



Trading The Forex Market

The Smart Way with ChampionFX

by Vince Stanzione



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Contents

Introduction	04
<hr/>	
The Currency Market, Foreign Exchange (FX)	
<hr/>	
Chapter 1: The Simple Basics of Forex	05
The FX Market Is Now Open to Small Accounts	
Forex Market Participants: Who Needs and Uses the Currency FX Market?	
Consumers and Tourists	
Businesses	
Commercial and Investment Banks	
Governments and Central Banks	
Investors and Speculators	
So What Is Trading Currencies All About?	
Currency Trading in Action: A Simple Example of an FX Binary Options Trade	
Total Costs / Maximum Losses for this Sample Trade	
Potential Returns for this Sample Trade	
What Makes a Currency Go Up or Down?	
<hr/>	
Chapter 2: Trading the Forex Market	11
Which Currencies Can You Trade?	
You're Always Trading a Pair	
Learning the Lingo: Pips, Points, and Ticks	
<hr/>	
Chapter 3: How to Evaluate a Currency	14
Fundamental Analysis	
Problems with Fundamental Analysis	
Technical Analysis and Trading	

Contents

3 Possible States for Currency Pairs

Trend Higher

Sideways Range

Trend Lower

Timeframes

A Short-Term Timeframe: 1 Minute

Chart Formats

Candlestick Charts

Chapter 4: Three Main Tools a Trader Can Use

23

Power Tools for Forex Traders

Moving Averages

Types of Moving Averages

Applying Moving Averages to Forex

The Relationship between Timeframes and Moving Averages

Advantages and Limitations of Moving Averages

Forex Price Channels: Donchian Channels

Shorter-Term Systems

Short-Term Trade Example

Placing a Short-Term Trade

Chapter 5: More Advanced Forex Strategies

29

Support and Resistance: How to Make Money from a Sideways or Dull Market

Relative Strength Index (RSI)

How to Trade the RSI with Binary Options

Special Note about Making Money from Financial Trading

Contents

Momentum Trading

Valuable Tips

Good Money Management

Big Losses Are Hard to Recoup

Chapter 6: Evergreen Forex Resources & References

36

7 Tips to Making Money in Currency Trading

Glossary of Key Terms Used in Forex and Binary Options Trading

FAQs

Conclusion

46

About Vince Stanzione

Introduction to the Currency Market, Foreign Exchange (FX)

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

It's hard to comprehend the colossal amount of money traded here on a daily basis – totalling around \$5.3 trillion USD per day, as reported in a 2013 survey by the Bank for International Settlements (BIS) in Basel, Switzerland. Approximately 10% is fuelled by companies trading overseas, which need to convert currencies for routine commerce, such as import / export businesses; the rest is pure speculation and investment.

As these figures clearly show, this is a very active trading sector, with the potential to yield significant gains through smart, consistent money-management principles. This ebook explores the many ways that you can learn to profit from Forex through Binary.com's online trading platform.

Chapter 1: The Simple Basics of Forex

The FX Market Is Now Open to Small Accounts

For many years, to participate in the FX market, you would have needed a substantial amount of trading capital, as well as an FX broker or bank to transact your trades. Today, thanks to Binary.com, it's possible for anyone to trade currencies – even with a small amount of money – and all trades are strictly limited risk.

The currency market offers nearly 24 hours of seamless trading – starting on Sunday at 9 p.m. GMT, which is early morning in Asia, and carrying on all the way until Friday evening in New York, or 10 p.m. GMT. Regardless of which country you are in, you can trade in the FX market, and prices are always being quoted.

The currency market is liquid at most times; however, the most active times are typically around 3 p.m. GMT, when the London and US markets are both open. Another busy time is around 8 a.m. GMT, when London initially opens and the Far East is closing down for the day.

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

Forex Market Participants: Who Needs and Uses the Currency FX Market?

1. Consumers and Tourists

Consumers may purchase goods in a foreign currency during travel abroad or via the Internet using their credit card or a payment service. The amount consumers pay in the foreign currency will be converted to their home currency on their credit-card statement, which will require an FX transaction. Credit-card companies will "block trade" the smaller transactions together, buying and selling currencies accordingly.

Tourists will also go to a bank or currency exchange bureau to convert one form of currency (i.e., their "home" currency) into another (i.e., the "destination" currency) when using cash to pay for goods and services in a foreign country. Increasingly, credit, ATM withdrawals, debit or pre-paid currency cards are now being used in lieu of cash, but each still requires an FX transaction.

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

2. Businesses

Businesses often need to convert currencies when they conduct trade outside the boundaries of their home countries.

Large companies need to convert huge amounts of currency; a multinational company – such as IBM (NYSE:IBM), for instance – converts tens of billions of dollars each year from sales made outside of the United States. Companies trading commodities will likely be paid in USD but have costs in other currencies.

