FOREX BEGINNER'S GUIDE

LEARN HOW TO BEAT THE MARKET LIKE A PRO WITH THE TRADING GAME

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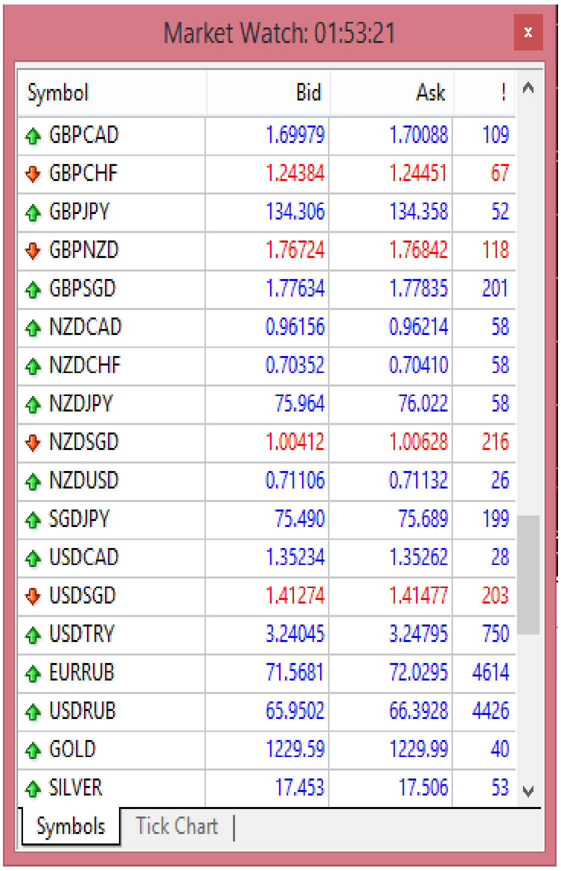
✳ What is forex trading?

Also known as foreign exchange or currency trading, forex is the most traded markets in the whole world. People who trade currencies on the forex market are called forex traders, their aim is to generate profit by speculating on the value of one currency compared to another and this is why currencies are always traded in pairs. The value of one unit doesn't change unless it's compared to another currency. Forex market is an online platform where the big banks exchange currencies, they are fighting for power concerning which currency is strong than the other.

As a forex trader you can either choose to buy or sell specified units of the base currency provided you believe it is going to gain or lose value against the quote currency which it is paired with. Let's take EUR/USD for example, as a forex trader if you believe that Euro against united states dollar is gaining value or going up, you have to choose buy and by doing so you will gain profit, same goes to when you believe the Euro (EUR) against united states dollar (USD) is going down, then you have to sell in order to gain profit. If the market does the opposite of what you applied, you can lose your investment.

Meta-trader for computers.	**Meta-trader for smartphone.**



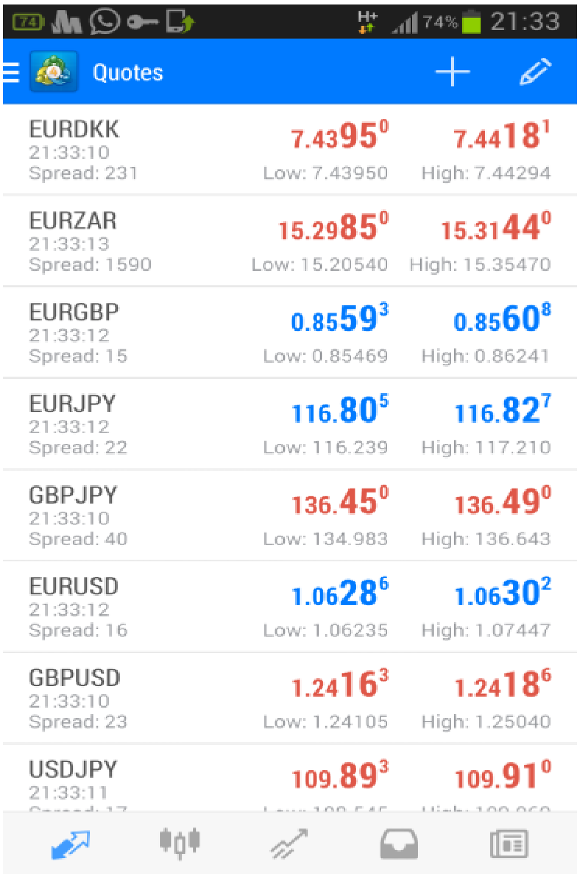


FIGURE 1: List of currencies and how they are paired.

There are lots of currency pairs on the forex market; figure 1 above names a few only so that one can have a clear understanding on how currency pairs are paired.

Forex market is a 24 hour market, operating during weekdays from Monday to Friday; normally it opens at 00:00 am on Monday and closes Fridays at 23:59 pm but the times depend on the trading platform you are on and the location as well.

The forex market has about 5 trading sessions and this means within that period there are more buyers and sellers participating in the market and in most cases traders prefer trading during these sessions in order to generate more profit as there is movement in the market.

Structure of forex market

If you want to buy or sell the foreign currencies, you should know the structure of the forex market. Foreign exchange market is the market where billions of dollar trades are done. There are three players that make up its structure.

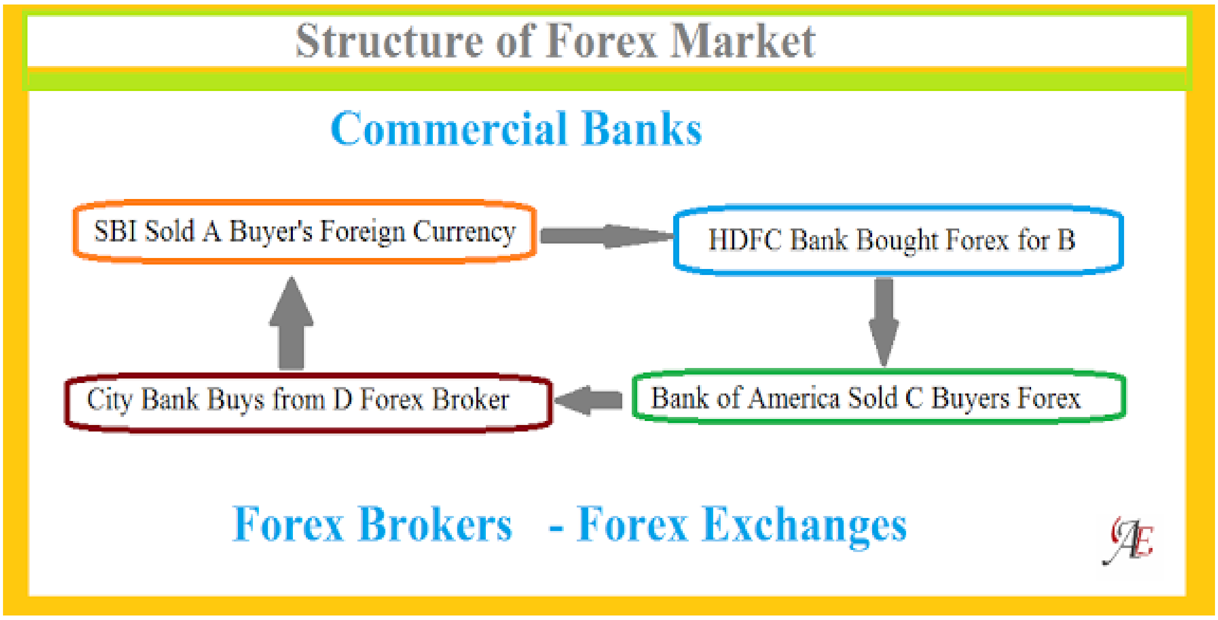


Figure 2: Structure of the forex market

1. Commercial banks.

Commercial banks buy or sell the foreign currency for their customer or for their own account. So, there is major part of structure which is covered by commercial banks. They try to buy or sell the foreign currency on the rate which their customers are ready to give or take but it is not necessary that they will get success on their desired rate of forex. There are lots of other factors which will decide the rate of forex.

2. Forex brokers.

Second major part of the structure of the forex market is the forex brokers. They are commission agents; they help to bring buyers of forex near to the sellers. Like other industry brokers, they sell or buy the forex on behalf of their customers. They are very close to the forex market.

3. Foreign exchanges.

Foreign exchange is physical market which will be in the capital of each country. Major markets are of London foreign exchange market, New York foreign exchange market and Singapore foreign exchange market. All are open at their fixed time. So, if it will keep in the same series, the whole forex exchange will open 24 hours.

Major currencies on forex.

Figure 3: the 8 major currencies.

Symbol	Currency	Country	nickname
USD	**DOLLAR**	**United States**	**Buck**
GBP	POUND	Great Britain	Cable
EUR	EURO	Europe	Fiber
CAD	DOLLAR	Canada	Loogie
CHF	FRANC	Switzerland	Swissy
JPY	YEN	Japan	YEN
NZD	DOLLAR	New Zealand	Cable
AUD	DOLLAR	Australia	Aussi

Figure 3.1: more detailed information about the 8 major currencies.

