

Title:

Why Technical Analysis Works Well In The Forex Market

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418

Summary:

If you are considering currency trading in the Forex market, or you are already involved in Forex currency trading, here's a money-making lesson that we can borrow from investors who use technical analysis to help them make investment decisions in the stock market.

The goal of performing technical analysis when currency trading is to predict profitable currency pair movements by analyzing price trends. The principles of technical analysis in the equity markets are the same...

Keywords:

Currency trading, Forex currency trading

Article Body:

If you are considering currency trading in the Forex market, or you are already involved in Forex currency trading, here's a money-making lesson that we can borrow from investors who use technical analysis to help them make investment decisions in the stock market.

The goal of performing technical analysis when currency trading is to predict profitable currency pair movements by analyzing price trends. The principles of technical analysis in the equity markets are the same as those in the Forex currency trading markets. In fact, the only real difference between the two is that the Forex market is open 24 hours a day while the equity markets are not.

This means that certain analytics that take time periods in consideration will need to be adjusted for Forex currency trading. Other than that, any of these common forms of equity technical analysis methodologies can be used when currency trading:

Elliott Waves -- Developed by Ralph Nelson Elliott, this methodology is based upon the theory that market performance can be predicted by studying wave patterns that develop over a period of time.

Fibonacci Studies -- Developed by 12th century mathematician Leonardo Fibonacci,

this methodology is based upon the theory that changes in trends can be predicted based upon prices interacting with lines based upon certain sequences of numbers.

Parabolic SAR -- Developed by J. Wells Wilder, this methodology is based upon the examination of prices in comparison to "stop and reversal" (SAR) numbers that indicate entry and exit points for a trade.

Pivot Points -- A mathematical formula used to determine when to exit a trade based upon the numerical average of the high, low and closing prices.

As I mentioned earlier in this article, the key difference between technical analysis in the equities market, and technical analysis in the Forex currency trading market, is the fact that it is possible to participate in Forex trading 24 hours a day, seven days a week. That key difference is also the primary reason that technical analysis works so well in currency trading.

In order for technical analysis techniques to deliver maximum results, there needs to be extended periods of time available for patterns to develop and repeat. Because the Forex market never closes, and currency pairs are traded around the clock, definable patterns develop more quickly and the technical analyst has a plethora of Forex currency trading data available to work with.

Because more data means more accurate forecasting results, technical analysts can see better results, in quicker time, when combining technical analysis and Forex currency trading.