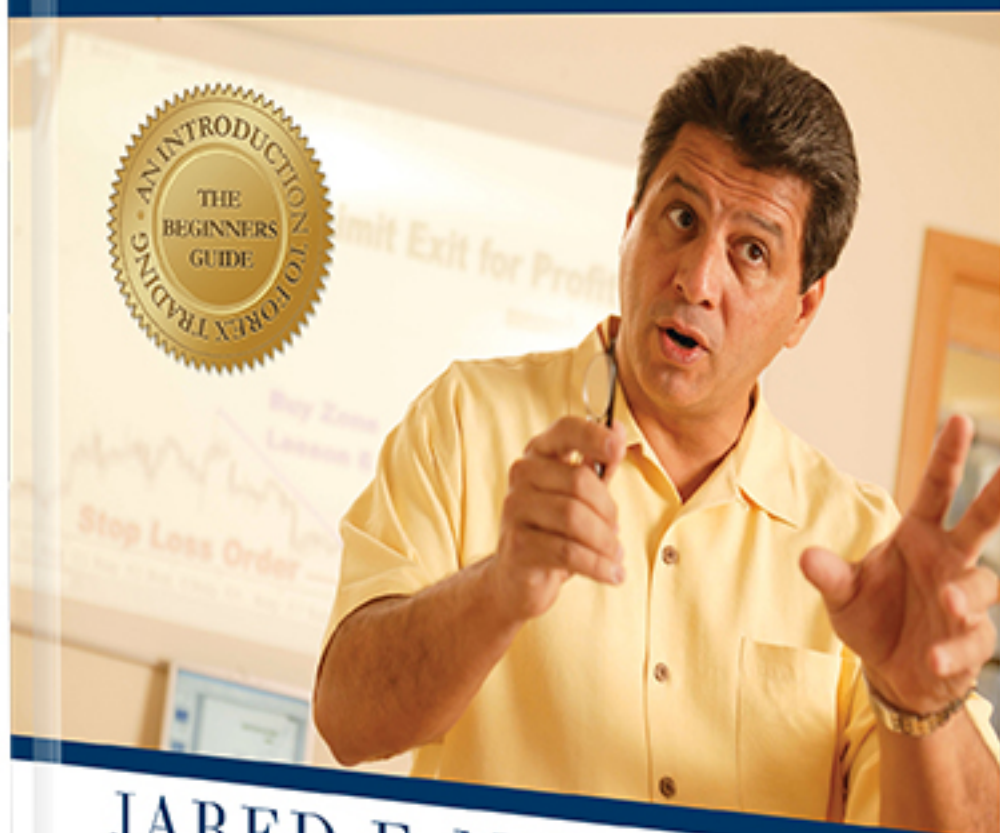


10 KEYS TO SUCCESSFUL FOREX TRADING



JARED F. MARTINEZ
THE FX CHIEF & FOUNDER OF
MARKET TRADERS INSTITUTE, INC.



Successful Forex Traders' Education Checklist



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A Beginner's Guide to the Forex:

The 10 Keys to Successful Trading

By

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Your Constant Companion

I am your constant companion.

I am your greatest helper or heaviest burden.

I will push you onward or drag you down to failure.

I am completely at your command.

I am managed with care—you must be firm with me. Show me exactly how you want something done, and after enough lessons, I will do it automatically.

I am the servant of all great people and, alas, of all failures.

Those who are great, I have made great.

Those who are failures, I have made failures.

I am not a machine, though I work with the precision of a machine and the intelligence of a person. You may run me for profit or run me for ruin—it makes no difference to me.

Take me, train me, and be firm with me, and I will place the world at your feet. Be easy with me and I will destroy you.

Who am I?

I am habit!

~ Author Unknown

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Introduction

A Trader's Mission and Goal

It is the mission of the trader to become a long-term, financially successful trader. This can be achieved when the trader adopts and accepts *The 10 Keys of Successful Trading*. A trader must commit to live by three disciplines to become a successful trader.

