FOREX AUTOPILOT
Version 3.32

Profits Up To 250 PIPS / Day

F.A.P.S
Forex Autopilot System™

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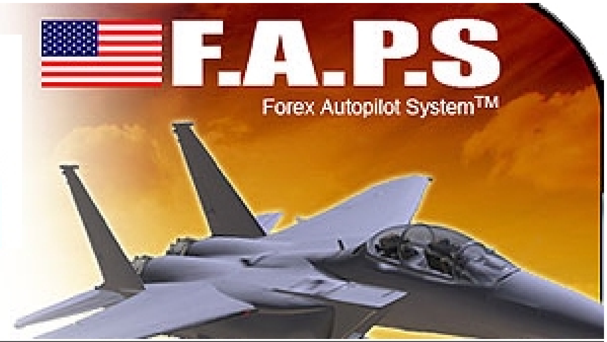

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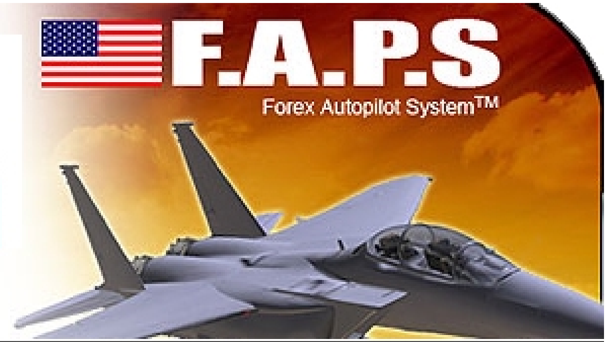
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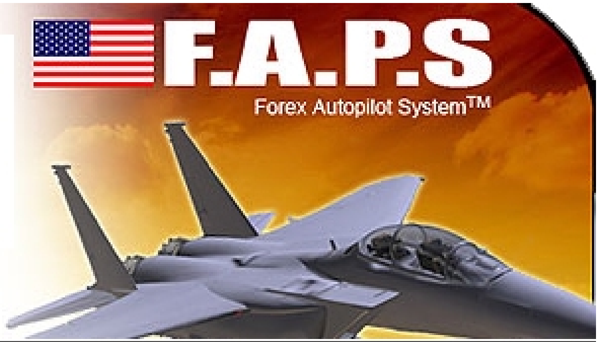


Introduction

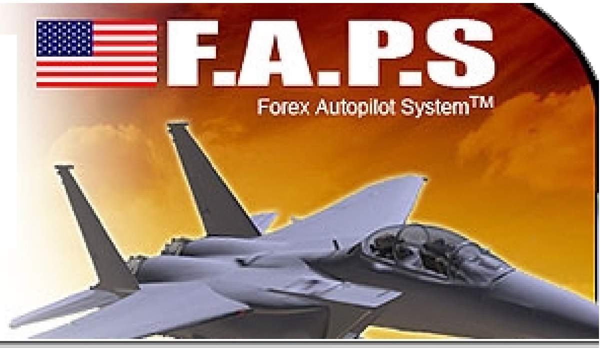
Foreign exchange (forex or FX for short) is one of the most exciting, fast-paced markets around. Until recently, trading in the forex market had been the domain of large financial institutions, corporations, central banks, hedge funds and extremely wealthy individuals. The emergence of the internet has changed all of this, and now it is possible for average investors to buy and sell currencies easily with the click of a mouse.

Daily currency fluctuations are usually very small. Most currency pairs move less than one cent per day, representing a less than 1% change in the value of the currency. This makes foreign exchange one of the least volatile financial markets around. Therefore, many speculators rely on the availability of enormous leverage to increase the value of potential movements. In the forex market, leverage can be as much as 250:1. Higher leverage can be extremely risky, but because of round-the-clock trading and deep liquidity, foreign exchange brokers have been able to make high leverage an industry standard in order to make the movements meaningful for FX traders.

Extreme liquidity and the availability of high leverage have helped to spur the market's rapid growth and made it the ideal place for many traders. Positions can be opened and closed within minutes or can be held for months. Currency prices are based on objective considerations of supply and demand and cannot be manipulated easily because the size of the market does not allow even the largest players, such as central banks, to move prices at will.

The forex market provides plenty of opportunity for investors. However, in order to be successful, a currency trader has to understand the basics behind currency movements.

The goal of this tutorial is to provide a foundation for investors or traders who are new to the currency markets. We'll cover the basics of foreign exchange, its history and the key concepts you need to understand in order to be able to participate in this market. We'll also venture into how to start trading currencies and the different types of strategies that can be employed.



What is it?

The foreign exchange market is the «place» where currencies are traded. Currencies are important to most people around the world, whether they realize it or not, because currencies need to be exchanged in order to conduct foreign trade and business. If you are living in the U.S. and want to buy cheese from France, either you or the company that you buy the cheese from has to pay the French for the cheese in euros (EUR). This means that the U.S. importer would have to exchange the equivalent value of U.S. dollars (USD) into euros. The same goes for traveling. A French tourist in Egypt can't pay in euros to see the pyramids because it's not the locally accepted currency. As such, the tourist has to exchange the euros for the local currency, in this case the Egyptian pound, at the current exchange rate.

The need to exchange currencies is the primary reason why the forex market is the largest, most liquid financial market in the world. It dwarfs other markets in size, even the stock market, with an average traded value of around U.S. $2,000 billion per day. (The total volume changes all the time, but as of April 2004, the Bank for International Settlements (BIS) reported that the forex market traded U.S. $1,900 billion per day.)

One unique aspect of this international market is that there is no central marketplace for currency exchange. Rather, trade is conducted electronically over-the-counter (OTC), which means that all transactions occur via computer networks between traders around the world, rather than on one centralized exchange. The market is open 24 hours a day, five and a half days a week, and currencies are traded worldwide in the major financial centers of London, New York, Tokyo, Zurich, Frankfurt, Hong Kong, Singapore, Paris and Sydney - across almost every time zone. This means that when the trading day in the U.S. ends, the forex market begins anew in Tokyo and Hong Kong. As such, the forex market can be extremely active any time of the day, with price quotes changing constantly.

Spot Market and the Forwards and Futures Markets

There are actually three ways that institutions, corporations and individuals trade forex: the spot market, the forwards market and the futures market. The spot market always has been the largest market because it is the «underlying» real asset that the forwards and futures markets are based on. In the past, the futures market was the most popular venue for traders because it was available to individual investors for a longer period of time. However, with the advent of electronic trading, the spot market has witnessed a huge surge in activity and now surpasses the futures market as the preferred trading market for individual investors and speculators. When people refer to the forex market, they usually are referring to the spot market. The forwards and futures markets tend to be more popular with companies that need to hedge their foreign exchange risks out to a specific date in the future.

Spot Market

More specifically, the spot market is where currencies are bought and sold according to the current price. That price, determined by supply and demand, is a reflection of many things, including current interest rates, economic performance, sentiment towards ongoing political situations (both locally and internationally), as well as the perception of the future performance of one currency against another. When a deal is finalized, this is known as a «spot deal». It is a bilateral transaction by which one party delivers an agreed-upon currency amount to the counter party and receives a specified amount of another currency at the agreed-upon exchange rate value. After a position is closed, the settlement is in cash.

Although the spot market is commonly known as one that deals with transactions in the present (rather than the future), these trades actually take two days for settlement.

Forwards and Futures Markets

Unlike the spot market, the forwards and futures markets do not trade actual currencies. Instead they deal in contracts that represent claims to a certain currency type, a specific price per unit and a future date for settlement.

In the forwards market, contracts are bought and sold OTC between two parties, who determine the terms of the agreement between themselves.

In the futures market, futures contracts are bought and sold based upon a standard size and settlement date on public commodities markets, such as the Chicago Mercantile Exchange. In the U.S., the National Futures Association regulates the futures market. Futures contracts have specific details, including the number of units being traded, delivery and settlement dates, and minimum price increments that cannot be customized. The exchange acts as a counterpart to the trader, providing clearance and settlement.

Both types of contracts are binding and are typically settled for cash for the exchange in question upon expiry, although contracts can also be bought and sold before they expire. The forwards and futures markets can offer protection against risk when trading currencies. Usually, big international corporations use these markets in order to hedge against future exchange rate fluctuations, but speculators take part in these markets as well.

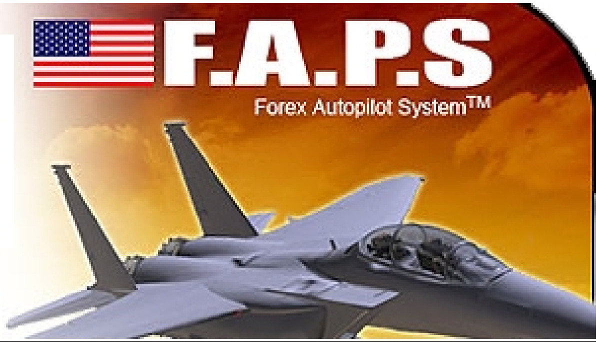
Note that you'll see the terms: FX, forex, foreign-exchange market and currency market. These terms are synonymous and all refer to the forex market.

Automated FOREX trading systems

Forex trading has gained tremendously in interest and popularity in recent years mostly due to the introduction of automatic and automated forex trading systems. The market that was open to banks and similar big financial institutions is now luring medium and even small investors.

Forex market is the place where currency of one country is traded for currency of another country. These trades happen round the clock with transactions of billions or perhaps trillion of dollars everyday, making it one of the largest and most active financial markets.

With the advent of the internet, network, communication technologies, and sophisticated automated forex trading systems, participating in the forex market is now open to virtually anyone having a computer, an internet connection, a forex brokerage account and a good trading platform.



But staying on top of a forex position requires constant monitoring, as this global market is practically open round the clock. Automatic and automated forex trading systems is a tool that lets you specify a currency, an asking price, and a selling price beforehand. With a small seed amount and with the help of a broker, your purchase and sell orders will be executed instantly.

An automatic and automated forex trading system allows you to benefit from the profitability of the forex market without having to become an expert in trading. In automated trading through managed accounts, the trading program or human experts executes the trades for you.

With a reliable auto trading platform, you are not required to do the actual trading yourself and therefore you save your time. And if you can watch the market constantly, you can mange multiple accounts from your trading platforms, simultaneously, which was never possible with manual trading. Automated forex trading systems present advantage of trading multiple systems and multiple markets.

An automatic and automated forex trading allow your trades to be made at any time of the day or night, regardless of your presence. You do not miss a single profitable trade even if you are not present in front of your computer terminal.

An automatic and automated forex trading helps you in taking advantage of multiple forex strategies and different systems. Because different systems are designed to be triggered by different trade indicators, you can diversify your investment as well as your risk.

An automatic and automated forex trading also eliminates human emotions and psychology that can often affect proper and profitable trading decisions. With an automatic and automated forex trading system, you will be capable of monitoring many currency pairs at a time and you can follow and execute all of them.