3. Commercial and Investment Banks

Commercial and investment banks trade currencies as a service to their commercial banking, deposit, and lending customers. These institutions also participate in the currency market for hedging and speculative purposes. According to the 2015 Euromoney FX survey, the four biggest FX banks are:

1. Citi

2. Deutsche Bank

3. Barclays

4. JP Morgan

4. Governments and Central Banks

Governments and central banks trade currencies to improve economic conditions or to intervene in an attempt to adjust economic or financial imbalances – also known as “currency intervention.” According to the International Monetary Fund (IMF), the following countries hold the biggest amounts of USD reserves:

1. China

2. Japan

3. Saudi Arabia

4. Switzerland

Because they are non-profit by nature, governments and central banks do not trade with the intention of earning a profit. However, because they tend to trade on a long-term basis, it is not unusual for some trades to earn revenue.

5. Investors and Speculators

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

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

So What Is Trading Currencies All About?

Many of us have traded currencies on a small scale. If you have ever spent time abroad, you have purchased Swiss Francs, Euros, Yen, US Dollars, etc.

When you are looking to buy a currency – such as Euros, for example – you are interested in receiving as many Euros in return for your home currency as possible. Let's just say that your home currency is the British Pound (GBP); in such a case, you would prefer to have 1.30 EUR to the GBP rather than 1.20, so you are "Buying High" – thus receiving a greater amount of the destination currency in return for your home currency, based on a higher exchange rate.

When you come back from a trip overseas with unspent Euros, you want to exchange this currency back into British Pounds. You are now looking for the lowest figure possible, in terms of the EUR / GBP exchange rate, so you are "Selling Low" – essentially hoping that a relatively fewer number of Euros will be needed to return maximal value in British Pounds. In the foreign exchange markets, no actual notes exist; it's all virtual transactions. The principal amount of money never changes hands, and you are only trading based on a small percentage of change, which is referred to as "margin."

By trading "on margin," which is the traditional setup for most Forex brokers, you can leverage a small deposit to control a very large position. Whilst this may sound great in theory, it can present significant challenges in practice – a fact that often only becomes apparent after the damage has been done.

Since even a small move in the underlying currency is instantly magnified through the use of leverage, many currencies issued via conventional FX brokers can yield dire consequences, before you even have time to take note and react.

Let's examine this situation in practical terms with a simple, yet powerfully illustrative example: If a broker is offering 100:1 leverage, this would immediately enable you to trade \$100,000 in currency with just 1% margin. Believe it or not, all you would need is \$1,000 deposited into the account; the remaining 99% (i.e., \$99,000) is provided by the broker. It sounds almost too good to be true, doesn't it? Indeed, don't be fooled by this seemingly attractive scenario. Here's the flipside view, which can lead to disastrous results in short order: If a position goes against your prediction, you will either have to quickly put up more funds – the dreaded situation known as a "margin call" – or your trade will be closed out. As you can see, the danger of trading on margin stems from the fact that it can suddenly leave you "way in above your head," forced to refuel your account with additional funds to stay alive.

Trading the Forex market through Binary.com – on the other hand – works entirely differently. By trading currencies with “binary options,” you will never be asked to provide additional margin or be forced to close out a trade; the exact cost of each trade is fully displayed at the outset, as is the potential gain. Before purchasing each trade, you’ll know exactly how much you stand to gain or lose. At worst, the maximum that you could ever part with is the price initially paid to purchase the trade; at best, you’ll win back your initial stake plus the payout amount displayed for your consideration when you first bought the trade. Thus, as Forex trading goes, the binary route is extremely clear-cut and predictable, in terms of the potential outcomes.

What Makes a Currency Go Up or Down?

The easiest way to look at a currency is to pretend that it is a share of a given country, such as Switzerland Inc. If the country is in good shape economically and politically, this hypothetical share will be strong. If the country is in trouble, has defaulted on debt, is plagued by riots in the streets, and / or has no political leadership, the share will be weak. If you look at the currency crisis in nations such as Zimbabwe, you will see what makes a currency weak and how it can be devalued, making it virtually worthless. Remember: Currencies are “FIAT,” which comes from a Latin word literally translated as “it shall be”; in other words, the currency is based on trust, instead of being backed in more tangible form by a physical asset, such as gold.

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

Pictured just below: PIC Zimbabwe Trillion Dollar Note



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

Chapter 2: Trading the Forex Market

11

Which Currencies Can You Trade?

By far, the US Dollar remains the key currency in the Forex market.

The table below shows 42 currencies that are used around the world. Yet the majority of all FX trades – i.e., approximately 80% – involve the US Dollar (USD). The USD remains the world's reserve currency, used when trading commodities such as Gold and Oil (which are quoted in USD per ounce or barrel). Companies that do business throughout many parts of the world still report in USD. Even kidnappers, criminals, and drugs dealers prefer to be paid in USD! This currency essentially sets the bar throughout the globe.

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

Each currency has a three-letter code, which is standard, regardless of which bank or broker you use. Binary.com utilises this same currency code system.

On the Binary.com trading platform, you will find two types of currencies:

- **Major Pairs**

- The most popular, commonly traded pairs, such as EUR/USD and USD/JPY

- **Minor Pairs**

- Less active currencies, which still offer plenty of opportunities

You're Always Trading a Pair

Unlike buying a company stock or a commodity, in currencies, you are always trading in pairs.

So if you believe that the Japanese Yen (JPY) will weaken, this is only one half of the equation; you still need to figure out “the other side of the coin,” so to speak. The second part that still needs to be reasoned out is to decide “against which currency will it weaken?”