Forex market trading sessions

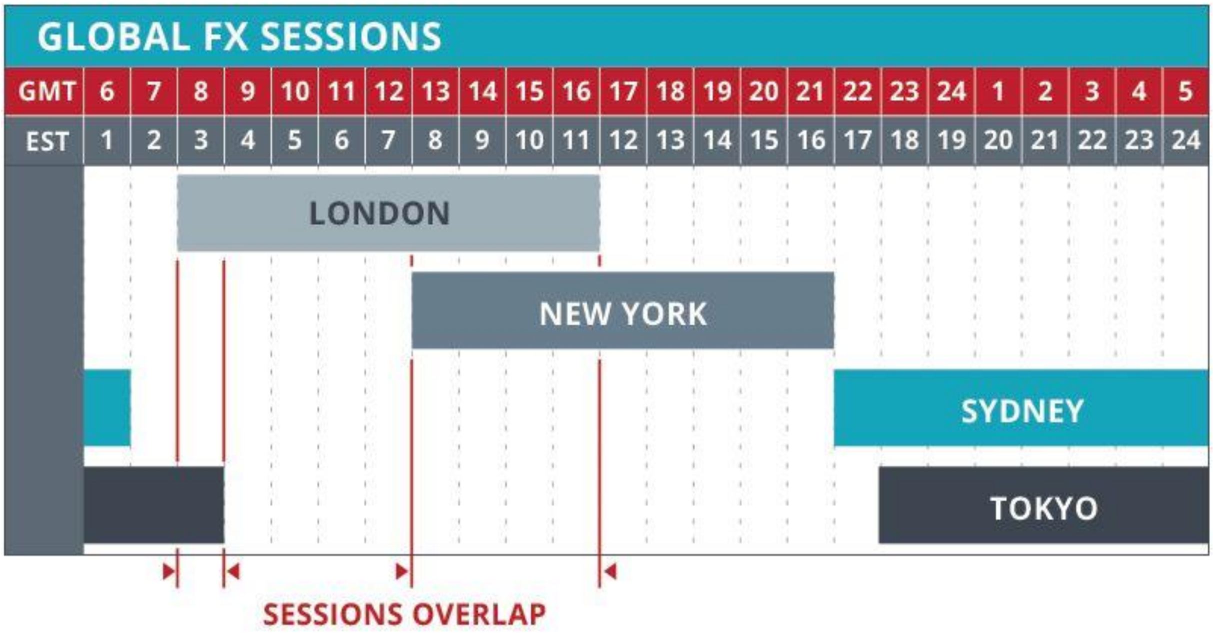


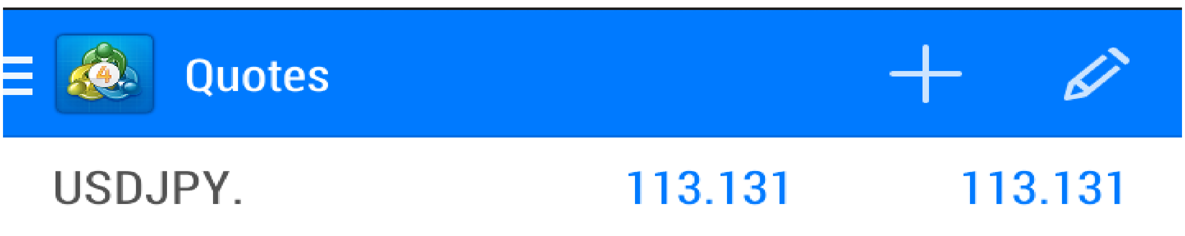
Figure 4: Operating times of the forex market.

These are the forex sessions and many traders should be aware that the best time to trade is when there is an overlap of sessions, for example when three sessions namely Frankfurt, London and new York are open all at once, between 15:00 pm and 17:00 pm GTM +2 (South African time).

🔰 What is a pip?

Typically in forex, currency pairs display their prices with four decimal points. A few, such Japanese yen, display two decimal places. No matter what currency pair you are trading, the last number behind the decimal always represents a pip, the main unit price that can change for the currency pair. As you trade, you will track your profits (or losses) in pips. A pip is a number value and in the forex market, the value of currency is given in pips. One pip equals 0.0001, two pips equals 0.0002, three pips equals 0.0003 and so on. One pip is the smallest price change that an exchange rate can make. Most currencies are priced to four numbers after the point/dot.

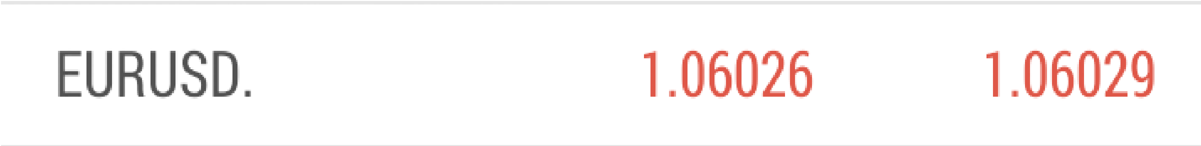
Let's take USD/JPY for example:



On the left we have 113.131 which is called the "bid price" meaning it is the price you get for buying stock and on the right we have 113.131 as well which is called the "ask price" meaning it is the price you get for selling stock. If a trader enters the market and buys USD against JPY (USD/JPY) at the price of 113.131 and the market moves up to 113.231, it means the trader got a profit of 100 pips

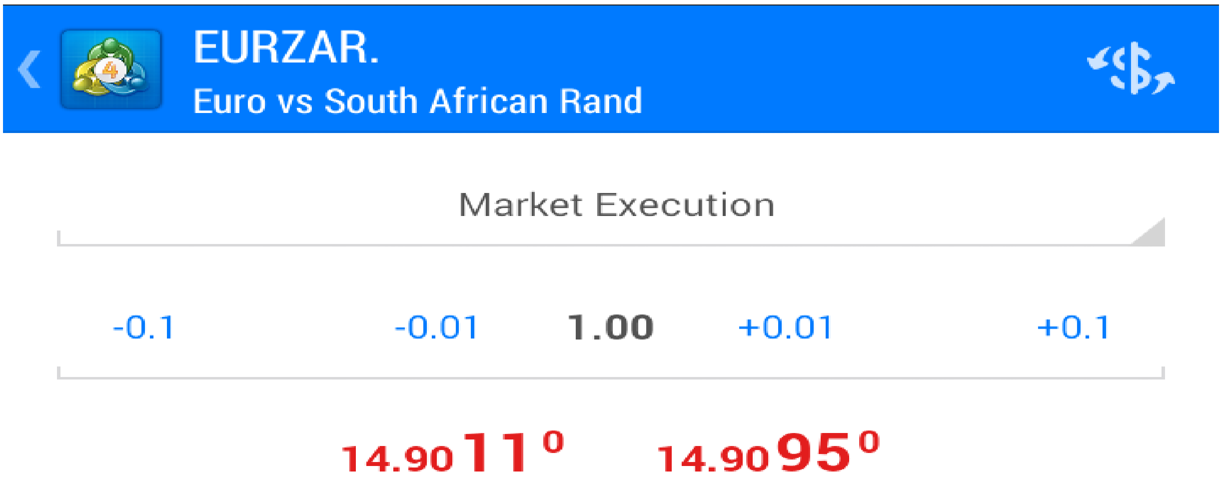
(113.231 – 113.131 = 100 pips), now provided the trader used standard lot size of 1, he/she would have been sitting on $100 (estimated R1500) profit. The numbers after the point/dot are regarded as pips and their value depends on the lot size which a trader used. This also applies to when the trader is selling USD/JPY; the profit will still be the same provided the market price moves from 113.131 to 113.031 (113.131 - 113.031 = 100 pips).

What is a currency pair?



A currency pair is the quotation and pricing structure of the currencies traded in the forex market, the value of a currency is a rate and is determined by its comparison to another currency. The first listed currency of a currency pair is called the base currency, and the second currency is called the quote currency. The currency pair indicates how much of the quote currency is needed to purchase one unit of the base currency. In the case of EUR/USD, Euro is the base currency and USD is the quote currency.

What is a lot size?



A standard lot is equivalent to 100,000 units of the base currency in the forex trade. A standard lot is similar to trade size and it is one of the three commonly known lot sizes.

Three types of lot sizes:

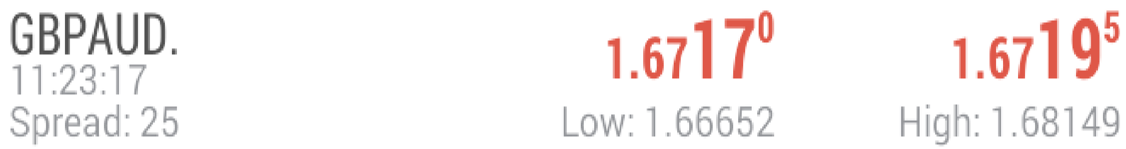
- Standard lot size – 100,000 units
- Mini lot size – 10,000 units
- Micro lot size – 1,000 units

A standard lot represents 100,000 units of any currency, whereas a mini lot size represents 10,000 units of the base currency and a micro lot size represents 1,000 units of the base currency as well. A one pip movement for a standard lot corresponds with a $10 change. Mini accounts are not limited to only trading with one mini lot at a time. To make an equivalent trade to a one standard lot, a trader can trade 10 mini lots. By using mini lots instead of standard lots, a trader can customize the trade and have control of their risk exposure. When an investor places an order for micro lot, this means they have placed an order for 1,000 units of the currency bought or sold. Investors use micro lot sizes when they prefer not to trade mini or standard lots. Ten mini lots are equal to 100 micro lots, which is equal to one standard lot size.

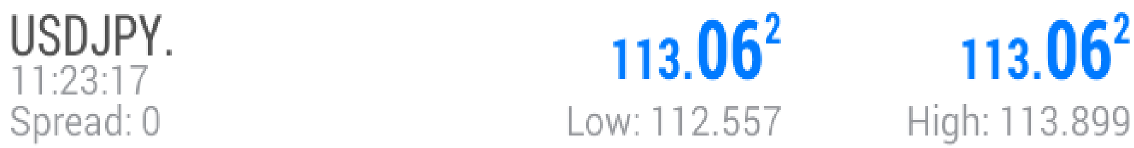
🔰 What is a spread?

The spread is the difference between the buy (also called bid) price and the sell (also called ask) price. Two prices are given for a currency pair and the spread represents the difference between what the market maker (type of a broker) gives to buy from a trader and what the market maker takes to sell to a trader. Every market has a spread and so does forex, a spread is simply defined as the price difference between where trader may purchase or sell an underlying asset. Traders that are familiar with equities will synonymously call this the bid: ask spread.

Example of a spread:



In this case we take GBP/AUD as our example, the difference between the bid and ask is 25 (spread). If we open a trade of either buy/sell using standard lot size 1.00, the trade will start being -$25 (-R375) meaning it’s a loss but provided the graph moves towards our direction, we will be on a profit mode within 25 pips or more.



In the case of USD/JPY the bid and ask are the same, which makes the spread to be 0, provided we buy/sell using any lot size, of any lot size type, our trade will be 0.00 and count our profit/loss according to what happens after you open your trade.

🔰 What is leverage?

One of the benefits of this market is the ability to trade on leverage. You do not need $10,000 in your trading accounting to trade any currency pair. Currency pairs can have a leverage ratio of up to 50:1, this means you can control a large potion ($10 000) with a small amount of money ($250). Many traders find the leverage that most forex brokers offer very appealing, but you should know that trading this way can also be risky. It can produce substantial profits as easily as it can cause substantial losses. Leverage is simply borrowing money from the forex broker so that you can get even bigger exposure to the markets and you do not pay interest on the loan.

What is hedging?

When a currency trader enters into a trade with the intention of protecting an existing or anticipated position from an unwanted move in the foreign currency exchange rates, they can be said to have entered into a forex hedge. By utilizing a forex hedge properly, a trade that is long (buy) in a foreign currency pair can protect themselves from down risk, while the trade that is short (sell) in a foreign currency pair can protect against upside risk.

