered returns of more than 200% for a trade lasting a day or less – just as an example – the reason for such generous returns is that the likelihood of a payout is fairly slim. Keep in mind it's readily possible to "mix and match" your trades on Deriv.

7. Decide carefully on your approach to trading.

Some people trade casually, and that is perfectly fine. Some approach it with a more serious attitude. While I do not encourage you to view trading as a means to earn a living, to solve financial problems, or to make financial investments, and while I certainly don't deny the role of chance in trading, I do believe there are ways to trade more smartly, especially when it comes to financial indices. See the tips under "Keep your emotions in check and trade wisely". For instance, keep solid records of your winning and losing trades. A diary can help with this to complement the tracking tools you'll find on deriv.com, enabling you to keep tabs on your winnings. Also, stick to a trading system to help minimise emotional decision-making.

Appendix D

Keep your emotions in check and trade wisely

Regardless of how big or small your account is, it is important to trade responsibly and stay in control of your emotions (visit [Secure and responsible trading](#) and [begambleaware.org](#) for more information). If you react impulsively to market movements when you're trading with real money, chances are that you'll suffer serious losses. It makes sense to slow down a little.

If you're going through a bad run, then take a step back, reduce the size of your trades, or maybe even go back to using a demo account for a while. Deriv does not place a time limit on demo accounts, and you can use your real and demo accounts side by side. In fact, since Deriv is committed to responsible trading, it encourages you to use all of the measures it offers to stay in control at all times.

There's a practical tip that might help you manage your risks while trading. Let's say you start with a \$1,000 account. If you limit your risk on any one trade to 5% of the account, this practice would allow you to keep trading, even with a bad run. Let's observe this simple system in action.

The maximum stake on a single trade should never be more than 5% of your account total. So initially, 5% of your \$1,000 account balance would be \$50. If your balance goes down, then your trade size is proportionately reduced.

Let's say that – following a few losing trades – your account balance decreases to \$900; 5% of this amount would now be \$45. If you have had a good run, then your allowance per trade proportionately increases.

Suppose you've had a few winning trades in a row and your account balance has risen to \$1,200; your 5% maximum per trade is now \$60.

The key is that no one trade should ever blow your trading account.

Percent loss	Percent gain	Percent loss	Percent gain
5%	5.3%	55%	122.2%
10%	11.1%	60%	150.0%
15%	17.6%	65%	185.7%
20%	25.0%	70%	233.3%
25%	33.3%	75%	300.0%
30%	42.9%	80%	400.0%
35%	53.8%	85%	566.7%
40%	66.7%	90%	900.0%
45%	81.8%	95%	1900.0%
50%	100.0%		

Table 2. Gains needed to recover from losses

If your account goes down 50%, how much do you need to put on the line to get back to even? Most will say 50% to make up for the previous losses, but here's the problem: You would need the account to move 100% to make this strategy work. As any trader will tell you, this is a not a wise approach.

Big losses are hard to recoup

The maths of percentages shows that as losses get larger, the returns needed to recover to breakeven point increase at a much faster rate. A loss of 10% necessitates an 11% gain to recover. Increase that loss to 25%, and it takes a 33% gain to get back to breakeven. A 50% loss requires a 100% gain to recover. An 80% loss necessitates 500% in gains to get back to where the investment value started.

Therefore, it is important to avoid big losses from the get-go. To do so on DTrader, use only a small

fraction of your account balance to purchase a trade so that if the market moves against you, your loss would be an amount you can easily afford. For leveraged trading on DMT5, you need to be extra vigilant. Cut your losses at an affordable point. Better still, use Deriv's stop loss feature to make it automatic. Also, follow the tips below. Remember, above all, that synthetic indices are influenced by chance and their patterns are by no means reliable.

Tips to help prevent losses from spiralling out of control

Whilst it is great to learn about trading, remember that there is a difference between synthetic indices and other markets. Synthetic indices are generated randomly and are not predictable, so it is not wise to grow confident in your techniques when you're trading them.

You may not be able to control the index price. Still, the money-management principles described in this book can help you control the amount of risk you place on any one trade, the amount of margin you use, and the total percentage of your account being invested at any time.

Watch that ego. Don't mistake a lucky run with skill. After a good run, many become overconfident and start taking stupid risks. After a poor run, many attempt to play catchup, trying to make their losses back fast. Both of these slippery slopes are easy ways to lose your trading capital.