The JPY may weaken against the US Dollar (USD) or Euro (EUR).

As previously mentioned, the majority of trades are against the USD. However, you can certainly trade currency pairs that do not include the USD as one side – for example, the Australian Dollar / Japanese Yen (AUD/JPY) or the Swiss Franc / Euro (CHF/EUR).

When quoting currency pairs:

- **The first currency is referred to as the “base currency.”**

- The base currency is always equal to one monetary unit of exchange.

- Examples:

- 1 US Dollar
- 1 British Pound
- 1 Euro

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

Learning the Lingo: Pips, Points, and Ticks

There are a few other closely interrelated Forex trading terms that we should explore at this stage: Pips, points, and ticks.

"Pip" stands for "percentage in point" or "price interest point," which is a unit of change in the exchange rate of a currency pair. For example, if Binary.com quotes a spot price on EUR/USD of 1.10152, the move to 1.10153 would be classified as a "pip" or a "tick." ***Another name for a "pip" is a "tick."***

A "pip" or "tick" is generally the fourth decimal place (i.e., the "1" in "0.0001"), although there are exceptions to this rule. Note that some currencies do trade to a lower fraction – such as USD/JPY, which would be quoted as 112.767.

Traditional Forex brokers require currency to be purchased in standard contract sizes – typically, units of \$100,000. With Binary.com, none of these usual barriers to entry apply; you can jump right into trading by purchasing contracts as low as \$1 USD to start – working your way up at your own pace, as you gain greater confidence in your Forex knowledge and skills.

With FX brokers, currency pairs are generally traded as set unit quantities of the base currency (i.e., 100,000 units). For example, if you were buying GBP/USD at 1.4559, you would be paying US Dollars for British Pounds as follows:

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

Chapter 3: How to Evaluate a Currency

There are two main ways to analyse a currency:

- **Fundamental analysis**
- **Technical analysis**

In this guide, we will spend more time focusing on technical analysis, charting, and system trading than fundamentals and economic indicators.

But let's start off with an overview of fundamental analysis.

Fundamental Analysis

As previously mentioned, traders are always looking for clues to the health of a country and the vitality of its currency. This means analysing “fundamental data,” such as unemployment figures, inflation, GDP, and even new car sales. These types of figures can all provide a temperature reading of sorts to help gauge an economy’s relative strength.

Key economic data releases are scheduled ahead of time, so traders can be prepared. For example, US employment data is always released during the first Friday of the month – so, for example, February employment statistics will be issued on the first Friday of March. Calendars showing the major release dates for economic data sources can be found at various sites, including:

-
- Bloomberg Business: <http://www.bloomberg.com/markets/economic-calendar>
 - Yahoo! Finance: <https://biz.yahoo.com/c/e.html>
 - Bureau of Economic Analysis for the US Department of Commerce:
<http://www.bea.gov/>

Normally before and after a major announcement, a currency becomes more volatile, as traders interpret and react to the data.

Problems with Fundamental Analysis

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

The other problem is that data can be interpreted in many different ways. For example, a higher unemployment number can be seen as negative, in that a greater percentage of people out of work implies more benefits being shelled out at the government's expense, less people paying tax, and an overall weaker economy.

However, on the plus side, it would also typically mean that wage inflation remains low – since current employees are less likely to ask for a pay raise if others are ready to swoop in and take their jobs. It would also mean that central banks are less likely to raise interest rates.

Major banks produce a vast amount of analysis on economies – much of which is freely available. However, it is questionable how useful this data is to the financial trader, especially in shorter-term trades.

For most, technical trading will offer an easier way to follow the FX market, and professional tools are now available to all.

Technical Analysis and Trading

Technical Analysis ignores news items and economic data, focusing purely on price trends and volume. It primarily involves studying chart patterns, showing the trading history and statistics for whatever currency pair is being analysed.

You would start with a basic price chart, which would show the currencies' trading rates in the past, and look for a trend or pattern that can help determine future pricing.

3 Possible States for Currency Pairs

Before we go into more depth with trading tools, a currency pair can only be in three states:

1. Trend Higher

2. Sideways Range

3. Trend Lower

Let's now explore each of these states in greater detail.

1. Trend Higher

In this state:

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

In other words:

- **Whenever the currency sells off, it rebounds at a higher price than the previous time.**
- This is considered to be "positive" or "bullish" activity, because:
 - Market participants are willing to pay more than in the past.

The types of trades that you would look to make with Binary.com during these market conditions are:

- **Up (i.e., Higher)**
- **Touch / No Touch**
- **In / Out**



In the example above, we see the USD / CAD exchange rate.

Note that:

- The USD strengthens, as the Canadian Dollar weakens.
- Overall, the trend is up.
 - Of course, nothing goes up or down in a straight line; that would be far too easy.

2. Sideways Range

This state is often overlooked, but a currency can stay in a sideways range for weeks or even months. A sideways range is a case in which:

- **Buyers and sellers are equally matched**
- **Price levels have been formed, which attracts:**
 - **Buyers (or "Support")**
 - **Sellers (or "Resistance")**

For example:

- Let's say every time the EUR / USD exchange rate reaches 1.10, we find support from buyers.
 - This amount would be the lower range.
- Then every time we get up to 1.15, we find resistance from buyers.
 - This amount would be the higher range.

