Forex Facts – 7 Facts to get you going and succeed in the Forex market

- **Fact One – Market size and main reason s for buying and selling currencies.**

Forex is more popular than ever. Let's take a look at the average daily turnover in the Forex markets over the last 20 years; as at 2009, the daily turnover was close to $3.5 billion a day, with no signs of slowing down. This spells opportunity for you as a Forex trader, and this is one of the best times I can recall to learn to trade and to start trading the enormously popular and potentially profitable Forex markets. The Foreign Exchange market or the Forex market as it is sometimes called is the biggest market in the world. This market exists purely for the buying and selling of currencies; it is a 24 hours a day market with no central trading room of floor. Unlike, say with the equites or share market which has bases in London, NewYork or France. To trade in the Forex market means you are buying one currency and selling the other, buying and selling currencies is done as Pairs. The major pairs are GBP/ USD, GBP/EUR, EUR/USD and USD/YEN. The major reason for buying and selling currencies is related to inter country trade which involves the buying and selling of goods from one country to another, tourists travelling abroad that need foreign exchange and for speculative reasons as well.

- **Fact Two – Putting things in context**

The honest truth is, no matter what you have been told or made to believe is that the Forex market is like any other market. There's is nothing magical about the Forex markets, because all markets are ultimately driven by human psychology – fear and greed – supply and demand. Sure, every market has its own peculiarities, but if you understand how the basic drivers of human emotions work, you can potentially succeed big in any market. There is so much misinformation, lies and hype out there about the Forex market that it sometimes make you really wonder, what these people think they can take other people for.

When it comes to the Forex market (or any market), I find there are two types of traders. The dependent Trader, just relies on what he or she is told while the independent trader, goes out there and does all the necessary research to make sure they thoroughly understand the Forex market before placing a trade, including practicing on dummy accounts with dummy money to get a feel for what it means to trade before actually going out there and placing a trade. And the type of trader you are could drastically impact the amount of money you make in the markets, it could even forever determine, in part, what the rest of your life looks like, how much you work a regular job, where you go on vacation (and how often), where you live and even your overall health. That may sound like an exaggeration, but if you plan on supplementing or replacing your current income with trading Forex, then I think you'll find those statements above are quite accurate.

Unlike stocks and futures that trade through exchanges or the NASDAQ, Forex trading is done through market makers that include major banks as well as small to large brokerage firms located around the world collectively make a market on a 24/7 basis. The Forex market is always "open" and is the largest financial network in the world.

- **Fact Three – The mechanics of the Forex market**

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Forex trading involves the trading of currency pairs such as the EUR/USD pair (EURO/US dollar pair) where a buyer of this pair would actually be buying the Euro and simultaneously selling short the US dollar.

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For example, the price of the EUR/USD is expressed in US dollars (the counter currency) as 1.3667. This means that the base currency, the Euro in this case equals US$1.3667. The price of the USD/JPY pair is expressed in Japanese Yen as 108.02, because for this pair the Japanese Yen is the counter currency. This means that the base currency, the US dollar in this case equals 108.02 Japanese Yen.

Prices are expressed in pips, which are nothing more than the minimum increment that a currency pair can change. For example, if the EUR/USD price changes from 1.3790 to 1.3791, the price is said to have gone up by 1 pip. Most major pairs are priced to 4 decimals which is the equivalent of $1/100^{th}$ of 1 percent. The exception would be the Japanese Yen Pair that only trades to 2 decimal places. This is because there are usually over 100 yen to the dollar.

- **Fact Four – More Mechanics on the Forex Market**

Forex pair quotes are on a bid-ask basis. The bid is the price that the market is willing to pay a seller at a point in time for a specific currency pair. The ask is the price that the market is willing to sell to a buyer at a point in time for a specific currency pair. The difference between the bid and the ask is called the bid/ask spread. For example, a typical EUR/USD quote could be a 1.3784 bid 1.3787 ask which is a spread of 3 pips. Since the spread is how the market makers are compensated, there is no commission when placing a trade.

Also, it is important to note that the spread (the difference between the buy and sell price) will vary depending on the market conditions. So the quote itself for any given Forex pair is the bid-ask combination at a point in time based on the market driven floating exchange rate. This quotation lists the bid price first, then the ask price. For the EUR/USD example above, the quote would be expressed simply as 1.3784/1.3787 or 1.3784/87

Active trading sessions in each country's financial centers around the world take place from Sunday 5pm EST to Friday 5PM EST. For the major financial centers, trading starts in Sydney, then moves to each financial center in this order: Tokyo, London (and Europe), New York. The daily session for daily charting purposes "ends" at 5PM EST (coincident with the New York "close"), but the market does not actually close.

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- **Fact Five - The Forex Pairs/Fundamental Analysis and Technical Analysis**

I believe that not all Forex pairs are suitable for trading. What we should be looking for as traders are liquid markets that have sufficient price movement to make a trade worthwhile. With that in mind, the following pairs are the most widely traded, most liquid pairs and the only ones that I would consider trading:

 EUR/USD – Euro / US dollar
 GBP/USD - British Pound / US dollar (often referred to as the "Cable")
 USD/JPY - US dollar / Japanese Yen
 USD/CHF – US dollar / Swiss Franc
 USD/CAD – US dollar / Canadian dollar
 AUD/USD – Australian dollar / US dollar

And to further simplify Forex trading, you could easily limit your trading to the two most liquid and widely traded pairs, the EUR/USD and the GBP/USD.