Many books have been written on money management with complicated formulas. The key principle is quite simple: no single trade should ever cause you irrecoverable financial or emotional damage. However sure you are that XYZ is going to rocket, only a percentage of your trading bank should ever be risked.

Take care when trading on mobile devices

When real money is at stake, you need to be careful. Technology is wonderful; today, you can carry the power of a supercomputer in your pocket. It's now possible to make trades on the move from a mobile device from anywhere but do take care. Some tend to trade very differently on mobile devices than they do when they are sitting at a laptop or desktop. Be sure to apply the same level of strict discipline to trades purchased on mobile devices as you would on your desktop. It's all a matter of mindset.

Appendix E

Be a Deriv affiliate and earn an extra income

Deriv is expanding in many new territories, and it is on the lookout for talented and hardworking partners. You can promote Deriv to your friends and contacts or market Deriv's services. In return, Deriv shall pay you a generous commission. As well as earning commission from Deriv, you can look at developing trading systems and providing education to new traders.

Some of Deriv's best clients are also its best affiliates. To find out more, please visit <https://deriv.com/partners/>

Appendix E

DBot⁶ Automated trading

You can automate your trading strategies, no matter what your underlying asset is. The trading bot you use will keep tabs on the market movement for you and execute your desired strategy whilst you're away from your device.

Deriv has a simple trading bot called DBot which allows you to input your own trading rules with no computer programming skills. You can also import ready-made strategies.

A simple system such as 'buy when two simple moving averages cross', or 'buy after 3 upticks' can be easily programmed in.

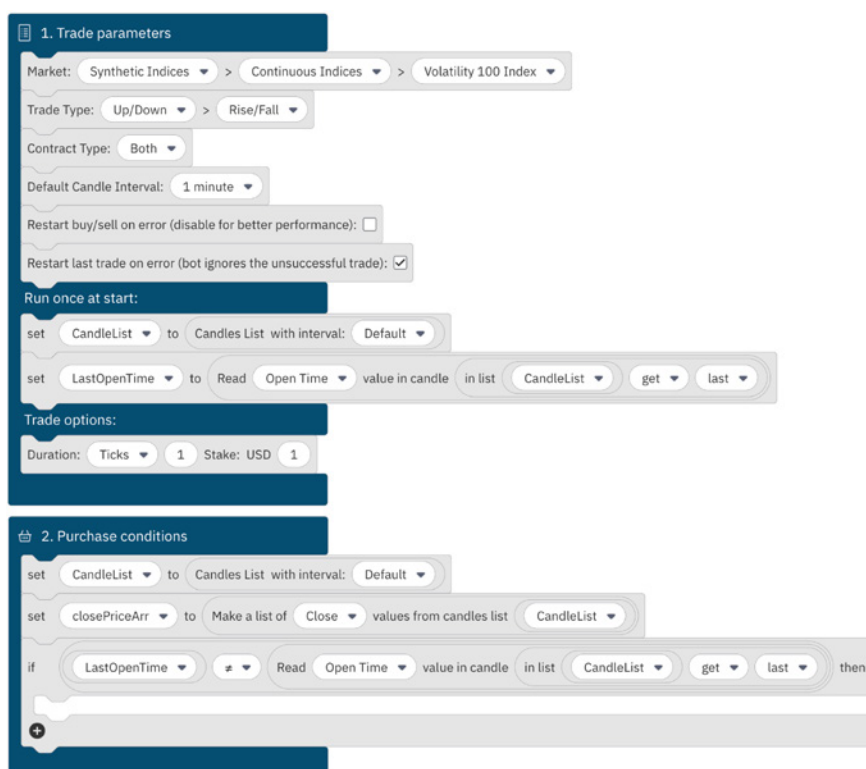


Figure 26. DBot

Deriv currency trading is also compatible with third-party vendor trading systems where you can use trading software which would plug into your Deriv account. MT5 has a growing number of plugs in and Scripts which allow you to trade systematically.

⁶ Not offered to Deriv clients residing in the European Union or the United Kingdom for financial products

Appendix G

Margin trading and leverage

Margin trading allows you to make an investment using leverage. Now, what is leverage? Leverage gives you the chance to make an investment which is larger than your actual capital amount. A way to think of it is like a home loan or mortgage where you put up 10%, and the bank provides the rest.