Three Disciplines of Successful Traders

1. A trader must believe in *The 10 Keys to Successful Trading* and merge them into their personality. Success depends on creating a trading plan, and maintaining the discipline to TRADE THAT PLAN!
2. A trader must be committed to Continuing Education. Study technical analyses and the psychology of successful trading. A trader must make logical decisions, void of emotions, while trading. Learn to trade in control!
3. A trader must map out a sensible equity management plan to ensure a Return On Investment. Trade no more than 20% of a Margin Account and expose no more than 5% of that account on any single trade.

Levels of Traders

Level One

Beginner Trader - Studies and paper trades for a minimum of one month with pretend currency, gaining the experience required to establish a track record of profitable performance.

Level Two

Advanced Beginner - Trades one or two lots with real money, learning to overcome emotions and at the same time, establishes a track record of making money.

Level Three

Competent Trader - Trades with control over their emotional distractions. Utilizes proper equity management and achieves a positive financial return.

Level Four

Proficient Trader – Trades with confidence, education and experience. Achieves **positive** financial returns.

Level Five

Expert Trader - Instinctively executes profitable trades without emotion.

Chapter 1

What is the Forex?

- Forex = **F**oreign **C**urrency **E**xchange
- You can trade 24-hours a day
- The Forex is larger than all other financial markets COMBINED

The Foreign Exchange (Forex) Market is a cash, or “spot”, interbank market established in 1971 when floating exchange rates began to materialize. This market is the arena in which the currency of one country is exchanged for those of another, and where international business is settled.

The Forex is a group of approximately thousands of currency trading institutions that include international banks, government central banks, and commercial companies. Payments for exports and imports flow through the Foreign Exchange Market, as well as payments for purchases and sales of assets. This is called the “Consumer Foreign Exchange Market.” There is also a “speculator” segment in the Forex Market. Speculators have great financial exposure to overseas economies participating in the Forex to offset the risks of international investing.

Historically, the Forex Interbank Market was not open to small speculators. With a previous, minimum transaction size, and often stringent financial requirements, the small trader was excluded from participation in this market. Today, Market Maker brokers are allowed to break down the larger interbank units and offer small traders the opportunity to buy or sell any number of these smaller units (lots).

Commercial Banks play two roles in the Forex Market:

(1) They facilitate transactions between two parties. For example, two companies wishing to exchange different currencies would seek the help of a commercial bank.

(2) They speculate by buying and selling currencies. The banks take positions on certain currencies because they believe they will be worth more if, “long”, or less if, “short”, in the future. It has been estimated that international banks generate up to 70% of their revenues from currency speculation. “Other” speculators include many of the worlds’ most successful traders, like George Soros.

The Forex also includes central banks from various countries, like the U.S. Federal Reserve. They participate in the Forex to serve the financial interests of their country. When a central bank buys and sells its own or a foreign currency, the purpose is to stabilize their own country’s currency value.

The Forex is so large and is composed of so many participants, that no one player, not even the government central banks, can control the market. In comparison to the daily trading volume averages of the \$300 billion U.S. Treasury Bond market and the approximately \$100 billion exchanged in the U.S. stock markets, the Forex is huge, and has grown in excess of \$4 trillion daily.

The word “market” is a misnomer describing Forex trading. Unlike other markets, there is not a centralized location for trading activity. Currency trading takes place via the Internet or over the phone.

A large portion of Forex trading is done by large, international banks. These banks will process transactions for large companies, governments and their own accounts. These banks continually provide prices ("bid" to buy and "ask" to sell) for each other and the broader market. The market's current price of a particular currency is the most recent quotation from one of these banks. The "live" price information is reported through a variety of private data reporting services and is able via the Internet.

There are numerous advantages to trading on the Forex.

Liquidity

In the Forex Market, there is a buyer and a seller! The Forex absorbs trading volumes and per trade sizes which dwarf the capacity of any other market. On the simplest level, liquidity is a powerful attraction to any investor. It suggests the freedom to open or close a position 24 -hours a day.

Once purchased, many other, high-return investments are difficult to sell at will. Forex traders don't have to worry about being "stuck" in a position due to lack of market interest. In the nearly \$3.5 trillion U.S. per day market, major international banks have "bid" (buying) and "ask" (selling) prices for currencies.

