**Foreign Exchange Trading**

# ForEx Basics

## Currency Pair

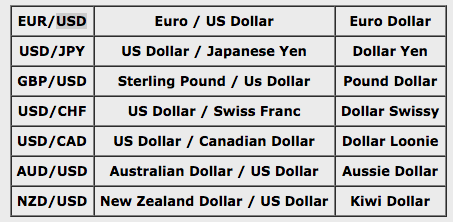
EURUSD => Currency Pair; EUR = base currency, USD = quoted currency

EURUSD = 1.2524

EUR/USD = 1.2524

1 EUR = 1.2524 USD

The majority of FX traders will be trading the Major Currency Pairs, ie: ‘the big dogs’. These majors constitute the largest market share around 85% and therefore possess excellent liquidity. The major currency pairs also all contain the USD on one side:



## Bear and Bull

Bull = investors that invest when the market is **going up** ward (grow). Or investors that invest in the growth of a currency.

Bear = investors that invest when the market is **going down** ward (falling). Or investors that invest in the declining of a currency.

Bulls buy (open) low sell (close) high.

**Bulls buy and bears sell???**

Bear market happens when the economy appears to be in or near recession, unemployment rises.

## Forex Market

The Forex Market is open 24 hrs on weekdays.

# Forex Acronyms and Jargon

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| **Items** | **Meanings** | **Example** |
| Ask vs Bid | Ask $ price > Bid $ price  Buy $ > Sell $ |  |
| Spread | Spread = Ask - Bid | Spread = 1.8873-1.8866  = 0.0007 AUD |
| Pips & Points | (Except for JPY base)  In 4-digit System: 1.886**6**  **Min Change** = last digit = 0.000**1**  **1 Point**  **1 Pip** | Spread = 0.0007 AUD  = 7 Points = 7 Pips  1.45645-1.45631= 0.00014 = 1.4 Pips |
| LOT | 1 Lot = 100,000 units of base currency   * 1. Lot = 10,000 units of base currency (Mini Lot)   0.001 Lot = 1,000 units of base currency (Micro Lot) | EURUSD: 1 Lot = 100,000 Euro  Ask $ = 1.23228  Buy 1 Lot cost $123,228$ |
| Leverage | Balance: 500$  Leverage: 1:100   * 1. Lot >>> $12,322   Borrowed (99%): $12,199  Your Money(1%): $123 🡸 **Margin** |  |
| Equity & Margin | Free margin = Balance – Margin = 500-123=377  Equity = Free Margin + Margin  If market is **against** us by -200$ 🡺  Equity = (-200$) + Free Margin + Margin  500 = -200$ + 177$ + 123$  When market is against us by -377$ 🡺 Stop-out,  Broker will close your position, and take back their loan ($12,199)  If Free Margin increase (ie: 477$) 🡺 Profit (100$) 🡺 Balance = 477 + 123 = 600$ | **Margin call** occurs before stop out; ie: when all or 75% or 50% (etc) free margin has been eaten up.  **Stop out** occurs when there are insufficient funds on your account to maintain all open positions.  **Account Equity** is updated on the Forex Market in real-time. |
| Take Profit | Additional order into your Buy order.  A TakeProfit allows you to set your profit target for a particular trade. | Use BuyLimit order: If you expect the price to go down to a certain level, then go up. |
| Stop Loss | A StopLoss allows you to prevent excessive losses from any given trade.  It’s very important to always set a StopLoss for every trade. |  |
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# ForEx Analysis

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| **Types of Analysis** | **Explain** |  |
| Fundamental Trader | * Read news * Understand economic, trends, or resource demands. * Economic calendar * Fundamental Traders are attached to their own currencies. * Expert |  |
| Technical Trader | * All info on the world is already captured in the price. * Believe in history patterns tend to repeat themselves. * Use resolutions of past events to make predictions. * More precise trading, being objective = advantages * Removed psychologies |  |
| Sentimental Trader | * Not substantial enough * More of an auxiliary type * Trying to access and understand the mood of the market. * Using social networks to read the crowd mood. * Understand the views and opinions of traders, investor and of large groups of people. |  |
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