But, even with automatic forex trading systems, you will have to learn the basics of the forex trading, methods of fundamental and technical analysis, market indicators, etc. for enjoying consistent profits.

Just being automated, the trading system never guarantees you success as the market is influenced by many variables and parameters. The forex automated system is not just mechanical, but is fully programmable and you can customize them according to your needs.

The Foreign currency Exchange (FOREX) market is the largest and most liquid financial market in the world. The average daily trade in the global FOREX markets exceeds US$2.9 trillion. These huge funds are traded by governments, banks, and large institutions. For comparison, the biggest stock market on the Earth - NYSE Group (The New York Stock Exchange), has a daily trading volume of approximately $86.8 billion (Source: NYSE Group, Inc. 2006). FOREX has a 18.4% average growth rate per year since 1989. It offers trading 24 hours a day, five days a week, non-stop over Internet. This kind of massively liquid and long uninterrupted trading hours mean that under normal conditions there is no problem entering or exiting a trade.

Manual trading

In this huge market, as the story goes, at least 90% of new FOREX traders lose all their money within their first 3 months of trading. Why? Most losing traders who inquire about FOREX trading are quite intelligent, they just lack the right tools, the «Secret Weapons» to win. They are not beaten by other traders, they simply are beaten by themselves, by humans' weaknesses.

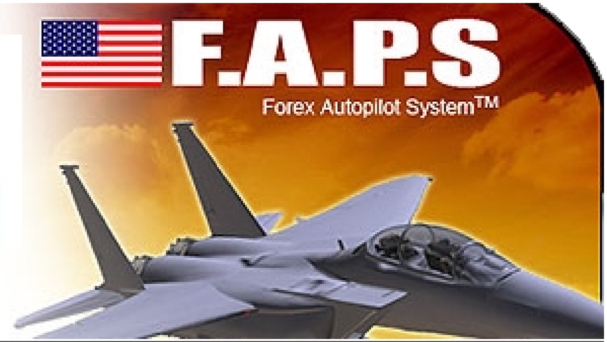
Lacks of manual trading

Talking about humans' weaknesses, let us list some as follows:

1. What is the first big weakness of human beings? if I say it should be «greed», is there anybody will disagree? Many times we have got 1% profit, but we feel it is not fat enough. We want more, 2% or 3% will be better. While the profit really goes to 3%, we will think how about 10%? Not enough forever. But the market is so volatile, especially in Forex market, we often encounter this depressive situation: profit turns into negative from positive. and this kind of depression happens again and again.

2. Fear. All people have fear. In Forex trading, currency rate is easily jumping or dropping hundreds of pips. Few of people can make sure how the market will go. In Forex market, people all use leverage to trade, from 50:1 to 500:1, leverage will enlarge the profit or loss from 50 times to 500 times. Leverage is the wonderful feature of Forex, and it lead fear into people's heart too. If the market goes against people, big drawdown comes, their fear comes too. Is there anybody not scary to lose money? Under the pressure of fear, people easily and often make wrong decisions, stop loss too early, then regret soon.

3. Lack of confidence. Seems better than fear, huh? But it is still not a good thing. Many times human traders are so happy once they see a little bit profit in their accounts. They are worrying what if the profit turns into loss? People always take a tiny profit and run, then regret while they see the market goes further and further along the right track. If they were



confident, they would have made ten times or even a hundred times of profit.

4. Hesitation. Not only newbies, but also old-hands easily hesitate to act in Forex market. You’ve probably heard the saying «past performance does not predict future performance». Even a very experienced trader who has made many successful trades in his/her history, while he or she is facing a new situation, needs thinking twice before making a so simple decision: Buy or Sell? For new traders or amateurs, they need longer time to think, and this kind of hesitation always leads them to confusion and missing the best and fleeting chance.

5. Weariness. How many people can keep working for 24 hours? No sleep, no rest? How about 48 hours, 72 hours, etc? Even an iron man can not use his eyes watching computer monitor, his brain thinking fast changing questions and his hands calculating complex formulas, day and night, 24 hours a day, 6 days a week, non stop. Especially, no mistakes allowed!

6. Negligence. Have you ever got trouble just because of a small negligence? such as took a wrong bus, missed an exit on highway, dialed a wrong number, misunderstood boss’ order, ignored a no-parking sign, omitted a whole page of questions in an examination, left resume at home while a vital interview, misspelled a keyword in a quote form for a VIP customer, etc. Hi, man, when was the last time you forgot your mama’s birthday, or worse, the wife’s, or the worst, girl friend’s? Mama always forgive your negligence. Wife... well, it depends. Girlfriend? Huh, wish you good luck.

But unfortunately, in Forex market, no one will forgive your negligence, even yourself. Any negligence must be punished! You could get a margin call, only pennies left in account, may just because a tiny negligence.

7. Lack of discipline. Humans always think that we are smarter than machines. Sure we are. Not only we are smarter, we have freedom too. But everything has its nature, character, and rules. Rule means discipline. If we just feel smart and free in Forex trading, making decisions based on our feelings or knowledge only, and ignore discipline, there will be endless disasters waiting us ahead. Forex trading is like fighting in war, soldiers can not survive in war without discipline, neither can traders in Forex market. While we have to stop loss we must cut off and run, in spite of how bloody and painful it is, when we must take profit we can not hate the profit is too small. Discipline is discipline, perhaps some smarties can win a while, but only those people can keep obeying discipline forever can win forever.

8. Inconsistency. Long term or short term? buy or sell? prosperity or depression? over bought or over sold? high or low? support level or resistance level? fundamental analysis or technical analysis? including automated trading or manual trading? etc. There are too many inconsistent news, facts, information and methods, strategies in Forex market, easily cause human traders make inconsistent judgments and decisions. And these inconsistencies will cause only one same result: failure!

FOREX trading robots

To overcome these terrible weaknesses of humans, people have developed many methods. One of them is called «Automated Trading». Automated (or Automatic) Forex Trading means to trade Forex (Foreign Currencies) using some trading systems, programs, software or robots (on Metatrader MT4 platform it is called as Expert Advisors - EA), without needing a human to physically trade. An automated trading system is a group of specific rules and parameters, governing entry and exit points, having the ability to both generate signals and execute trades automatically. An EA is an automated trading «robot». Robots can beat human beings at chess games, EA robots can beat humans at FOREX trading also.

Automated or automatic forex can be defined as the ability to trade forex with the use of a trading program or forex trading robot, without needing a human to physically trade a forex system. With forex, automated trading is an emerging field that began not that long ago.

There are 2 general categories of automated trading:

1. Automated trading through managed forex. Some, though not all, forex managed accounts are traded via automated forex. In either case, the trading is passive in that you don't have to do it. But in the case of automated forex, the trading program or robot executes the trades of their trading system, rather than a human team.

2. When you program your own or someone else's forex system into a program with programming and automatic trading abilities such as WealthLab, or other trading program. Wealth Lab required programming skills (the programming language used is similar to Pascal), while other programs just emerging that will allow you to select parameters and test your system performance.

Advantages of automatic FOREX trading systems

Programmers consider many components synthesize while they are developing an automated trading system or EA robot, including: Nature of Market, Math Modeling, Time Frame, Entry and Exit Signals, Stop Loss Trigger, and Profit Target, etc. After the system is created, they do back testing and forward testing rigorously both in demo and live accounts. A fully automatic trading system created like this way is able to analyze the market independently, work completely on its own and constantly generate signals, auto-execute in a trading platform. Alternatively, programmers can design the system as a kind of "semi-automated" whereby users can be alerted when the Entry, Exit, Stop Loss or Take Profit trigger occurs. Alerts can be audible through computer, sent to E-mail address or even sent as a message to cell phone. Once the user confirms, the robot will obey the order to finish the trade.

There are many advantages in Automated Forex Trading, such as:

1. Automated trading is executed by computer. Today, computer science and information technology have been developed to a very high level. Computer can perform calculations thousands of times faster than humans, workout logical computations without error and store memory at incredible speeds with flawless accuracy.

2. Taking the emotion out of trading. Unlike humans, an automated trading system will never be misguided by greed, fear, hesitation, and inconsistency. It just trade mechanically (but fully programmable), unaffected by a trader's psychology. It performs based on the set criteria and disciplines. Obviously, this reduces the risk of panic trading.

3. Automated trading can take trades day and night, non-stop, no weariness and negligence. EA robots free their owners of the necessity of sticking in front of the computer at all times. Once an effective system is developed and optimized, it can be left to run full automatically and independently. A successful automated trading EA robot will allow its owner to focus on optimizing strategies and money management rules rather than having to constantly watch the market.

4. Computer can run multiple programs simultaneously, so we can use automatic trading

EA robots to take multiple trades synchronously. That means we can include multiple conditional entries and exits, profit targets, protective stops, trailing stops, and more in our strategies, and have them all automated at the same time. This powerful function can help us to maximize our return of investment, and reduce risk.

5. For day traders or other short term trading fans, automated trading robots are very helpful tools to deal with high frequency of trades using tick data. Day trading keeps traders exposed in market very shortly, so sometimes it is safer than long term trading, but it is really difficult for a human to handle. However, for automated trading EA robots , it is just a piece of cake.

6. No matter long or short term trading, Forex market always is volatile and waves fast, only automated trading can afford faster identification of signals and reaction to them. No doubt, computers will typically beat human beings in the speed of identifying a trading signal and the entry and execution of the corresponding orders. No more missing a trading opportunity.

These benefits of automated FOREX is based on the fact that:

• You have chosen a profitable forex system and has acceptable drawdown, as evidenced by historical performance.

• The forex system is not just mechanical, but is fully programmable.

• You are aware, with either active trading or automated trading, that you must monitor the performance to see that the system is still working as well as its past performance

Disadvantages of automated trading

Automated trading is not perfect yet, and EA robots can not think instead of humans. If the programmer's skills are at a low level, or the strategy idea is untenable or nonlogical, the corresponding product will not succeed. However, the practical experience shows that a high quality automated trading system always guaranties some kind of financial success for its owner working on Forex market. The latest fact is: in the Automated Trading Championship 2007, a world competition, all participants use EA robots, the champion won 1204.75% profit, the runner-up won 450.42%, and the third place won 299.45%, just within 12 weeks.

Latest developments in automated forex trading

Recently, EBS, a provider of forex trading has launched EBS Spot Ai automated trading interface, which performs automated forex trading. As well as this, they also offer their own historical forex data, with EBS Lab, where you can test forex trading systems. Their source of their historical data is the same as the live streaming data that the automated trading will be using.

The EBS Lab supports testing of:

1. Mathematical models
2. Arbitrage models
3. Risk management models
4. Streaming executable prices

With EBS automated trading, you can place 20 orders at any one time. It is estimated that about 12.3 billion dollars is now traded via the EBS Ai, which is about 9% of EBS's total traded volume. It's a reasonable amount of trading.

