FOREX TRADING BASICS:

THE FX MARKET

Chapter 1:
OPENING THE GATES OF FOREX

Chapter 2:
CURRENCY, THE MAIN TRADED INSTRUMENT

Chapter 3:
WELCOME TO THE UNPREDICTABLE WORLD OF TRADING

Chapter 4:
TOOLS NECESSARY TO PREDICT THE MARKET

Chapter 5:
TRADING IN ACTION: 5 THINGS YOU **MUST** KNOW

Chapter 6:
READY TO START

CHAPTER 1

OPENING THE GATES OF FOREX

You may have asked yourself why you are getting interested in the Forex market, what attracts you that much and why you have decided to start trading. Actually, there may be many reasons, but let us note that the most important one is the independence. The advancement of the Internet made the market available around the globe and thus possible for people to trade online. The reason of the growing interest is the financial independence which is possible to gain through going deep into Forex and trading wisely. No matter you are a doctor, teacher, manager or a journalist, still you may be involved in this limitless market. Here you do not have to deal with any boss and bare someone's appeal or anger; you are accountable only to your personality and thus are free to make your own decisions.

Are you interested? Let us introduce you some important features about Forex market, which will help you in studying this interesting area and obtaining profit from it.

What?

For ordinary person not engaged in Forex trading, it is very easy to explain the definition of Forex with an example of travelling to different countries. When arriving at one country, the first thing to do for a visitor is to exchange the money of his/her country with the currency of the particular country. This process is itself participation in Forex market- exchange one currency for another.

The term Forex stands for the Foreign Exchange and can be defined as an international currency market. Forex is very unique in its essence because it is everywhere neglecting the factor of time zone and geography. In contrast to other physical markets, where monopoly can exist, in Forex market despite the very different market participants, there is no any dominance, and the market remains out of any control.

A question may arise: what is exchanged on Forex? The answer may be quite surprising for you: absolutely "nothing". All the instruments, including the most popular currencies are not physically exchanged on the foreign exchange market. Market participants just conclude a bet among each other on the currency changes, leaving a margin hundreds times less than the volumes of this betting, and later one participant pays another the sum of the gain (such scheme is known as a margin trading).

The rate of the currency is always changing, fluctuates, and this happens because of different factors. Due to these fluctuations it becomes possible to make a profit from speculative trades. Foreign Exchange is the World's largest and most active market. It operates every day except the weekends, and its volume reaches up to $5 trillion a day and surely, the volume is different for various participants.

Who?

In general, the Forex market is comprised of four different groups. The most influential participants of the market are the **major banks, bank associations** (like HSBC, Citigroup, Barclays Capital, JP Morgan), and a few **central banks**, such as the European Central Bank, the Bank of England, and the Federal Reserve of the US. The whole bank community, dealing with currency exchange and credit operations, forms the inter-bank market. The aim of such market players as central banks is not getting a profit, but adjusting the currency rates, and thus, the economy of their countries. Very often, central banks make deals not directly, but through major commercial banks, concealing their activities. In fact, it becomes obvious that the banks of this group are not "just" making deals, but also suggest their own prices. Active participants of the market, as usual, make deals up to millions and milliards of USD and trade with their own, not borrowed money. In Forex, such participants, offering their own prices and making deals of almost unlimited volume, are called *market makers*.

The second layer belongs to the **investment, insurance, pension funds, medium-sized banks and large corporations**. These market participants perform currency exchange operations for the investment purposes and for business deals, sometimes for long-term speculations. One of the largest investment funds in the world is "Quantum" of George Soros. Funds can attract billions of dollars of borrowings and can withstand even the intervention of central banks in the foreign exchange market.

The third group of participants is the **financial companies**. In fact, they are the intermediates between the **individuals** and the market. These individuals, both physical and legal, form the fourth group of participants in the Forex market. In fact, financial companies have overcome the barrier of engagement into the Forex market for the individuals. In addition, Internet development made brokerage services available for everyone around the world.

When?

In general, the Forex market operates 24/5 (from Monday to Friday). However, 3 market sessions are distinguished: Asian, European and American sessions.

American (New York) opens at **8:00 am** to **5:00 pm** EST (EDT)

Asian (Tokyo) opens at **7:00 pm** to **4:00 am** EST (EDT)

European (London) opens at **3:00 am** to **12:00 noon** EST (EDT)

The most active session is the European, then American, and the least active is the Asian. Market participants had better trade in times of high market activity, when trades on the major stock exchanges around the world take place and when there is a high probability of publication of interesting macroeconomic data - this information can be learned from the economic calendars in the websites of financial companies.

