FOREX TRADING KNOWLEDGE

WHAT IS FOREX?

Forex is also called the foreign exchange, FX or currency trading. It is a decentralized global market where all the world's currencies trade with each other. It is the largest liquid market in the world.

Forex is the largest market in the world as measured by the daily turnover with more than US$6 trillion a day eclipsing the combined turnover of the world's stock and bond markets.

The liquidity (more buyers and sellers) and competitive pricing (the spread is very small between bid and ask price) available in this marked are great. With the irregularity in the performance in other markets, the growth of Forex trading, investing and management is in upward trajectory.

WHY DO PEOPLE TRADE IN FOREX?

Forex market never sleeps.

The Forex market works 24 hours and 5 days a week. Because governments, corporates and private individual who require currency exchange services are spread around the world, so trading on the Forex market never stops.

Long or Short.

A trader in Forex can trade both ways. It means a Forex trader can play the market and make profits irrespective of whether market is going up, down or is in tight range. So irrespective of the event that has triggered the movement – Forex traders do not care.

Low transaction cost

Most Forex accounts trade with little or no commission and there is no exchange or data license fee. Generally, the retail transaction fee (the bid/ask spread) is typically less than 1 % under normal market conditions. With larger dealers (where volumes are huge), the spread could be as low as 0.05%. Leverage plays a crucial role here.

Leverage

Leverage is the mechanism by which a trader can take position much larger than the initial investment. Leverage is one more reason why you should trade in Forex. Few currency traders realize the advantage of financial leverage available to them. For example, if you are trading in equity market, the maximum leverage a stock broker is offered is 1:2 but in case of Forex market, you will get leverage up to 1:50 and in many parts of the world even higher leverage is available. For this reason, it is not hard to see that why Forex trading is so popular.

High leverage allows a trader with small investment to trade higher volumes of currencies and thus provide the opportunity to make significant profits from the small movement in the market. However, if the market is against your assumption you might lose significant amount too. Therefore, like any other market, it is a two-way sword.

High Liquidity

The size of Forex market is enormous and liquid by nature. High liquidity means a trader can trade with any type of currency. Timing is not a constraint as well; trading can be done as per your convenience. The buyers and sellers across the world accept different types of currencies. In addition, Forex market is active 24 hours a day and is closed only on the weekends.

Accessibility

Getting started as a currency trader would not cost a ton of money especially when compared to trading stocks, option or future market. We have online Forex brokers offering “mini” or “micro” trading accounts that let you open a trading account with a minimum account deposit of $25. This allows an average individual with very less trading capital to open a Forex trading account.

WHO TRADES FOREX?

The Forex market is enormous in size and is the largest market with millions of participants. Hundreds of thousands of individuals, money exchangers, to banks, to hedge fund managers everybody participates in the Forex market.

When can you trade Forex?

Forex market is open 24 hours a day and 5 days a week. However, it does not mean it is always active. Let us check what a 24-hour day in the Forex world looks like.

The Forex market is divided into four major trading sessions: the Sydney session, the Tokyo session, the London session and the New York session.

Summer Session (Around April – October)

TIME ZONE	EDT	GMT
Sydney open	6:00 PM	10:00 PM
Sydney close	3:00 AM	07:00 AM
Tokyo Open	7:00 PM	11:00 PM
Tokyo Close	4:00 AM	08:00 AM
London Open	03:00 AM	07:00 AM
London Close	12:00 PM	04:00 PM
New York Open	08:00 AM	12:00 PM

New York Close	05:00 PM	09:00 PM

Winter (Around October – April)

TIME ZONE	EST	GMT
Sydney Open	04:00 PM	09:00 PM
Sydney Close	01:00 AM	06:00 AM
Tokyo Open	06:00 PM	11:00 PM
Tokyo Close	03:00 AM	08:00 AM
London Open	03:00 AM	08:00 AM
London Close	12:00 PM	05:00 PM
New York Open	08:00 AM	01:00 PM
New York Close	05:00 PM	10:00 PM

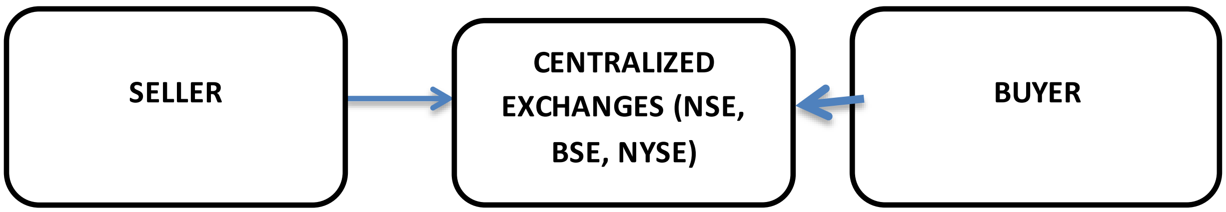
The actual opening and closing timing of Forex market depends on local business hours.

We can see in the above chart that in between different Forex trading session (region wise), there is a period of time where two sessions (region time) are open at the same time.

There is always more volume of trade when two markets (in different regions) are open at the same time.

THE STRUCTURE OF FOREX TRADING.

The typical stock market looks like this



But the structure of the Forex market is rather unique because major volumes of transactions are done in Over-The-Counter (OTC) market which is independent of any centralized system (exchange) as in the case of stock markets.

The participants in this market are:

- Central Banks
- Major commercial banks
- Investment banks
- Corporations for international business transactions
- Hedge funds
- Speculators
- Pension and mutual funds
- Insurance companies
- Forex brokers

COMMONLY USED CURRENCY PAIR.

In this chapter, we will learn about a few commonly used currency pair.

The most traded, dominant and strongest currency is the US dollar. The primary reason for this is the size of the US economy, which is the world's largest. The US dollar is the preferred base or reference currency in most of the currency exchange transactions worldwide.

