

Title:

Understanding What Influences Forex Prices

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466

Summary:

This article will explain some of the differences between Technical Analysis and Fundamentals and explain a bit about each type of trading. Excerpts are taken from the best-selling book 'Market Wizards' where Jack Schwager interviews Ed Seykota and Bruce Kovner...

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Article Body:

This article will explain some of the differences between Technical Analysis and Fundamentals and explain a bit about each type of trading. Excerpts are taken from the best-selling book 'Market Wizards' where Jack Schwager interviews Ed Seykota and Bruce Kovner.

Ed is a trend trader (uses technical analysis) and also relies on hunches from 20 years of experience. He definitely emphasizes his reliance on technical analysis. While reading this, I liken, the 'hunches' to knowing the effect fundamentals can have on a market although I could be mistaken, they could be purely from reading lots of charts so well. Here are is exact words "Fundamentals that you read about are typically useless as the market has already discounted the price, and I call them 'funny-mentals.' However, if you catch on early, before others believe, then you might have valuable 'surprise-a-mentals.'"

Ed says his priorities when trading are the long term trend, the current charts and picking a good spot to buy or sell, in that order.

Bruce says technical is awesome and very useful but by no means disregards fundamentals.

It's important to note that technical analysis is a critical method of understanding the history of market movements and hence useful to identify trends. It doesn't actually tell us where the currency is going but analyses historical data. We then need to use our own intelligence to see what the

activity of trading says about future trades.

Technical Analysis can be compared to taking a patient's temperature. To ignore it is ignorance and it can tell you whether a market is active, or cold and dormant.

It also picks up unusual behaviour. Anything that creates a new chart pattern is something unusual. He also says "Studying the charts is absolutely crucial and alerts me to existing disequilibria and potential changes."

It's the fundamentals that will help to indicate whether a trading value will increase or decrease.

Everything that makes a country tick, in Forex terms. Consumer spending, government spending, employment cost index, government policy, political concerns and even an individual event can influence the market heavily.

In summary, the fundamentals will indicate the direction of a price but not exact prices. The chart analysis or technical analysis is better for that, so together you can really increase your chances of coming away with some pips.

The reason technical analysis is so emphasized is that many traders use charts to trade and at any given time, will be drawing the same lines of resistance and same lines of support. So if you can read the charts well, you have an awesome chance of predicting market movements. The best way to learn about the effect of fundamentals is to learn one piece of economic data at a time. This will help you make better-educated trades.