Access

The Forex is open 24 hours a day from about 5:00 PM ET Sunday to about 4:00 PM ET Friday. An individual trader can react to news when it breaks, rather than having to wait for the opening bell of other markets when everyone else has the same information. This timeliness allows traders to take positions before the news details are fully factored into the exchange rates. High liquidity and 24 hour trading permit market participants to take positions, or exit, regardless of the hour. There are Forex dealers in every time zone and in every major market center; Tokyo, Hong Kong, Sydney, Paris, London, United States, et al. willing to continually quote "buy" and "sell" prices.

Since no money is left on the market table-referred to as a "Zero Sum Game" or "Zero-Sum Gain"- and providing the trader picks the right side, money can always be made.

Two-Way Market

Currencies are traded in pairs—for example: Euro/Dollar (EUR/USD), Dollar/Yen (USD/JPY) or Dollar/Swiss Franc (USD/CHF). Every position involves the selling of one currency and the buying of another. If a trader believes the Swiss Franc will appreciate against the Dollar, the trader can sell Dollars and buy Francs. This position is called "selling short".

If one holds the opposite belief, that trader can buy Dollars and sell Swiss Francs—"buying long". The potential for profit exists because there is always movement in the exchange rates (prices). Forex trading permits the opportunity to capture pips from both rising and falling currency values in relation to the Dollar. In every currency trading transaction, one side of the pair is always gaining, and the other side is always losing.

Leverage

Trading on the Forex is done in currency "lots." Each lot is approximately 100,000 U.S. dollars worth of a foreign currency. To trade on the Forex market, a Margin Account must be established with a currency broker. This is, in effect, a bank account into which profits may be deposited and losses may be deducted. These deposits *and* deductions are made instantly upon exiting a position.

Brokers have differing Margin Account regulations, with many requiring a \$1,000 deposit to “day-trade” a currency lot. Day-trading is entering and exiting positions during the same trading day. For longer-term positions, many require a \$2,000 per lot deposit. In comparison to trading in stocks and other markets, which may require a 50% margin account, a Forex speculators' excellent leverage of 1% to 2% of the \$100,000 lot value means the trader can control each lot for one to two cents on the dollar.

Execution Quality

Because the Forex is so liquid, most trades can be executed at the current market price. In all fast moving markets (stocks, commodities, etc.), slippage is inevitable in all trading, but can be avoided with some currency brokers' software that informs you of your exact entering price just prior to execution. You are given the option of avoiding or accepting the slippage. The Forex Market's huge liquidity offers the ability for high quality execution.

Confirmations of trades are immediate and the Internet trader has only to print a copy of their computer screen for a written record of all trading activities. Many individuals feel these features of Internet trading make it safer than using the telephone to trade. Respected firms such as Charles Schwab, Quick & Reilly and T.D. Waterhouse offer Internet trading. These companies would not risk their reputations by offering Internet service if it were not reliable and safe. In the event of a temporary technical computer problem with the broker's ordering system, the trader can telephone the broker 24 hours a day to immediately get in or out of a trade.

Internet brokers' computer systems are protected by firewalls to keep account information from prying eyes. Account security is a broker's highest concern. They take multiple steps to eliminate any risk associated with financial transactions on the Internet.

A Forex Internet trader does not have to speak with a broker by telephone. The elimination of the middleman (broker/salesman) lowers expenses, makes the process of entering an order faster, and decreases the possibility of miscommunication.

Execution Costs

Unlike other markets, the Forex generally does not charge commissions. The cost of a trade is represented in a Bid/Ask spread established by the broker. (Approximately 4 pips)

Trendiness

Over long and short historical periods, currencies have demonstrated substantial and identifiable trends. Each individual currency has its own “personality,” and offers a unique, historical pattern of trends that provide diversified trading opportunities within the spot Forex market.