Below are some of the most traded (high liquidity) currency pairs in the global Forex market. These currencies are part of most of the foreign exchange transactions. However, this is not necessarily the best currency to trade for every trader, as this (which currency pair to choose) depends on multiple factors:

- EUR/USD (Euro – US Dollar)
- GBP/USD (British Pound – US Dollar)
- USD/JPY (US Dollar – Japanese Yen)
- USD/CHF (US Dollar – Swiss Franc)
- EUR/JPY (Euro – Japanese Yen)
- USD/CAD (US Dollar – Canadian Dollar)
- AUD/USD (Australian Dollar – US Dollar)

As prices of these major currencies keep changing and so do the values of the currency pairs. This leads to a change in trade volumes between two countries. These pairs also represent countries that have financial power and are traded heavily worldwide. The trading of these currencies makes them volatile during the day and the spread tends to be lower.

The EUR/USD currency pair is considered to be the most popular currency pair and has the lowest spread among modern world Forex brokers. This is also the most traded currency pair in the world. About 1/3rd of all the trade in the market is done in this currency pair. Another important point is that this Forex pair is not too volatile. Therefore, if you do not have that much risk appetite you can consider this currency pair to trade.

EXAMPLES OF TRADING PAIRS;

Currencies

EUR / USD 3:30 PM UTC	1.19 −0.0071 (0.60%) ↓
USD / JPY 3:30 PM UTC	109.30 +0.36 (0.33%) ↑
GBP / USD 3:29 PM UTC	1.35 −0.0053 (0.39%) ↓
USD / CAD 3:31 PM UTC	1.30 +0.010 (0.78%) ↑
USD / HKD 3:30 PM UTC	7.85 −0.00080 (0.010%) ↓
USD / CNY 3:30 PM UTC	6.37 +0.0036 (0.057%) ↑
AUD / USD 3:29 PM UTC	0.74 −0.0073 (0.97%) ↓

THE BID-ASK SPREAD

The spread is the difference between the bid price and the ask price. The bid price is the rate at which you can sell a currency pair and the ask price is the rate at which you can buy a currency pair (EUR/USD).

Whenever you try to trade any currency pair, you will notice that there are two prices shown, The Bid price and the Ask price.

WHAT ARE BULLISH AND BEARISH MARKETS?

The term “bull” (bullish) and “bear” (bearish”) are often used to describe how the overall financial market is performing in general – whether there is an appreciation or depreciation. Simply put, a bull (bullish) market is used to describe conditions where market is rising and a bear (bearish) market is the one where market is going down. It is not, a single day which describes if the market is in bullish or bearish form; it is a couple of weeks or months which tell us if the market is in the bull (bullish) or the bear (bearish) grip.

WHAT HAPPENS IN A BULL MARKET?

In a bull market, the confidence of the investors or the traders is high. There is an optimism and positive expectation that good results will continue. So in all, bull market occurs when the economy is performing well – unemployment is low, GDP is high and stocks markets are rising.

In Forex market, bull and bear trends also determine which currency is stronger and which is not. By correctly understanding the market trends, a trader can make proper decisions of how to manage risk and gain a better understanding of when it is best to enter and exit from your trades.

WHAT HAPPENS IN A BEAR MARKET?

A bear market denotes a negative trend in the market as the investor sells riskier assets such as stock and less-liquid currencies such as those from emerging markets. The chances of loss are far greater because prices are continually losing value. Investor or traders are better off short-selling or moving to safer investments like gold or fixed-income securities.

In a bearish market, investor generally moves to safe-haven currencies like Japanese Yen (JPY) and US Dollar (USD) and sold off riskier instruments.

WHY DOES IT MATTER TO YOU?

Because a trader can earn great profit during bull and bear market considering you are trading with the trend. As Forex trading is always done in pairs, buy the strength and sell the weak should be your trade.

WHAT IS LOT SIZE?

Let us now learn what a lot size is.

A lot is a unit to measure the amount of the deal. Your value of your trade always corresponds to an integer number of lots.

Trading with the proper position or lot size on each trade is key to successful Forex trading. The position size refers to how many lots (micro, mini or standard) you take on a particular trade.

The standard size for a lot is 100,000 units of base currency in a Forex trade, and now we have mini, micro and nano lot sizes that are 10,000, 1,000 and 100 units respectively.

WHAT IS LONG IN FOREX TRADE?

Whenever you purchase (buy) a currency pair, it is called going long. When a currency pair is long, the first currency is purchased (indicating, you are bullish) while the second is sold short (indicating, you are bearish).

For example, if you are purchasing a EUR/INR currency pair, you expect that the price of Euro will go high and the price of Indian rupees (INR) will go down.

WHAT IS SHORT IN FOREX TRADE?

When you go short on a Forex, the first currency is sold while the second currency is bought. To go short on a currency means you sell it hoping that its prices will decline in future.

In Forex trade, whether you are making "long" (buying a currency pair) or "short" (selling a currency pair) trades, you are always long on one currency and short on another. Therefore, if you sell, or go short on USD/INR, then you are long on INR and short on

USD. It means you expect the prices of INR (Indian rupees) will rise and the price of the USD (US dollar) will fall.

WHAT ARE PENDING ORDERS IN FOREX TRADE?

A pending order in any trade is an order that was not yet executed thus not yet becoming a trade. Generally, while trading we place the order with a limit, means our order (pending trade) will not get executed if the price of a financial instrument does not reach a certain point.

A large section of traders follows technical analysis, so if anyone (traders or investors) wants to place an order at the support or resistance level but currently market is not on these levels, then he/she can place pending order rather than waiting. Pending order will automatically get executed once price reaches to the pending order position. The following are the four types of pending order:

BUY LIMIT

A pending order to buy a currency at a lower price (whatever price trader wants to buy) than the current one.

BUY STOP

A pending order to buy a currency at a higher price (whatever price trader wants to execute) than the current one.

SELL LIMIT

A pending order to sell a currency pair at a higher price (whatever price trader wants to sell) than the current price.

SELL STOP

A pending order to sell a currency pair at a lower price (buy high, sell low).

WHAT IS LEVERAGE?