How?

You may have a question how to be involved in Forex market? The answer is quite simple: through brokerage firms! Brokers are the ones who give an opportunity to small investors to initiate operations on the Forex market.

For becoming a client of a broker, one needs to open an account and make a deposit. The deposit requirements vary from broker to broker. For instance, IFC Markets requires a minimum of $1 per starting trading. For the purpose of increasing the client's profits, every company establishes certain credit level, which is called leverage. The client deposits X amount into the Broker's account. Based on the chosen leverage, the client receives a certain amount of money by the Broker to trade (for example, if deposited $100, and the leverage is 1:100, the total amount to trade becomes $10,000). However, in case the trader loses, he is losing only the amount he deposited, which in this example is $100. Thus, it may be concluded that for trading with 100,000lot in case of 1:100 leverage, $1000 deposit is required.

Why?

LIQUIDITY: Forex market is different from the markets where people buy or sell products, property, etc. For instance, when selling an apartment, how many buyers can you find for only 1 second? Zero… How many of them can you find during a day? –Maybe 3-4. In contrast, Forex market does not have such limits, as a trader may open positions and make deals with the market maker only in 1 second. High liquidity is highly attractive point for every investor because it enables the possibility to trade with any volume.

PROMPTNESS AND AVAILABILITY: As Forex market operates for 24 hours, the access is possible at any time in contrast to stock market, which is open only during trading hours, which surely may not be convenient for your time zone. Forex traders do not need to wait to react on an unexpected event as it happens in other markets. 24 hours operation lets traders trade whenever they like: after work, at nights, during their leisure time, etc. For trading one needs just to have a laptop or a mobile and Internet connection. Take into consideration that at the weekends Forex market is closed, thus hurry up to manage your trading until Friday night.

COSTS: The client sells the traded currency with the Bid price and buys with the Ask price. The difference between them is called Spread. Surely, this spread is different depending on the currency pair and the clients prefer low spread, because, in fact, it affects the results of trading. The spread is greater for those currencies that are traded less frequently, thus the spreads of major currencies is quite low. IFC Markets offers low and fixed spreads to its clients.

LEVERAGE: All traders have an opportunity to trade with greater volume due to the leverage which is provided by the broker. More precisely saying, it is the availability to make profit from a large position in the market for a small cost, known as margin. Different companies provide different leverage sizes. For instance, IFC Markets suggests up to 1:400 leverage. There are some leverage limitations depending on the account types and the volume of the deals.

CHAPTER 2

CURRENCY, THE MAIN TRADED INSTRUMENT

Currencies: Prices and the Pips

The main object of trading in the Foreign Exchange is the currency. Currencies are written in Latin symbols (ISO codes), which have become a traditional international practice. These codes have only 3 characters: the first two characters stand for the country name and the last character stands for the currency name.

In Forex market all the currencies are priced (quoted) and traded in pairs (like EUR/USD, GBP/USD), because in trading one needs to sell one currency for buying another, or vice versa. The first currency is known to be the base currency, whereas the second one is the quote currency. In the notation it is possible to write without a separating sign "/".

When a trader has bought a currency pair (bought a certain volume of base currency and paid for it with the quoted currency), this is called "open a BUY position." When, in the future, a trader will sell back the same currency pair (will sell the same volume of base currency and get for it the quoted currency), this is called "close a BUY position." Similarly, when a trader sold a currency pair (sold a certain volume of base currency and paid for it with the quoted currency) – it is called "open a SELL position", and when a trader bought the same currency pair (bought the same volume of the base currency and paid for it with the quoted currency) – it is called "close a SELL position." Note that the trader does not have to worry about where to take the base currency for opening a SELL position or opening the quoted currency for the BUY position - these currencies are given temporarily by the company, in which the trader opened a trading account.

When opening a BUY position, the trader makes his/her decision based on the exchange rate (currency price), which provides information about the number of required units of the quote currency to BUY one unit of base currency. In SELL position, as well, the decision is based on the exchange rate, which shows how many units of the quote currency you will get when selling one unit of base currency. Certainly you buy a pair when you predict it will appreciate and sell it, when you think that it will depreciate. In most currency pairs the quoted currency is USD (U.S. dollar). For example, in the EURUSD pair the base currency is EUR, and the quoted one-USD. But there are a few exceptions, where the base currency is the USD - for example, USDCHF (U.S. dollar / Swiss franc).