Prices can bounce between the two levels for a certain period of time. At some stage, the equilibrium is broken, and a new trend or range will be established.

With Binary.com, unlike many other forms of FX trading, you can actually profit from sideways ranges, using the following trades:

- **In / Out**
 - Using an "In" trade would allow you profit from a currency staying "in" between two price levels.
- **Touch / No Touch**

Another important tip to note here:

- **Currencies have a habit of trading at round numbers, or going back to retest previous support and resistance levels.**
 - This is where the use of charts can help you make profitable trades, by allowing you to identify previous levels.

The example below shows the EUR / CHF exchange rate for over six months.

Note that:

- The price remains between 1.0750 and 1.1000.
- We do see a break out of the range, only for the price to return again.
- Based on this chart, I would typically trade with the assumption that the range is likely to continue.



3. Trend Lower

In this state:

- **The lows are becoming lower.**
- **The highs are also becoming lower.**

In other words:

- **Whenever the currency sells off, it rebounds at a lower price than the previous time.**
 - This is considered to be "negative" or "bearish" activity, because:
 - Market participants are willing to pay less than in the past.
 - The currency is losing strength.

The types of trades you would look to make with Binary.com during these market

conditions are:

- **Down (i.e., Lower)**
- **Touch / No Touch**
- **In / Out**

The below example shows the GBP / USD exchange rate.

Note that:

- Overall, the GBP is weakening.
 - Although we do see slight rebounds, they are weak and do not go above the previous highs.
 - A helpful analogy for this state is to think of this currency as if it were a boxer that gets knocked down gradually.
 - With each knockout, he takes longer to get back up again.
 - You can guess that – eventually – he will be unable to recover, or the fight will be stopped.



Timeframes

Depending on which timeframe you use in a chart, the trends and patterns will look very different. Many traders examine multiple timeframes for the same currency pair – such as the EUR / USD in one-minute, one-hour, and one-day charts. Binary.com offer comprehensive charts across different timeframes, ranging from very short-term (i.e., mere ticks, or seconds) to one day.

A Short-Term Timeframe: 1 Minute

Here, we see one of the most actively traded currency pairs – EUR / USD – over a five-hour period. Each candle represents one minute, and we see opportunities to profit from “up” or “down” trades.



Chart Formats

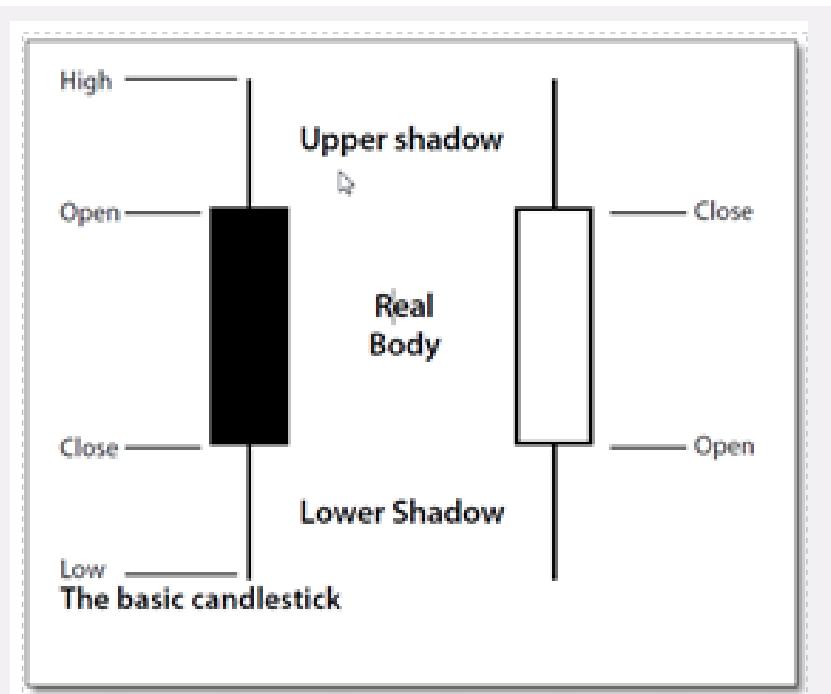
There are various types of charts that can be used to analyse Forex. However, to keep things simple:

- I will concentrate exclusively on one well-known format called "Candlestick Charts."
- I will not go into the details of the various patterns; I will just concentrate on the basics.

Candlestick Charts

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

The method was picked up by Charles Dow circa 1900 and remains in common use by today's financial market traders.



Candlesticks are usually composed of:

- **The body**

- Typically shaded in black or white
- Illustrating the opening and closing trades

- **The wick**

- Consisting of an upper and lower shadow
- Illustrating the highest and lowest traded prices during the time interval represented

If the asset closed higher than it opened:

- The body is white.
- The opening price is at the bottom of the body.
- The closing price is at the top.

If the asset closed lower than it opened:

- The body is black.
- The opening price is at the top.
- The closing price is at the bottom.

A candlestick need not have either a body or a wick.