Forex trading provides one of the highest leverage in the financial market. Leverage means having the ability to control a large amount of money using very little amount of your own money and borrowing the rest.

For example, to trade a $10,000 position (traded value of security); your broker wants $100 from your account. Your leverage, which is expressed in ratios, is now 100:1.

In short, with mere $100, you are controlling $10,000.

Therefore, if during the trade $10,000 investment rises in value to $10,100, it means a rise in $100. Because you are leveraged 100:1, your actual amount invested is $100 and your gain is $100.

The reverse is also true, if during the trade $10,000 investment lowers its value to $9,900, it means a loss of $100. Because of your leverage, your actual amount invested is $100 and your loss is $100.

Therefore, risk management of leverage position is very important for every trader or investor.

WHAT IS MARGIN?

Margin is the amount of money your trading account (or broker needs) should have as a “good faith deposit” to open any position with your broker.

So consider the leverage example in which we are able to take position of $100,000 with an initial deposit amount of $1,000.

This $1,000 deposit amount is called “margin” you had to give in order to initiate a trade and use leverage.

Your broker to maintain your position uses it. The broker collects margin money from each of its client (customer) and uses this "super margin deposit" to be able to place trades within the interbank network.

HEDGING.

Hedging is basically a strategy which is intended to reduce possible risks in case prices movement against your trade. We can think of it with something like "insurance policy" which protects us from particular risk (consider your trade here).

To protect against a loss from a price fluctuation in future, you usually open an offsetting position in a related security. Traders and investors usually use hedging when they are not sure which way the market will be heading. Ideally, hedging reduces risks to almost zero, and you end up paying only the broker's fee.

MAJOR CURRENCIES.

THE US DOLLAR

The US Dollar dominates the world foreign exchange market heavily. The US Dollar is the base or universal currency to evaluate any other currency traded on Forex. Almost all currencies are generally quoted in US dollar terms.

The US dollar currently represents about 86% of all foreign exchange market transactions.

The Euro (EUR)

The Euro is the second most dominating currency in the Forex market. Like the US Dollar, the Euro also has a strong international acceptance streaming from the members of the European Monetary Union.

The Euro is used by 18 member countries of the European Union and is currently accounted for almost 37% of all Forex transactions.

THE JAPANESE YEN (JPY)

The Japanese yen is the most traded and dominating currency in the Asian Forex market. It is the third most popular or traded currency in the Forex market and represents almost 20% of the world's exchange.

THE BRITISH POUND (GBP)

The British Pound is the UK's currency. Until the end of World War II, the pound continued to have the same dominance in Forex market what is US dollar today and was the currency of reference. The currency (GBP) is heavily traded against the euro and the US dollar but has less presence against other currencies.

The Swiss Franc (CHF)

The Swiss Franc is the currency and legal tender of Switzerland. The currency code for Franc is CHF and the most popular Switzerland franc exchange rate is the CHF/EUR pair. It is also, the only currency of a major European country that neither belongs to the European Union nor to the G-7 countries.

THE CANADIAN DOLLAR (CAD)

The CAD is a commodity driven currency. This is because the Canadian economy is export-oriented and the main product of export is crude oil. Therefore, the Canadian Dollar prices are influenced by the price of crude oil.

Global economic growth and technological progress help to make the CAD attractive to investors.

DIFFERENT TRADE SYSTEMS ON FOREX.

There are different ways in which trading is done in the global Forex market. The commonly followed trading systems in the Forex market are described below:

TRADING WITH BROKERS.

The foreign exchange broker or the Forex broker also known as the currency-trading broker unlike the equity or commodity brokers does not hold positions. The main role of these brokers is to serve banks. They act as intermediaries to buy and sell currencies at commissioned rates.

DIRECT DEALING.

Direct dealing is based on the economy of mutuality. All participants in the currency market – a bank, establishing a price, thinks that the other bank that has turned to it will reply with mutuality, establishing its own price, when they turn to the bank. Direct dealing provides freedom of actions than the dealing of the broker market. Sometimes traders take advantage of this characteristic.

MATCHING SYSTEMS.

Matching systems are quite different when compared with dealing systems. Matching systems are anonymous and individual traders deal against the rest of the market, similar to dealing in the broker's market but unlike dealing systems where trading is not anonymous and is conducted on a one-to-one basis. Unlike the broker's market, there are no individual to bring the prices to the market, and liquidity is limited at times.

TYPES OF MARKET ANALYSIS.

There are three types of analysis used for the market movements forecasting:

1. Fundamental Analysis: This is the analysis of social, economic and political factors that affect currency supply and demand.

2. Technical Analysis: This is the study of price and volume movement.
3. Sentiment Analysis: Apart from mini and micro analysis of data, this is the analysis of the mindsets and sentiments of traders and investors.

Fundamental Analysis and Technical Analysis (FA and TA) go hand-in-hand in guiding the Forex trader through the way the market (prices) may go under the ever changing market conditions.

FUNDAMENTAL ANALYSIS

Fundamental analysis is analyzing the currency price forming, basic economical and other factors influencing the exchange rate of foreign currency.

It is the analysis of economic and political information with the hope of predicting future currency price movements.

Fundamental analysis helps in forecasting future prices of various foreign currencies. Forecasting of prices is based on a number of key economic factors and indicators that determine the strength of a country's economy. The factors may also include various geo-political aspects that may impact the price movement of a currency pair.

KEY FACTORS INFLUENCING FUNDAMENTAL ANALYSIS

INTEREST RATES

The interest rates set by the central bank is one of the most important factors in deciding the price movement of currency pairs. A high interest rate increases the attractiveness of a country's currency and also attracts Forex investors towards buying.

GDP GROWTH

A high GDP growth rate signifies an increase in the total wealth of the country. This points towards the strengthening of the country's currency and its value rises relative to other foreign currencies.

INDUSTRIAL PRODUCTION

A high industrial growth in any country signifies a robust country economy. A country with robust economy encourages Forex traders to invest in country Forex currency.