Olsen, founder of Oanda, said in an article on Wall Street Technology, published on August 22nd 2005, that he was building algorithms based on tick data, in order to design systems for high frequency trading. He said very few people were looking into this area of forex trading. In fact Oanda now has their own product called API (Application Programming Interface), which allows users to program and test forex trading systems. The programming language that users will need to be able to program in are C++ or Java.

And now Reuters is also brining their own automated forex trading software into the market in late 2005.

It looks like more big guns are starting to play the game.

More on Wealth Lab

If you have a mechanical trading system that is programmable, plus you have trading software such as Wealth Lab, where you can program your system into, and which can generate buy and sell orders, then you can start to set up automated forex with an online broker with accepts automated signals from Wealth Lab, such as esignal.

You'll need to be able to write code for Wealth Lab, something which is not intuitive for most people, but is something that can be done by someone who knows Pascal.

So if you know computer programming, or know someone who does, and has an interest in forex trading, then you’re in business :)

The Future Of Automated Or Robot Forex

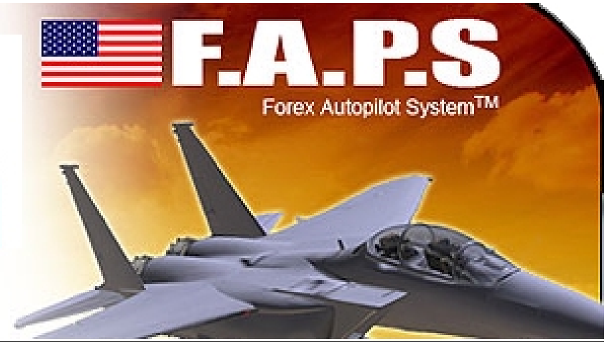
It’s likely that in the near future there will be more programmers offering their skills to code Wealth Lab and other programmable forex trading robots.

And as an alternative, there will be more providers of “labs” and automated trading software where a trader without a programming background can use a program to design and backtest a forex trading system. This will enable those interested in designing forex systems to do automated forex trading.

Also, there’s bound to be more providers of automated forex via managed forex, that will automatically trade a successful system that their team has already designed. This is the “easiest” way, as you do not have to design the system, as all the hard work has been done!

But of course you’ll have to do your homework to ensure that the system is a good one from looking at their historical or backtested performance, that the providers are legitimate, and what their commissions and fees are.

Watch this space for more managed and automated forex providers emerging soon. There’s one that is producing 100% returns every 3 - 4 months with a relatively smooth equity curve, using their own automated trading software, but it is not yet available for private investors. They may soon.



FOREX Day Trading

There are dozens of strategies in Forex trading. Let’s just talk about the roots.

Nature Of Market

Every thing in the universe has its NATURE. So is Forex market. So is every currencies pair in this market. For example, GBP/JPY always moves faster, and its wave range is longer than other pairs, such as a hundred pips during a day or even a hour. EUR/GBP generally waves narrowly several pips only within a day. For American, EUR/USD and GBP/USD like to sleep in day and dance at night. AUD/USD and NZD/USD look like twin, they commonly act in the same style, if one of they goes north, another one does not like to go south. But EUR/USD and USD/CHF are doomed to be enemy, while one of them flies up like a hydrogen balloon, the counterpart mostly will drop like a lead ball. And so on, so on.

Once we find this kind of «Nature of Market», we can develop and figure out some strategies for particular currencies pairs, just follow their nature, predict their moving direction and range. Then we will get our own trading strategy and system.

Fundamental Trading

In Forex market, many professional analysts like to use a kind of method to predict the future. It is so-called «Fundamental Analysis». Based on this method, they develop many kinds of strategies to trade Forex. These are strategies of forecasting the future price movements of currencies based on economic, political, environmental and other relevant factors and statistics that will affect the basic supply and demand of whatever underlies the foreign currencies.

If you like to try Fundamental Trading, you need learn and understand a lot of finance knowledge. Actually, not only finance knowledge, you need to be interested at many things of this world, including politics, economy, geography, culture, diplomacy, even military affairs. And you need to study the core underlying elements that influence the economy of a particular entity. For example, when the USA’s GDP or employment report is strong, you begin to get a fairly clear picture: the general health of America’s economy is good. So the US dollar should be stronger than other currencies. But how far can the US dollar go? Fundamental Trading may not answer this question very accurately. You may need to come up with other precise tools as to how best to translate this information into entry and exit points for a particular trading strategy.

Hedge

In finance, a hedge is an investment that is taken out specifically to reduce the risk in another investment. Hedging is a strategy designed to minimize exposure to an unwanted business risk, while still allowing the business to profit from an investment activity.

In FOREX, there are two kinds of similar «hedging» strategies:

1, Buy and Sell the same currencies pair, same lots, same timing. Then let it go. While one of those orders goes north, the counterpart will go south. After the winner takes profit, we can wait for the loser turning around. In a yo-yo market, this method works well.

For example, buy 2 lots GBP/USD at 2.0003, at the same time sell 2 lots GBP/USD at 1.9997. While the rate rises up to 2.0053, we close the buy order and take profit 50 pips. Now, the sell order will draw down around 50 pips. Let's wait for the rate falling down, it will fall down usually, especially in yo-yo market environment. If the rate drops down to 2.0037, close the sell order, the sell order will lose 40 pips. Does it hurt? No. Don't forget the 50 pips we have taken at the buy order. Totally, we can get 50-40=10 pips. Furthermore, if the rate keeps falling, let's say down to 2.0027, we can take 50-30=20 pips, etc.

Some people would doubt it... doesn't this «strategy» sound like hedging flat for nothing, just paying double spread? Why bother? Well, they are right, because we forgot mentioning the key point: timing of closing orders. When to close the winning order to set a foundation and when to close the losing order to lock the profit, there are some tricks inside. Experienced traders use technical analysis skills to decide this vital timing. Believe it or not, those experienced traders say that this method helps them screening false signals out.

This kind of «Yo-Yo Hedge» can work at any currencies pair.

2, Buy (or sell) unequal lots of special currencies pairs and buy unequal quantities of another kinds of currencies pairs which usually move in the opposite direction. This seems a «Semi-Hedge» trading strategy. It is created based on «Correlation» between some particular currencies pairs. So it is not suitable for every currencies pair.

Actually, this kind of hedge has another feature: earning SWAP! You earn interest daily on the held position which can yield up to 50% per year of your full account balance.

There are several pairs can do it. Such as EUR/USD Vs. USD /CHF, GBP/USD Vs. USD/CHF, AUD/USD Vs. NZD/USD, EUR/JPY Vs. CHF/JPY, GBP/JPY Vs. CHF/JPY.

Let's take the EUR/USD and the CHF/USD pairs.

These pairs are historically negatively correlative 93-98% of the time. That is when one pair goes up the other goes down, and vice versa, up to 98% of the time. In a high leverage account (as high as 400:1 or 500:1), you could earn 50% SWAP interest in a year. How? Let's say you have $5,000 in your account and a 10% risk margin set. If the net interest we receive is 1.25% annually, this 1.25% interest will be enlarged to 50% per annum, by the 400:1 leverage.

And, this return does not include the buy low/sell high profits.

But, if the base of this kind of hedge collapses, it means the «Correlation» does not exist any more, for example the «Correlation» drops under 50% or lower, there will be a disaster.

Carry Trading

Carry trading is a well known trading strategy which an investor sells a certain currency with a relatively low interest rate and uses the funds to purchase a different currency yielding a higher interest rate. Then this investor can make profit from the difference of these two interest rates.

JPY is currently considered to be the most popular currency to use as the low interest yielding currency in the carry trade, because its interest rate is the lowest of the world almost at 0. And GBP is currently considered to be the high yielding currency. So are NZD and AUD.

When we buy these currencies pairs: GBP/JPY, AUD/JPY, GBP/CHF, USD/JPY, or EUR/CHF;

Or sell: EUR/AUD, EUR/GBP, AUD/NZD;

Both actions can yield positive SWAP roll over interest. If combining with some kinds of hedge trading, we can make as high as 100% profit annually and keep the risk low.

The big risk in a carry trading is the uncertainty of exchange rates. Also, these transactions are generally done with a high leverage, so a small movement in exchange rates can result in huge losses unless hedged appropriately.

Martingale

Originally, martingale referred to a class of betting strategies popular in 18th century France. In Forex trading, the strategy let the trader double his/her order lots after every loss, so that the first win would recover all previous losses plus win a profit equal to the original investment. In the example below, you bought 1 lot EUR/USD at 1.4650. Unfortunately, the rate drops. You play it in martingale way, «double down», buy two lots, you need the EUR/

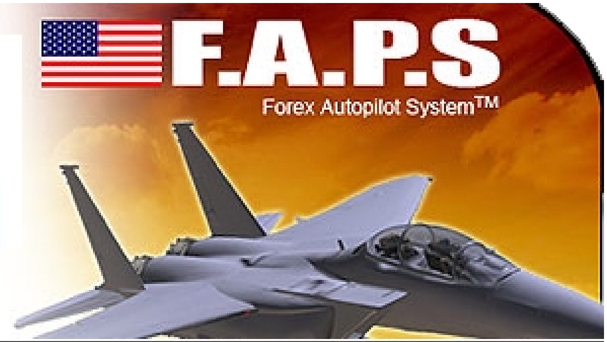
USD to rally from 1.4630 to 1.4640 to break even. As the price moves lower and you add four lots, you only need it to rally to 1.4625 instead of 1.4640 to break even. The more lots you add, the lower your average entry price. Even though you may lose 100 pips on the first lot of the EUR/USD if the price hits 1.4550, you only need the currencies pair to rally to 1.4569 to break even on your entire holdings. Once the rate goes up one more pip, you will win a lot.

EUR/USD	Lots	Average or Breakeven Price
1.4650	1	1.4650
1.4630	2	1.4640
1.4610	4	1.4625
1.4590	8	1.4605
1.4570	16	1.4588
1.4550	32	1.4569

The Martingale strategy needs a very strict money management and you must understand that in the beginning money will be coming slowly, but if you lose the patience and raise risk level up to much, you may not hang on to the end to see the turn-around.

Anti-Martingale

The anti-martingale strategy is the opposite of the better known martingale approach. This approach instead increases order lots after wins, while reducing them after a loss. Using an anti-martingale risk management scheme will increase profits during time periods when a trading approach is working well, while automatically decreasing exposure during portions of the cycle where trading is unprofitable. This is believed to decrease the risk of ruin for trading.



Grid

Basically the trader sets a series of entry limit orders X pips from the current price, for example 15 pips. Some experienced traders like to use the Fibonacci Series Numbers (0, 1, 1, 2, 3, 5, 8, 13, ...) or Golden Section Numbers to make this grid. Once price hits the level the limit order is executed. Then every 15 pips there is another order at limit price executed. And so on. In a yo-yo market, while the price moves up or down, there always be some limit orders executed. Once the order is taken profit, and the price moves to its original level again, a new limit order shall be executed again, then repeat the same process. Just open orders and take profits in a set of «grid». It is simple and easy, but hard to deal with when and how to close all orders, especially the Stop Loss. Some experts say we do not need stop loss, but will you take the chance to hold your all positions till «Margin Call?»