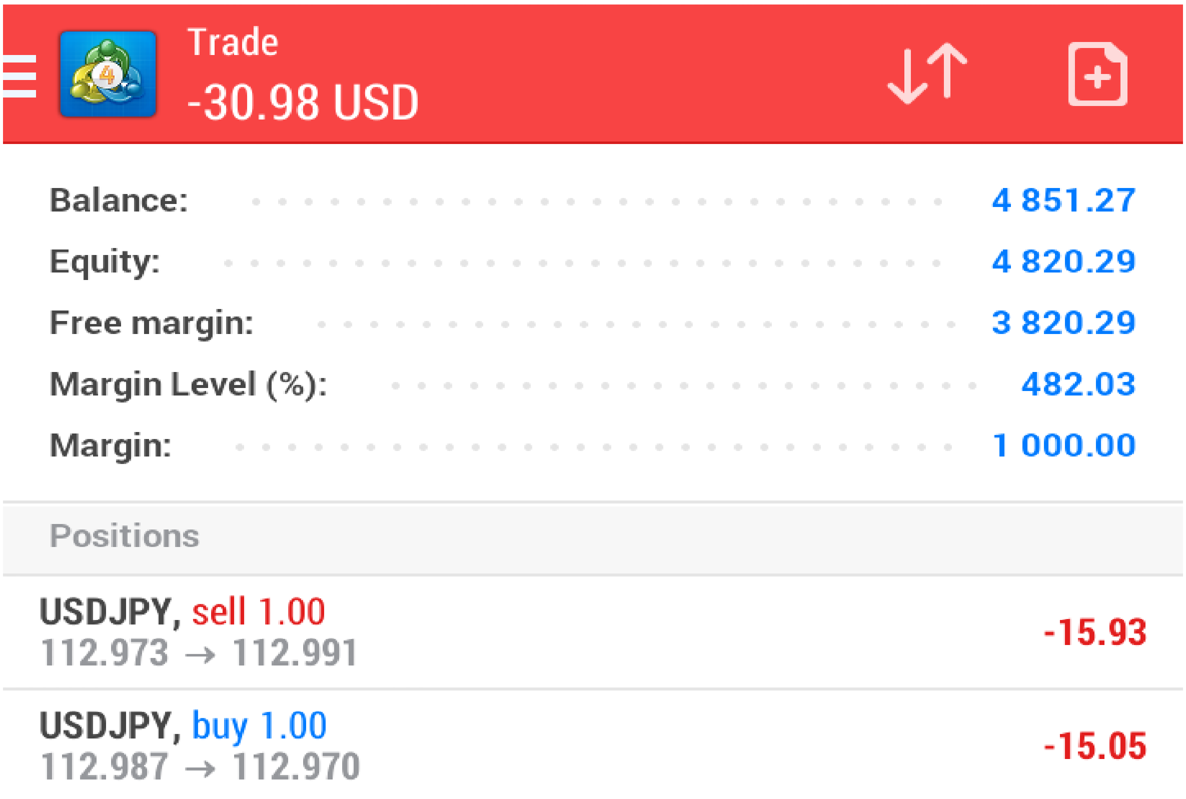
The primary methods of hedging currency trades for the retail forex trader are through spot contracts and foreign currency options. Spot contracts are the run of the mill trades made by retail forex traders and because spot contracts have a very short term delivery date (two days), they are not the most effective currency hedging vehicle. In fact, regular spot contracts are usually the reason why a hedge is needed.

Foreign currency options are one of the most popular methods of currency hedging as with many options on the other types of securities, foreign currency options give the purchaser the right, but not the obligation, to buy or sell the currency pair at a particular exchange rate at some time in the future. Regular options strategies can be employed, such as short straddles, long strangles and bull or bear spreads to limit the loss potential of a given trade.

Forex Myths

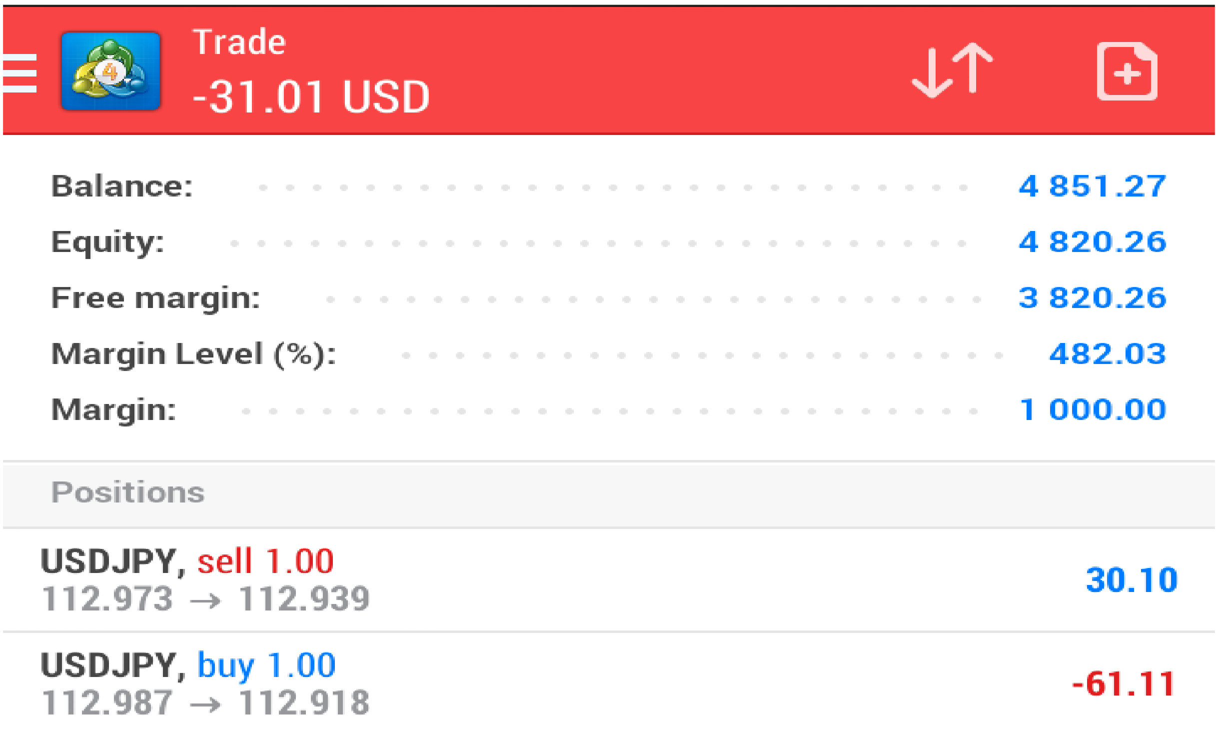
Myths, rumors and legends are everywhere. The forex market is not immune. The new forex trader is likely to be inundated with a number of forex myths, legends and downright falsehoods, so it’s important to separate fact from fiction before your money leaves your hands. Here is a list of just a few:

An example of hedging on forex:



We bought and sold USD/JPY at the same time, one might conclude it is a contradiction but it is not, this is part of hedging because the aim is to minimize the risk as we do not know the direction of the market, as soon as one of the trades starts making profit we are going to close the other one which is on a loss, then start engaging in long term trades in order to make more than what we lost.

The outcome of hedging



As we can see both buy and sell trades on USD/JPY have changed, we can confirm that the market is going down because the sell trade is on profit while the buy trade is on a loss. We carefully close the buy trade which takes us to a loss of -$61.11 (R916.65) and we wait for the sell trade to generate more profit (above $61.11). Only professional forex traders know how to use this strategy of hedging as it requires large equity.

How to open a forex trading account.

After finding the right broker for you, you can open a forex trading account in three simple steps:

- * Selecting an account type
- * Registration
- * Activating your account

Before trading a dime of your hard earned money, you may want to think about opening demo account. Actually, open up two or three demos – why not? It is all free! Try out several different brokers to get a feel for the right one for you.

Ⓜ Choosing an account type.

When you are ready to open a live account, you have to choose which type of forex trading account you want: a personal account or a business (aka corporate) account. In the past, when opening a forex trading account, you would also have to choose whether you wanted to open a "standard" account, a "mini" account, or a "micro" account. Now, that isn't much of a problem since most brokers allow you to trade custom lots. This is great for newbie and inexperienced traders who only have a small account of capital. This provides you great flexibility, as you won't have to trade bigger than you're comfortable with. Some brokers have a "managed account" option in their application forms. If you want the broker to trade your account for you, you can pick this. Opening a managed account requires a pretty big minimum deposit, normally $2,000 or higher. Also, the manager will also take a cut out of any profits.

Ⓜ Registration.

You will have to submit paperwork (identity book/card and proof of residence) in order to open an account and the forms will vary from broker to broker. They are usually provided in PDF format and can be viewed and printed using Adobe Acrobat Reader program. Also, make sure you know all the associated costs, like how much your banks charges for a bank wire transfer. You'd be surprised how much these actually costs, and they may actually take up a significant portion of your trading capital.

Ⓜ Account activation.

Once the broker has received all the necessary paperwork, you should receive an email with instructions on completing your account activation. After these steps have been completed, you will receive a final email with your username, password, and instructions on how to fund your account. All that is left is for you to login and start trading.

🔰 Meta-trader platform: installation for smartphones.

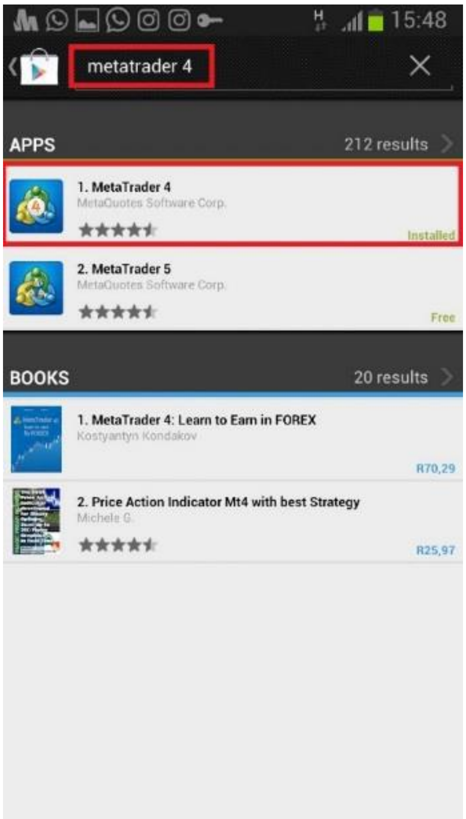
Meta-Trader does not only work on computers but smartphones as well, both android and apple products, the platform contain the same information and if there is any difference, it has to be the structure only.

Step 1.

Go to Google app store or apple if you are on apple smartphone.