CONSUMER PRICE INDEX (CPI)

The Consumer Price Index (CPI) is directly proportional to the prices of goods and services in the country. If the CPI index is too high (above the central bank benchmark of CPI), there is a high probability that central bank is most likely to lower interest rates to bring down the rate of inflation and stabilize the growth rate for the country's economy.

RETAIL SALES

A country's retail sales data gives an accurate picture of how people are spending (people income level) and the health of its economy at the lowest level. A strong retail sales figure shows that the domestic economy of a country is in strong shape; it points towards positive growth rates in the future.

Apart from these above points, the traders and investors also look into other factors of fundamental analysis like employment statistics, national debt levels, supply and demand balance, monetary policy, political situation, trade deficit, commodity prices, housing prices and capital market growth.

TECHNICAL ANALYSIS

Technical analysis helps in the prediction of future market movements (that is, changing in currencies prices, volumes and open interests) based on the information obtained from the past.

There are different kinds of charts that help as tools for technical analysis. These charts represent the price movements of currencies over a certain period preceding exchange deals, as well as technical indicators. The technical indicators are obtained through mathematical processing of averaged and other characteristics of price movements.

DOW THEORY FOR TECHNICAL ANALYSIS

The fundamental principles of technical analysis are based on the Dow Theory with the following main assumptions:

PRICE DISCOUNTS EVERYTHING

Price is a comprehensive reflection of all the market forces. At any point of time, all market information and forces are reflected in the currency price ("The Market knows everything").

Prices usually move in the direction of the trend.

Price movements are usually trend followers. There is a very common saying among traders – "Trend is your friend".

Trends are classified as –

a) Up trends (Bullish pattern)
b) Down trends (Bearish pattern)
c) Flat trends (sideways pattern)

Price movements are historically repetitive. This results in similar behavior of patterns on the charts.

SENTIMENTAL ANALYSIS

The participants in every market, the traders and the investors have their own opinion of why the market is acting the way it does and whether to trade in the direction of market (towards market trends) or go against it (taking contrary bet).

The traders and investors come with their own thoughts and opinions on the market. These thoughts and opinions depend on the position of the traders and investors. This further helps in the overall sentiment of the market regardless of what information is out there.

KINDS OF FOREIGN EXCHANGE MARKET

Foreign exchange markets are one of the most important financial markets in the world. Their role is of utmost importance in the system of international payments. In order to play their role efficiently, it is necessary that their operations/dealings be trustworthy. Trustworthy is concerned with contractual obligations being honored.

Following are the major foreign exchange markets:

- Spot Markets
- Forward Markets
- Future Markets
- Option Markets

SPOT MARKET.

These are the quickest transactions involving currency in the foreign exchange market. This market provides immediate payment to the buyers and sellers as per the current exchange rate. The spot market account for almost one-third of all currency exchange, and trades usually take one or two days to settle transactions.

FORWARD MARKET.

In forward contract, two parties (two companies, individual or government nodal agencies) agree to do a trade at some future date, at a stated price and quantity. No security deposit is required as no money changes hands when the deal is signed.

Disadvantages of forward markets

The forward markets come with a few disadvantages. The disadvantages are described below in brief:

- Lack of centralization of trading
- Illiquid (because only two parties are involved)
- Counterparty risk (risk of default is always there)

FUTURE MARKETS

The future markets help with solutions to a number of problems encountered in forward markets. Future markets work on similar lines as the forward markets in terms of basic philosophy. However, contracts are standardized and trading is centralized (on a stock exchange like NSE, BSE).

OPTION MARKETS.

What is an option?

An option is a contract, which gives the buyer of the options the right but not the obligation to buy or sell the underlying at a future fixed date (and time) and at a fixed price. A call option gives the right to buy and a put option gives the right to sell. As currencies are traded in pair, one currency is bought and another sold.

TECHNICAL INDICATORS.

WHAT IS A CHART?

Charts are the main tools of technical analysis. In technical analysis, we use charts to plot a sequence of prices (price movements) of an asset over certain duration. It is a graphical way of showing how the stock prices have performed in the past.

The period to represent the price movement of an asset (ex. currency) varies from minutes (30 min), hour, day, week, month or many years. It has an x-axis (horizontal axis) and a y-axis (vertical axis). On the chart, the vertical axis (y-axis) represents price and the horizontal axis (x-axis) represents the time. Thus, by plotting a currency pair price over a period of time (time frame), we end up with a pictorial representation of any asset (stock, commodity or FX) trading history.

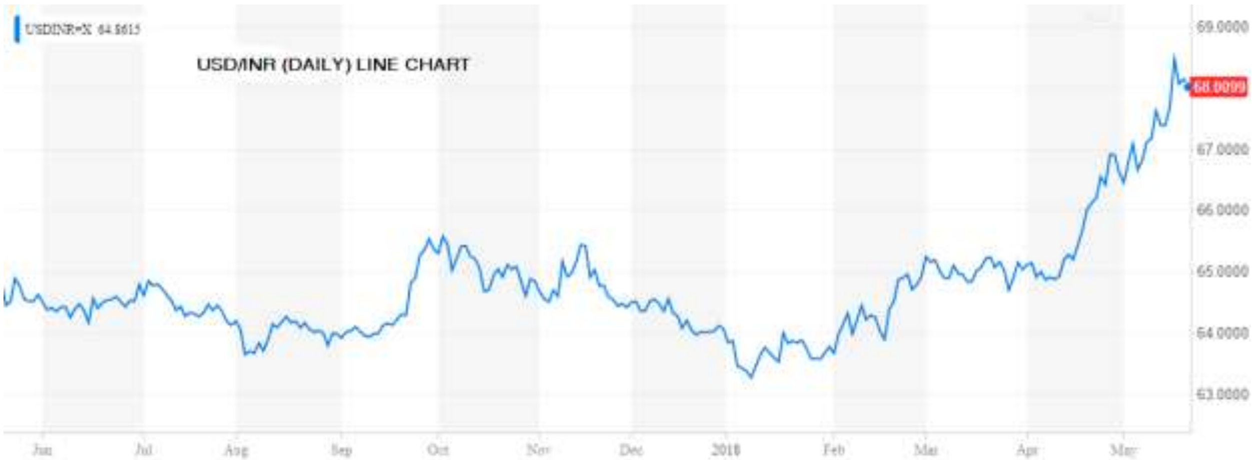
TYPES OF CHARTS

LINE CHARTS.