Day trading

Day trading refers to the practice of buying and selling financial instruments within the same trading day such that all positions will usually (not necessarily always) be closed before the market close of the trading day. This is the opposite of After-hours trading. Traders that participate in day trading are called day traders.

Some of the more commonly day-traded financial instruments are stocks, stock options, currencies, and a host of futures contracts such as equity index futures, interest rate futures, and commodity futures.

Day trading used to be the preserve of financial firms and professional investors and speculators. Many day traders are bank or investment firm employees working as specialists in equity investment and fund management. However, day trading has become increasingly popular among casual traders due to advances in technology, changes in legislation, and the popularity of the Internet.

Characteristics

Trade Frequency

Although collectively called day trading, there are many sub-trading styles within day trading. A day trader is not necessarily very active. Depending on one's trading strategy, the number of trades made in a day may vary from one to dozens or more.

Some day traders focus on very short or short-term trading, in which a trade may last seconds to a few minutes. They buy and sell many times in a day, trading very high volumes daily and therefore receiving big discounts from the brokerage.

Some day traders focus only on momentum or trends. They are more patient and wait for a ride on the strong move which may occur on that day. They make far fewer trades than the aforementioned traders.

Many day traders sell their positions before the market close of the trading day to avoid the risk of price gaps (differences between the previous day's close and the next day's open price) at the open. Some day traders consider this to be a golden rule to be obeyed at all times. Other traders believe they should let the profits run, so it is acceptable to stay with a position after the market closes.

Day traders often borrow money to trade. Since margin interests are typically only charged on overnight balances, the extra costs further discourage them from holding positions overnight.

Profit and Risks

Because of the nature of financial leverage and the rapid returns that are possible, day trading can be either extremely profitable or extremely unprofitable, and high-risk profile traders can generate either huge percentage returns or huge percentage losses. Some day traders manage to earn millions per year solely by day trading.

Because of the high profits (and losses) that day trading makes possible, these traders are sometimes portrayed as «bandits» or «gamblers» by other investors. Some individuals, however, make a consistent living day trading.

Nevertheless day trading can become very risky, especially if one has poor discipline, risk or money management. The common use of buying on margin (using borrowed funds) amplifies gains and losses, such that substantial losses or gains can occur in a very short period of time. In addition, brokers usually allow bigger margins for daytraders. Where overnight margins required to hold a stock position are normally 50% of the stock's value, many brokers allow pattern day trader accounts to use levels as low as 25% for intraday purchases. This means a day trader with the legal minimum $25,000 in his account can buy $100,000 worth of stock during the day, as long as half of those positions are exited before the market close. Because of the high risk of margin use, and of other day trading practices, a day trader will often have to exit a losing position very quickly, in order to prevent a greater, unacceptable loss, or even a disastrous loss, much larger than his original investment, or even larger than his total assets.

Even when a position has made a profit, the trader has to offset the transaction costs and the interest on the margin. It is commonly stated that 80-90% of day traders lose money. An analysis of the Taiwanese stock market suggests that «less than 20% of day traders earn profits net of transaction costs».

This refers to the practice of buying and selling currencies pairs such that all positions will usually be closed within the same Forex the trading day. The day trading idea comes from stock market. Day traders rapidly buy and sell stocks throughout the day in the hope that their stocks will continue climbing or falling in value for the seconds to minutes they own the stock, allowing them to lock in quick profits. Day trading is extremely risky and can result in substantial financial losses in a very short period of time. Under the rules of NYSE and NASD, customers who are deemed «pattern day traders» must have at least $25,000 in their accounts and can only trade in margin accounts.

But in Forex market, every one can be a day trader to do day trading. Actually, more than day trading, they can do «scalping».

Basic Strategies

Arbitrage

Arbitrage is the practice of taking advantage of a price differential between two or more markets: a combination of matching deals are struck that capitalize upon the imbalance, the profit being the difference between the market prices.

Some people call «Arbitrage» as a risk free strategy. But other people call it as a trick which looks like the cat pawing chestnuts from a fire. But in theory, its risk is minimum in deed. We introduce three types of arbitrage strategies here:

1, Triangle Arbitrage: Searching for two highly fast-moving pairs (like EUR/USD and USD/JPY), the price of a not-so-fast moving pair like EUR/JPY should always be derived by multiplying (or dividing, etc) the fast-moving pairs. So for example, if EUR/USD is 1.4871 and USD/JPY is 108.24, the logical price of EUR/JPY should be 1.2 x 120 = 160.96. But at the same time, the real EUR/JPY rate is 160.90. The slower moving pair lags behind the logical price, then profit opportunity comes.

In practice currencies are quoted with a bid ask spread, so a trader should be careful that he is actually buying at the quoted ask price, and selling at the quoted bid price. Other transaction costs, such as commissions, might also invalidate the apparent free lunch.

More pairs:

AUD/CAD CAD/JPY AUD/JPY
AUD/CAD GBP/CAD GBP/AUD
AUD/CAD USD/CAD AUD/USD
AUD/CHF CHF/JPY AUD/JPY
AUD/CHF GBP/CHF GBP/AUD
AUD/CHF USD/CHF AUD/USD
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CHF/JPY GBP/JPY GBP/CHF
EUR/AUD AUD/CHF EUR/CHF
EUR/AUD AUD/JPY EUR/JPY
EUR/AUD AUD/USD EUR/USD
EUR/AUD GBP/AUD EUR/GBP
EUR/CAD AUD/CAD EUR/AUD
EUR/CAD GBP/CAD EUR/CAD
EUR/CAD USD/CAD EUR/USD
EUR/CHF AUD/CHF EUR/AUD
EUR/CHF GBP/CHF EUR/GBP
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EUR/GBP GBP/CAD EUR/CAD
EUR/GBP GBP/CHF EUR/CHF
EUR/GBP GBP/JPY EUR/JPY
EUR/GBP GBP/USD EUR/USD
EUR/JPY GBP/JPY EUR/GBP
EUR/JPY USD/JPY EUR/USD

EUR/USD GBP/USD EUR/GBP
EUR/USD USD/JPY EUR/JPY
GBP/JPY USD/JPY GBP/USD

Hedging Arbitrage

This technique is the safest ever, and the most profitable of all hedging techniques while keeping minimal risks. This technique uses the arbitrage of roll over interest rates (SWAP) between two brokers.

One broker which pays or charges roll over interest at end of day, and the other should not charge or pay this kind of roll over SWAP interest. The main idea about this type of Hedge Arbitrage is to open a position of currency (Fore example, the highest SWAP GBP/JPY) at a broker which will pay you a high interest for every night the position is carried, and to open a reverse of that position for the same currency with the broker that does not charge interest for carrying the trade. This way you will gain the interest or SWAP that is credited to your account, risk-free.

Netting Arbitrage

The main idea behind the strategy is, using differences between cross rates (such as EUR/USD, GBP/USD, and EUR/GBP) at different markets.

For example, suppose you had opened the following positions:
buy 1 lot EUR/USD at 1.4867;
sell 1 lot EUR/GBP at 0.7600;

and sell 0.76 lot GBP/USD at 1.9586.

The netting/clearing gives the following results:

Long EUR from the first pair and short EUR from the second pair gives zero exposure in EUR.

Long position in GBP from the second pair and short position from the third pair gives zero exposure in GBP.

Short position from the first pair ($148,670.00) in USD and long position from the third pair ($195,860.00*0.76) in USD gives you $183.60 profit without open positions and exposures.

Simple? Not really for small traders, may be for those «big brothers» only. Because it is really hard to play spread, slippage, stop loss hunting or so on games against brokers.

Scalping

Scalping is a trading style where small price gaps created by the bid-ask spreads are exploited. It normally involves establishing and liquidating a position quickly, usually within minutes or even seconds. It means trying to get a few points (1~3 pips only, no greed, no long term) off the market every time. This strategy is based on a fact: approximately 70 to 80% of the time, the market is in a consolidation pattern. What this means is that for the majority of time the market is not making significant moves. For example, after the USA market is closed and before the Europe market is open, the Forex market tends to range in a consolidation channel for hours at a time before making another significant move in one direction. This kind of market behavior pattern is ideal for Forex scalping. Every time you enter the market, wait 10 or 20 minutes, once you have several pips gain then cash it and go.

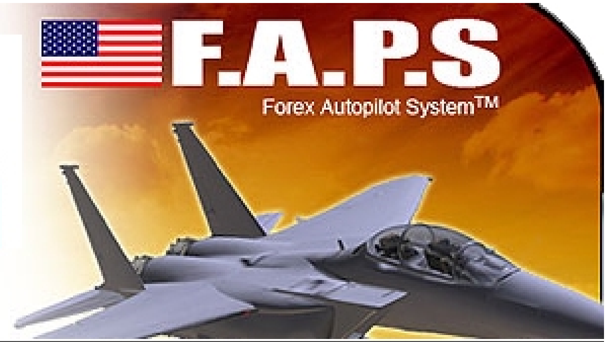
Scalping highly liquid instruments for off the floor Daytraders involves taking quick profits while minimizing risk (loss exposure). It applies technical analysis concepts such as over/under-bought, support and resistance zones as well as trendline, trading channel to enter the market at key points and take quick profits from small moves. The basic idea of scalping is to exploit the inefficiency of the market when volatility increases and the trading range expands.

Market Manipulation

Scalping in this sense is the practice of purchasing a security for one's own account shortly before recommending that security for long-term investment and then immediately selling the security at a profit upon the rise in the market price following the recommendation. The Supreme Court of the United States has ruled that scalping by an investment adviser operates as a fraud or deceit upon any client or prospective client and is a violation of the Investment Advisers Act of 1940. The prohibition on scalping has been applied against persons who are not registered investment advisers, and it has been ruled that scalping is also a violation of Rule 10b-5 under the Securities Exchange Act of 1934 if the scalper has a relationship of trust and confidence with the persons to whom the recommendation is made. The Securities and Exchange Commission has stated that it is committed to stamping out scalping schemes. Scalping differs from pumping and dumping in that a pump and dump does not involve a relationship of trust and confidence between the fraudster and his victims.

How scalping works

Playing the spread



Scalpers attempt to act like traditional market makers or specialists. To make the spread means to buy at the Bid price and sell at the Ask price, to gain the bid/ask difference. This procedure allows for profit even when the bid and ask don't move at all, as long as there are traders who are willing to take market prices. It normally involves establishing and liquidating a position quickly, usually within minutes or even seconds.

Role

The role of a scalper is actually the role of market makers or specialists who are to maintain the liquidity and order flow of a product of a market.

A market maker is basically a specialized scalper. The volume he trades are many times more than the average individual scalpers. He has a sophisticated trading system to monitor trading activity. However, he is bound by strict exchange rules while the individual trader is not. For instance, NASDAQ requires each market maker to post at least one bid and one ask at some price level, so as to maintain a two-sided market for each stock he represents.