Note that, in the examples shown throughout this ebook, we have used

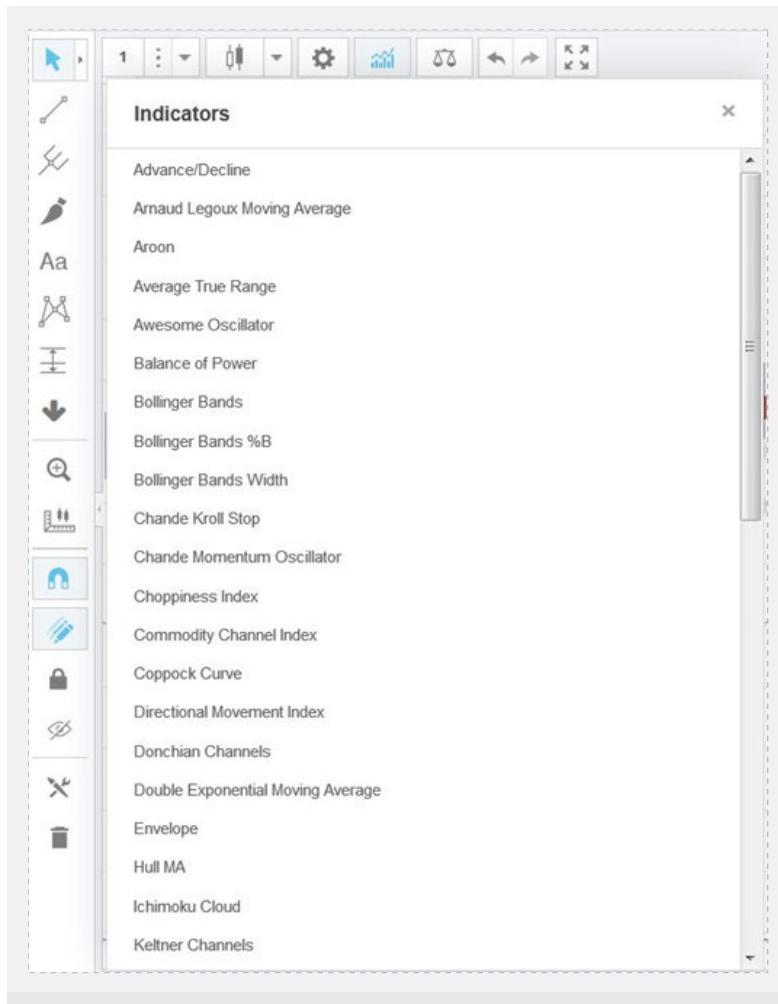
- Red for a down candle
 - Instead of black
- Green for an up candle
 - Instead of white

Chapter 4: Three Main Tools a Trader Can Use

Power Tools for Forex Traders

The aim of this ebook is not to go into the hundreds of possible technical trading tools, patterns, and indicators, but to give you an understanding of the main tools available. This brief overview is designed to help you get started in trading currencies successfully, so that you can begin to build up your knowledge.

Binary.com offers access to excellent complementary charts and tools with over 25 technical indicators, but we will stick to some of the main ones here. It's important to keep your trading system simple to start; as you progress, you can add extra tools, to further refine your abilities.



Moving Averages

This tool has earned and saved me more money than any other. It's hard to trace the precise origins of the Moving Average, although this concept is often attributed to Richard Donchian, who was a great pioneer of systematic trading in the 1950's and 60's. The methodologies that he developed over 40 years ago still serve as the basis of many complex systems used by the world's best traders.

The dictionary defines an Average as "the quotient of any sum divided by the number of its terms." Let's suppose that you need to work out a 10-day Moving Average of the following numbers: 10, 20, 30, 40, 50, 60, 70, 80, 90, 100. You would thus add these figures together and divide by 10 (i.e., the total number of items in the set), to arrive at an average of 55.

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

Every charting software package incorporates Moving Averages, as it is one of the most basic aspects of trading. You will also find it on the various charts featured on Internet sites; you don't need to worry about working it out manually on your own.

Types of Moving Averages

There are five popular types of Moving Averages:

- ***Simple / Arithmetic***
- ***Exponential***
- ***Triangular***
- ***Variable***
- ***Weighted***

Moving Averages can be calculated for any data series, including all sorts of different indicators associated with a particular currency (e.g., open, high, low, close, volume, etc.).

To start, concentrate on the Simple Moving Average. While some have tried to be clever by deviating from this straightforward standard in various ways, it is best to stick with a simple approach, particularly as you first begin to trade. In software or on the Internet, "Simple Moving Average" is often abbreviated as "SMA."

Applying Moving Averages to Forex

Here's the basic rule of thumb with Moving Averages, in the context of Forex:

- If a currency's present price is below its Moving Average, then it's seen as being "weak."
- If a currency's present price is above its Moving Average, then it's seen as being "strong."

The Relationship between Timeframes and Moving Averages

The choice of days you select when using a Moving Average significantly impacts the results. A few simple pointers:

- If you use a Short-Term Moving Average (which I consider to be anything less than 10 days), you will get a lot of signals.
- If you use a Long-Term Moving Average, your signals will lag.
Some good moving averages to start with are the 20-day and 50-day moving average.

The following chart shows the GBP / JPY with a 20-day Simple Moving Average.