Line charts are formed by connecting the closing price of a specific stock or market over a given period. It means, if we want to draw a line chart of a particular currency pair (USD/INR) in a 30 min time frame, we can draw the line chart by putting a straight line between prices before 30 min and current price after 30 min. The charts provide a clear visual illustration of the trend of a particular currency (or stock price) or a market's (index) movement. It is an extremely valuable analytical tool for technical analysts, traders and also investors.

Line charts are mostly used when two or more trends have to be compared. For example, comparing closing prices of two more companies (same exchange listed and from same domain) or for a currency pair (USD/INR) compared to all the other listed currency pair in the region (ex. Asia).

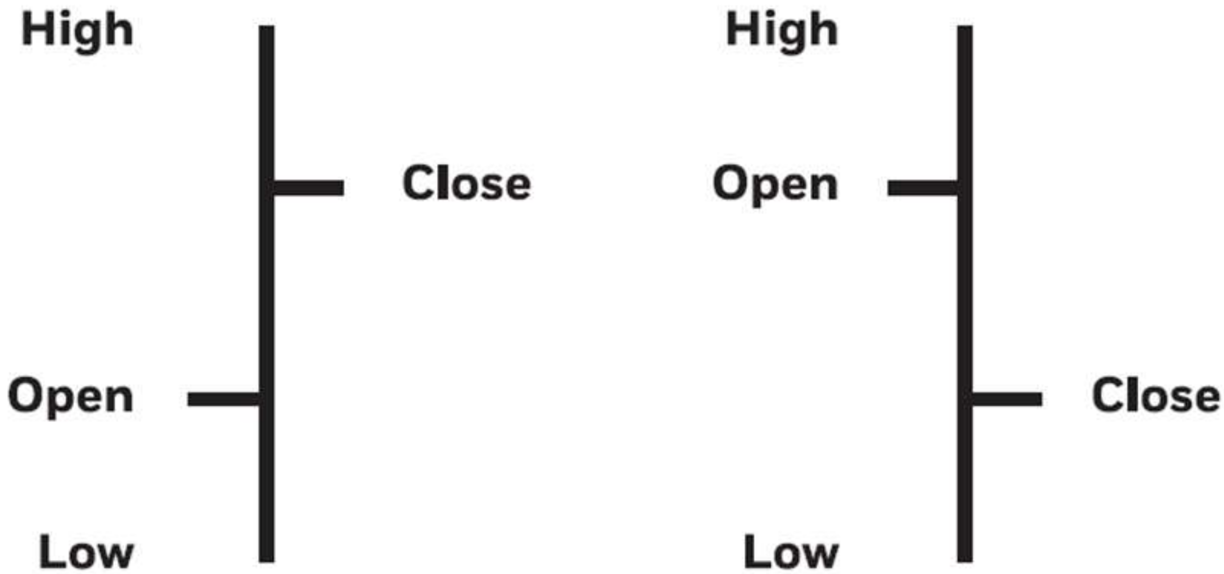
The line chart exhibits price information with a straight line (or lines) connecting data (price or volume) values.



BAR CHART.

Bar chart is a commonly used type of chart by technical analysts. It is called bar chart because each day's range is represented by a vertical bar.

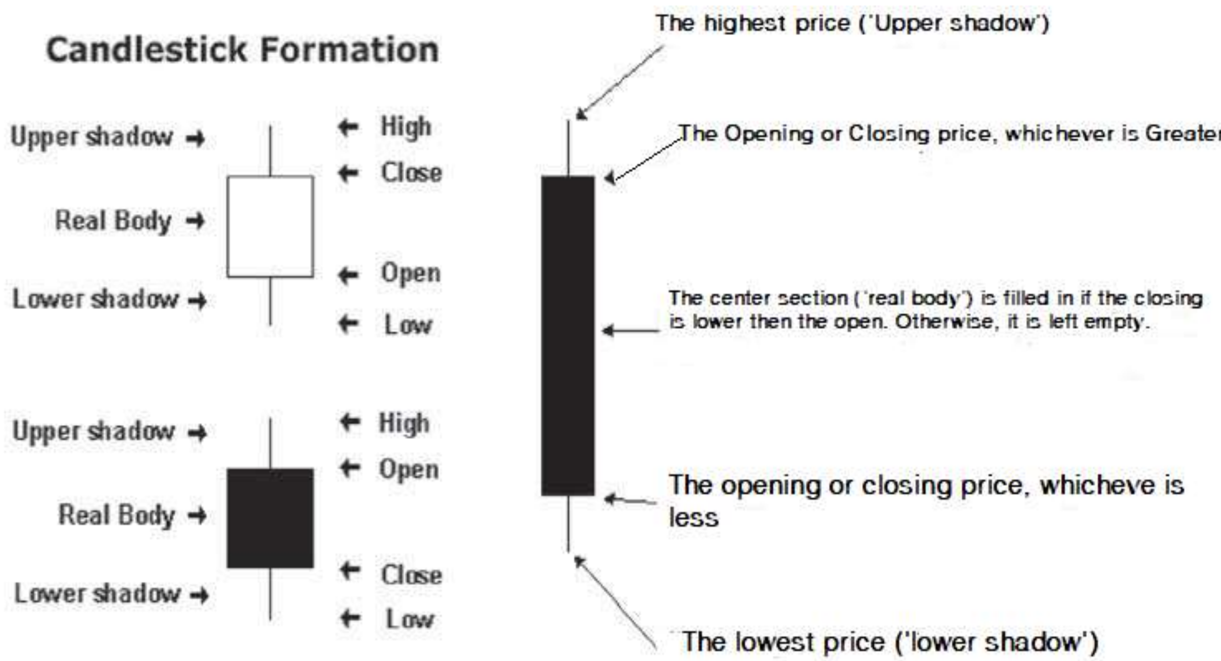
Although daily bar charts are best known, bar charts can be created for any period – weekly, monthly and yearly for example. A bar shows the high price for the period at the top and the lowest price at the bottom of the bar. Lines on either side of the vertical bar serve to mark the opening and closing prices of an asset (stock, currency pair). A small tick on the left side of the bar shows the opening price and a tick to the right of the bar shows closing price.



