Types of Forex analysis

There are two principal and confronting schools in **Forex analysis** - the fundamentalists and technicians. Both are supposed to be right. Sometimes technicians are more successful, other times the fundamentalists are gaining more profit. Usually when one group of analysts makes a mistake the other surely says, "We told you so." So, which one do you choose? There are many possible answers to that question, and three of them are the most popular.

If you are a "long-term" **Forex investor** in search of enterprises with big capital, growth, and income potential, the fundamentals are better. If you are a "short-term" forex investor, or a forex market trader, in search of companies who are "on the verge" of being discovered, fundamentals will be better. If you are a "long-term" investor who is not as concerned about one company's basics because you will diversify to minimize risk or you are a "short-term" investor waiting for investor sentiment to change, then technical analysis will be useful for you.

Nowadays many traders use both **fundamental analysis** and **technical analysis**. The technicians tell you about the broad market and its trends. The fundamentalists tell you if an issue has the "basics" for reaching your investment goals. Fundamental and Technical analysis are different in many points. There is not a clear answer, which method has gained more profit during a definite period of study. It is better to use the best ideas from each side. Then the result will be impressive.

Forex Trading Risk Types and Management

Of course, every investment is risky but the risks of loss in trading off-exchange forex contracts are even bigger. That is why once you decide to be the player in this market; you had better realize the risks connected with this product to make suspended decisions before investing.

In forex, you are operating big sums of money, and it is always possible that a trade will turn against you. The **Forex trader** should know the tools of advantageous and careful trading and minimizing losses. It is possible to minimize the risk but no one can guarantee eliminating it. Off-exchange foreign currency trading is a very risky business and may not be appropriate for all market players. The only funds that can be used for speculating in foreign currency trading - or any kind of highly speculative investments - are funds that represent risk capital (e.g. funds you can afford to risk without worsening your financial situation). There are other reasons why forex trading may or may not be a suitable investment.

The fraud and Scams in Forex market

A few years ago, **Forex scams** were very usual but since then this business has cleaned up. However, it's wise to be cautious and to check broker's background before signing up any documents with him or her. Reliable forex brokers work with big financial institutions such as banks or insurance enterprises and are always registered with official government agencies. In the US, brokers should be registered with the Commodities Futures Trading Commission or should be a member of the National Futures Association. You can also check their background in your local Consumer Protection Bureau and the Better Business Bureau.

There is a risk of losing your whole investment!

You will be asked to deposit an amount of money, called the "security deposit" or "margin", with your forex dealer in order to buy or sell an off-exchange forex contract. A small amount of money can let you hold a forex position many times bigger than the value of your account. This is called "gearing" or "leverage." The smaller the deposits related to the underlying value of the contract, the greater the leverage turns out to be. If the price moves in a non-preferable direction, high leverage can bring you large losses compared to your first deposit. That is how a small move against your position may become the reason for a large loss, and even the loss of your entire deposit. If it is noted in the contract with your dealer, you may also be required to pay extra-losses.

The market sometimes moves against you!

It is impossible to foresee, with a 100% guarantee, how exchange rates will move because the forex market is quite unsteady. Changes in the foreign exchange rate between the time you place the trade and the time you close it out influences the price of your forex contract and the future profit and losses related to it.

There is no main marketplace!

The forex dealer determines the execution price, so you are relying on the dealer's honesty for a fair price. As unlike adjusted futures exchanges, in the retail off-exchange forex market there is no main marketplace with lots of buyers and sellers.

You are relying on the dealer's reputation credit reliability

There is no guarantee for retail off-exchange forex trades because of a clearing organization. Besides funds deposited for trading forex contracts are not insured and never get a priority in case of bankruptcy. Even customer funds deposited by a dealer in an FDIC-insured bank account are not protected if the dealer faces bankrupt.

There's a risk of the trading system break down!

Sometimes a part of the system fails, if you are using an Internet-based or any electronic system for executing trades. If the system does fail, it can happen when one may not be able to enter new orders, execute running orders, or alter or cancel orders that were entered before. The result of a system failure may be a loss of orders or order priority.

You can become a fraud victim!

Keep away from investment schemes that promise big profit with little risk. To defend your capital from fraud you should carefully examine the investment offer and go on monitoring any investment you make.