In using Moving Averages to trade, here are some basic principles to keep in mind:

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

Advantages and Limitations of Moving Averages

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

- **Using a technical system – such as the Moving Average – helps to reduce the impact of emotions on trading decisions.**
 - Rather than basing your trades solely on what you believe should happen, your trades are factually grounded in what is actually happening with the market data points.
- **A Moving Average can also prevent you from making stupid mistakes**, such as trading against a trend.
- **Moving Averages work best when prices are “moving” either up or down.**
 - In a sideways range, the Moving Average will go flat and give out many false signals.

Forex Price Channels: Donchian Channels

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

This tool is available within Binary.com charts, with adjustable settings for the period length. Twenty days is the conventional timeframe, which is why the Donchian Channel is often referred to as the “20-Day Rule” or the “Four-Week Rule.”



In this example, we see the EUR / JPY one-minute chart with 20-minute Donchian Channels. We can see the price is trending lower; “down” options would be the way to trade in this case.

Shorter-Term Systems

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

The advantage of this method is quicker results, with the Moving Average reacting quite sensitively to price movements. The disadvantage is that you receive more false signals with such a short timeframe selected, so it's a trade-off – but still worth examining.

Binary.com allows you to trade very short-term binary options – such as holding for two minutes and, in some cases, even less time.

Short-Term Trade Example

Below, we see a one-minute chart (in which each bar represents one minute), using a 20-period Simple Moving Average of 20 minutes.

I have marked some sample trades with two arrows:

- **At the red arrow, we would want to be on a “Down” trade (i.e., a “Lower” option).**
- **At the blue arrow, we would want to be on an “Up” trade (i.e., a “Higher” option).**

We are looking very short-term with the scope of this chart, so the next two to three minutes would be the ideal timeframe for the purchase of these trades.



Chapter 5: More Advanced Forex Strategies

Support and Resistance: How to Make Money from a Sideways or Dull Market

As previously mentioned in this ebook, in discussing the three possible states of currency pairs, most traders are conditioned to look for moving markets or trends – i.e., times when a market is moving higher or lower over time. Think of it like a staircase.

- ***In an “uptrend,” the lows are getting higher, and the highs are higher.***
 - Selloffs or pullbacks are quickly recovered, and the market goes higher.
- ***In a “downtrend,” lows are lower, and highs are lower.***
 - Any “up” moves are quickly sold off, as the market is losing energy.
 - A helpful analogy is a boxer being knocked down gradually, taking longer and longer to get up each time.
- ***Markets can also be dull or range-bound, with very little movement in either direction.***
 - Such periods can last for weeks and sometimes months.

Why Markets Stay in a Trading Range

Markets are made up of buyers and sellers. Simple economics tells us that supply and demand moves prices.

But what happens when buyers and sellers are fairly evenly matched or in equilibrium? How do we make money from this situation?

- **Support levels occur when the consensus is that the price will not move lower.**

- It is the point at which buyers outnumber sellers.
- Support can be seen as a “floor” for the exchange rate.

- **Resistance levels occur when the consensus is that the price will not move higher.**

- It is the point at which sellers outnumber buyers.
- Resistance can be seen as a “ceiling” for the exchange rate.

The penetration of a support or resistance level indicates a change in investor expectations and a shift in the supply / demand line.

In the chart below, we see the EUR / GBP staying within a range of 0.69500 and 0.74500. This sideways range lasted for around eight months. As you can see, this period was an ideal time to utilise the “In / Out” trade on Binary.com – by selecting an “In” option to indicate that the price would remain between two barriers.

As shown, the range finally broke out in 2016. At that point, 0.74500 became the support (or “floor”), and 0.7900 became the new resistance (or “ceiling”), as the top of the next range.



Relative Strength Index (RSI)

The Relative Strength Index (RSI) indicator measures a share's performance against itself. It is often used to identify buy opportunities in market dips and sell opportunities in market rallies. The value of the RSI is always a number between 0 and 100.

- *A low number (i.e., 30 and below) indicates a more oversold market.*
- *A high value (i.e., 70 and above) indicates a more overbought market.*
- *The higher and lower horizontal lines on the graph are at 30 and 70 – i.e., the levels at which markets are often regarded as “oversold” or “overbought.”*

How to Trade the RSI with Binary Options

The chart below shows an example of the EUR / USD, in which we can apply this tool to inform trading decisions.

- When the RSI moves to 70, it's a good time to look at "Down" ("Lower") trades.
- When we see the RSI down at 30, it's a good time to look at "Up" ("Higher") trades.
- In this example, we can see the RSI is at 50, which is fairly neutral (midway), so the RSI is not providing a clear buy or sell signal.

Thus, in this case, it would be best to hold off from placing a trade, until clearer signals appear.



Special Note:

My course, *Making Money From Financial Trading*, covers this subject in much greater depth. The purpose of this simple introduction is to urge you to start thinking about using a technical trading system, rather than relying solely upon news, fundamentals, or – worst of all – trading on hunches.

Most people trade based on emotions or titbits of information that they pick up from the news. Unfortunately, this is not a reliable way to make money.

Having a systematic way to enter and exit a market may sound a bit boring, but that is – in fact – the whole point. Technical systems and tools help to minimise the influence of human emotions, so that more rational trading decisions can be made.