OHLC Bar
Range = High - Low

CANDLESTICKS CHART.

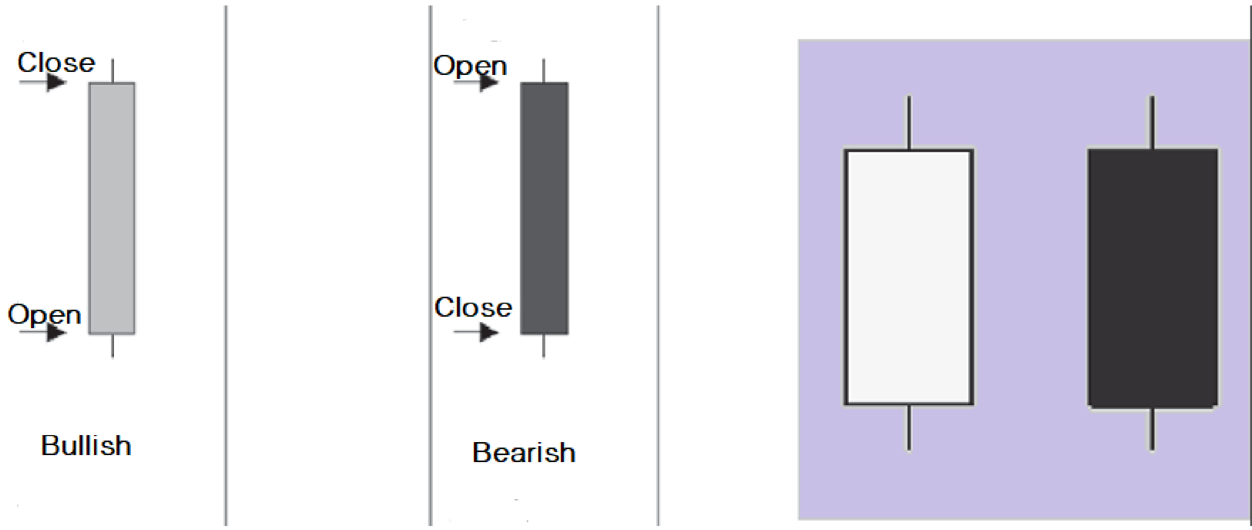
The candlesticks chart is very popular among the traders community. This chart provides visual insight to current market psychology. A candlestick displays the open, high, low and closing price of a security very similar to a modern-day bar chart, but in a manner that mitigates the relationship between the opening and closing prices. Each candlestick represents one time frame (e.g., day) of data. The figure given below displays various elements of a candle.



ELEMENTS OF A CANDLE.

A candlestick chart can be created using the data of High, Open, Low and Closing prices for each time period that you want to display. The middle portion (filled portion) of the candlestick is called "the body ("the real body"). The long thin lines above and below the body represent the high/low range and are called "shadows" (sometimes called "wicks" and "tails").

The body of the candlestick represents a stock's opening and closing price of the security (stock or currency pair).



WHAT IS THE CHART PATTERN TO USE WHEN TRADING?

The professional traders try to check the same security across different chart types. You may find one type of chart that works for you. Once we decided on what type of chart to follow, next step is to look for historical patterns like trends, support and resistance and other actionable patterns.

FOREX TRADING – PATTERN STUDY OF TRENDS, SUPPORT AND RESISTANCE.

In technical analysis (TA), support and resistance represent the critical point where the forces of supply and demand meet. The other key points of TA, such as price patterns, are based on support and resistance points.

A support line refers to that level beyond which a stock (or currency pair) price will find buyers and chances of it (security) will not fall. Therefore, it denotes, the price level at which there is a sufficient amount of demand.

Similarly, a resistance line refers to that level beyond which a stock (or currency pair) price will find sellers and chances of it (security) will not rise.

It indicates the price point at which there is sufficient amount of supply available to stop and possibly, for a time, turn upward trend.

KINDS OF TRENDS.

In the Forex market, trends reflect the average rate of change in price over time. Trends exist in all markets (Equity, FX or commodity) and in all time frames (minutes to multi-years). A trend is one of the most important aspects, which traders need to understand. The traders should analyze which way the market or security (stock, currency pair) is heading and should take position based on that.

Following are the different types of trends in the Forex market:

- Sideways trends (range bound)
- Uptrend (higher lows)
- Downtrend (lower highs)

SIDEWAYS TRENDS

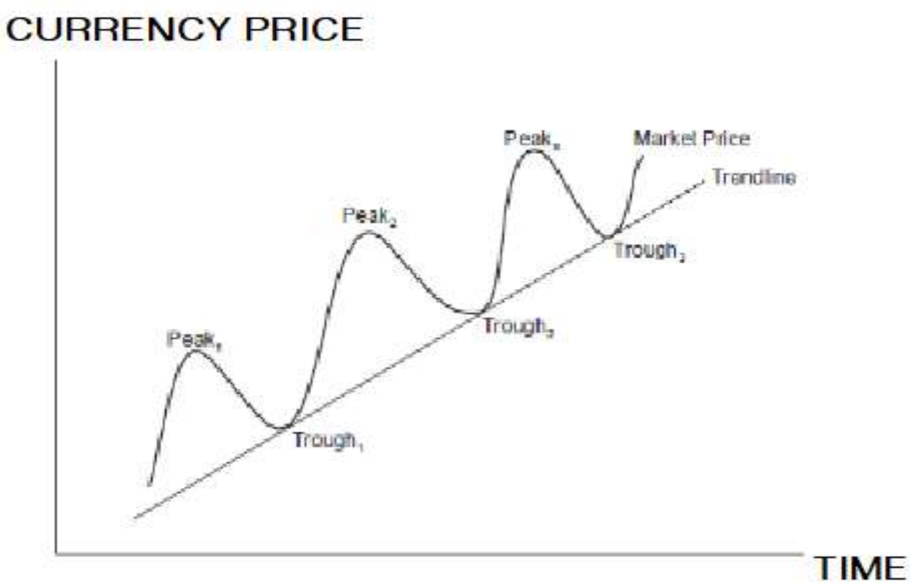
Sideways trends indicate that a currency movement is range-bound between levels of support and resistance. It usually occurs when the market does not have a sense of direction and ends up consolidating most of the time in this range only.