The cost of the base currency is measured by the quoted currency with certain accuracy. This accuracy or the minimum increment value of the currency price change is called a pip. For example, the cost of most currency pairs is given with an accuracy of 0.0001. But there are exceptions – these are the pairs with Yen, ie. pairs in which the quoted currency is the Japanese Yen (JPY), for example, GBPJPY (British pound / Japanese yen). 1 point in the Yen pairs equals to 0.01. It should also be noted that now in many trading terminals the value of currencies is increased by one more point (5 digits for most pairs, and 3 digits after the coma for the Yen pairs).

Types of Currencies: Major, Minor and Commodity

The list of Major Currencies includes all those currencies that are most actively traded in the market.

USD	American Dollar
EUR	International European Currency — Euro
AUD	Aussie, Australian Dollar
CAD	Canadian Dollar
GBP	British Pound Sterling
CHF	SWF — Swissie, Swiss Frank
JPY	YEN Japanese Yen

The rest currencies are considered to be the Minor Currencies. And, finally the Commodity currencies are of those countries, the internal trading of which is based on the export of raw materials-oil, gas, metals, etc. Actually, there is a quite large range of such currencies, but the most important ones are Australian dollar, Canadian dollar and the New Zealand dollar.

There is also a classification of currency pairs by the USD presence in them. The major currency pairs are those in which there is the U.S. dollar (as a base or as the quoted currency).

Currency pairs having USD neither in base nor in quote currency are called cross pairs. The beginners are advised to trade the major currencies, and the experienced traders deal with cross pairs, as for effective trading with them it is required to have good economic knowledge of different countries. Here are some examples of cross pairs: GBP/JPY, EUR/JPY and GBP/EUR.

CHAPTER 3

WELCOME TO THE UNPREDICTABLE WORLD OF TRADING

Basically, currency pairs are traded in volumes of 100,000 units of base currency (standard lot), 10,000 units (mini lot) or 1,000 units (micro lot)..

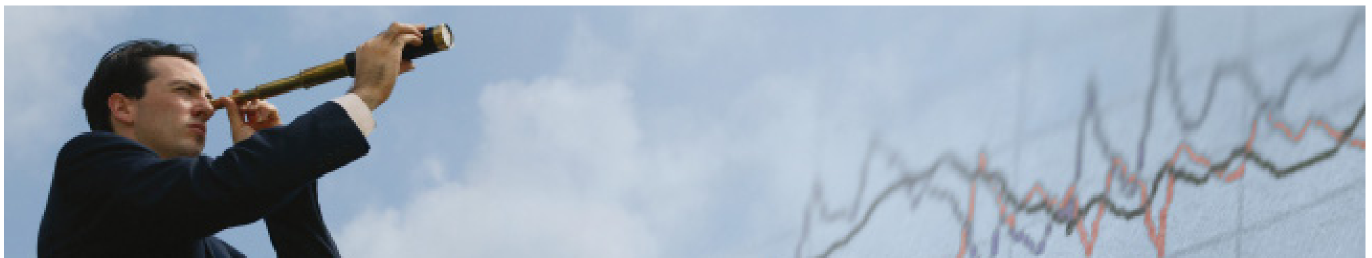
Standard = 1 lot = 100 000
Mini = 0.1 lot =10 000
Micro = 0.01 lot = 1000

*Just for keeping in mind let's bring an example. If you open a position of **1 lot** for GBP/USD for the ask price of 1.5000, you are purchasing 100,000 British Pound while selling 150,000 USD. In case of opening a micro position **(0.01 lot)**, for GBP/USD for the bid price of 1.5000 you are selling 1000 British Pounds, while purchasing 1,500 US Dollars.*

Buy/Sell = Long/Short

Before opening any position, every trader has to determine whether to open a BUY or SELL position. If you want to buy the base currency and sell the quoted currency, this means that you are expecting the base currency to rise so as to sell it back at higher price. Such positions are used to be known as Long positions. In contrast, if you want to sell the base currency for buying a quote currency, this means that you want the base currency to fall in price so as to buy it at a lower price. Such positions are known to be as Short positions. So, keep in mind, that Buy=Long and Sell=Short.