Momentum Trading

Newton's first law of motion states that:

"An object at rest stays at rest, and an object in motion stays in motion with the same speed and in the same direction, unless acted upon by an unbalanced force."

In financial markets, "Momentum Trading" basically means that you are following the price action – looking for markets that are currently moving and likely to continue shifting further in that same direction.

Binary.com offers a variety of ways to profit from momentum, ranging from trades lasting one minute to multiple weeks.

Valuable Tips:

You can try out new ideas and systems on the Binary.com platform by using a virtual account, or by purchasing minimum-size trades with a real account. As little as a few US Dollars can be staked with your initial test runs, until you build up greater confidence in using a particular tool or technique.

Sometimes, an idea that seems quite logical on paper does not actually work when applied to the real world of trading. Often, it's best to test out new strategies with actual market prices and real money, but just a small amount of risk on the line to start. Then, if you're happy with the results, you can increase to bigger trade sizes appropriately.

Keep in mind: Overall, if a system is not working on a small bet size, it's hardly going to start working if you risk more. Use your head; be smart.

Good Money Management

Regardless of how big or small your account is, you need to treat trading with Binary.com as a business. Some come into trading with a “gambling” mentality; they’ll start off with good intentions, but end up making reckless trades, forcing them to play catchup to recoup losses, or – if they are doing really well – they’ll assume they’re on a roll and become too daring.

It makes sense to slow down a little. If you’re going through a bad run, then take a step back; reduce the size of your trades; or maybe even go back to using a virtual account for awhile.

Let’s say you start with a \$1,000 account. If you limit your risk on any one trade to 5% of the account, this practice would allow you to keep trading, even with a bad run. Let’s observe this simple system in action:

- **The maximum staked on a single trade should never be more than 5% of your account total.**
 - So initially, 5% of your \$1,000 account balance would be \$50.
- **If your balance goes down, then your trade size is proportionately reduced.**
 - Let’s say that – following a few losing trades – your account balance decreases to \$900; 5% of this amount would now be \$45.
- **If you have had a good run, then your allowance per trade proportionately increases.**
 - Let’s say that – following a few winning trades – your account rises to \$1,200; your 5% maximum per trade is now \$60.

This is a very basic overview, and you can build up your own money management system, but the key is that no one trade should ever blow your trading account.

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

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

Big Losses Are Hard to Recoup

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

How do you prevent losses from ever spiralling out of your control? Simply be smart in your approach: Use the money-management principles described above, to keep everything within your manageable range at all times.

Watch that ego: Don't mistake a lucky run with skill. After a good run, many become overconfident and start taking stupid risks. After a poor run, many attempt to play catchup, trying to make their losses back fast.

Both of these slippery slopes are the easiest way to lose your trading capital. Many books have been written on money management with complicated formulas. The key principle is quite simple: No one trade should ever cause you so much damage financially or emotionally. However sure you are that "XYZ" is going to rocket, only a percentage of your trading bank should ever be risked.

Chapter 6: Evergreen Forex Resources & References

7 Tips to Making Money in Currency Trading

1. Start Small, and Build Up.

I have been in the trading business for over 30 years, and yes, I trade and invest a multi-million-dollar account – but I didn't begin that way. I started small and built up this amount steadily over time. Understand the power of compounding; it's critical to realise how money makes money.

Below is an excerpt from one of my favourite fables, which illustrates this powerful lesson. The same principle can be used when trading with Binary.com.

Excerpt from A Grain of Rice, by Helena Pittman:

The daughter of the Chinese emperor was ill, and he promised riches beyond compare to whoever could cure her.

A young peasant named Pong Lo entered the palace. With his wit and bravery, he restored the health of the princess and won her heart. As a reward, Pong Lo asked for her hand in marriage. The emperor refused and asked Pong Lo to think of anything else he would like.

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

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

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

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

By the twelfth day, the grains of rice numbered 2,048. By the twentieth day, 524,288 grains were delivered; and by the thirtieth day, 536,870,912, requiring 40 servants to carry them to Pong Lo.

In desperation, the emperor did the only honourable thing he could do and consented to the marriage. Out of consideration for the emperor's feelings, no rice was served at the wedding banquet.

2. Money Management Keeps You in Business.

"Risk too much, and a few bad trades will make you lose your trading bank."

"Risk too little, and it's going to be a long time before you see any decent profits."

Money management does not have to be very complicated, but a simple system will ensure that no one trade causes you to wipe out your trading account. The most common mistakes made by many new traders are attempting to grow an account too quickly and putting all money into one "sure trade" – which rarely, if ever, exists.

3. Don't Let Your Emotions Overcome Your Trading System.

Trading with a virtual account and trading with real money are not the same. As in most walks of life, when real money is at stake, circumstances become instantly more emotional. Sadly, you will never eliminate emotions as a factor that impacts trading; after all, we are humans, with this irrational feature hard-wired into our circuitry. But by using a system and steadily applying practical experience, you will learn to cut your emotions down to a bare minimum.

Be careful about taking in too much news and over-monitoring your position. It is easy to overreact to a news story that may cause a short term spike, but is actually not that important in the long run.

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

4. You Can Make Money in All Market Conditions.

Many still believe that – in order to make money – the price of a share, market, currency, or commodity must go up. However, this is not true, as I have outlined. With Binary.com, you can profit from up, down, and even sideways movements, so don't see falling markets as a negative. In Forex trading, you will always have some currencies that are strong, and others that are comparatively weak.