To identify if it is a sideways trend, traders often draw horizontal lines connected by the highs and lows of the price, which then form resistance and support levels. Clearly, market participants are not sure of which way the market will move and there will be LITTLE or NO rate of price change.

UPTREND

An uptrend signifies that the market is heading in the upward direction, creating a bullish market. It indicates the price rallies often with intermediate periods of consolidation or movement (small downward move) against the major (prevailing) trend.

An upward trend continues until there is some breakdown in the charts (going down below some major support areas). If the market trend is upwards, we need to be cautious on taking short position (against the overall market trend) on some minor correction in the market.



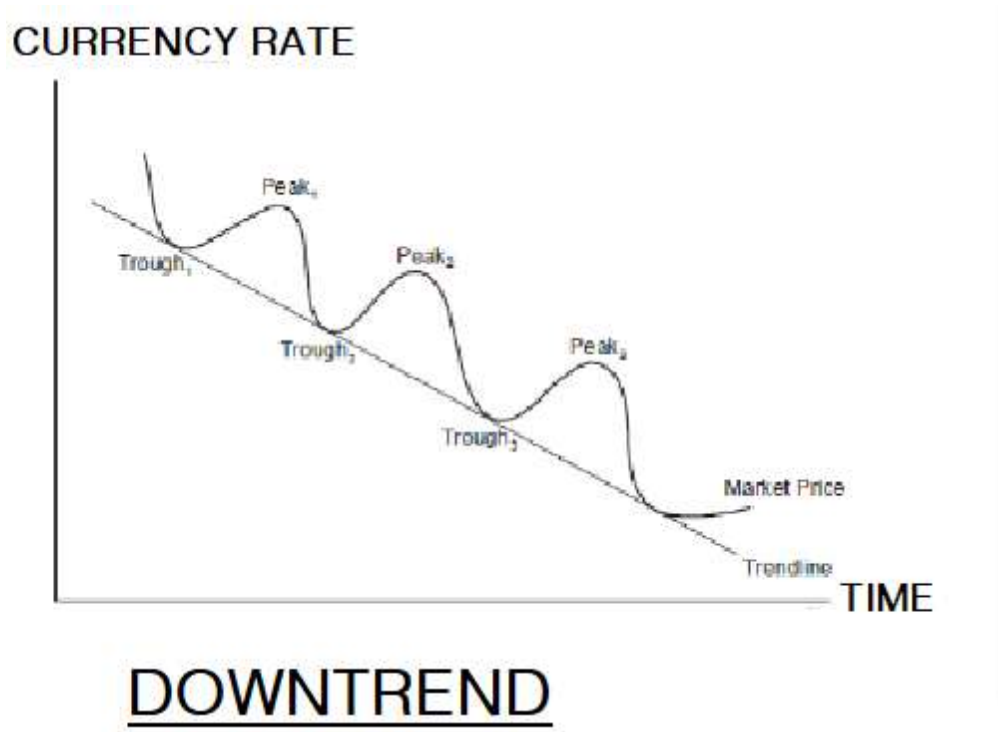
UPWARD TREND

DOWNWARD TREND

A downward trend in the Forex market is characterized by a price decline in the currency pair (USD/INR), with slight upward swing for a period of consolidation against the prevailing trend (downward trend). Unlike upward trend, a downward trend results in a negative rate of price change over time. In a chart, the price movements indicating a downtrend form a sequence of lower peaks and lower lows.

As currency is always traded in pair, the downtrend in Forex market is not much affected as other financial markets. In case of downtrend of a currency pair (USD/INR), the fall in price of USD gives way to a rise in price of INR. It means something is always going up even in times of financial or economical downtrend.


RESISTANCE LINE
Lower High
Lower Low
DOWNWARD TREND



PRACTICAL STEPS TO FOREX TRADING.

HOW CAN I START FOREX TRADING?

You want to become a currency trader. You've read about pips, leverage and all that Forex trading. It is time to start practice. Today it is very easy to start Forex trading.

Select a Forex Broker

To start trading Forex, you need a Forex broker. There are many brokers and for new trader it may be hard to choose the best one. Remember, most of them offer a demo account, where you can test their trading platform.

Usually, registration is quick; you need only some recent bills to prove your address is valid. That's it.

If you look at Forex broker offer, make sure that he allows to trade with lower sizes such as nano or at least micro.

Install trading software

OK, with selected broker you need to install trading software. This will be MetaTrader4 platform or other custom platform from broker.

Some brokers use their own trading platform like eTorro. Of course every custom platform is best in the world ;). There are brokers who only have their own platform and they do not offer Metatrader platform. I don't know why, but some very well-known brokers miss MT4 in offer.

The big advantage of Metatrader is that you have many custom indicators, expert advisors. It is a good platform overall and I recommend brokers who offer MT4.

Trading from Mac

MetaTrader is a Windows application. If you have a Mac computer with Mac OS X system, then you must use software like Wine to run MetaTrader 4.

Fund your Forex account

When you have registered an account, you can add funds. It is very easy. You can start with few hundred dollars on mini account. Minimum amount is different for each broker.

Test platform on demo

Before you decide to open real account, test a platform on demo (especially if you are new to Forex trading). You will have some virtual 10k or 100k to play with on demo.