Focus

Instead of attempting to choose a stock, bond, mutual fund, or commodity from the tens of thousands available in other markets, Forex traders generally focus on one to four currencies. The most common and most liquid are the US Dollar, Japanese Yen, British Pound, Swiss Franc, Euro and Canadian Dollar. Highly successful traders have always focused on a limited number of investment options. Beginning Forex traders will usually focus on one currency and later incorporate one to three more into their trading activities.

Margin Accounts

Trading on the Forex requires a Margin Account. You are committing to trade and take positions today. As a speculator trader you will not be taking delivery on the product that you are trading. As a Stock Day Trader, you would only hold a trading position for a few minutes, up to a few hours, and then you would need to close out your position by the end of the trading session.

All orders must be placed through a broker. To trade stocks you would need a stockbroker. To trade currencies you will need a Forex currency broker. Most brokerage firms have different margin requirements. You need to ask them their margin requirements to trade currencies.

A Margin Account is nothing more than a performance bond. All traders need a Margin Account to trade. All accounts are settled daily. When you gain profits, they place your profits into your Margin Account that same day. When you lose money, an account is needed to take out the losses you incurred that day.

A very important part of trading is taking out some of your winnings or profits. When the time comes to take out your personal gains from your margin account, all you need to do is contact your broker and ask them to send you your requested dollar amount. They will send you a check or wire transfer your money.

Chapter 2

Reading Candlestick Charts

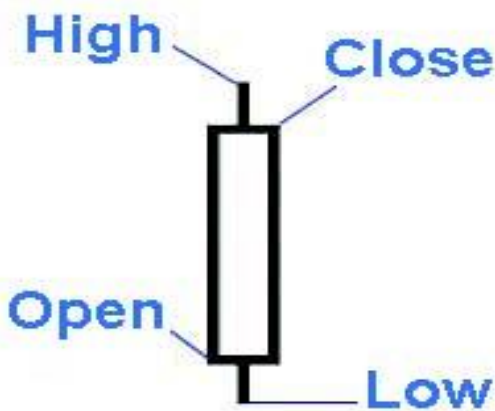
In the Seventeenth Century, the Japanese developed a method to analyze the price of rice contracts. This technique was called "Candlestick Charting." Today, Steven Nison is credited with popularizing the Candlestick Chart, and is recognized as the leading authority on interpretation of the system.

Candlesticks are graphical representations of the price fluctuations of a product. A candlestick can represent any period of time. A currency trader's software can provide charts representing time frames from five minutes, up to one week per candlestick.

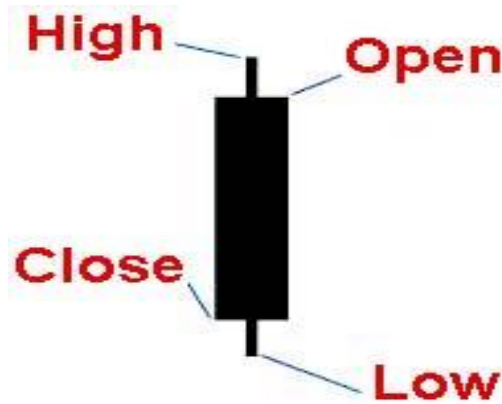
There are no calculations required to interpret Candlestick Charts. They are a simple visual aid representing price movements in a given time period. Each candlestick reveals four vital pieces of information; the opening price, the closing price, the highest price and the lowest price the fluctuations during the time period of the candle. In much the same way as the familiar bar chart, a candle illustrates a given measure of time. The advantage of candlesticks is that they clearly denote the relationship between the opening and closing prices.

Because candlesticks display the relationship between the open, high, low and closing prices, they cannot be used to chart securities that have only closing prices. Interpretation of Candlestick Charts is based on the analysis of patterns. Currency traders predominantly use the relationship of the highs and lows of the candlesticks over a given time period. However, Candlestick Charts offer identifiable patterns that can be used to anticipate price movements.

There are two types of candles: The Bullish Pattern Candle and the Bearish Pattern Candle.



A **white (empty body)** represents a **Bullish Pattern** Candle. It is used/denotes when prices open near the low price and close near the period's high price.