When speaking about the prices of the currencies, we have already mentioned that they are called rates. Anyway, it is very important to mention that in Forex every quotation has two prices- Bid Price and Ask Price. These pairs are usually denoted by a slash "/", where at front stands the rate of Buy, and after- the rate of Sell, such as USD / JPY 104.75/104.85. The bid price is the price at which the broker is ready to buy the base currency for the quote one, while the ask price is the price at which the company is selling the base currency for the quote one. So it can be understood that the concepts of buying and selling in relation to you are actually "reversed." Buying and selling in this formulation is not performed by you, but by the party offering you a quotation. More precisely saying, if you need to buy a base currency, you can do it by Ask price, while selling, you need to do it through Bid price.



Trading Example

Let's assume that the EUR/USD current exchange rate is 1.3088 / 1.3090. Based on some technical analysis you have assumed that the euro is going to rise in value. That is why you make a decision to buy 10,000 EUR (0, 1 lot) at 1.3090 (the ask price). So, you bought 10,000EUR and paid 13,090 US Dollars for that.

No one has to have that 13,090 US Dollars in order to buy Euro. Your deposited money may be much less, but due to the leverage provided by the broker you will have the opportunity to trade with high volumes. You just need to deposit an amount, which is considered to be the margin for providing you with higher virtual credit amount. For example, you may have leverage of 1:100. In this case you need to have only 130.9$ deposited on your account so as to open such position.

If your predictions come true, and Euro has risen to 1.3199/1.4001, you then decide to sell it. In this case you have to sell your Euros at Bid price (1.3199). Thus, you are buying back the USD, but selling the Euro at higher price (1. 3199). So, we end up with 13,199 USD. As the company takes the 13,090 USD, our profit becomes **109$**.

CHAPTER 4

TOOLS NECESSARY TO PREDICT THE MARKET

Price movements depend on very many factors such as economic conditions, political policies, macro statistics of economic announcements made by influential officials, and many more. So, it is still possible to predict the market. There are mainly 2 analytical methods in Forex market: Technical and Fundamental. We will refer to all of them separately.

Technical Analysis

This type of analysis is based on the assumption that the trend of the exchange rate is already incorporated in the history of their past fluctuations. The basis of such an assumption is that, fist of all, any complex object (market is a very complex object) is inertial, and secondly, the history tends to repeat. A trader, using technical analysis, builds charts of currency rates, finds trend lines on those charts, determines the shape of a trend reversal and calculates various mathematical indicators, on the basis of which makes the decision to open a long or short position.

Certainly it is important to understand that the concrete prediction is impossible, because the factors affecting the currency rates are psychological, political, economic, and so on. There is no any physical law that affects the market, based on which analytics could make 100% predictions.

Technical analysis is based on the time series of the sequence of currency pairs prices, each point of which is a relatively short period of time- time frame. In fact, the time frames are the following: 1 minute, 5 minutes, 15, 30, 60, 1 day, 1 week and 1 month. These numeric price series are analyzed by mathematical methods or evaluated by traders visually from the graphs.

By Chart analysis it is implied that for predicting the market solely graphical images of the market are used (price graphics, volume graphics) and its graphical models. Actually these are the simplest methods as they require minimum software. So, 4 basic types of charts may be distinguished:

Tick chart

Line chart

Bar chart

Japanese candlesticks

Speaking about technical analysis it is highly important to mention the tools that are used by the traders most often: technical indicators and patterns. There is a quite large range of such tools, but we will illustrate the most used ones:

• **TREND LINES** - lines joining higher and higher low points (uptrend) or lower and lower high points (downtrend). Prices breaking through these lines can point out the beginning of a possible change in price direction.

• **MOVING AVERAGES** - smooth out past movements and indicate a possible new trend.

• **REVERSAL PATTERNS** - sequences of maximums and minimums, such as head-and-shoulders.

• **SUPPORT AND RESISTANCE** - the price levels at which the future dynamics of prices tends to stop and / or reverse.

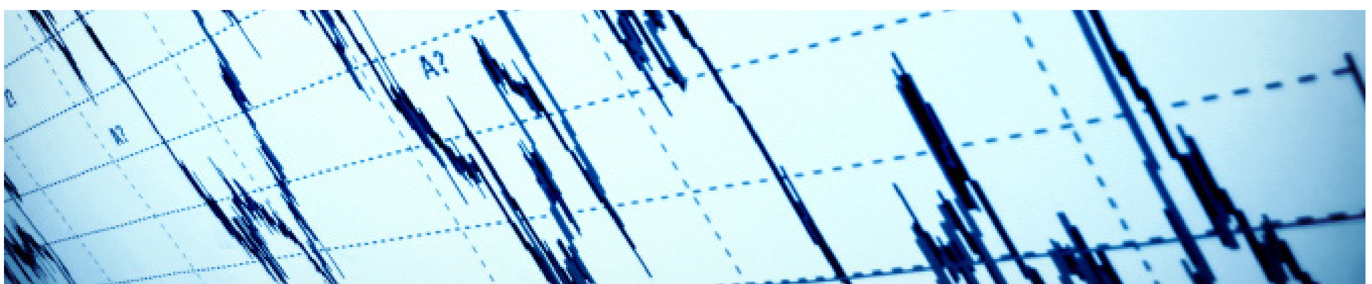
• **RELATIVE STRENGTH INDICATORS** - show overbought or oversold condition of the market.