5. When in Doubt, Sit It Out.

If you watch financial news channels such as CNBC or Bloomberg, it may seem as though you should always be doing something, since these channels are consistently filled with "breaking news." Remember: These channels need to fill their airtime, and – in many cases – the best trade is in fact "no trade." If you are not sure, or do not see an opportunity that you are particularly happy with, then do nothing, and just wait for the next one.

6. The Higher the Returns, the Lower the Chance of a Payout.

Binary.com offers a vast selection of trading opportunities – ranging from low-risk trades with returns in the 5% to 10% range, to those with higher returns of 100% or more.

Binary.com prices all trades based on mathematical probabilities. Of course, unexpected events do happen, but overall, if you are being offered returns of more than 100% for a trade lasting two days or less, the reason for such generous returns is that the likelihood of a payout is fairly slim.

Keep in mind that it's readily possible to "mix and match" trades on Binary.com. Try purchasing some higher-risk, higher-returns trades, as well as some lower-risk trades with a higher chance of payout.

You may have heard of the Pareto Principle, or the 80/20 rule. This can be applied to your trading, by purchasing 80% of your trades with lower risk, and 20% higher. For more information about the Pareto Principle, visit https://en.wikipedia.org/wiki/Pareto_principle.

7. Treat Trading as a Business, Not as a Trip to the Casino or Racetrack.

Regardless of how big or small your account is, you need to treat trading with Binary.com as a business. Some come into trading with a “gambling” mentality. They start off with the best of intentions, but end up making reckless trades and are then forced to play catchup, trying to recoup large losses. Or, if they are doing really well, they assume they’re on a roll and become too brazen.

Keep solid records of your winning and losing trades; a diary can help with this, to complement the tracking tools you’ll find on Binary.com, which enable you to look back at your performance history. Stick to a trading system, to help minimise emotional decision-making.

Glossary of Key Terms Used in Forex and Binary Options Trading

Barrier(s)

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

Binary option

A binary option is a contract purchased by a trader, based upon predicting the future movement of a selected asset's price from two possible outcomes, which pays a pre-determined amount if the prediction is correct.

Contract period

The contract period is the timeframe of a trade. It is also called the duration.

Derivative

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

Duration

The duration is the length of a purchased trade. (See also "contract period.")

Ends Between / Ends Outside trades

An "Ends Between" trade pays out if the market exit price is strictly higher than the low price target and strictly lower than the high price target. An "Ends Outside" binary trade pays out if the market exit price is either strictly higher than the high price target or strictly lower than the low price target.

Entry spot price

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

Expiry price

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

Forex

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

GMT

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

Higher / Lower trades

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

Indices

Stock market indices measure the value of a selection of companies in the stock market.

In / Out trades

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

Market exit price

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

No Touch trades

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

One Touch trades / Touch trades

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

Payout

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

Pip

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

Profit

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

Resale price

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

Return

The return is the money realised when the contract expires. (See “Payout.”)

Rise / Fall trades

These are trades in which the trader predicts if a market will rise or fall at the end of a selected time period.

Sell option

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

Spot price

This is the current price at which an underlying asset can be bought or sold at a particular time.

Stake

The stake is the amount that a trader must pay to enter into a trade.

Stays Between / Goes Outside trades

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

Tick

A tick is the minimum upward or downward movement in the price of a market.

Underlying

Each binary option is a prediction concerning the future movement of an underlying market – i.e., the specific type of asset involved in a given trade.

Opening an Account

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

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

Do I need to send any documents?

We don't usually require any documents, as we can verify your identity online.

Financial Security

How safe is my money with Binary.com?

Your money is always safe with Binary.com. At all times, it is held in segregated AAA-rated banks, which is a condition of our trading licenses.

How does Binary.com make money?

Binary.com has thousands of clients taking a variety of positions on the financial markets at any one time, and earns a small margin on these trades.

Will my account be closed or will I be banned if I make too much money?

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

Depositing and Withdrawing Funds

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

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

How do I fund my account?

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

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

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

Do you offer virtual-money accounts?

Binary.com offers a virtual-money account, so you can get the hang of trading binaries before staking any actual currency of your own. Why not open a free \$10k fully-functional virtual-money account, and start learning how to trade?

Will I need to install any software?

Binary.com is entirely web-based and requires no software installation. You can also use a tablet or other mobile device.

How soon can I start trading?

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

Conclusion

I hope you found this short guide of use, and that you will refer back to it in due course. We are always learning in the trading business, so continue to study and expand your skills.

Regardless of market conditions, you have great opportunities to profit. Using Binary.com allows you to trade a great selection of markets, all with strictly limited risk. You will find additional resources, charts, and tools on the Binary.com website.

Wishing you lots of success.



About Vince Stanzione

*Vince Stanzione has been trading markets for over 30 years and is a self-made multi-millionaire. He is the New York Times bestselling author of *The Millionaire* and is the author of "Making Money from Financial Trading."*

He mainly lives in Mallorca, Spain, and trades financial markets including currencies, stocks, and commodities.

For more information, visit www.fintradernet.