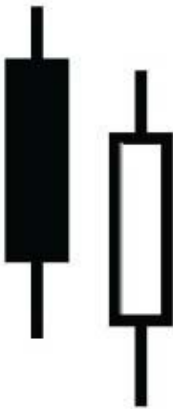
A **black (filled body)** represents a **Bearish Pattern** Candle. It is used/signifies when prices open near the high price and close near the period's low price.

Bullish Candlestick Formations



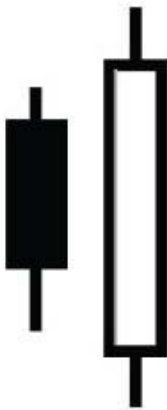
Hammer

The Hammer is a Bullish Pattern if it appears after a significant downtrend. If the line occurs after a significant uptrend, it is called a Hanging Man. A small body and a long wick identify a Hammer. The body can be clear or filled in.



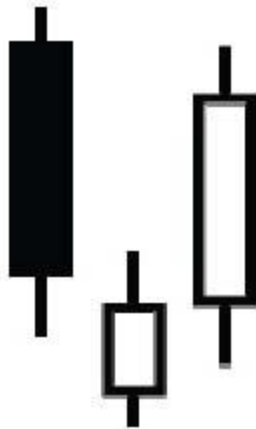
Piercing Line

This is a Bullish Pattern. The first candle is a long, Bear candle followed by a long Bull candle. The Bull candle opens lower than the Bear's low, but closes more than halfway above the middle of the Bear candle's body.



Bullish Engulfing Lines

This pattern is strongly Bullish if it occurs after a significant downtrend. It may also serve as a reversal pattern. It occurs when a small Bearish candle is engulfed by a large Bullish candle.



Morning Star

This is a Bullish Pattern signifying a potential bottom. The star indicates a possible reversal and the Bullish candle confirms this. The Star can be a Bullish or a Bearish candle.



Bullish Doji Star

This star indicates a reversal and a Doji indicates indecision. This pattern usually indicates a reversal following an indecisive period. You should wait for a confirmation before trading a Doji Star.

Bearish Candlestick Formations



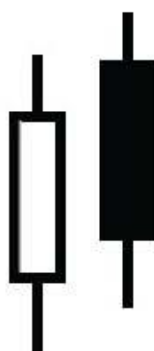
Long Bearish Candle

A Long Bearish candle occurs when prices open near the high and close lower, near the low.



Hanging Man

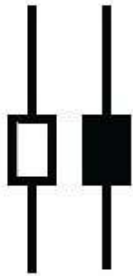
This pattern is Bearish if it occurs after a significant uptrend. If this pattern occurs after a significant downtrend, it is called a Hammer. A Hanging Man is identified by small candle bodies and a long wick below the bodies, and can be either Bearish or Bullish.



Dark Cloud Cover

This is a Bearish Pattern. The pattern is more significant if the second candle's body is below the center of the previous candle's body.

Neutral Candlestick Formations



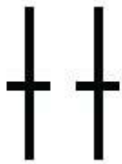
Spinning Tops

This is a neutral pattern that occurs when the distance between the high and low, and the distance between the open and close, are relatively small.



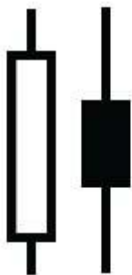
Doji

This candle implies indecision. The open and close are the same.



Double Doji

This candle (two, adjacent Doji candles) implies that a forceful move will follow a breakout from the current indecision.



Harami

This pattern indicates a decrease in momentum. It occurs when a candle with a small body falls within the area of a larger body. In the given example a Bullish candle with a large body is followed by a small Bearish candle. This implies a decrease in the Bullish momentum.

Reversal Candlestick Formations



Long-legged Doji

This candle often signifies a turning point. It occurs when the open and close are the same, and the range between the high and the low is relatively large.



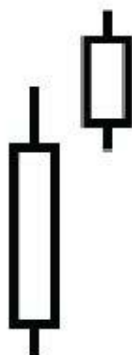
Dragonfly Doji

This candle also signifies a turning point. It occurs when the open and close are the same, and the low is significantly lower than the open, high and closing prices.



