Title:
Understanding Forex - #2 - Technical Analysis

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622

Summary:
This is a series of articles about The Foreign Exchange Market. You will learn here what Forex is , how it works and how profitable it can be. The whole series contain the following articles . . .

Keywords:
forex, forex market, forex strategies

Article Body:
This is a series of articles about The Foreign Exchange Market. You will learn here what Forex is , how it works and how profitable it can be. The whole series contain the following articles . . .

1.   What is Forex

2.   Technical analysis

3.   Fundamental analysis

4.   Money management

5.   Compound interest

Technical Analysis.

Unless you are new to trading you probably know already that technical analysis is a method of forecasting future price movement of commodities, securities, etc (in this case currencies) based on chart analysis, pattern formations, technical indicators, etc. Forex can be traded technically and in my opinion it is quiet predictable.

No trading strategy will work 100% of the time. That’s why you need proper money management techniques. Anyway, technical analysis is important to determine where the price of the currencies is going, also when to enter and exit positions.

There are different technical analysis techniques that you can implement to your trading strategies. I show here how to use technical indicators which is a very common technique among most technical traders.

There are many technical indicators. Some of them are more common and useful than others. In my opinion you won’t need dozens of them to know when to enter or exit a trade. It is about quality, not quantity. I think though that it is better to relay on a few indicators than in only one.

If you trade based on the signals of only one indicator, you may miss some important information about the market that other technical indicators would reveal to you. By using a few technical indicators instead of only one, you can make more educated and accurate choices.

So, I will show you here some very common technical indicators and how they are used to forecast market prices. Remember that technical indicators are the basis of technical analysis systems.

You can implement three different aspects to your trading systems. One is technical analysis as I explain here. The other is fundamental analysis. The third one is money management as I explain in my other articles on this series.

Common technical indicators and their definitions:

1.   Average Directional Index - ADX

An indicator used in technical analysis to determine the strength of a prevailing trend.

2.   Exponential Moving Average - EMA

A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.

3.   Moving Average Convergence Divergence - MACD

A trend-following momentum indicator that shows the relationship between two moving averages of prices.

4.   Bollinger Band

A band plotted two standard deviations away from a simple moving average.

5.   Fibonacci - There are many Fibonacci indicators like the following . . .

a.   Fibonacci Time Zones

b.   Fibonacci Fan

c.   Fibonacci Channel

d.   Fibonacci Arc

c.   Fibonacci Clusters

d.   Fibonacci Numbers/Lines

e.   Fibonacci Retracement

f.   Fibonacci Extensions

6.   Relative Strength Index - RSI

A technical momentum indicator that compares the magnitude of recent
gains to recent losses in an attempt to determine overbought and oversold
conditions of an asset.

7.   Stochastic Oscillator

A technical momentum indicator that compares a security's closing price
to its price range over a given time period.

8.   Williams %R

In technical analysis, this is a momentum indicator measuring overbought
and oversold levels, similar to a stochastic oscillator.

You can learn more about these technical indicators and how they are used if you
visit www.investopedia.com. Most technical analysis systems combine at least a
few technical indicators to forecast the market. I think that proper technical
analysis skills are an important aspect of most successful trading systems.

You can learn more about Forex and trading systems from my other articles on
this series. I covered here important aspects of technical analysis, but most
successful trading systems need some fundamental analysis and/or money

management too.

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