Title:
Pros and Cons of Fundamental Analysis

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Summary:
There are two groups of traders: fundamentalists and technicians. Fundamentalists are traders who use fundamental analysis to predict price action, and technicians are traders who use technical analysis to predict price action. Of course a lot of traders use both types of analysis.

Keywords:

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Article Body:
There are two groups of traders: fundamentalists and technicians. Fundamentalists are traders who use fundamental analysis to predict price action, and technicians are traders who use technical analysis to predict price action. Of course a lot of traders use both types of analysis.

Let’s talk today about fundamental analysis, which is based on economic factors.

Fundamentalists assume that the supply and demand for currencies is a result of economic processes that can be observed. So, they observe economic, social, and political forces that drive supply and demand. They believe that by observing all kinds of indicators they can predict price actions.

Because currency prices are a reflection of the balance between supply and demand for currencies, by analyzing different data, such as interest rates, balance of trade, foreign investment, GDP and many others, traders can predict price actions. The problem is that there is huge amount of data to analyze. Fundamentalists can study any criteria except price action. Different fundamental analysts look at different economic indicators, but the most important are economic growth rates, inflation, unemployment and interest rates. Especially data that is related to interest rates and international trade is analyzed very closely.

Fundamentalists know when different economic indicators will be released. They usually have calendars where they note the date and time when different important statistics will be made public.

By learning and observing different fundamentals of the markets we can increase our knowledge and understanding of the global market. By doing fundamental analysis we can predict economic conditions very well. We can also have a clear picture of general health of the economy. We will know what is going on. Those are the reasons why we should not completely ignore fundamental analysis.

But there are some problems with fundamental analysis. Fundamental analysis usually does not give us specific entry and exit points, so the trades can be pretty risky. It is very difficult to find a method of translating all of the different information into specific entry and exit points for a particular trading strategy. There is so much information that it is easy to be confused.

That is why many traders use some fundamental analysis to understand unexpected movements of the prices and to know the forces which move them, but they use technical analysis to decide when to enter and exit the trades.

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