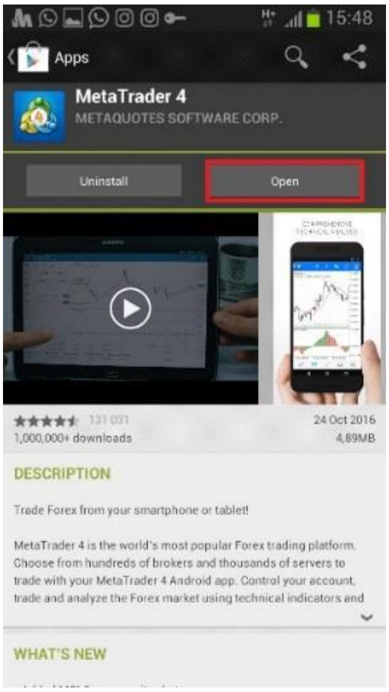
Step 2.

Go to the search box and type “meta-trader 4” then click search, a list of meta-trader applications will appear but you must only install meta-trader 4.



Step 3.

After the installation, open the installed version of meta-trader app.



Step 4.

Now you are done with installation, when the app opens you will see a list of available currency pairs you are allowed to trade. The circled area is the option for currency pairs.

Step 5.

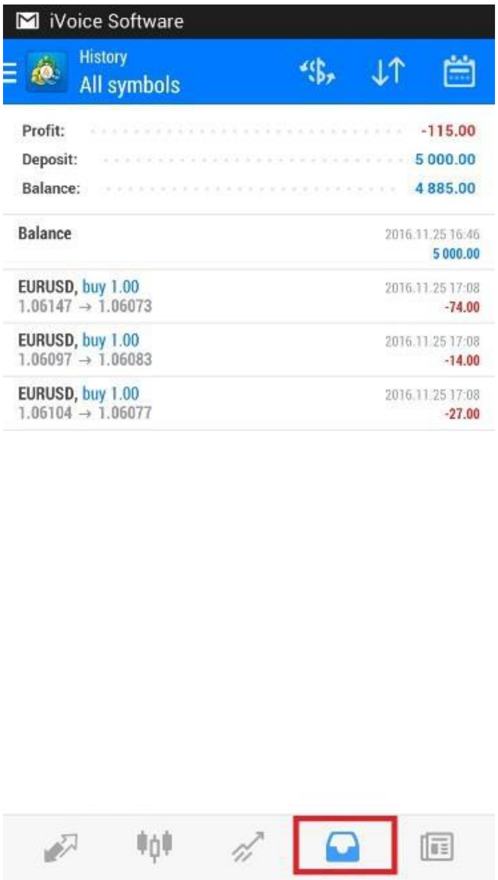
In order to see the graph for a certain currency pair, you need to click on the circled area which is the option for viewing a graph before you can open a trade.

Step 6.

In order to see your balance, equity, free margin and current opened trades, then the circled option is for you.

Step 7.

To view your trading history, to see whether you made a profit or a loss on your closed trades, circled option is for “account history”.



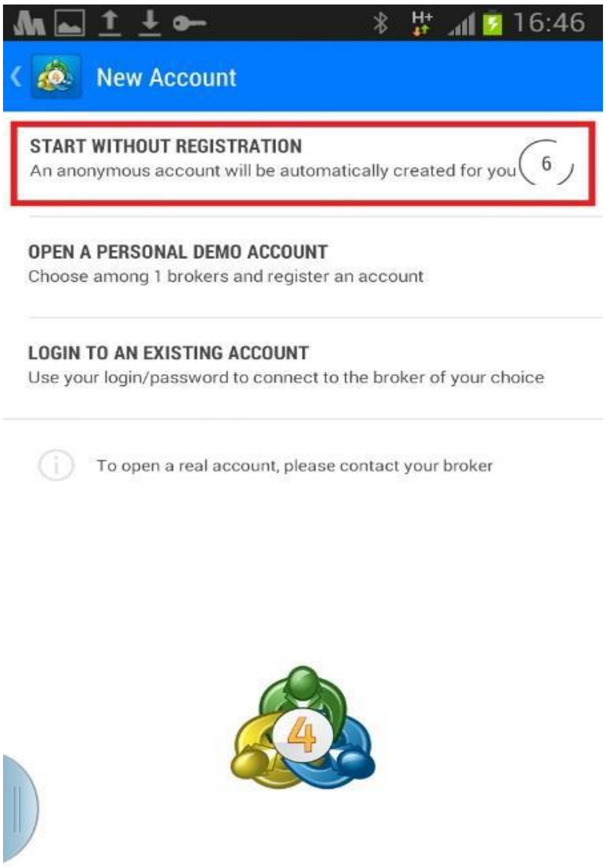
Step 8

The last circled option is for “news”, anything related to the foreign market exchange is displayed right here.

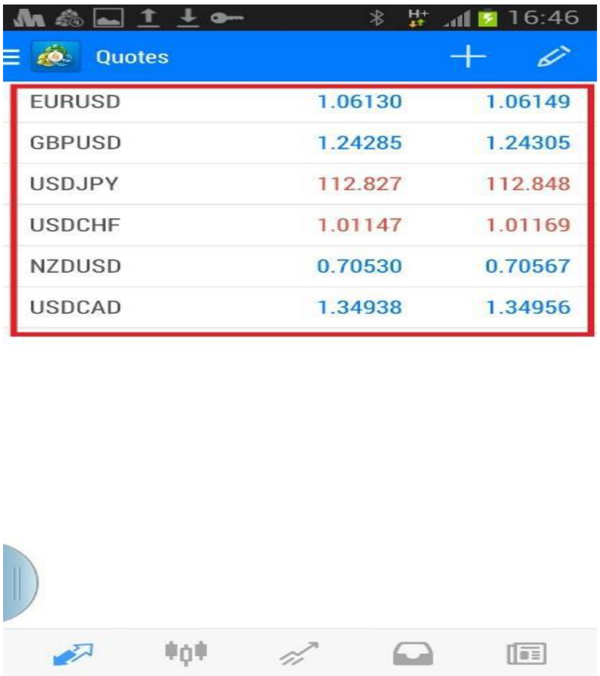
How to open trades on your smartphone

Step 1: You first need to open your meta-trader app on your smartphone, available to download on play store or apple store as well.

Step 2: after opening your meta-trader app you will see about 3 options to choose from, you should choose “start without registration” in order to get a demo account automatically created for u, and if you want to login using your real account, you need to choose “login to an existing account.”

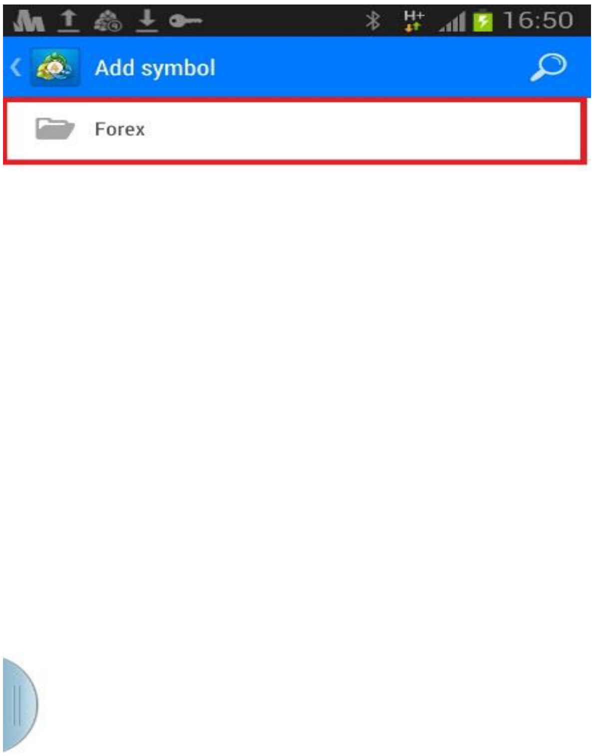


Step 3: you will see common currencies paired against each other like this:

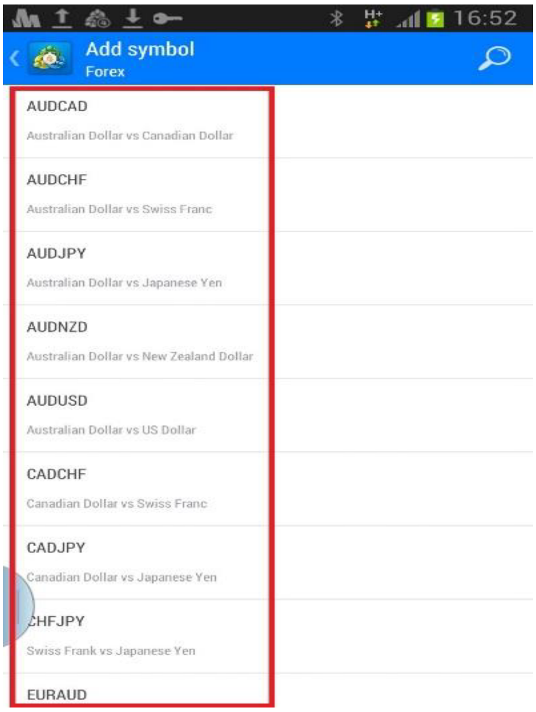


Step 4: click on the marked + symbol to add all the currencies available on your app.

Step 5: click on the “forex folder” to see a list of more available currency pairs

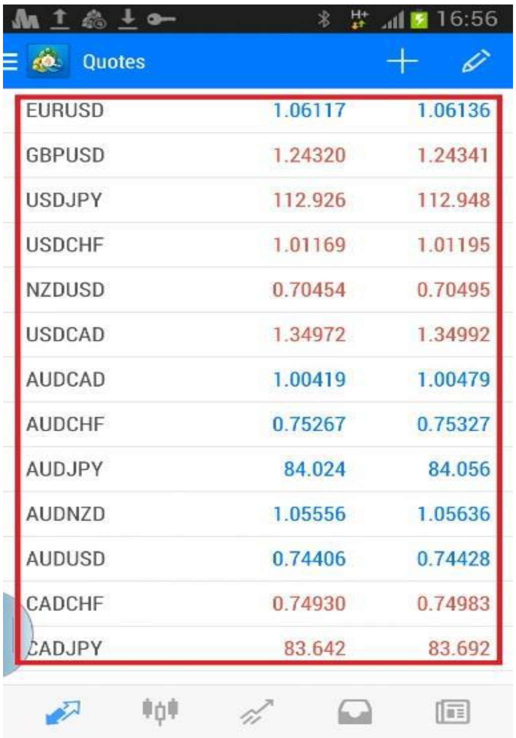


Step 6: below are the additional currencies you can add on your app, to add a currency pair, simply click on it.