• **FIBONACCI LEVELS** - price levels that indicate the purpose of possible corrective movements from previous large price movement.

• **MACD** or Moving Average Convergences/divergerence- Comparison of the dynamics of the two moving averages to identify early trends and trend reversals.

• **CYCLICITY INDICATORS** - Often prices oscillate; pass a phase of growth, decline, keeping the overall long trend. Cyclical indicators help to find such cycles.

Note also that the growing market is often called the **bull market**, and falling market - **bearish**.



Fundamental Analysis

This type of analysis studies the macroeconomic events, political news and other events of the world which somehow affect the rates of the currencies. The main difference between the fundamental and Technical analysis is that the Fundamental one is based on the principle that the prices of the currencies on the Forex market are the reflection of supply and demand, which in their turns depend on fundamental factors of the economy. In contrast, technical analysts do not consider the study of the reasons of price changes important and put an emphasis only on the study of the price dynamics and history of price movements.

Events affecting the market may be distinguished between 2 groups: expected and unexpected. These events include the publication of various economic indicators, which contribute to prediction of upcoming important events. In contrast, unexpected events may not be forecasted in any way because the group of such events includes natural disasters, political revolutions, acts of terrorism, etc.

According to Fundamental analysis predicting the changes of the prices is possible through predicting the factors which affect the supply and demand. So, the difference between the two analysis methods is the following: for technical analysts if the prices have changed, then something has changed in supply or demand, and the reason is no longer important because the prices have already changed. In contrast, fundamental analysts pay high attention to the factors affecting that change.

So, what factors have the most focal affect on the currency price changes?

GDP (Gross Domestic Product)

The volume and dynamics of government expenditure

The volume and dynamics of income to the state budget

Deficit / surplus of the budget

The aggregate consumption

The aggregate private investment

The level of private savings

The volume of the export

The volume of the import

Unemployment

Inflation

It should be mentioned that traders may not wish to spend their time on studying Fundamental analysis and doing it themselves. Most of all they prefer following the professional financial analysts. Such kind of analysis is available, because it is published in newspapers, is present in Web, on TV and Radio. In addition, there are brokers which provide their own analytics on their websites which makes the process of trading much more easy for the traders.

An important part of the market analysis is the analysis of expectations, which deals with the mood and emotions of market participants (traders). In contrast to conventional methods of analysis, by learning expectations, we are trying to understand and measure (for example, through surveys) what traders expect for today and for the nearest future. During the trading, each participant has an opinion, and of course, these opinions of large groups of market participants may have an impact on the market itself, and trading results as well. These views form the overall mood of the market. Understanding and appreciation of these sentiments are quite effective for understanding the actions of market participants in the present and in the nearest future. A variety of indices of expectations (this is a part of macro-economic statistics) is regularly published in the Internet.

CHAPTER 5

TRADING IN ACTION: 5 THINGS YOU MUST KNOW

1 "When you know better you do better."

Different people think about Forex market in different ways. Some of them judge the market as a very confusing sphere, and think that trading in Forex is very difficult. In contrast, others think that trading is very easy and does not require any knowledge. So, who is right?

Actually, both views are wrong: Forex market is not a complicated and difficult one, but at the same time everyone who wants to start trading needs to have knowledge about the market so as to be able to make profit rather than losses from it. Surely, this does not mean that, for example, only those, who have economic education, are able to be involved in Forex. Every individual may start studying Forex and needs to know the basic things in order to start. The most important thing is to learn how to analyze the market situation and to coordinate actions in accordance with this situation. Besides the analytics, the beginners should understand that even when starting trading they may always develop their skills, because Forex is not an area with any limits in terms of advancement, thus every day is possible to learn a new thing, which has become quite easy with the help of Internet through the company websites and other traders as well.