Due to role overlapping, a scalper is always competing with the market maker for profits. Unfortunately, the low-end scalper is almost always at a disadvantage due to the following market maker's advantages:

1. Superior execution speed as an insider
2. A greater knowledge of trading and the actual market situation due to its information gathering capacity
3. Huge amount of capital to backup and support market makers
4. The ability to provide false impression to the market by placing a larger/smaller bid or

ask to bluff the trader

Principles

Spreads are bonuses as well as costs

Most worldwide markets operate on a Bid and ask based system. The numerical difference between the bid and ask prices is referred to as the spread between them.

The ask prices are immediate execution (market) prices for quick buyers (ask takers); bid prices for quick sellers (bid takers). If a trade is executed at market prices, closing that trade immediately without queuing would not get you back the amount paid because of the bid/ask difference.

Spread is 2 sides of the same coin. The spread can be viewed as trading bonuses or costs according to different parties and different strategies. On one hand, traders who do NOT wish to queue their order, instead paying the market price, pay the spreads (costs). On the other hand, traders who wish to queue and wait for execution receive the spreads (bonuses). Some day trading strategies attempt to capture the spread as additional, or even the only, profits for successful trades.

Lower exposure, lower risks

Scalpers are only exposed in a relatively short period. They do not hold overnights. As the period one holds decreases, the chances of running into extreme adverse movements, causing huge losses, decreases.

Smaller moves, easier to obtain

A change in price results from imbalance of buying and selling powers. Most of the time within a day, prices stay stable, moving within a small range. This means neither buying nor selling power control the situation. There are only a few times which price moves towards one direction, ie. either buying or selling power controls the situation. It requires bigger imbalances for bigger price changes.

It is what scalpers look for - capturing smaller moves which happen most of the time, as opposed to larger ones.

Large volume, adding profits up

Since the profit obtained per share or contract is very small due to its target of spread, they need to trade large in order to add up the profits. Scalping is not suitable for small-capital traders.

Different Parties and Spreads

Who pays the spreads (costs)

The following traders pay the spreads:
1. Momentum traders on technicals - They look for fast movements hinted from quotes, prices and volumes, charts. When a real breakout occurs, price becomes volatile. A sudden rise or fall may occur within any second. They need to get in quick before the price moves out

of the base.

2. Momentum traders on news - When news break out, the price becomes very volatile as many people watching the news will react at more or less the same time. One needs to take the market prices immediately or the golden opportunities which may vanish after a second or so.

3. Cut losses on market prices - The spread becomes a cost if the price moves against the expected direction and the trader wishes to cut losses immediately on market price.

Who receives the spreads (bonuses)

The following traders receive the spreads:

1. Individual scalpers - obviously they trade for spreads and can benefit from larger spreads.

2. Market makers and specialists - people who provide liquidity place their orders on their market books. Over the course of a single day, a market maker may fill orders for hundreds of thousands or millions of shares.

3. Spot Forex (exchanges of foreign currencies) brokers - they do not charge any commissions because they make profits from the bid/ask spread quotes. On July 10 2006, the exchange rate between Euro and United States dollar is 1.2733 at 15:45. The internal (inter-bank dealers) bid/ask price is 1.2732-5/1.2733-5. However the forex brokers or middlemen will not offer the same competitive prices to their clients. Instead they provide their own version of bid and ask quotes, say 1.2731/1.2734, of which their commissions are already «hidden» in it. More competitive brokers do not charge more than 2 pips spread on a currency where the interbank market has a 1 pip spread, and some offer better than this by quoting prices in fractional pips.

Factors affecting Scalping

Liquidity

Liquidity of a market affects the performance of scalping. Each product within the market receives different spread, due to popularity differentials. The more liquid the markets and the products are, the tighter the spreads are. Scalpers like to trade in a more liquid market since they can make thousands of trades a day to add up their small profits offered on each trade.

If they are to trade in less liquid markets, they will try to cover their risks by widening their bid and ask prices.

Volatility

Unlike momentum traders, scalpers like stable or silent products. Imagine if its price does not move all day, scalpers can profit all day simply by placing their orders on the same bid and ask, making hundreds or thousands of trades. They do not need to worry about sudden price changes which kill them unprepared.

Time Frame

Scalpers operate on a very short time frame, looking to profit from market waves that are sometimes too small to be seen even on the one minute chart. This maximizes the number of moves during the day that the scalper can use to make a profit.

Risk Management

Rather than looking for one big trade, the way a swing trader might, the scalper looks for hundreds of small profits throughout the day. In this process the scalper might also take hundreds of small losses during the same time period. For this reason a scalper must have very strict risk management never allowing a loss to accumulate against him.

Scalping has some features:

1. Lower exposure, lower risks. Scalpers are only exposed in a relatively short period.

2. Smaller moves, easier to obtain. The normal wave of the market will give you several pips easily.

3. Large volume, adding profits up. Since the profit obtained per share or contract is very small due to its target of spread, they need to trade large in order to add up the profits. Scalping is not suitable for small-capital traders.

But be careful, not every broker welcomes this kind of scalping strategy. If you scalp it too quick and thin, let's say you just hit 1 pip every 2 or 3 minutes then run, and repeat it again and again within a day, every day, you must feel high, eh? But the broker may be not happy and bans you. You will be kicked out because of your successful scalping!

News Trading

The system is developed based on economic news events from around the world. Nearly half of those announcements have moved the market significantly. Before a big news is coming, we can buy and sell some currencies pairs at the same time, same lots, set stop loss prices for them. After the news is released, especially for the big one, both sides of buy order and sell order will jump significantly. No matter which order is a winner, just let it go. And the loser will hit the Stop Loss, just let it be. The winner's gain minus the loser's loss, it is your news trading profit. For example, Non-Farm Payrolls/Employment Report - The NFP is the most influential news release of every month. It's announced on the first Friday of the month at 8:30am EST for the prior month. We can put a buy order and a sell order at market prices for GBP/USD, at 8:29 am EST. Don't forget, set 30 pips Stop Loss level for them. Wait 2 minutes only, the news is announced, it is a big one! Then the sell order jumps over 100 pips, and the buy order drops like a brick. The brick hits the Stop Loss and the pain is over. Totally, your gain could be 100-30=70 pips. Quick and easy, cool enough?

Contrarian

Contrarian , a market timing strategy used in all trading time frames, assumes that financial instruments which have been rising steadily will reverse and start to fall, and vice versa with falling. The contrarian trader buys an instrument which has been falling, or short-sells a rising one, in the expectation that the trend will change. Contrarian is one who attempts to profit by investing in a manner that differs from the conventional wisdom, when the consensus opinion appears to be wrong.

A contrarian believes that certain crowd behavior among investors can lead to exploitable mispricings in securities markets. For example, widespread pessimism about a stock can drive a price so low that it overstates the company's risks, and understates its prospects for returning to profitability. Identifying and purchasing such distressed stocks, and selling them after the company recovers, can lead to above-average gains. Similarly, widespread optimism can result in unjustifiably high valuations that will eventually lead to drops, when those high expectations don't pan out. Avoiding investments in over-hyped investments reduces the risk of such drops. These general principles can apply whether the investment in question is an individual stock, an industry sector, or an entire market or asset class.

Contrarians are sometimes thought of as perma-bears—market participants who are permanently biased to a bear market view. However, a contrarian does not necessarily have a negative view of the overall stock market, nor does he believe that it is always overvalued, or that the conventional wisdom is always wrong. Rather, a contrarian seeks opportunities to buy or sell specific investments when the majority of investors appear to be doing the opposite, to the point where that investment has become mispriced. While more «buy» candidates are likely to be identified during market declines (and vice versa), these opportunities can occur during periods when the overall market is generally rising or falling.

Trend Following

It is so simple, just follow the trend. Buy it is the most difficult strategy because no one can tell you 100% for sure what is the right TREND. Go to look at a weekly chat of USD/CAD, if you had shorted this pair in September 2001 and held it till September 2007, you know what the trend means.

The most famous trend analysis tool seems the Wave Principle. In the 1930s, Ralph

Nelson Elliott discovered that stock market prices trend and reverse in recognizable patterns. Elliott isolated five such patterns, or «waves,» that recur in market price data.

Another trend analysis guru should be W. D. Gann. In 1908, Gann discovered what he called the «market time factor», which made him one of the pioneers of technical analysis. To test his new strategy, he opened one account with $300 and one with $150. It turned out to be wildly successful: Gann was able to make $25,000 profit with his $300 account in only three months; meanwhile, he made $12,000 profit with his $150 account in only 30 days! After his results were verified, he became famous on Wall Street as one of the best forecasters of all time.

Range trading

A range trader watches a stock that has been rising off a support price and falling off a resistance price. That is, every time the stock hits a high, it falls back to the low, and vice versa. Such a stock is said to be «trading in a range», which is the opposite of trending. The range trader therefore buys the stock at or near the low price, and sells (and possibly short sells) at the high. A related approach to range trading is looking for moves outside of an established range, called a breakout (price moves up) or a breakdown (price moves down), and assume that once the range has been broken prices will continue in that direction for some time.

Trading Equipment

Some day trading strategies (including scalping and arbitrage) require relatively sophisticated trading systems and software. This software can cost up to $45,000 dollars or more. Many day traders use multiple monitors or even multiple computers to execute their orders. Some use real time filtering software which is programmed to send stock symbols to a screen which meet specific criteria during the day, such as displaying stocks that are turning from positive to negative.

A fast Internet connection, such as broadband, is essential for day trading.

Brokerage

Day traders do not use retail brokers, because they are slower to execute trades and charge higher commissions than direct access brokers, who allow the trader to send their orders directly to the ECNs. Direct access trading offers substantial improvements in transaction speed and will usually result in better trade execution prices (reducing the costs of trading).

Commission

Commissions for direct-access brokers are calculated based on volume. The more one trades, the cheaper the commission is. While a retail broker might charge $10 or more per trade regardless of the trade size, a typical direct-access broker may charge as little as $0.004 per share traded, or $0.25 per futures contract. A scalper can cover such costs with even a minimal gain.

As for the calculation method, some use pro-rata to calculate commissions and charges, where each tier of volumes charge different commissions. Other brokers use a flat-rate, where all commissions charges are based on which volume threshold one reaches.

Spread

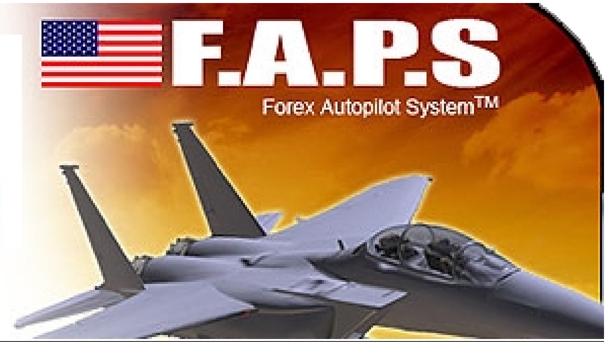
The numerical difference between the bid and ask prices is referred to as the bid-ask spread. Most worldwide markets operate on a bid-ask-based system.