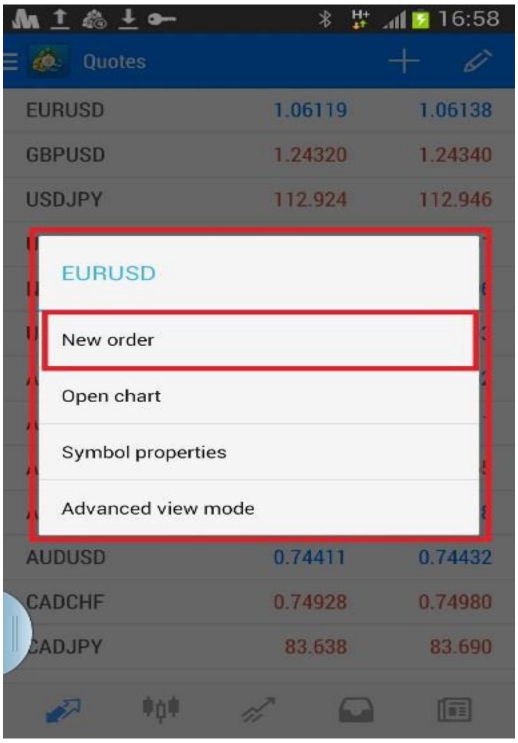


Step 7: the picture below means all the currency pairs you clicked on has been successfully added to your “market watch”.

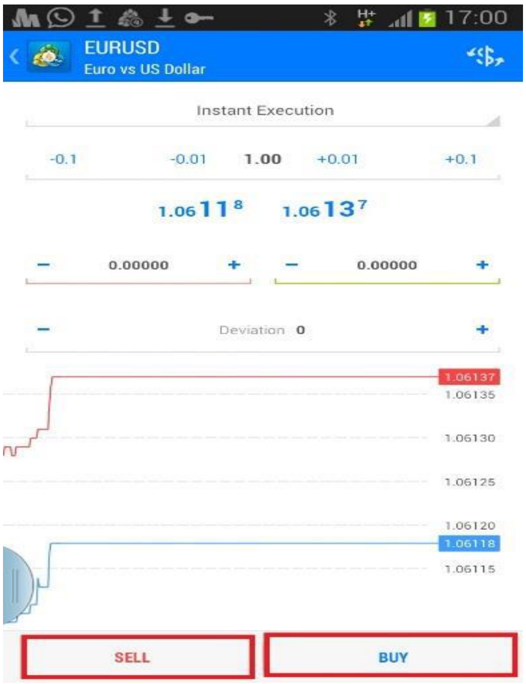
Step 8: This is a list of all available currency pairs on your meta-trader app.



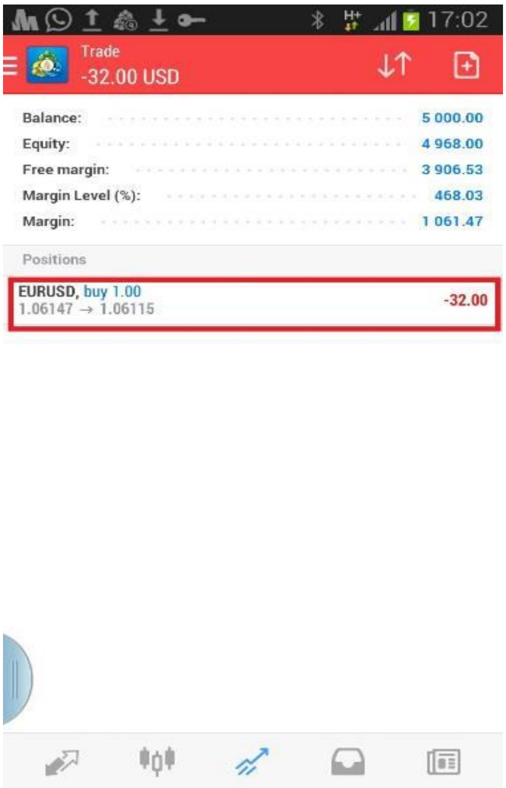
Step 9: press and hold on any of the currency pairs you want to trade, in this case we chose EUR/USD. You will see these options; choose "new order" to proceed to the next step of opening your first trade.]



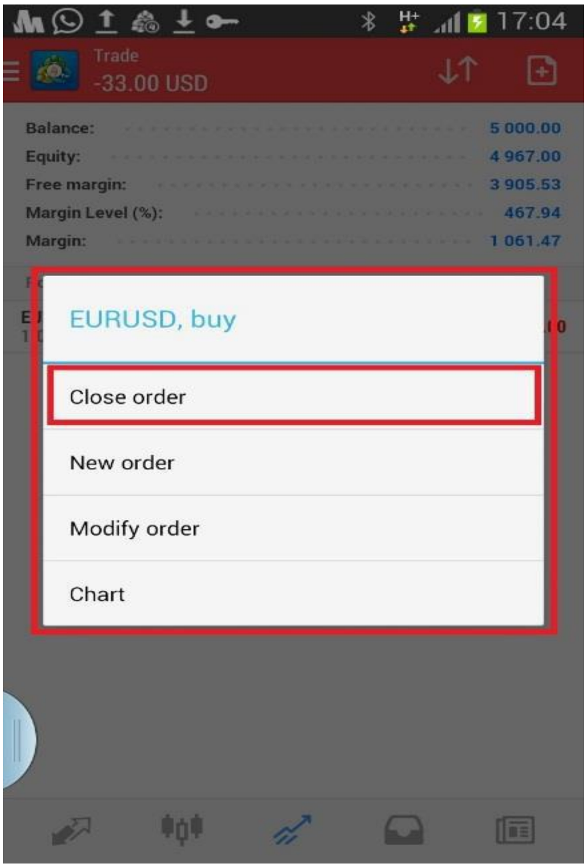
Step 10: instant execution means you are buying/selling currencies at the current market price. 1.00 is your lot size and at the bottom we have two options to choose from, either buy/sell. Let's assume we are buying in this case.



Step 11: the trade is now open for buy, if the graph supports us, the amount in red colour will change to blue colour, meaning we are gaining profit. But for now the trade is still on a loss mode because of spread.



Step 12: in order to close the trade we opened, you need to press and hold on the currency pair and you will see the options below, choose "close order."



Step 13: after choosing "close order" you will see the picture below, and at the bottom there is "close with loss -36" meaning we lost $36 dollars, but if we made profit it was going to be "close with profit 36" meaning we made a profit of 36 dollars.

Myth 1 - Forex can make you rich quick

Think about forex as a journey, and not a destination. There is no final winning trade; no huge gains; no trade of the century. Advanced strategies like margin trading, options and futures require a great deal of analysis. Traders make money in the forex market by analyzing trends and making smart decisions. The gain on each trade is a small step in the direction of his or her long-term goals.

Myth 2 – The forex market is rigged

Sometimes you might hear a trader complaining that the market is against them. Every trade they make is a losing one. They blame the broker, the interbank, the government, the timing. The truth is this: foreign exchange rates change often and are too volatile to be rigged. Forex trading is not for the faint-hearted. Blaming everyone but yourself for bad trades will prevent you from learning and growing as a trader. The only person responsible for your poor trade performance is you.

Myth 3 – The markets move in a predictable, scientific way

The junk emails you get from companies trying to sell their guaranteed, scientific formulas are just that – junk. Anyone who tries to tell you that they have the market cornered with forex predictions or a single formula is just as crazy as those people who tell you that you can win the lottery by scientific method. Try doing some paper trading (simulated, such as with a demo) and find the pattern. It's not there.

Myth 4 – The experts know best (experts always win)

This is probably the most enduring myth. Tons of 'experts' abound with advice for the new trader, based on years of experience. News flash: even the world's best traders are right only about half of the time. Think about it – a trader can literally be a loser 50 percent of the time and still be considered an expert in forex.

🔰 Opportunities in forex:

Just like stocks, you can trade currency based on what you think its value is (or where it's headed). But the big difference with forex is that you can trade up or down just as easily. If you think a currency will increase in value, you can buy it. If you think it will decrease, you can sell it. With a market this large, finding a buyer when you're selling and a seller when you're buying is much easier than in other markets. Maybe you hear on the news that China is devaluing its currency to draw more foreign business into its country. If you think that trend will continue, you could make a forex trade by selling the Chinese currency against another currency, say, the US dollar. The more the Chinese currency devalues against the US dollar, the higher your profits. If the Chinese currency increases in value while you have your sell position open, then your losses increase and you want to get out of the trade.

✳️ Three Types Of Market Analysis

To begin, let's look at three ways on how you would analyse and develop ideas to trade the market , There are three basics types of market analysis:

➢ Technical Analysis

➢ Fundamental Analysis

➢ Sentimental Analysis

There has always been a constant debate as to which analysis is better, but to tell you the truth, you need to know all three.