For example, you have \$1,000 in your account but would like to buy \$10,000 worth of an index. Without leverage, this is impossible. But if a broker offers to boost your purchase power, or in other words, give you leverage, your wish can come true. Deriv offers up to 1:1000 leverage. With global interest rates remaining low, the cost of borrowing money remains low, and leverage proves to be cost-effective. Leverage is offered at no extra charge.

Leverage magnifies your gains; of course, it will also magnify your losses. However, with Deriv, it is not possible to go into a negative balance because Deriv applies a stop out and negative balance protection to protect your account against losses that might exceed your equity. All the same, when trading CFDs, it is important to monitor your open positions closely because you may lose more than your initial investment if the price moves against your prediction. You can use stop loss to limit your risk.

Of course, just like a maximum speed limit, you don't have to drive right at the limit, and you don't have to take your account to the maximum margin.

If used sensibly, leverage can help to build up your account, but you should be aware of the risks as well.

Appendix H

FAQs

Opening an account

I'm new to trading. Where do I start?

The first step is to open an account. You can apply online in just a few minutes.

Do I need to send any documents?

Deriv works to a high compliance standard as required by its regulators. Know Your Client (KYC) is now required in many countries. Deriv works hard to make this as simple as possible and not cause unnecessary delays.

Do you offer demo accounts?

Deriv offers a demo account, so you can get the hang of trading before staking any actual currency of your own. There is no time limit on a demo account, and a real account and demo account can run concurrently.

Will I need to install any software?

Deriv is entirely web-based and requires no software installation. You can also use a tablet or other mobile device. MT5 does require an app to be downloaded, and this is available at Google Play Store and Apple App Store.

How soon can I start trading?

You can open a Deriv account, deposit funds, and begin trading within minutes.

Financial security

How safe is my money with Deriv?

Your money is always safe with Deriv and held in segregated accounts at all times.

How does Deriv make money?

Deriv has thousands of clients taking a variety of positions on financial markets at any time and earns a small margin on these trades. It does not charge clients any commission.

If I make too much money, will my account be closed or will I be banned?

No. Deriv encourages successful clients and will not close or limit a winning account. Deriv can hedge trades into financial markets, which means they have no vested interest in the client's final result.

Depositing and withdrawing funds

Do I need to deposit any funds to open an account?

You don't need to deposit any money to open an account, but you need to deposit funds before you can start trading.

How do I fund my account?

Deriv offers a range of common deposit and withdrawal methods, from credit and debit cards to bank wires, e-cash, Bitcoin, and e-wallets.

Is it possible to deposit and withdraw the same funds through different payment methods?

Unfortunately, no. Funds initially deposited through one payment method must be withdrawn through the same system; funds cannot be transferred to an alternate system for withdrawal. However, Deriv offers a wide variety of payment methods to suit your specific needs and preferences.



GLOSSARY

GLOSSARY

Barrier(s)

The barrier of a digital option trade is the price target you set for the asset being traded. You can choose trades that stay below or go above a price target or stay between two targets.

Bid price

When trading a CFD, the bid price is the price you can sell. In the pair of quoted prices, the first price is the bid price; for example, 1.2810 (bid)/12811 (offer).

Bearish

This refers to a market in decline. Someone with a negative view on a market would be a Bear.

Bullish

This refers to a market that is rising. Someone with a positive view on a market would be a Bull.

Digital option

A digital option is a contract purchased by a trader, based upon predicting the future movement of a selected asset's price with two possible outcomes, which pays a predetermined amount if the prediction is correct.

Contract period

The contract period is the timeframe of a trade. It is also called the duration. On DTrader, a contract can last from a few seconds to months.

Contract for difference (CFD)

A contract for difference (CFD) is an agreement between an investor and a CFD broker to exchange the difference in the value of a financial product between the time the contract opens and closes.

Counterparty

The counterparty is the other party that participates in the trade with you. If you trade forex on Deriv, your counterparty will be Deriv.

Derivative

A derivative is a financial instrument whose value is determined by reference to an underlying market. Derivatives are commonly traded in the inter-bank market, and digital options are one of the simplest forms of derivatives.

Duration

The duration is the length of a purchased trade. (See also **Contract period**.)