Test how order placing works, how to place stop loss etc. You do not want to learn these things with your real cash.

Practice Forex trading – demo accounts

It is hard to make profit in Forex that is why practice is so important. You have now many options to practice your trading skills and learn to trade.

OK, but what is best? Do you need trading simulator? Paper trading is a good way to start – not real paper but with help of demo account of course.

We talk about paper trading when you are trading with virtual money. Years before simulators you simply put trades on a piece of paper. When you felt ready to trade on real account, you made a switch. In 1930's it wasn't that easy to open brokerage account, besides fees for opening and closing trades were also high. Paper trades were good solution – you could learn how to trade without losing real money.

Demo trading in Forex.

Now when we are talking about paper trading, we mean trading on simulators. Of course, you can use pencil and paper, but trading on simulator is much better way to go.

You can easily open a demo account and get access to trading platform so you can test it. Your demo account is funded with virtual money and you can place orders.

The main advantages of Forex demo trading.

You do not put at risk real money – your loses and gains are virtual, so there is no risk that you will lose all you trading capital you can test your trading system and different trading strategies you can see how to use leverage if you are using mechanical system; you can test it in practice.

The main disadvantages of demo trading.

You do not put at risk real money – you react different when it is real money you are losing you make trades that you normally wouldn't make with real money.

Is paper trading a good way to learn how to trade?

Generally, yes. If trading Forex is something new for you or you want to test totally new strategy then yes, it is ok.

I would say that demo trading is very important when you want to start trade on Forex.

As you know, on currency market we use leverage. There are different position sizes.

The basic one is 1 lot. You can open position as big as couple lots (for example 5 lots), or position smaller than 1 lot – this will be micro lot or nano lot. If it sounds not familiar, then you have to test it on demo account.

Thing is, with leverage it is very easy to blew whole account in matters of few minutes. It is crucial to master how to manage position size and understand well how it works. Leverage can be your best friend or the worst enemy.

When you are building mechanical trading system, then it is also great possibility to test it on demo account. So again, demo trading in that case is not that bad.

In a long term, demo trading is not the way to learn how to trade. You should switch to real account with small funds. Why? Because of…

Trading and psychology

When you are on demo and you switch to real money trading, you will notice the difference. Now you care. When you are losing money, you feel fear. You hesitate to close losing position "because it may turn around" (yeah, it always does ;).

When your trade is in profit, you are greedy. You hesitate to close position, because it may go even higher. Hell, this may be a trade of your life.

This kind of emotions occurs only when you are trading with real money. You will learn over time that most of your loses come from not following trading plan and allowing emotions to play too big role in your decision making process.

You are not able to switch off your emotions. On the other hand, you must be aware of them and not allow them to take control. That is why you need to have your trading plan on paper. Write down as many things you can in your trading plan – that way you will minimize impact of emotions in your trading.

DEMO TRADING IN TRADER LEARNING PROCESS

1. Open a demo account
2. Build strategy and trading plan
3. Test different position sizes – add to trading plan size of positions. Test different currency pairs, different time frames.
4. Test your trading plan – set goals such as do not lose money in next 3 months etc.
5. When you are profitable on demo… Open real account
6. Fund account with money you can afford to lose
7. Set realistic goals and trade according to your trading plan
8. Trade smaller positions
9. When you are profitable
10. Increase position size

HOW TO LEARN TO TRADE FOREX.

We've learned about Forex trading basics, about demo trading. Question still stands – how to learn to trade Forex? There are few steps you can take to learn it.

Find a mentor

It is not an easy task to find mentor. In most cases, there are no ads or other information about mentoring possibility. Initiative should be on your side. If you follow trader you like, then you can ask him about mentoring. Some will say no because of lack of time. Others do not like to mentor because not everyone has teaching skills.

Still, finding a mentor is the fastest way to learn to trade Forex. With a mentor, you will avoid many mistakes and sometimes save many years of trial and errors.

Two important things to remember; Do not approach mentor if you don't have basic knowledge about trading. It is not a role for mentor to guide you through the basic stuff. You want mentor to teach you how to trade successfully, not to teach basics.

Another thing to remember; Check different styles of trading. Decide which one suits you best. Do you like technical analysis (TA) more? Then look for mentors who trade mainly with TA. You have a job and you want to learn about long term trading? Then do not look for help from day traders, just go and look for other long-term investors.

Learn to trade on demo

Before you move to trading with money start with demo. Play with different currencies, instruments. Understand what leverage is all about. See how spread is different for different Forex pairs. Test different trading strategies.

Read trading books - not only about Forex

Of course, practice is most important but books will give you new ideas how you can trade Forex.

There are so many books about trading.

One important thing about books; Reading more trading books does not make you a better trader. It can give you some ideas, you can learn something new but you must practice this in live market.

Read blogs

There are many good trading blogs which you can follow.

Watch webinars

You can find many great webinars which are free. You can also find webinars organized by brokers. Some are about technical analysis, some about psychology, fundamentals. They are run by different traders. They show you screen so it is very easy to see how others are trading, what is most important for them.

What's more, you have chat window. In most cases, you can ask questions during a webinar or there is dedicated Q&A session right after webinars finish.

Go to courses

Yes, many Forex traders are losing money. Brokers know that. That is main reason why they organize free trading courses (online and stationary). Often they hire well known traders who teach you about trading.

Of course, not every course is free. Sometimes you can find good trading course which costs quite a lot. Decision is yours. I can say from my perspective that you can learn a lot during such courses.

Follow other traders on Twitter/Facebook

Social media are great. There is so much valuable information here, Look for traders via hashtags and other search terms.

Twitter is a great app. Most people follow here celebrities, but you can find also many great specialists. Traders too. They share their quick thoughts about market; sometimes they twit some chart or interesting link.

What is the main point of all this sources?

There is no one ready to go trading system. You must build trading system by yourself.

Your trading style will change over the years. To be successful you should learn from others, see what they are doing. That way you can improve your system and your approach to trading.