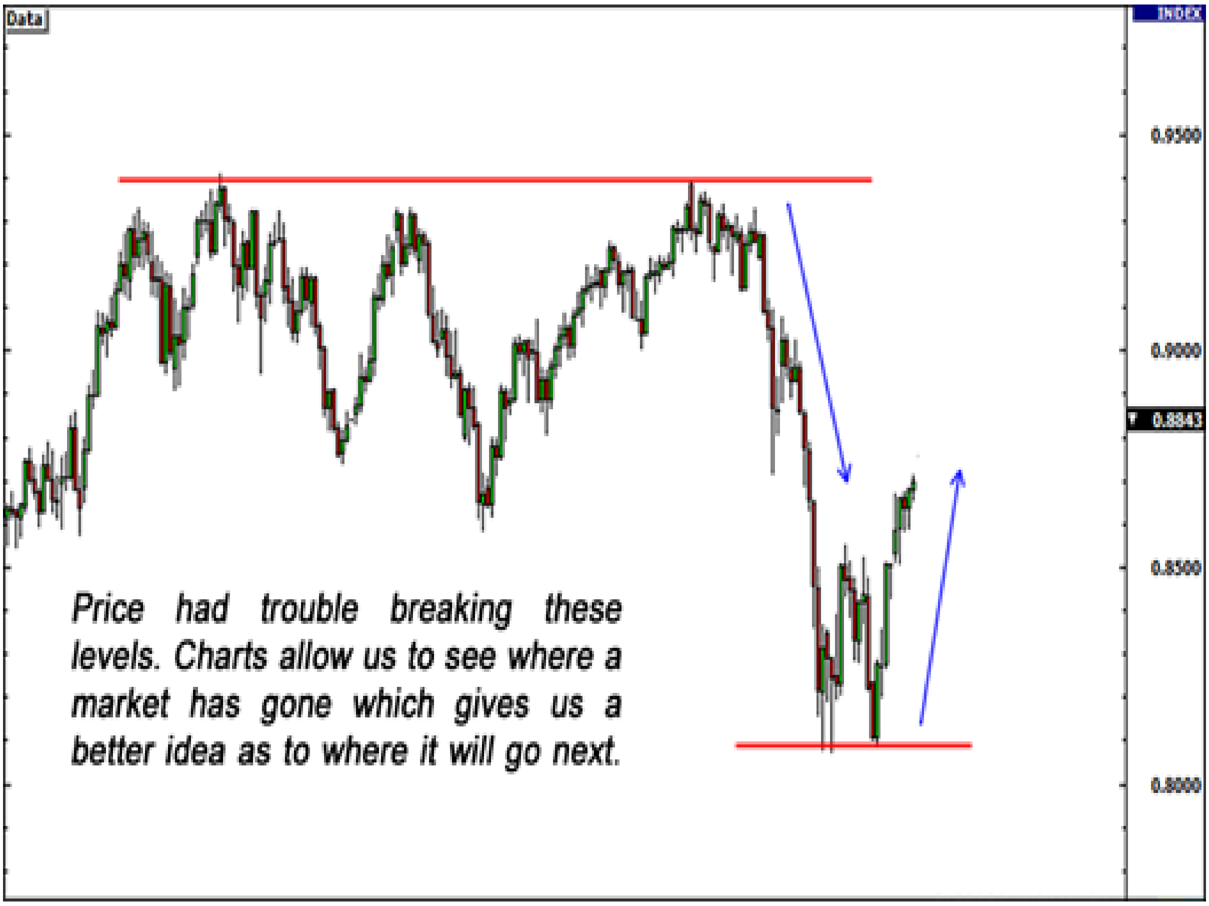
Technical Analysis

Technical analysis is the framework in which forex traders study price movement. The theory is that a person can look at historical price movements and determine the current trading conditions and potential price movement.

The main evidence for using technical analysis is that, theoretically, all current market information is reflected in price. If price reflects all the information that is out there, then price action is all one would really need to make a trade.

Well, that's basically what technical analysis is all about! If a price level held as a key support or resistance in the past, traders will keep an eye out for it and base their trades around that historical price level.

Technical analysis look for similar patterns that have formed in the past, and will form trade ideas believing that price will act the same way that it did before.



In the world of currency trading, when someone says technical analysis, the first thing that comes to mind is a chart.

Technical analysts use charts because they are the easiest way to visualize historical data!

You can look at past data to help you spot trends and patterns which could help you find some great trading opportunities.

Fundamental Analysis

Fundamental analysis is a way of looking at the forex market by analysing economic, social, and political forces that may affect the supply and demand of an asset. If you think about it, this makes a whole lot of sense!

Just like in your Economics 101 class, it is supply and demand that determines price, or in our case, the currency exchange rate. Using supply and demand as an indicator of where price could be headed is easy. The hard part is analyzing all of the factors that affect supply and demand.

You have to understand the reasons of why and how certain events like an increase in the unemployment rate affects a country's economy and monetary policy which ultimately, affects the level of demand for its currency. The idea behind this type of analysis is that if a country's current or future economic outlook is good, their currency should strengthen.

Sentiment Analysis

Sentiment analysis is important. Each trader has his or her own opinion of why the market is acting the way it does and whether to trade in the same direction of the market or against it.

Each trader's thoughts and opinions, which are expressed through whatever position they take, helps form the overall sentiment of the market regardless of what information is out there.

The problem is that as retail traders, no matter how strongly you feel about a certain trade, you can't move the forex markets in your favour. Even if you truly believe that the dollar is going to go up, but everyone else is bearish (down) on it, there's nothing much you can do about it.

As a trader, you have to take all this into consideration. You need to perform sentiment analysis. It's up to you to gauge how the market is feeling, whether it is bullish (up) or bearish (down).

Then you have to decide how you want to incorporate your perception of market sentiment into your trading strategy. If you choose to simply ignore market sentiment, that's your choice! Being able to gauge market sentiment can be an important tool in your toolbox.

✳ 3 Type of Forex charts

1. Line chart

2. Bar chart

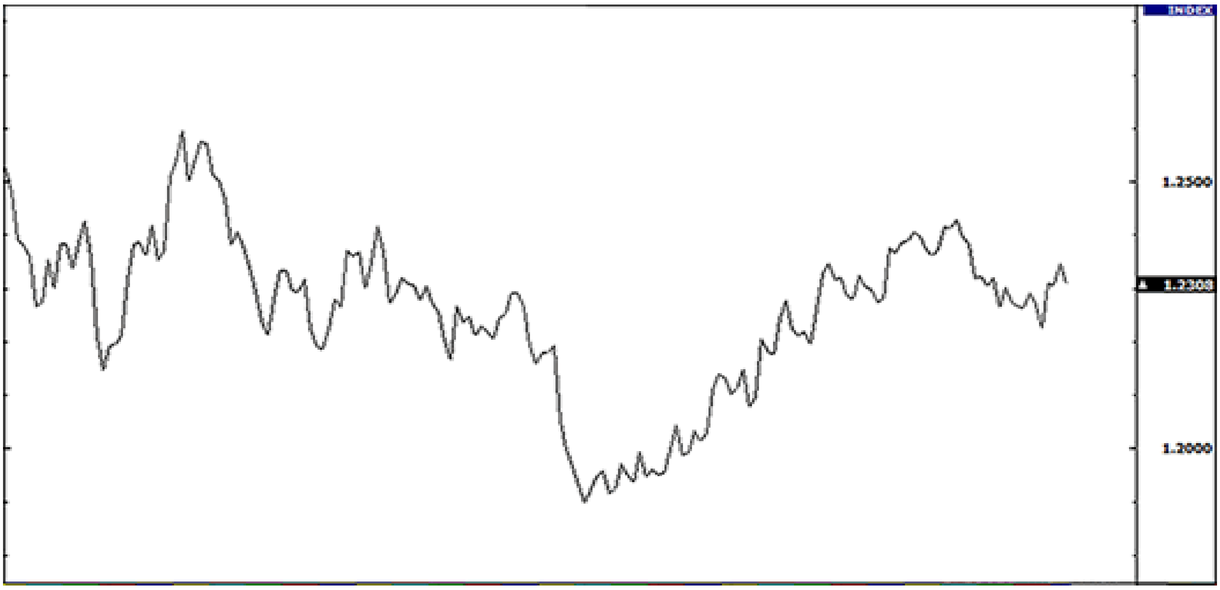
3. Candlestick chart

Line Charts

A simple line chart draws a line from one closing price to the next closing price.

When strung together with a line, we can see the general price movement of a currency pair over a period of time.

Here is an example of a line chart for EUR/USD:



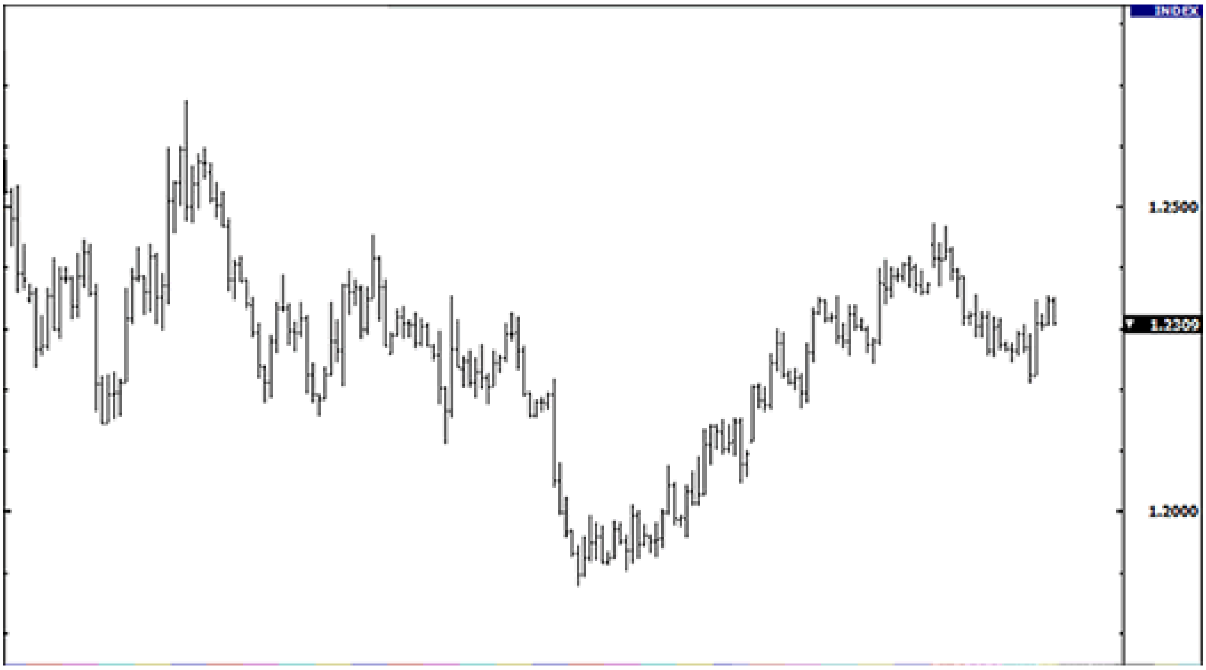
Bar Charts

A bar chart is a little more complex. It shows the **opening and closing prices**, as well as the **highs and lows.**

The bottom of the vertical bar indicates the lowest traded price for that time period, while the top of the bar indicates the highest price paid.

The vertical bar itself indicates the currency pair's trading range as a whole. The horizontal hash on the left side of the bar is the opening price, and the right-side horizontal hash is the closing price.

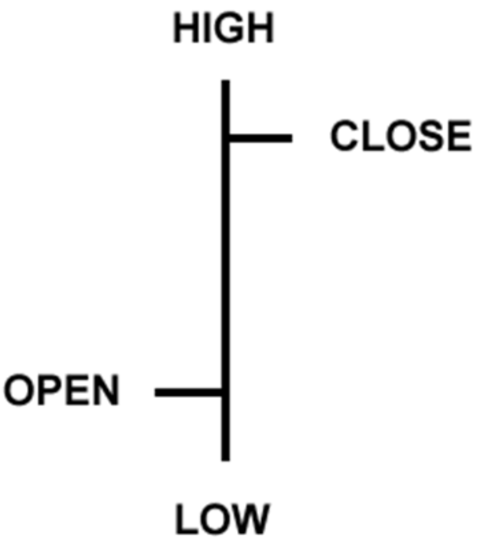
Here is an example of a bar chart for EUR/USD:



A bar is simply one segment of time, whether it is D1, W1 or H1

When you see the word 'bar' going forward, be sure to understand what time frame it is referencing.

Bar charts are also called **"OHLC**" charts, because they indicate the Open, the High, the Low, and the Close for that particular currency. Here's an example of a price bar:



Open: The little horizontal line on the left is the opening price.