Risks Types

There are risks with forex trading even if you work with a reliable broker. Transactions are unexpected and are up to unsteady markets and political events.

Interest Rate Risk is based on differences between the interest rates in the two countries represented by the currency pair in a forex quote.

Credit Risk is a possibility that one party in a forex transaction may not honour their indebtedness when the deal is closed. This can occur if a bank or financial institution goes bankrupt.

Country Risk is connected with governments that take part in foreign exchange markets by limiting the currency flow. The country risks more risk making transactions with "rare" foreign currencies than with currencies of big countries that let the free trading of their currency.

Exchange Rate Risk depends on the changes in prices of the currency during a trading period. Prices can go down quickly if stop loss orders are not used. There are several ways of minimizing risks. Each dealer should have a trading scheme. For example, one should know when to enter and exit the market, what kind of fluctuations to expect. The main rule every trader should stick to is "Don't use money that you can't afford to lose." The key to limiting risk is education, which is necessary for developing successful strategies.

Every forex trader should know at least the main things about technical analysis and reading financial charts. He should also know chart movements and indicators and understand the schemes of chart interpretation.

Stop-Loss Orders

Even the most experienced traders cannot foresee with absolute certainty how the market is going to change. Therefore, one should use these tools to limit losses during each forex transaction.

The simplest way of limiting risk is to use stop-loss orders. A stop-loss order consists of instructions how to exit your position if the price comes to a definite point. If one takes a long position and expects the price to go up, he or she puts a stop loss order below the current market price. If one takes a short position and expects the price to go down, he or she puts a stop loss order over the running market price. Stop loss orders are often used together with limit orders to automate forex trading.

Many factors are the reason for these **forex risks**. Here are a few examples of these factors: the main company's goals, the scheme how these goals are reached, the successful company's administration that guarantees its long functioning, and the ability to oppose any force-majeure with a company's own resources.

Other constituents such as the company's length of existence, the building in the centre of the town, spacious impressive office and the polite staff are not so important for success. Forex market started functioning quite lately, approximately 20 years ago. Since then, it has stood independently from other markets and largely because it is out of the exchange. Banks made up its primary participants. While communication facilities and automation were developing, banks started trading "directly" without any intermediaries such as stock exchanges. Many "classical" financiers criticize and disregard forex because there is not a single chance of limiting and regulating it legislatively inside one state. From the very start, this market became a global phenomenon. However, many European and North American banks withdraw their main income, in particular, from speculative operations on forex market whereas the number of the staff working in other market sectors is permanently decreasing.

A forex market's broker does not need any licenses and certificates for his activity because he is considered just a legal person. That is why the forex market also does not run into any "legislative limits" inside countries and in many states, is equated to the games' organization.

Therefore, it is important to mention that there are no regulations for forex market, even despite of great number of complicated problems and risks (e.g. the risk connected with market prices' changes). Confidence and conscientiousness of carrying out the operations, a lucidity and marketing of forex brokers are only some of the problems associated with forex risks. However, it is important to know that broker companies cannot operate in a single stock exchange in compliance with all problems and risks in contrast to quite adaptable exchange markets.

It is necessary for any forex trader to know at least the main rules of technical analysis and reading financial charts, to have experience of studying and interpreting chart changes and indicators. This is a certain way of decreasing risk and financial exposure.

However, each **FOREX transaction** should be transmitted using all existing tools specially designed to reduce loss, as even the most professional traders cannot exactly predict market's future behaviour. Many ways to minimize risks when placing an entry order were elaborated. Among them are different types of stop-loss orders. A stop-loss order is a special code of rules explaining how one can leave his position if the currency price amounts to a certain point. A stop loss order is placed below current market price if a person takes the so-called long position and expects the price to go up. On the contrary, stop-loss order is placed above current market price if a person takes the so-called short position and expects the price to go down.

As an example, if you take a short position on USD/CDN it means you expect the US dollar to fall against the Canadian dollar. The quote is USD/CDN 1.2138/43; therefore, you can sell 1 USD for 1.2138 CDN dollars or sell 1.2143 CDN dollars for 1 USD.