The ask prices are immediate execution (market) prices for quick buyers (ask takers) while bid prices are for quick sellers (bid takers). If a trade is executed at quoted prices, closing the trade immediately without queuing would not cause a loss because the bid price is always less than the ask price at any point in time.

The bid-ask spread is two sides of the same coin. The spread can be viewed as trading bonuses or costs according to different parties and different strategies. On one hand, traders who do NOT wish to queue their order, instead paying the market price, pay the spreads (costs). On the other hand, traders who wish to queue and wait for execution receive the spreads (bonuses). Some day trading strategies attempt to capture the spread as additional, or even the only, profits for successful trades.

Market Data

Real-time market data is necessary for day traders, rather than using the delayed (by anything from 10 to 60 minutes, per exchange rules[7]) market data that is available for free. A real-time data feed requires paying fees to the respective stock exchanges, usually combined with the broker’s charges; these fees are usually very low compared to the other costs of trading. The fees may be waived for promotional purposes or for customers meeting a minimum monthly volume of trades. Even a moderately active day trader can expect to meet these requirements, making the basic data feed essentially «free».



In addition to the raw market data, some traders purchase more advanced data feeds that include historical data and features such as scanning large numbers of stocks in the live market for unusual activity. Complicated analysis and charting software are other popular additions. These types of systems can cost from tens to hundreds of dollars per month to access.

Regulations and restrictions

Day trading is considered a risky trading style, and regulations require brokerage firms to ask whether the clients understand the risks of day trading and whether they have prior trading experience before entering the market.

Pattern day trader

In addition, NASD and SEC further restrict the entry by means of «pattern day trader» amendments. Pattern day trader is a term defined by the SEC to describe any trader who buys and sells a particular security in the same trading day (day trades), and does this four or more times in any five consecutive business day period. A pattern day trader is subject to special rules. The main rule being that in order to engage in pattern day trading the trader must maintain an equity balance of at least $25,000 in a margin account.

FOREX Money Management

Money management is a critical point that shows difference between winners and losers. It was proved that if 100 traders start trading using a system with 60% winning odds, only 5 traders will be in profit at the end of the year. In spite of the 60% winning odds 95% of traders will lose because of their poor money management. Money management is the most significant part of any trading system. Most of traders don't understand how important it is.

It's important to understand the concept of money management and understand the difference between it and trading decisions. Money management represents the amount of money you are going to put on one trade and the risk your going to accept for this trade.

There are different money management strategies. They all aim at preserving your balance from high risk exposure.

First of all, you should understand the following term Core equity

Core equity = Starting balance - Amount in open positions.

If you have a balance of 10,000$ and you enter a trade with 1,000$ then your core equity is 9,000$. If you enter another 1,000$ trade, your core equity will be 8,000$

It's important to understand what's meant by core equity since your money management will depend on this equity.

We will explain here one model of money management that has proved high annual return and limited risk. The standard account that we will be discussing is 100,000$ account with 20:1 leverage . Anyway, you can adapt this strategy to fit smaller or bigger trading accounts.

Like dieting and working out, money management is something that most traders pay lip service to, but few practice in real life. The reason is simple: just like eating healthy and staying fit, money management can seem like a burdensome, unpleasant activity. It forces traders to constantly monitor their positions and to take necessary losses, and few people like to do that. However, as Figure 1 proves, loss-taking is crucial to long-term trading success.

Amount of Equity Lost	Amount of Return Necessary to Restore to Original Equity Value
25%	33%
50%	100%
75%	400%
90%	1000%

Figure 1 - This table shows just how difficult it is to recover from a debilitating loss.

Note that a trader would have to earn 100% on his or her capital - a feat accomplished by less than 1% of traders worldwide - just to break even on an account with a 50% loss. At 75% drawdown, the trader must quadruple his or her account just to bring it back to its original equity - truly a Herculean task!

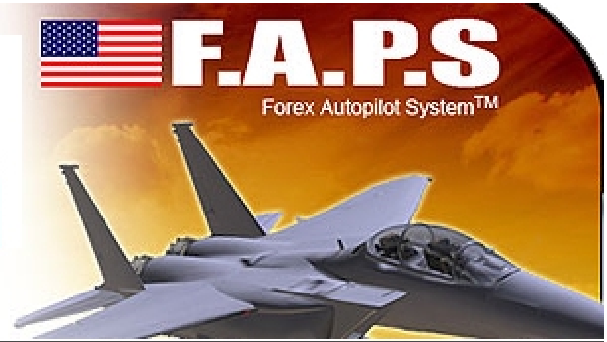
Money management strategy

Your risk per a trade should never exceed 3% per trade. It's better to adjust your risk to 1% or 2%.

We prefer a risk of 1% but if you are confident in your trading system then you can lever your risk up to 3%

1% risk of a 100,000$ account = 1,000$

You should adjust your stop loss so that you never lose more than 1,000$ per a single trade.



If you are a short term trader and you place your stop loss 50 pips below/above your entry point .

50 pips = 1,000$
1 pips = 20$

The size of your trade should be adjusted so that you risk 20$/pip. With 20:1 leverage, your trade size will be 200,000$

If the trade is stopped, you will lose 1,000$ which is 1% of your balance.

This trade will require 10,000$ = 10% of your balance.

If you are a long term trader and you place your stop loss 200 pips below/above your entry point.

200 pips = 1,000$
1 pip = 5$

The size of your trade should be adjusted so that you risk 5$/pip. With 20:1 leverage, your trade size will be 50,000$

If the trade is stopped, you will lose 1,000$ which is 1% of your balance.

This trade will require 2,500$ = 2.5% of your balance.

This's just an example. Your trading balance and leverage provided by your broker may differ from this formula. The most important is to stick to the 1% risk rule. Never risk too much in one trade. It’s a fatal mistake when a trader lose 2 or 3 trades in a row, then he will be confident that his next trade will be winning and he may add more money to this trade. This’s how you can blow up your account in a short time! A disciplined trader should never let his emotions and greed control his decisions.

Diversification

Trading one currency pair will generate few entry signals. It would be better to diversify your trades between several currencies. If you have 100,000$ balance and you have open position with 10,000$ then your core equity is 90,000$. If you want to enter a second position then you should calculate 1% risk of your core equity not of your starting balance! It means that the second trade risk should never be more than 900$. If you want to enter a 3rd position and your core equity is 80,000$ then the risk per 3rd trade should not exceed 800$

It’s important that you diversify your orders between currencies that have low correlation.

For example, If you have long EUR/USD then you shouldn’t long GBP/USD since they have high correlation. If you have long EUR/USD and GBP/USD positions and risking 3% per trade then your risk is 6% since the trades will tend to end in same direction.

If you want to trade both EUR/USD and GBP/USD and your standard position size from your money management is 10,000$ (1% risk rule) then you can trade 5,000$ EUR/USD and 5,000$ GBP/USD. In this way,you will be risking 0.5% on each position.

The Martingale and anti-martingale strategy

It's very important to understand these 2 strategies.

-Martingale rule = increasing your risk when losing !

This's a startegy adopted by gamblers which claims that you should increase the size of you trades when losing. It's applied in gambling in the following way Bet 10$,if you lose bet 20$,if you lose bet 40$,if you lose bet 80$,if you lose bet 160$..etc

This strategy assumes that after 4 or 5 losing trades,your chance to win is bigger so you should add more money to recover your loss! The truth is that the odds are same in spite of your previous loss! If you have 5 losses in a row ,still your odds for 6th bet 50:50! The same fatal mistake can be made by some novice traders. For example,if a trader started with a abalance of 10,000$ and after 4 losing trades (each is 1,000$) his balance is 6000$. The trader will think that he has higher chances of winning the 5th trade then he will increase ths size of his position 4 times to recover his loss. If he lose,his balance will be 2,000$!! He will never recover from 2,000$ to his startiing balance 10,000$. A disciplined trader should never use such gambling method unless he wants to lose his money in a short time.

-Anti-martingale rule = increase your risk when winning& decrease your risk when losing

It means that the trader should adjust the size of his positions according to his new gains or losses.

Example: Trader A starts with a balance of 10,000$. His standard trade size is 1,000$

After 6 months,his balance is 15,000$. He should adjust his trade size to 1,500$

Trader B starts with 10,000$.His standard trade size is 1,000$
After 6 months his balance is 8,000$. He should adjust his trade size to 800$

High return strategy

This strategy is for traders looking for higher return and still preserving their starting balance.

According to your money management rules,you should be risking 1% of you balance. If you start with 10,000$ and your trade size is 1,000$ (Risk 1%) After 1 year,your balance is 15,000$. Now you have your initial balance + 5,000$ profit. You can increase your potential profit by risking more from this profit while restricting your initial balance risk to 1%. For example,you can calcualte your trade in the following pattern:

1% risk 10,000$ (initial balance)+ 5% of 5,000$ (profit)

In this way,you will have more potential for higher returns and on the same time you are still risking 1% of your initial deposit.

The Big One

Although most traders are familiar with the figures above, they are inevitably ignored. Trading books are littered with stories of traders losing one, two, even five years' worth of profits in a single trade gone terribly wrong. Typically, the runaway loss is a result of sloppy money management, with no hard stops and lots of average downs into the longs and average ups into the shorts. Above all, the runaway loss is due simply to a loss of discipline.

Most traders begin their trading career, whether consciously or subconsciously, visualizing «The Big One» - the one trade that will make them millions and allow them to retire young and live carefree for the rest of their lives. In FX, this fantasy is further reinforced by the folklore of the markets. Who can forget the time that George Soros «broke the Bank of England» by shorting the pound and walked away with a cool $1-billion profit in a single day? But the cold hard truth for most retail traders is that, instead of experiencing the «Big Win», most traders fall victim to just one «Big Loss» that can knock them out of the game forever.

Learning Tough Lessons

Traders can avoid this fate by controlling their risks through stop losses. In Jack Schwager's famous book «Market Wizards» (1989), day trader and trend follower Larry Hite offers this practical advice: «Never risk more than 1% of total equity on any trade. By only risking 1%, I am indifferent to any individual trade.» This is a very good approach. A trader can be wrong 20 times in a row and still have 80% of his or her equity left.

The reality is that very few traders have the discipline to practice this method consistently. Not unlike a child who learns not to touch a hot stove only after being burned once or twice, most traders can only absorb the lessons of risk discipline through the harsh experience of monetary loss. This is the most important reason why traders should use only their speculative capital when first entering the forex market. When novices ask how much money they should begin trading with, one seasoned trader says: «Choose a number that will not materially impact your life if you were to lose it completely. Now subdivide that number by five because your first few attempts at trading will most likely end up in blow out.» This too is very sage advice, and it is well worth following for anyone considering trading FX.