High: The top of the vertical line defines the highest price of the time period.

Low: The bottom of the vertical line defines the lowest price of the time period.

Close: The little horizontal line on the right is the closing price.

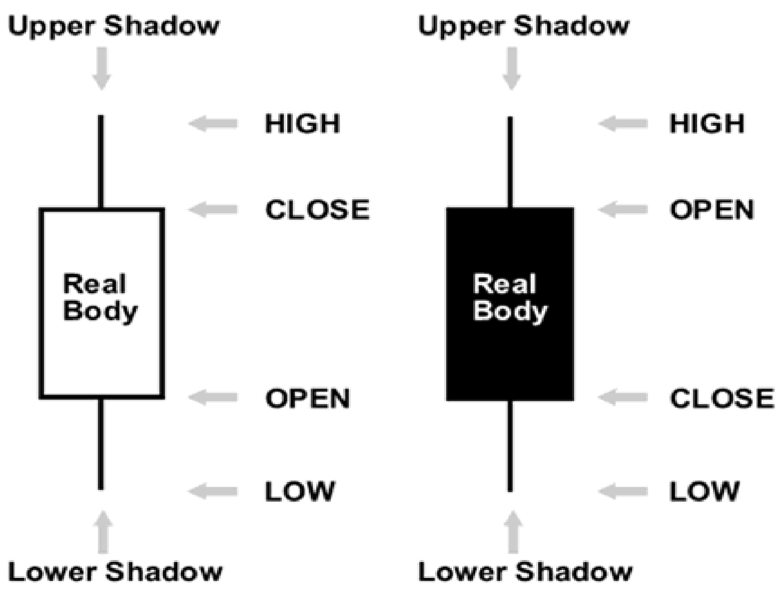
Candlesticks Charts

Candlestick charts show the same price information as a bar chart, but in a prettier, graphic format. Candlestick bars still indicate the high-to-low range with a vertical line.

However, in candlestick charting, the larger block (or body) in the middle indicates the range between the opening and closing prices.

Traditionally, if the block in the middle is filled or colored in, then the currency pair closed lower than it opened. In the following example, the 'filled color' is black. For our 'filled' blocks,

the top of the block is the opening price, and the bottom of the block is the closing price. If the closing price is higher than the opening price, then the block in the middle will be "white" or hollow or unfilled.



The purpose of candlestick charting is strictly to serve as a visual aid, since the exact same information appears on an OHLC bar chart. The advantages of candlestick charting are:

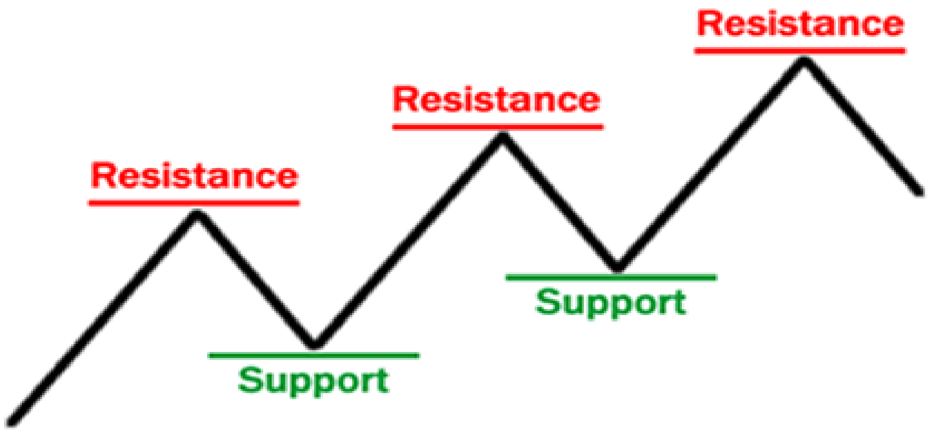
● Candlesticks are easy to interpret, and are a good place for beginners to start figuring out forex chart analysis.

● Candlesticks are easy to use! Your eyes adapt almost immediately to the information in the bar notation. Plus, research shows that visuals help with studying, so it might help with trading as well!

✳Forex support and resistance

Support and resistance is one of the most widely used concepts in forex trading.

Let's take a look at the basics first.



Look at the diagram above. As you can see, this zigzag pattern is making its way up (bull market).

When the forex market moves up and then pulls back, the highest point reached before it pulled back is now resistance.

As the market continues up again, the lowest point reached before it started back is now support.

In this way, resistance and support are continually formed as the forex market oscillates over time. The reverse is true for the downtrend.

Plotting Forex Support and Resistance

One thing to remember is that support and resistance levels are not exact numbers.

Often times you will see a support or resistance level that appears broken, but soon after find out that the market was just testing it.

With candlestick charts, these "tests" of support and resistance are usually represented by the candlestick shadows.

Notice how the shadows of the candles tested the 1.4700 support level.

At those times it seemed like the market was "breaking" support.

In hindsight, we can see that the market was merely testing that level.

So how do we truly know if support and resistance was broken?

There is no definite answer to this question. Some argue that a support or resistance level is broken if the market can actually close past that level. However, you will find that this is not always the case.

Let's take our same example from above and see what happened when the price actually closed past the 1.4700 support level.

In this case, the price had closed below the 1.4700 support level but ended up rising back up above it. If you had believed that this was a real breakout and sold this pair, you would've been seriously hurting!

Looking at the chart now, you can visually see and come to the conclusion that the support was not actually broken; it is still very much intact and now even stronger.

To help you filter out these false breakouts, you should think of support and resistance more of as "zones" rather than concrete numbers. One way to help you find these zones is to plot support and resistance on line chart rather than a candlestick chart.

The reason is that line charts only show you the closing price while candlesticks add the extreme highs and lows to the picture.

These highs and lows can be misleading because often times they are just the reactions of the market.

Looking at the line chart, you want to plot your support and resistance lines around areas where you can see the price forming several peaks or valleys.

Other interesting things about forex support and resistance:

● When the price passes through resistance, that resistance could potentially become support.

● The more often price tests a level of resistance or support without breaking it, the stronger the area of resistance or support is.

● When a support or resistance level breaks, the strength of the follow-through move depends on how strongly the broken support or resistance had been holding.

✳ Trend lines

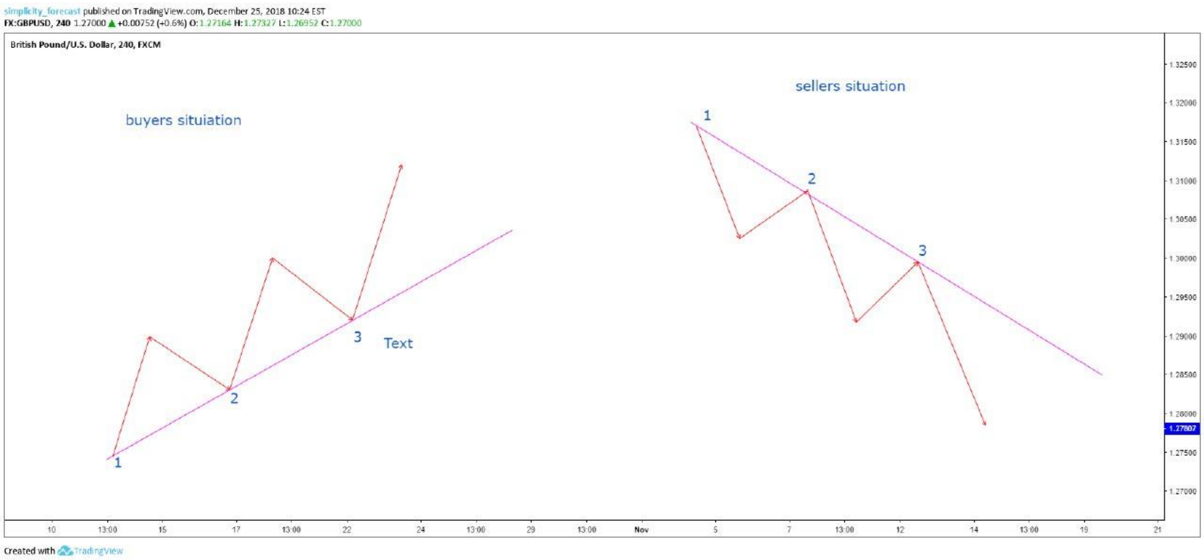
Types of trends

Uptrend

Downtrend

Sideways trend

Trend lines are probably the most common form of technical analysis in forex trading. They are probably one of the most underutilized ones as well.If drawn correctly, they can be as accurate as any other method.Unfortunately, most forex traders don't draw them correctly or try to make the line fit the market instead of the other way around.



In their most basic form, an uptrend line is drawn along the bottom of easily identifiable support areas (valleys).

In a downtrend, the trend line is drawn along the top of easily identifiable resistance areas (peaks).

How do you draw trend lines?

To draw forex trend lines properly, all you have to do is locate two major tops or bottoms and connect them.

Here are trend lines in action! Look at those waves

How To Trade Channels

If we take this trend line theory one step further and draw a parallel line at the same angle of the uptrend or downtrend, we will have created a channel.

Channels are just another tool in technical analysis which can be used to determine good places to buy or sell.

Both the tops and bottoms of channels represent potential areas of support or resistance.

To create an up (ascending) channel, simply draw a parallel line at the same angle as an uptrend line and then move that line to position where it touches the most recent peak. This should be done at the same time you create the trend line.

To create a down (descending) channel, simply draw a parallel line at the same angle as the downtrend line and then move that line to a position where it touches the most recent valley. This should be done at the same time you create the trend line.

When prices hit the LOWER trend line, this may be used as a buying area. When prices hit the UPPER trend line, this may be used as a selling area.

Types of channels

There are three types of channels:

1. Ascending channel (higher highs and higher lows)

2. Descending channel (lower highs and lower lows)

3. Horizontal channel (ranging)

Important things to remember about drawing trend lines:

When constructing a channel, both trend lines must be parallel to each other.

Trade with support and resistance

I have divided how to trade support and resistance levels into two simple ideas: the Bounce and the Break.The Bounce As the name suggests, one method of trading support and resistance levels is right after the bounce.