The answer to this question depends on your trading method. The markets are indeed moved by fundamentals (balance of trade data, money supply, interest rates, economic and financial reports, etc.) but only through the prism of human psychology.

It is not the fundamental data or information that is so important as much as it is the markets' reactions to that information. Many advocate trading on the fundamentals; however, a case can be made that trading on the fundamentals is extremely difficult due to the fact that the markets always immediately and continuously are digesting any and all fundamental data and to do this successfully, you need to be available on a real time basis at whatever hour of the day or night that the news is likely to impact the market. Then, you need to act on that news before or at least in the same instant that the rest of the world does or else the opportunity could be lost.

While some do trade the fundamentals successfully, some believe using good trading methods based on technical analysis is an easier, less demanding way to trade with far greater odds of success. This is because some believe, as do technical traders in general, that any and all fundamentals are already always reflected in the price of the market at any instant and so would rather apply technical analysis to the markets and trade them on their terms, when they want to trade them and how they want to trade them, with as little time spent in the process as possible.

- **Fact Six – Stop loss, Trailing stops and exit points**

Besides money/risk management, I believe this is one of the most important questions regarding a good trading method. It should go without saying that as soon as you enter the market with a new position, an initial stop order should be entered to protect the position against an adverse move in the market or an exit strategy should be employed to cover the trade if the market closes adversely. If such a move occurs, as is often the case, you want your position liquidated and out of the market with a minimal loss.

The consequences of failing to do this are that you will not be successful at trading - *period*. In fact, ***every trade you put on, you should plan to lose, so that you are sure to place your stop loss order or cover the trade on an adverse close***. Otherwise, what would have been a small loss turns into a big loss, throwing the entire risk/reward ratio out of kilter against you.
That being said, where should the stop be placed? The short answer is, "Where you don't expect the market to go"; or, more specifically, where the assumption in putting on the trade is no longer valid. For example, if a long position was entered into after an uptrend or breakout market traded back down to support, an initial stop could be entered below the recent low because if the market does go there, support (as defined by that low) would have failed, and there is no longer any reason to be long the market – so get out! Don't wait around for it to come back in your favor because the odds are against it.

If the market goes in your favor once the initial stop is in place, then you need a set of rules that will allow you to exit the market profitably. This poses a real dilemma. If you exit too soon, you may secure a small profit, but miss out on all those big moves that occur (and the big profits that go with them). On the other hand, if you wait too long to exit, the market may reverse and take away all of your open profits and even put you into a loss position

- **Fact Seven - Market Sentiment**

Market will try to price in a high impact news release few sessions before the actual release. This price in market action is called Market Sentiment. For instance, if there is an overwhelming consensus that a certain central bank is going to cut rate, we should be looking at its currency at least a day before and try to “price in” our trade, just like most major players by selling it ahead of time. Retail traders don’t see this simple fact. People just follow the market without asking why. As a herd, traders are not very perceptive. However, as individual traders, if we just keep an eye on future events, it is not hard to predict what the market is going to do one week ahead of time.

We have to understand that the market does not move based on Technical Analysis or just some moving averages crossing. If this is what Forex is all about, then we should have 95% of winners in the Forex Market. But I think the opposite is true. Most traders would rather choose the complicated method, although they don’t understand it, rather than choose an easy, simple method because they think that trading couldn’t be this easy… It is the same idea as if you raise the price on a certain item will add more perceived value to it, even though it is the same item.

So market sentiment is to understand market psychology. Traders overreact and over exaggerate trades. That is exactly what we are counting on.
How do we apply this into our trading? Well, I would be looking at again our support and resistance levels, and then we will try to enter the market at such levels, going in the direction of the sentiment.

How do we determine what kind of sentiment? There are actually 2 different ways.

1. Price Action: There is absolutely nothing better than simple price action. Look at how the market is trading prior to the high impact news scheduled next session or two. If you see market is buying USD, then it is safe to assume that the current short-term trend and market sentiment is USD bullish. We will be looking at support areas on a pull back to enter LONG USD.

2. Fundamental News Relationships: This requires that you understand how each news release is related with one another. I will try to list a few below, but I don’t think I can cover everything… but once you know what you are looking for, you will get used to these relationships:

a. Retail Sales -> GDP: Retail sales in countries such as the US

makes up about 2/3 of the market. If Retail Sale is good, then possibly we will see better GDP.

b. Unemployment, Jobless Claims, Unemployment rate -> Retail Sales:

If people are losing jobs, they will not have money to spend at the retail levels, therefore affecting the GDP as a whole.

c. Housing Data -> Durable Goods: Specially in the U.S., a higher

housing data will have a positive effect on durable goods because more people buy new houses equals to more people buying new appliances.

d. PMI -> GDP and General Economy: Purchasing Manager Index, such

as UK Manufacturing PMI, U.S.’s ISM Manufacturing PMI, Canada’s IVEY PMI, all have an effect on the future GDP and the health of economy.

In conclusion, I hope you have enjoyed my report. I now urge you to believe that any one can trade the Forex market, including you. It is down to you as a person to make that move and delve deeper and further into the market and as to how things work. If you have the right attitude you will succeed in this ever growing market and who knows you might go on to be a very, very success full trader. Please feel free to pass this report on to any interested party or to access a copy at **www.forexfactsexposed.com** Over the next few weeks and months, I will supply you with more tips, hints and facts about how to navigate your way through the Forex Market.

Good Luck and Best Wishes

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