Gravestone Doji

This candle also signifies a turning point. It occurs when the open, close and low prices are the same, and the high is significantly higher than the open, close and low prices.



Stars

Stars indicate reversals. A Star is a candle with a small, real body that occurs after a candle with a much larger, real body, where the real bodies do not overlap. The wicks may overlap.

Candlestick Example Charts



Stock charts can also be interpreted using Candlestick Charts.



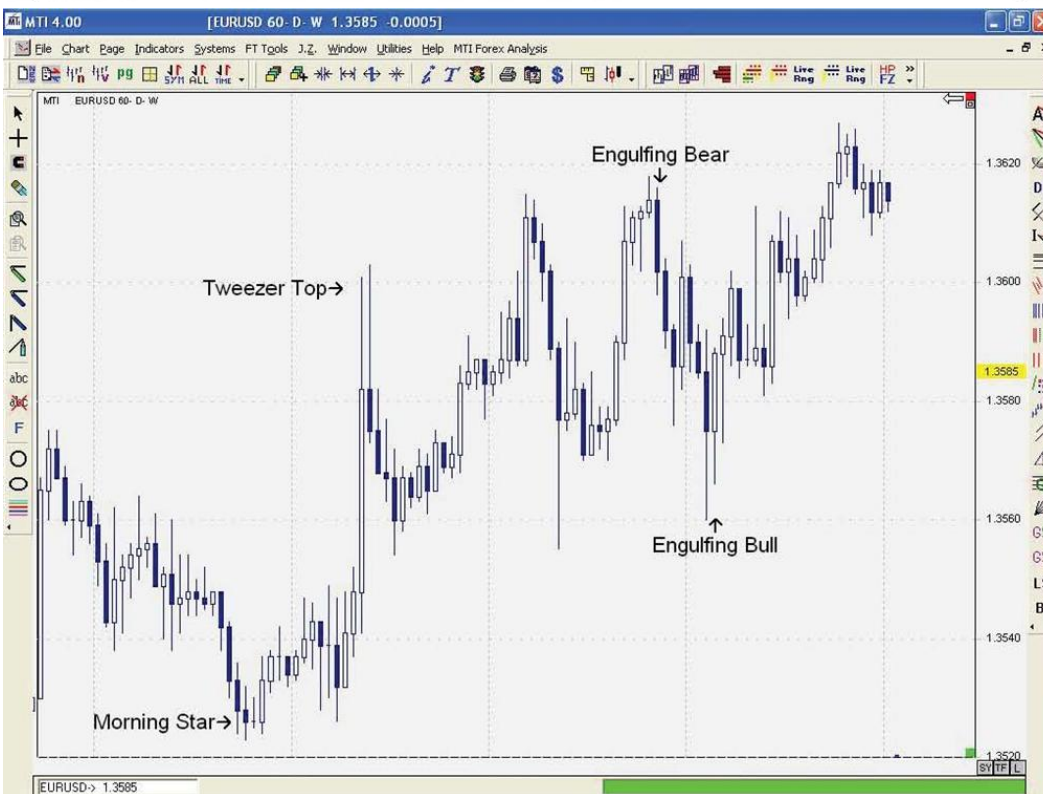
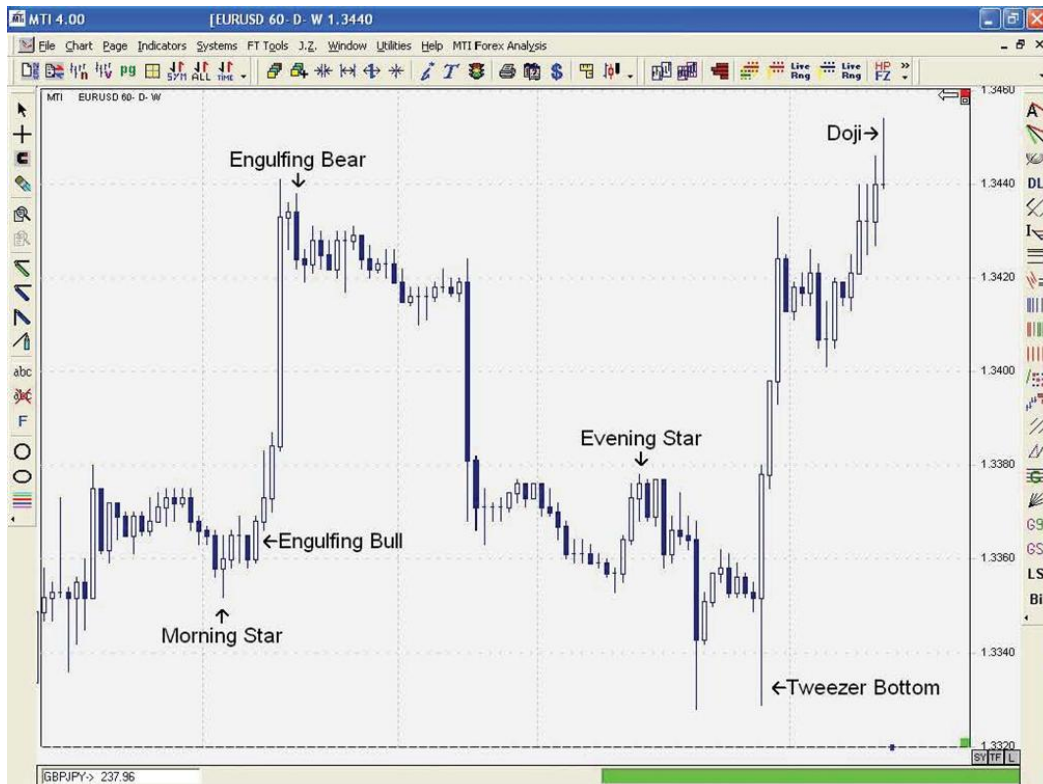
Exercise 1: Circle and identify the Candlestick Formations in the following chart.