You place an order in the following way:

Sell USD: 1 standard lot USD/CDN @ 1.2138 = $121,380 CDN

Pip Value: 1 pip = $10

Stop-Loss: 1.2148

Margin: $1,000 (1%)

You are selling US$100,000 and buying CDN$121,380. Your stop loss order will be executed if the dollar goes above 1.2148; in which case, you will lose $100. However, USD/CDN falls to 1.2118/23. You can now sell 1 USD for 1.2118 CDN or sell 1.2123 CDN for 1 USD.

Still no existing institution is able to control this market for long because of the huge volume of forex. Whatever you do in the end, market forces will still be stronger; making forex one of the most open and fair investment opportunities available.

Usually one comes across prices of foreign exchange by forex quotes in pairs of currencies where the first currency is the 'base' and the second is the 'quote' currency. For instance, USD/EUR = 0.8419. Here we find out that 1 US dollar costs 0.8419 Euros. Here is why, The foregoing currency pair "transfers" US dollars (USD) into European Euros (EUR). The base currency always stands in the first place while the quote stands in the second place. Currency shows the price for one unit of the base currency.

On the contrary, the pair EUR/USD = 1.1882 clearly indicates that 1 Euro costs 1.1882 US dollars today.

With the help of these quotes, it is quite easy to follow the changes in the financial market. If the base currency is becoming stronger, the price of the quote currency rises and this fact indicates that one unit of the base currency will buy more of the quote currency. However, if the base currency loses scores, then the quote currency immediately goes down.

Usually one counts forex quotes as "demand and supply" (in the so-called "bid" and "ask" prices). The amount of money demanded for the base currency - while selling the quote currency - is called the "bid" and the price expected for the base currency - while buying the quote currency - is called the "ask" price.

How to define in the cross-currency charts which currency, the base or the quote, is on the top and which on the side? If that is the case, the broker should know at least one pair of currencies as well as which one has more value. Stop and limit orders will definitely help you to minimize your **Forex risks**.

Each organisation and the person that has revelation to overseas exchange charge risk will possess precise overseas exchange prevarication wants and the main web site cannot probably wrap every active overseas exchange-hedging circumstance. Therefore, we have to cover up the ordinary reasons that an overseas exchange prevaricate is positioned and explains how to appropriately evade overseas exchange charge risk.

Overseas trade rate risk introduction is frequent to practically all who perform international commerce and trading. Purchasing and selling of merchandise or services designated in overseas currencies that can right away describe you to overseas trade rate risk. If a fixed price is estimated ahead of instance for a convention using an overseas trade rate that is believed suitable at the occasion the quotation is given, the overseas trade rate quotation may not essentially be suitable at the occasion of the definite harmony or presentation of the agreement. Introducing an overseas trade hedge can help to direct this overseas exchange charge risk.

Interest price Risk revelation - Interest rate revelation points to the interest charge discrepancy among the two nation's currencies in an overseas exchange agreement. The interest charge disparity is also approximately equivalent to the "carry" charge paid to elude a forward or upcoming contract. The arbitragers are depositors that obtain benefit when interest charge discrepancies among the overseas exchange mark rate and both the forward or upcoming contract are sometimes high or sometimes low. In other terms, an arbitrager can trade when the bearer cost that needs to be collected is at a finest to the real carry rate of the agreement sold. In opposition, an arbitrager will purchase when the take-over cost to be paid is very much less than the real carry price of the indenture bought.

Foreign Speculation / Stock Revelation - Overseas investing is measured by many depositors as a method to either branch out a speculation selection or search for an outsized return on speculation(s) in a financial system believed to be budding at a quicker speed than investment(s) in the particular familial economy. Endowing in overseas stocks involuntarily represents the investor to overseas trade rate risk and exploratory risk. For example, an investor purchases a meticulous quantity of foreign notes in order to buy shares of an overseas stock. The depositor is now involuntarily uncovered to two different risks.

Prevarication Exploratory Positions - overseas currency exchangers utilize overseas trade hedging to defend open standards against unpleasant moves in overseas trade rates, and locating a foreign trade hedge helps to direct overseas exchange charge risk. Exploratory situation is hedged through different foreign trade hedging mediums that may be used alone or in blended format to produce entirely novel overseas trade hedging strategies.