Money Management Styles

Generally speaking, there are two ways to practice successful money management. A trader can take many frequent small stops and try to harvest profits from the few large winning trades, or a trader can choose to go for many small squirrel-like gains and take infrequent but large stops in the hope the many small profits will outweigh the few large losses. The first method generates many minor instances of psychological pain, but it produces a few major moments of ecstasy. On the other hand, the second strategy offers many minor instances of joy, but at the expense of experiencing a few very nasty psychological hits. With this wide-stop approach, it is not unusual to lose a week or even a month's worth of profits in one or two trades. (For further reading, see Introduction To Types Of Trading: Swing Trades.)

To a large extent, the method you choose depends on your personality; it is part of the process of discovery for each trader. One of the great benefits of the FX market is that it can accommodate both styles equally, without any additional cost to the retail trader. Since FX is a spread-based market, the cost of each transaction is the same, regardless of the size of any given trader's position.

For example, in EUR/USD, most traders would encounter a 3 pip spread equal to the cost of 3/100th of 1% of the underlying position. This cost will be uniform, in percentage terms, whether the trader wants to deal in 100-unit lots or one million-unit lots of the currency. For example, if the trader wanted to use 10,000-unit lots, the spread would amount to $3, but for the same trade using only 100-unit lots, the spread would be a mere $0.03. Contrast that with the stock market where, for example, a commission on 100 shares or 1,000 shares of a $20 stock may be fixed at $40, making the effective cost of transaction 2% in the case of 100 shares, but only 0.2% in the case of 1,000 shares. This type of variability makes it very hard for smaller traders in the equity market to scale into positions, as commissions heavily skew costs against them. However, FX traders have the benefit of uniform pricing and can practice any style of money management they choose without concern about variable transaction costs.

Four Types of Stops

Once you are ready to trade with a serious approach to money management and the proper amount of capital is allocated to your account, there are four types of stops you may consider.

Equity Stop

This is the simplest of all stops. The trader risks only a predetermined amount of his or her account on a single trade. A common metric is to risk 2% of the account on any given trade. On a hypothetical $10,000 trading account, a trader could risk $200, or about 200 points, on one mini lot (10,000 units) of EUR/USD, or only 20 points on a standard 100,000-unit lot. Aggressive traders may consider using 5% equity stops, but note that this amount is generally considered to be the upper limit of prudent money management because 10 consecutive wrong trades would draw down the account by 50%.

One strong criticism of the equity stop is that it places an arbitrary exit point on a trader's position. The trade is liquidated not as a result of a logical response to the price action of the marketplace, but rather to satisfy the trader's internal risk controls.

Chart Stop

Technical analysis can generate thousands of possible stops, driven by the price action of the charts or by various technical indicator signals. Technically oriented traders like to combine these exit points with standard equity stop rules to formulate charts stops. A classic example of a chart stop is the swing high/low point. In Figure 2 a trader with our hypothetical $10,000 account using the chart stop could sell one mini lot risking 150 points, or about 1.5% of the account.

Figure 2

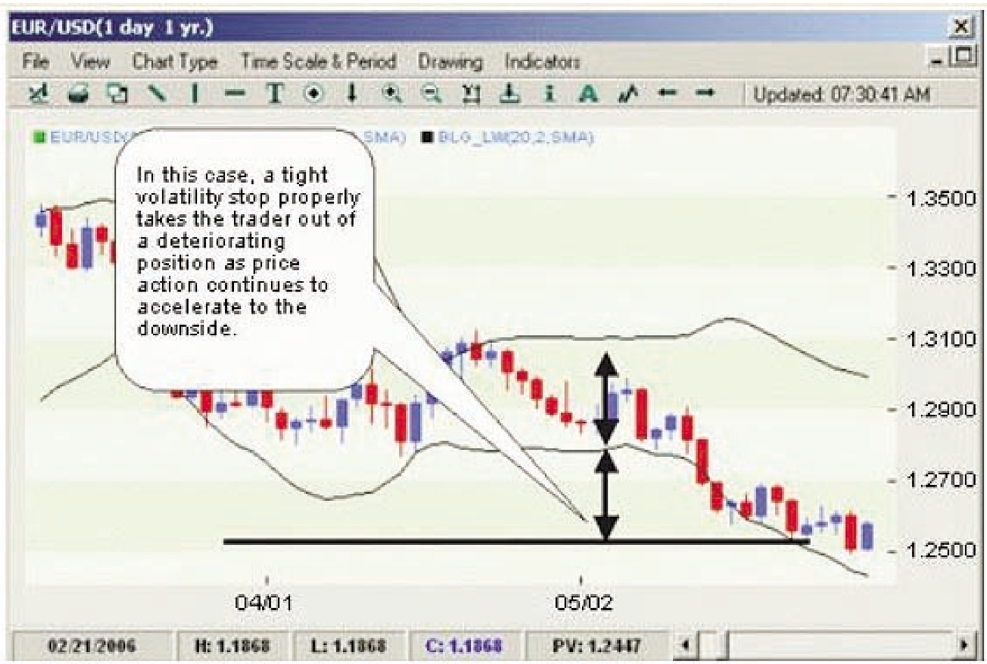
3. Volatility Stop

A more sophisticated version of the chart stop uses volatility instead of price action to set risk parameters. The idea is that in a high volatility environment, when prices traverse wide ranges, the trader needs to adapt to the present conditions and allow the position more room for risk to avoid being stopped out by intra-market noise. The opposite holds true for a low volatility environment, in which risk parameters would need to be compressed.

One easy way to measure volatility is through the use of Bollinger bands, which employ standard deviation to measure variance in price. Figures 3 and 4 show a high volatility and a low volatility stop with Bollinger bands. In Figure 3 the volatility stop also allows the trader to use a scale-in approach to achieve a better «blended» price and a faster breakeven point. Note that the total risk exposure of the position should not exceed 2% of the account; therefore, it is critical that the trader use smaller lots to properly size his or her cumulative risk in the trade.

Figure 3

Figure 4



4. Margin Stop

This is perhaps the most unorthodox of all money management strategies, but it can be an effective method in FX, if used judiciously. Unlike exchange-based markets, FX markets operate 24 hours a day. Therefore, FX dealers can liquidate their customer positions almost as soon as they trigger a margin call. For this reason, FX customers are rarely in danger of generating a negative balance in their account, since computers automatically close out all positions.

This money management strategy requires the trader to subdivide his or her capital into 10 equal parts. In our original $10,000 example, the trader would open the account with an FX dealer but only wire $1,000 instead of $10,000, leaving the other $9,000 in his or her bank account. Most FX dealers offer 100:1 leverage, so a $1,000 deposit would allow the trader to control one standard 100,000-unit lot. However, even a 1 point move against the trader would trigger a margin call (since $1,000 is the minimum that the dealer requires). So, depending on the trader's risk tolerance, he or she may choose to trade a 50,000-unit lot position, which allows him or her room for almost 100 points (on a 50,000 lot the dealer requires $500 margin, so $1,000 – 100-point loss* 50,000 lot = $500). Regardless of how much leverage the trader assumed, this controlled parsing of his or her speculative capital would prevent the trader from blowing up his or her account in just one trade and would allow him or her to take many swings at a potentially profitable set-up without the worry or care of setting manual stops. For those traders who like to practice the «have a bunch, bet a bunch» style, this approach may be quite interesting.

As you can see, money management in FX is as flexible and as varied as the market itself. The only universal rule is that all traders in this market must practice some form of it in order to succeed.

Building a Winning Trading Plan

There is an old saying in business: «Fail to plan and you plan to fail.» It may sound glib, but those who are serious about being successful, including traders, should follow these eight words as if they were written in stone. Ask any trader who makes money on a consistent basis and they will tell you, «You have two choices: you can either methodically follow a written plan, or fail.»

If you have a written trading or investment plan, congratulations! You are in the minority. While it is still no absolute guarantee of success, you have eliminated one major roadblock. If your plan uses flawed techniques or lacks preparation, your success won't come immediately, but at least you are in a position to chart and modify your course. By documenting the process, you learn what works and how to avoid repeating costly mistakes.

Whether or not you have a plan now, here are some ideas to help with the process.

Disaster Avoidance

Trading is a business, so you have to treat it as such if you want to succeed. Reading some books, buying a charting program, opening a brokerage account and starting to trade is not a business plan - it is a recipe for disaster. «If you don't follow a written trading plan, you court disaster every time you enter the market,» says John Novak, an experienced trader and developer of the T-3 Fibs Protrader Program.

John and his wife Melinda, who is also his business partner in Nexgen Software Systems, run a number of educational trading chat rooms to help traders learn how to use their software and, more importantly, learn how to trade. In a nutshell, their software identifies Fibonacci areas of support and resistance in multiple time frames and provides traders with specific areas to enter and exit the market. Once a trader knows where the market has the potential to pause or reverse, he or she must then determine which one it will be and act accordingly.

«Even with the best program, market data and analysis, odds for consistent success range from slim to none without a written plan,» says Novak. The Nexgen website offers examples of trading plans and useful market information for the benefit of both clients and non-clients alike.

«Like the markets, a good trading plan evolves and changes, and should improve over time,» says Melinda Novak.

A plan should be written in stone while you are trading, but subject to re-evaluation once the market has closed. It changes with market conditions and adjusts as the trader's skill level improves. Each trader should write his or her own plan, taking into account personal trading styles and goals. Using someone else's plan does not reflect your trading characteristics.

Building the Perfect Master Plan

What are the components of a good trading plan? Here are 10 essentials that every plan should include.

1. Skill assessment - Are you ready to trade? Have you tested your system by paper trading it and do you have confidence that it works? Can you follow your signals without hesitation? If not, it's a good idea to read Mark Douglas's book, «Trading in the Zone», and do the trading exercises on pages 189–201. This will teach you how to think in terms of probabilities. Trading in the markets is a battle of give and take. The real pros are prepared and they take their profits from the rest of the crowd who, lacking a plan, give their money away through costly mistakes.

2. Mental preparation – How do you feel? Did you get a good night's sleep? Do you feel up to the challenge ahead? If you are not emotionally and psychologically ready to do battle

in the markets, it is better to take the day off - otherwise, you risk losing your shirt. This is guaranteed to happen if you are angry, hungover, preoccupied or otherwise distracted from the task at hand. Many traders have a market mantra they repeat before the day begins to get them ready. Create one that puts you in the trading zone.

3. Set risk level – How much of your portfolio should you risk on any one trade? It can range anywhere from around 1% to as much as 5% of your portfolio on a given trading day. That means if you lose that amount at any point in the day, you get out and stay out. This will depend on your trading style and risk tolerance. Better to keep powder dry to fight another day if things aren't going your way.

4. Set goals – Before you enter a trade, set realistic profit targets and risk/reward ratios. What is the minimum risk/reward you will accept? Many traders use will not take a trade unless the potential profit is at least three times greater than the risk. For example, if your stop loss is a dollar loss per share, your goal should be a $3 profit. Set weekly, monthly and annual profit goals in dollars or as a percentage of your portfolio, and re-assess them regularly.