Exercise 2: Circle and identify the Candlestick Formations in the following chart.



Answers to the Exercises



Chapter 3

Types of Orders

- Sellers are ASKing for a high price
- Buyers are BIDding at a lower price
- Trading is an auction
- Slippage occurs with most Market Orders
- The difference between the ASK and the BID price is the SPREAD.

A Trader must understand what each order is and what part it plays in capturing pips.

A Forex Trader must use three (3) types of orders: a **Market Order**, a **Limit Order**, and a **Stop Order**.

The two, primary orders used for entering and exiting the Forex market are **Limit** and **Stop Orders**. Once an order is placed, there are two critical procedures: **One-Cancels-the-Other (OCO)** and **Cancel-and-Replace Orders**. Properly understanding the procedures of order execution is a vital step to capturing pips.

***Remember:** All good carpenters carry a toolbox. The sharper the tools, and the more skilled the carpenter is at using them, the more effective they are. The sharper you become as a trader, the more efficient and lucrative you will be.*

Market Orders

A Market Order is an order given to a broker to buy or sell a currency at whatever the market is trading it for at that moment. The Market Order can be an entry order into the market, or an exit order to get out of the market. Traders use Market Orders when they are ready to make the commitment to enter or exit the market. Caution should be exercised when using Market Orders in fast moving markets. During periods of rapid rallies, or down reactions, gains or losses of many points may occur due to slippage before receiving the fill.

Trading is an auction where there are **buyers** bidding on what **sellers** are offering. The bid is the **buy** and the offer to sell is the **ask**.

Slippage

Slippage is a trade executed between a buyer and seller where the resulting buy or sell transaction is different than the price seen just prior to order execution. On average, one to six pips will be lost with Market Orders, perhaps more, due to slippage. Market Orders are rarely filled at the exact, anticipated price. *Market Traders Institute recommends caution when entering or exiting with a Market Order.*

Limit Orders

Limit Orders are orders given to a broker to buy or sell currency lots at a certain price or better. The term "Limit" means exactly what it says. Most of the time, you will buy at that exact limit price or better. Limit Orders are used to enter and exit the market. They are generally used to acquire a specific price, avoid slippage and unwanted order fills (execution price), which can happen with Market Orders.