2 Just Do it yourself. Trading plan.

Trading in Foreign Exchange market is a very risky process. Mainly, the reason people lose at the beginning is that they do not have enough knowledge, have not ever trained and studied the market, do not know how it works. Of course in this case it is easy to suffer losses.

You should have your trading plan before starting trading. Never follow someone's experience, because somebody's strategy will not necessarily work for you. You had better follow your own market views, risk tolerance level and make your own trading plan. Your trading lan should include the following essential aspects:

- Your objective in trading – it should be your target or an expected result (in terms of profit) from your trading.
- Use of trading strategies that have been proved to work in your trading experience.
- Trading strategies, use of analysis based on which you will decide to enter the market.
- Trading analytics, based on which you enter the market (open a trading position).
- The formation of own risk management system - you have to know in advance how much the risk may reach for any of your position and what proportion of your deposit you are willing to take under the risk.

3 Knowledge is of no value unless you put it into practice.

No matter how curious you are towards the Forex market, you should understand that in order to have a better understanding of the market, you need first of all trade in Demo account. IFC Markets gives you an opportunity to try yourself in Demo account without any deadline. By this way you will study everything you will need in future real trading. Thus, open a real account and invest real money only when you feel sure you are ready for entering the world of trading.

4 You'd better manage your risks!

• You do not need to risk more than 2- 20% of your total capital (deposit). Risk management will help you to avoid suffering high losses on any trade.

• Use of stop losses. These orders are for automatic closing of your positions at a particular price so as to limiting losses at the times you do not follow the market. Stop losses are essential for risk management, and require close study.

• Determine your position size based on how much you will lose if the stop- loss has worked at the set price. This loss should not exceed a pre-determined level of risk.

• Control your emotions, which may overrule the situation and make your trading stressful and nervous. Don't forget that rationality is the key to successful trading.

5 Confidence – half the battle.

It was already mentioned about the risky character of trading. In spite of the different methods of analysis that are used by the traders, still everyone should know that the market cannot be predicted by 100%. Surely, people invest much money in Forex, and it sometimes turn to be very ineffective because the market may go in another direction, thus resulting in high losses. Anyway, the most important think while trading is to remain psychologically balanced and strong, because when falling into depression, you may not make a rational decision. You just need to be relaxed so as not act nervously and irrationally.

CHAPTER 6

READY TO START

Choose a Financial Company

The choice of a financial company is very important because the trader deals with it regarding any matter and surely it is very important to refer to a trusted one, with which you may work for a long time. Here are the most important features to take into consideration:

FOREX EDUCATION – in this section one is able to get a general notion about Forex trading, particularly how trading is realized in Forex, what the Forex analysis methods are, how to handle them, what margin trade is, what one needs to know about currency pairs etc.

PLATFORMS – every financial company suggests one or several trading platforms, moreover a financial company providing its own platform is likely to have an advantage over others. Procedures for opening an account in each platform should be described in details; otherwise, traders will face difficulties.

ACCOUNT TYPES – each financial company has various account types. They differ from each other by minimum and maximum deposits, as well as by minimum and maximum leverage ratios and other parameters.

TRADING INSTRUMENTS – this is a very significant point, since they are not the same for all brokers. They greatly differ among the brokerage companies. That difference lies in the variety of currency pairs available for trading, as well as in the variety of Contract for Difference trading. The best financial companies provide an opportunity for traders to trade not only currencies, but also CFDs on equities, indices and commodities. One more thing to take into account is low spreads.

DEPOSIT AND WITHDRAWAL METHODS – the company should provide convenient deposit methods to its clients.

Another important point is the **REGISTRATION NUMBER AND PLACE OF REGISTRATION** of the company. The legality of the company is an important attributor.

CONTACT MEANS – without any contact means a financial company cannot be considered a properly operating one. Among all contact means (Telephone, E-Mail, Skype, Callback, and Live Chat) live support plays a very significant role. It partially represents the company's image, its quality. Chat of the company with a high rating should be multilingual and punctual in response.

The rating of the company also depends on the ability **TO TRANSFER MONEY AS FAST AS POSSIBLE**. The velocity of transfers is one of the indicators of a financial company to have highly-qualified.

Having all the information above written in mind and the feeling of enthusiasm, you may already start studying this interesting market. For some of you it may be a new sphere of activity, and you will need to be patient and positive in order to succeed. Spend your time effectively and you will definitely make high profits from Forex. Be risky, as "Nothing ventured nothing gained."