5. Do your homework – Before the market opens, what is going on around the world? Are overseas markets up or down? Are index futures such as the S&P 500 or Nasdaq 100 exchange-traded funds up or down in pre-market? Index futures are a good way of gauging market mood before the market opens. What economic or earnings data is due out and when? Post a list on the wall in front of you and decide whether you want to trade ahead of an important economic report. For most traders, it is better to wait until the report is released than take unnecessary risk. Pros trade based on probabilities. They don't gamble.

6. Trade preparation – Before the trading day, reboot your computer(s) to clear the resident memory (RAM). Whatever trading system and program you use, label major and minor support and resistance levels, set alerts for entry and exit signals and make sure all signals can be easily seen or detected with a clear visual or auditory signal. Your trading area should not offer distractions. Remember, this is a business, and distractions can be costly.

7. Set exit rules – Most traders make the mistake of concentrating 90% or more of their efforts in looking for buy signals but pay very little attention to when and where to exit. Many traders cannot sell if they are down because they don't want to take a loss. Get over it or you will not make it as a trader. If your stop gets hit, it means you were wrong. Don't take it personally. Professional traders lose more trades than they win, but by managing money and limiting losses, they still end up making profits.Before you enter a trade, you should know where your exits are. There are at least two for every trade. First, what is your stop loss if the trade goes against you? It must be written down. Mental stops don't count. Second, each trade should have a profit target. Once you get there, sell a portion of your position and you can move your stop loss on the rest of your position to break even if you wish. As discussed above in number three, never risk more than a set percentage of your portfolio on any trade.

8. Set entry rules – This comes after the tips for exit rules for a reason: exits are far more important than entries. A typical entry rule could be worded like this: «If signal A fires and there is a minimum target at least three times as great as my stop loss and we are at support, then buy X contracts or shares here.» Your system should be complicated enough to be effective, but simple enough to facilitate snap decisions. If you have 20 conditions that must be met and many are subjective, you will find it difficult if not impossible to actually make trades. Computers often make better traders than people, which may explain why nearly 50% of all trades that now occur on the New York Stock Exchange are computer-program generated. Computers don't have to think or feel good to make a trade. If conditions are met, they enter. When the trade goes the wrong way or hits a profit target, they exit. They don't get angry at the market or feel invincible after making a few good trades. Each decision is based on probabilities.

9. Keep excellent records – All good traders are also good record keepers. If they win a trade, they want to know exactly why and how. More importantly, they want to know the same when they lose, so they don't repeat unnecessary mistakes. Write down details such as targets,

the entry and exit of each trade, the time, support and resistance levels, daily opening range, market open and close for the day, and record comments about why you made the trade and lessons learned. Also, you should save your trading records so that you can go back and analyze the profit/loss for a particular system, draw-downs (which are amounts lost per trade using a trading system), average time per trade (which is necessary to calculate trade efficiency), and other important factors, and also compare them to a buy-and-hold strategy. Remember, this is a business and you are the accountant.

10. Perform a post-mortem – After each trading day, adding up the profit or loss is secondary to knowing the why and how. Write down your conclusions in your trading journal so that you can reference them again later.

Parting Notes

«No one should be trading real money until they have at least 30 to 60 profitable paper trades under their belts in real time in real market conditions before risking real money,» says Novak.

Successful paper trading does not guarantee that you will have success when you begin trading real money and emotions come into play. But successful paper trading does give the trader confidence that the system he or she is going to use actually works.

The exercises in «Trading in the Zone» walk the trader through trading a system based on a simple indicator, entering the market when the indicator gives a buy and exiting when it gives a sell. Deciding on a system is less important than gaining enough skill so that you are able to make trades without second guessing or doubting the decision.

There is no way to guarantee that a trade will make money. The trader's chances are based on his or her skill and system of winning and losing. There is no such thing as winning without losing. Professional traders know before they enter a trade that the odds are in their favor or they wouldn't be there. By letting his or her profits ride and cutting losses short, a trader may lose some battles, but he or she will win the war. Most traders and investors do the opposite, which is why they never make money.

Traders who win consistently treat trading as a business. While it's not a guarantee that you will make money, having a plan is crucial if you want to become consistently successful and survive in the trading game.

Getting Started

Choosing a Broker

There are many forex brokers to choose from, just as in any other market. Here are some things to look for:

1. *Low Spreads* - The spread, calculated in «pips», is the difference between the price at which a currency can be purchased and the price at which it can be sold at any given point in time. Forex brokers don't charge a commission, so this difference is how they make money. In comparing brokers, you will find that the difference in spreads in forex is as great as the difference in commissions in the stock arena.

Bottom line: Lower spreads save you money!

2. *Quality Institution* - Unlike equity brokers, forex brokers are usually tied to large banks or lending institutions because of the large amounts of capital required (leverage they need to provide). Also, forex brokers should be registered with the Futures Commission Merchant (FCM) and regulated by the Commodity Futures Trading Commission (CFTC). You can find this and other financial information and statistics about a forex brokerage on its website or on the website of its parent company.

Bottom line: Make sure your broker is backed by a reliable institution!

3. *Extensive Tools and Research* - Forex brokers offer many different trading platforms for their clients - just like brokers in other markets. These trading platforms often feature real-time charts, technical analysis tools, real-time news and data, and even support for trading systems. Before committing to any broker, be sure to request free trials to test different trading platforms. Brokers usually also provide technical and fundamental commentaries, economic calendars and other research.

Bottom line: Find a broker who will give you what you need to succeed!

4. *Wide Range of Leverage Options* - Leverage is necessary in forex because the price deviations (the sources of profit) are merely fractions of a cent. Leverage, expressed as a ratio between total capital available to actual capital, is the amount of money a broker will lend you for trading. For example, a ratio of 100:1 means your broker would lend you $100 for every $1 of actual capital. Many brokerages offer as much as 250:1. Remember, lower leverage means lower risk of a margin call, but also lower bang for your buck (and vice-versa).

Bottom line: If you have limited capital, make sure your broker offers high leverage. If capital is not a problem, any broker with a wide variety of leverage options should do. A variety of options lets you vary the amount of risk you are willing to take. For example, less

leverage (and therefore less risk) may be preferable for highly volatile (exotic) currency pairs.

5. *Account Types* - Many brokers offer two or more types of accounts. The smallest account is known as a mini account and requires you to trade with a minimum of, say, $250, offering a high amount of leverage (which you need in order to make money with so little initial capital). The standard account lets you trade at a variety of different leverages, but it requires a minimum initial capital of $2,000. Finally, premium accounts, which often require significant amounts of capital, let you use different amounts of leverage and often offer additional tools and services.

Bottom line: Make sure the broker you choose has the right leverage, tools, and services relative to your amount of capital.

Things To Avoid

1. *Sniping or Hunting* - Sniping and hunting - or prematurely buying or selling near preset points - are shady acts committed by brokers to increase profits. Obviously, no broker admits to committing these acts, but a notion that a broker has practiced sniping or hunting is commonly believed to be true. Unfortunately, the only way to determine which brokers do this and which brokers don't is to talk to fellow traders. There is no blacklist or organization that reports such activity.

Bottom line: Talk to others in person or visit online discussion forums to find out who is an honest broker.

2. *Strict Margin Rules* - When you are trading with borrowed money, your broker has a say in how much risk you take. As such, your broker can buy or sell at its discretion, which can be a bad thing for you. Let's say you have a margin account, and your position takes a

dive before rebounding to all-time highs. Well, even if you have enough cash to cover, some brokers will liquidate your position on a margin call at that low. This action on their part can cost you dearly.

Bottom line: Again, talk to others in person or visit online discussion forums to find out who the honest brokers are.

Signing up for a forex account is much the same as getting an equity account. The only major difference is that, for forex accounts, you are required to sign a margin agreement. This agreement states that you are trading with borrowed money, and, as such, the brokerage has the right to interfere with your trades to protect its interests. Once you sign up, simply fund your account, and you'll be ready to trade!

Define a Basic Forex Strategy

Technical analysis and fundamental analysis are the two basic genres of strategy in the forex market - just like in the equity markets. But technical analysis is by far the most common strategy used by individual forex traders. Here is a brief overview of both forms of analysis and how they apply to forex:

Fundamental Analysis

If you think it's difficult to value one company, try valuing a whole country! Fundamental analysis in the forex market is often very complex, and it's usually used only to predict long-term trends; however, some traders do trade short term strictly on news releases. There are many different fundamental indicators of currency values released at many different times. Here are a few:

- Non-farm Payrolls

- Purchasing Managers Index (PMI)
- Consumer Price Index (CPI)
- Retail Sales
- Durable Goods

Now, these reports are not the only fundamental factors to watch. There are also several meetings from which come quotes and commentary that can affect markets just as much as any report. These meetings are often called to discuss interest rates, inflation, and other issues that affect currency valuations. Even changes in wording when addressing certain issues - the Federal Reserve chairman's comments on interest rates, for example - can cause market volatility. Two important meetings to watch are the Federal Open Market Committee and Humphrey Hawkins Hearings.

Simply reading the reports and examining the commentary can help forex fundamental analysts gain a better understanding of long-term market trends and allow short-term traders to profit from extraordinary happenings. If you choose to follow a fundamental strategy, be sure to keep an economic calendar handy at all times so you know when these reports are released. Your broker may also provide real-time access to such information.

Technical Analysis

Like their counterparts in the equity markets, technical analysts of the forex analyze price trends. The only key difference between technical analysis in forex and technical analysis in equities is the time frame: forex markets are open 24 hours a day. As a result, some forms of technical analysis that factor in time must be modified to work with the 24-hour forex market. These are some of the most common forms of technical analysis used in forex:

- The Elliott Waves

- Fibonacci studies
- Parabolic SAR
- Pivot points

Many technical analysts combine technical studies to make more accurate predictions. (The most common is combining the Fibonacci studies with Elliott Waves.) Others create trading systems to repeatedly locate similar buying and selling conditions.

Finding Your Strategy

Most successful traders develop a strategy and perfect it over time. Some people focus on one particular study or calculation, while others use broad spectrum analysis to determine their trades. Most experts suggest trying a combination of both fundamental and technical analysis, with which you can make long-term projections and also determine entry and exit points. But in the end, it is the individual trader who needs to decide what works best for him or her (most often through trial and error).

Things to Remember

Open a demo account and paper trade until you can make a consistent profit - Many people jump into the forex market and quickly lose a lot of money (because of leverage). It is important to take your time and learn to trade properly before committing capital. The best way to learn is by doing!

Trade without emotion - Don’t keep «mental» stop-loss points if you don’t have the ability to execute them on time. Always set your stop-loss and take-profit points to execute automatically, and don’t change them unless absolutely necessary. Make your decisions and stick to them!

The trend is your friend – If you go against the trend, you had better have a good reason. Because the forex market tends to trend more than move sideways, you have a higher chance of success in trading with the trend.

Conclusion

The forex market is the largest market in the world, and individuals are becoming increasingly interested in it. But before you begin trading it, be sure your broker meets certain criteria, and take the time to find a trading strategy that works for you. Remember, the best way to learn to trade forex is to open up a demo account and try it out.