Ends Between/Ends Outside trades

An **Ends Between** trade pays out if the market exit price is strictly higher than the low-price target and strictly lower than the high price target.

An **Ends Outside** digital options trade pays out if the market exit price is either strictly higher than the high price target or strictly lower than the low-price target.

Entry spot price

The entry spot price is the starting price of the trade purchased by a trader.

Expiry price

The expiry price is the price of the underlying asset when the contract expires.

Forex

In foreign exchange markets, traders can enter contracts based on the change in the price of one currency as it relates to another currency. For example, a **Rise** trade in the EUR/USD market is based upon a prediction that the value of the euro will rise in relation to the value of the US dollar.

Fundamental analysis

Fundamental analysis is a method of quantitative and qualitative analysis used by traders to determine the macroeconomic outlook of a country and currency. Inflation, unemployment, and interest rates are just a few of the considerations in fundamental analysis.

GMT

GMT stands for “Greenwich Mean Time,” the official time used in the UK during winter. In summer, the UK changes to British Summer Time, which is GMT+1 hour. All times on the Deriv site use GMT all year round.

Higher/Lower trades

These are trades in which the trader predicts if a market will finish higher or lower than a specified price target.

Indices

Stock market indices measure the value of a selection of companies in the stock market. For example, in the USA, the S&P500 would have 500 of the largest companies.

In/Out trades

These are trades in which the trader selects a low and high barrier and predicts if the market will stay within these barriers or go outside them. (See also **Stays Between/Goes Outside** trades.)

Market exit price

The market exit price is the price in effect at the end of the contract period.

No Touch trades

These are trades in which the trader selects a price target and predicts that the market will never touch the target before the expiry of the trade.

One Touch trades/Touch trades

These are trades in which the trader selects a price target, and predicts that the market will touch the target before the expiry of the trade.

Offer price (ask price)

When trading a CFD, the offer price or ask price is the price you buy. In the pair of quoted prices, the second price is the offer price; for example, 1.2810 (bid)/12811 (offer).

Payout

The payout is the amount paid to a digital options trader if their prediction is correct.

Pip

Pip stands for “percentage in point,” which is generally the fourth decimal place (i.e. the “1” in “0.0001”).

Profit

Profit is the difference between the purchase price (i.e. the stake) and the payout on a winning trade.

Pair

In currency trading, we are always trading a pair such as USD/EUR.

Resale price

The resale price indicates a contract’s current market price. Resale prices are on a best-efforts basis and may not be available at all times after purchase. (See **Sell option** for more details on selling contracts before expiry.)

Return

The return is the money realised when the contract expires. (See **Payout**.) Rise/Fall trades
These are trades in which the trader predicts if a market will rise or fall at the end of a selected timeframe.

Sell option

It is sometimes possible to sell a digital option before the expiry of a trade, but only if a fair price can be determined. If this option is available, you will see a **Sell** button next to your trade.

Spot price

This is the current price at which an underlying

asset can be bought or sold at a particular time.

Premium

The Premium is the amount that a trader must pay to enter into a trade. These funds must be available in your account.

Stays Between/Goes Outside trades

A **Stays Between** trade pays out if the market stays between (i.e. does not touch) both the high barrier or the low barrier at any time during the period chosen by a trader. A **Goes Outside** trade pays out if the market touches either the high barrier or the low barrier at any time during the period chosen by a trader.

Spread

Spread is the difference between the Bid and the Offer. This is where the broker makes their profit. The tighter the spread, the better.

Tick

A tick is the minimum upward or downward movement in the price of a market. A tick chart is the shortest possible chart timeframe.

Technical analysis

Technical analysis is a system of analysis whereby historical data is examined to predict future trends in the prices of assets. Charts and indicators are often used.

Underlying

Each digital option is a prediction concerning the future movement of an underlying market, i.e. the specific type of asset involved in a given trade; for example, EUR/CHF

About Deriv

Deriv offers a wide range of products to its global client base, enabling them to trade forex, stocks, stock indices, synthetic indices, cryptocurrencies, and commodities.

With over 20 years of experience, Deriv's mission is to bring online trading to everyone, everywhere via a simple, flexible, and reliable platforms tailored to fit any trading style.

Today, Deriv has 10 offices worldwide with over 600 employees from over 50 countries working together to create an effortless online trading experience with diversified, market-leading products.