When selling above the market, it is a Limit Order. When buying below the market, it is a Limit Order. A Limit Order will be executed when the market trades through it. Seventy to ninety percent of the time, if

the market is trading at your Limit Order, it will be executed. The market must trade through your specified Limit Order number to guarantee a fill. The trading software provides notification within seconds of the fill. A trader does not have to call his broker to see if their order has been filled.

Stop Orders

Stop Orders are orders placed to enter or exit the market at a desired, specific price. When buying above the market, it is a Stop Order. When selling below the market, it is a Stop Order. Stop Orders turn into Market Orders when the market trades at that price. Stop Orders, as well as Market Orders, are subject to slippage, Limit Orders are not.

The majority of Stop Orders are used as protective, Stop Loss Orders. These orders are placed with an Entry Order to ensure an exit when the market goes against you. A good trader never trades without a protective Stop Loss Order. They are orders executed to get you out of the market when your trade has gone against you. Protective Stops are discussed in depth in the Ultimate Traders Package on Demand.

One-Cancels-the-Other (OCO)

Whenever entering the market, exiting the market at some future time is required. An OCO order is a procedure that means "one-cancels-the-other." Upon entering the market, place a protective Stop Loss Order and establish a projected profit target. That projected profit target can be your Limit Order.

If you simultaneously place both Limit and Stop Loss Orders when you enter the market, you can OCO them and walk away from your computer. What does that mean? At some future point in time, either your Stop Order or Limit Order will automatically cancel your opposing order. If the trader is sure about a trade, they can execute an OCO order and walk away from the trade. The trading software will then manage the trade.

Cancel/Replace Orders

A Cancel/Replace Order is a procedure and not an Entry or Exit Order. By definition, it is when the trader cancels an existing open order and replaces it with a new order. A Cancel/Replace order is primarily a strategy of trading and predominately used after one has taken a position in the market and wants to stay in the market locking in profit. For example, you buy Swiss at 1.410. Your protective Stop Loss Order is 1.390. The market moves in the direction you projected. Now, you want to reduce your potential loss. So, cancel your Stop Order at 1.390 and replace it to 1.410 where you got in. You are now in a trade with no risk! As the market moves further North, in your direction, you want to lock in more profit. You can cancel your 1.410 Stop Loss Order and replace it with a new 1.440 Stop Loss Order. You have captured 30 pips. You are in an all-win, no-risk trade. Keep canceling and replacing your Stop until you are finally stopped-out. This is discussed separately under "**Protective Stops**" in the Ultimate Traders Package on Demand.

Ultimate Traders Package on Demand

Both the novice and the more experienced Forex trader can gain new insights into Forex trading from the comprehensive, step-by-step approach of MTI's Forex training methods.

MTI's Ultimate Traders Package on Demand is a five-phase Forex training program using live, online Forex training classes in conjunction with home study materials. Through a variety of Forex tools and resources and around-the-clock support from Forex analysts and Education Specialists, students can learn how to make education trading decisions and build their trading confidence. The Ultimate Traders Package on Demand includes:

- 16 in-depth online Forex training modules packed full of essential Forex information
- Trading challenges and exercises designed to prepare students for the live market
- Weekly client-only webinars that includes a LIVE! walk-through of the Forex market
- Exclusive proprietary trading systems that teaches students to spot market direction and establish entry and exit positions
- Weekly mentorships with the FX Chief where he'll focus on the psychological aspects of trading
- Unlimited access to a variety of archived videos on a variety of Forex topics including Fibonacci, Equity Management and Japanese candlesticks
- 2-Day On-site Forex training workshop lead by a Forex professional to review the lessons covered in the Ultimate Traders Package on Demand
- NEW! Auto-Trader Charting Add-On - an exclusive charting add-on that could help you automate trades between MTI 4.0 Charting software and a demo trading account*.

Attend a free demonstration for more information about Market Traders Institute, the Ultimate Traders Package on Demand, and the trading potential of the Currency Trading industry. [Click here to reserve your spot today!](#)

*Currently, this AutoTrader Charting Add-On only interfaces with FXCM demo accounts. More brokerage options will become available in the future.