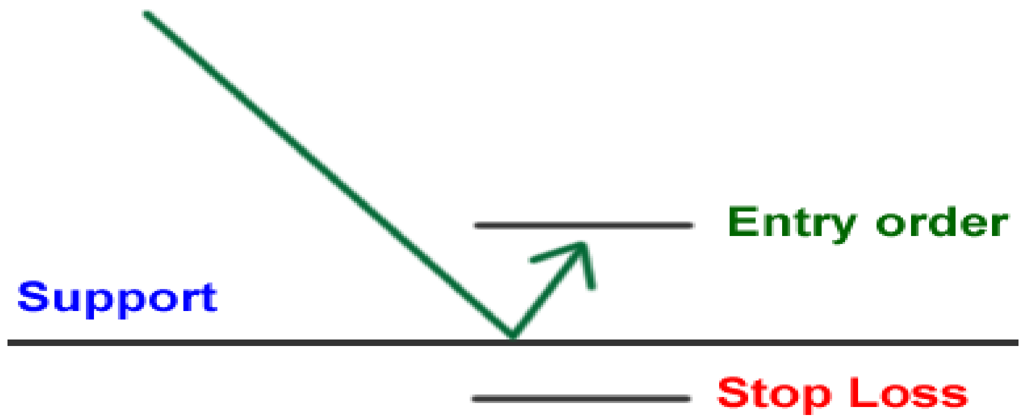
Many retail forex traders make the error of setting their orders directly on support and resistance levels and then just waiting to for their trade to materialize.

Sure, this may work at times but this kind of trading method assumes that a support or resistance level will hold without price actually getting there yet.

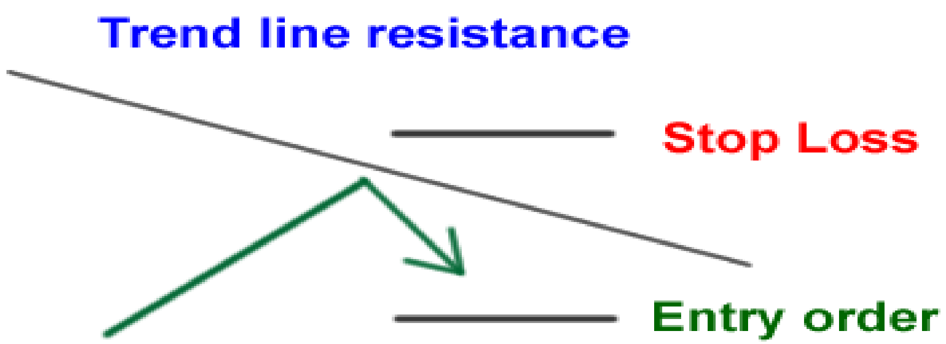
You might be thinking, “Why don’t I just set an entry order right on the line? That way, I am assured the best possible price.”

When playing the bounce, we want to tilt the odds in our favour and find some sort of confirmation that the support or resistance will hold.

For example, instead of simply buying right off the bat, we want to wait for it to bounce first before entering.



If you've been looking to go short, you want to wait for it bounce off resistance before entering.



By doing this, you avoid those moments where price moves fast and break through support and resistance levels.

The Break

In a perfect forex trading world, we could just jump in and out whenever price hits those major support and resistance levels and earn loads of money.

The fact of the matter is that these levels break… often. So, it's not enough to just play bounces. You should also know what to do whenever support and resistance levels give way!

There are two ways to play breaks in forex trading: the aggressive way or the conservative way.

✳ Fibonacci trading tool

Fibonacci is a huge subject and there are many different Fibonacci studies with weird sounding

names but we're going to stick to two: retracement and extension

Fibonacci Retracement Levels

0.236, 0.382, 0.500, 0.618, 0.764

Fibonacci Extension Levels

0, 0.382, 0.618, 1.000, 1.382, 1.618

You won't really need to know how to calculate all of this.Traders use the Fibonacci retracement levels as potential support and resistance areas.

Since so many traders watch these same levels and place buy and sell orders on them to enter trades or place stops, the support and resistance levels tend to become a self-fulfilling prophecy. Traders use the Fibonacci extension levels as profit taking levels.

Again, since so many traders are watching these levels to place buy and sell orders to take profits, this tool tends to work more often than not due to selffulfilling expectations. Most charting software includes both Fibonacci retracement levels and extension level tools.

In order to apply Fibonacci levels to your charts, you'll need to identify

Swing High and Swing Low points.

A **Swing High** is a candlestick with at least two lower highs on both the left and right of itself.

A **Swing Low** is a candlestick with at least two higher lows on both the left and right of itself.

Trade with FIB

The first thing you should know about the Fibonacci tool is that it works best when the forex market is trending.

The idea is to go long (or buy) on a retracement at a Fibonacci support level when the market is trending up, and to go short (or sell) on a retracement at a Fibonacci resistance level when the market is trending down.

Finding Fibonacci Retracement Levels

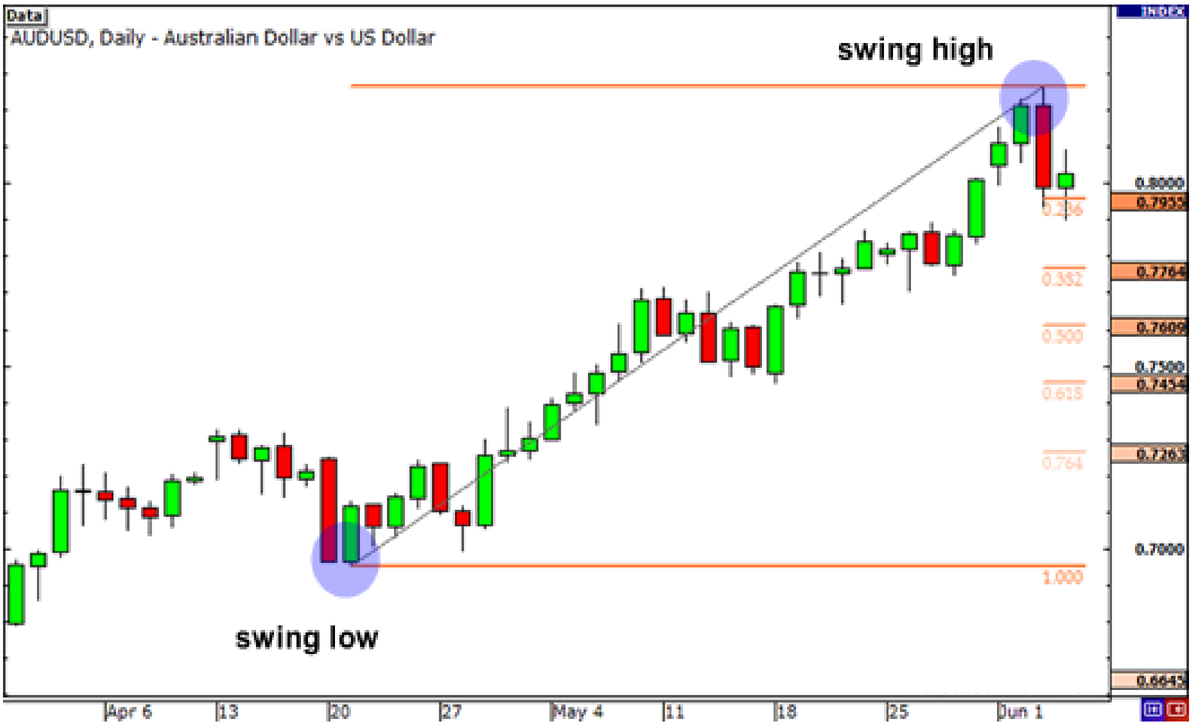
In order to find these Fibonacci retracement levels, you have to find the recent significant Swing Highs and Swings Lows.Then, for downtrends, click on the Swing High and drag the cursor to the most recent Swing Low. For uptrends, do the opposite. Click on the Swing Low and drag the cursor to the most recent Swing High.

Let’s take a look at some examples on how to apply Fibonacci retracements

levels to the currency markets.

Uptrend

This is a daily chart of AUD/USD.



Here we plotted the Fibonacci retracement levels by clicking on the Swing Low at .6955 and dragging the cursor to the Swing High at .8264 The software magically shows you the retracement levels.

As you can see from the chart, the Fibonacci retracement levels were .7955 (23.6%), .7764 (38.2%), .7609 (50.0%), .7454 (61.8%), and .7263 (76.4%).

Now, the expectation is that if AUD/USD retraces from the recent high, it will find support at one of those Fibonacci retracement levels because traders will be placing buy orders at these levels as price pulls back.

Now, let’s look at what happened after the Swing High occurred.

Price pulled back right through the 23.6% level and continued to shoot down over the next couple of weeks.It even tested the 38.2% level but was unable to close below it.

Later on, around July 14, the market resumed its upward move and eventually broke through the swing high.

Clearly, buying at the 38.2% Fibonacci level would have been a profitable long-term trade!

Downtrend

Now, let's see how we would use the Fibonacci retracement tool during a downtrend. Below is a 4-hour chart of EUR/USD.

As you can see, we found our Swing High at 1.4195 and our Swing Low at 1.3854 The retracement levels are 1.3933 (23.6%), 1.3983 (38.2%), 1.4023 (50.0%), 1.4064 (61.8%) and 1.4114 (76.4%).

The expectation for a downtrend is that if price retraces from this low, it could possibly encounter resistance at one of the Fibonacci levels because traders who want to play the downtrend at better prices may be ready with sell orders there.

Let's take a look at what happened next.

The market did try to rally, stalled below the 38.2% level for a bit before testing the 50.0% level.

If you had some orders either at the 38.2% or 50.0% levels, you would've made some mad pips on that trade.

In these two examples, we see that price found some temporary forex support or resistance at Fibonacci retracement levels.

Because of all the people who use the Fibonacci tool, those levels become self-fulfilling support and resistance levels.

THAT'S IT GUYS WILL BASICS TO LEARN MOST POWERFULFOREX/INDICE STRATEGES

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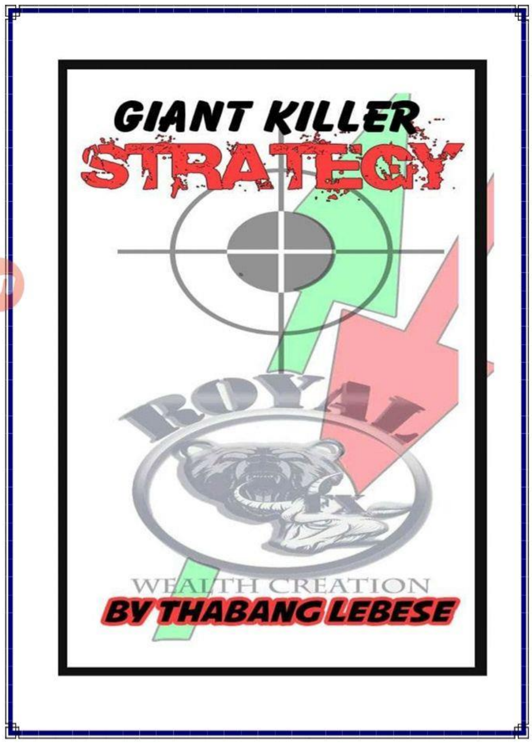

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