

An Introduction to...

# FOREX TRADING



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## Beginner Forex Currency Trading: What Is It All About?

For a beginner Forex currency trading may seem to be a whole new world but in fact the basics are quite easy to learn. You just need to understand the buzz words and trading terms and grasp a basic understanding of how the markets work.

Making big money in a short time is what Forex currency trading is all about! It is possible for investors to make a lot of money very fast because the rates of exchange on the foreign market can rise and fall quickly. This means of course that it is risky and there is also a chance of losing a lot, just like most things in life that have the potential of big returns.

As you will know if you have ever exchanged currency for a vacation, the rates are constantly changing. For example you may change \$100 into another currency planning to travel, and then find that you do not need it and change it back. The rate will probably have changed in the meantime and you may even have made a profit.

Forex traders deal in currencies hoping to make a profit all of the time, but instead of changing money at the bank they use a broker. Most transactions these days are handled online. In many ways it is not so different from stock trading. There is the same potential to trade in margins where a small balance held by your broker can control much larger deals.



One difference from stock exchange trading is that Forex traders are not limited to dealing in their own country. You can trade any two currencies regardless of where you live. This also means that the market is international. Because of time zone differences, it is open 24 hours a day from Monday morning in Australia to Friday afternoon in New York.

Each currency is represented by 3 letters: USD for the US dollar, GBP for the British pound, EUR for the Euro, JPY for the Japanese Yen, CHF for the Swiss franc, CAD for the Canadian dollar, AUD for the Australian dollar etc. The exchange rate between two currencies may be expressed like this: USD/CHF 1.14. This means that to buy one US dollar you will need 1.14 Swiss francs.

If you want to start out in Forex trading you will need to look for a broker or investment management company that you trust. It is worth shopping around and checking online forums for recommendations. Check out how long the company has been in business and what your rights and liabilities will be. Read all of the fine print.

You may also consider using a robot to do your trading for you. This is automated Forex trading software that can trade 24 hours a day according to rules that you set for it. There is usually a demo option so that you can test out the whole system for a while before you let it trade with real money. There are many Forex robots on the market and most of them come with full instructions for beginner Forex currency trading.

### **Forex Market Hours: Can You Trade Currency 24/7?**

The Forex market hours stretch from Monday morning in Sydney, Australia to Friday afternoon in New York. During that time the market is open somewhere around the globe at all hours of the day or night.

However it is not a 24/7 market because it does shut down on weekends. 24/5 would be more accurate.

If you need to know the exact times that the markets open and close, you have to take time zones into consideration. It is very simple when expressed in UTC. This is Universal Coordinated Time, formerly known as Greenwich Mean Time. This is the standard (winter) time in Greenwich, London which is the point of zero longitude on the globe.



So, the normal Forex market hours are 22.00 Sunday UTC to 22.00 Friday UTC. This is 10 pm in the UK in winter time.

New York is 5 hours behind the UK so the global Forex market opens and closes at 5 pm Sunday/Friday in New York, 2 pm on the US west coast, 11 pm in Germany, 8 am Monday/Saturday in Sydney.

Things get a little complicated when you start to try to take summer time daylight saving into account. This makes one hour difference in countries that observe it. But daylight saving operates in a different way in the southern hemisphere countries such as Australia which have summer time from September to March instead of March to September.

The hours of the different major national markets are as follows:

Sydney: 10 pm to 7 am UTC

Tokyo: 12 midnight to 9 am UTC

London: 8 am to 5 pm UTC

New York: 1 pm to 10 pm UTC

Or we can express that in EST (Eastern US time):

Sydney: 5 pm to 2 am EST

Tokyo: 7 pm to 4 am EST

London: 3 am to 12 noon EST

New York: 8 am to 5 pm EST

You can see that these correspond to 24 hour cover.

However, this does not necessarily mean that trading will be good at all of these times. Just after a major market opens, the prices can be very volatile and unpredictable. Many traders will stay out of the Forex market for up to an hour four times a day when the financial markets are waking up in these major cities.

The US dollar is the most traded currency by a long way, involved in 2.5 times as many trades as its nearest rival the euro. This means that events in the USA have a greater impact on the financial markets than events in other countries. The New York market tends to slow down around 3 pm local time (8 pm UTC) and if you are involved in a US dollar pair, this can be a good time to stop trading for the day.

So theoretically you can trade 24 hours a day from Sunday night to Friday night. Automated software in the form of a Forex robot can even make this physically possible. However, a cautious trader will choose his times and will not be active during all of the Forex market hours.

### **Forex Margin Trading: Make More Money With Less**

Forex margin trading is a way of applying leverage to increase the purchasing power of your money. Leverage simply means using a small sum to control a much larger sum. This is possible because it is unlikely that the value of a currency will change by more than a certain percentage over a short time. So you can place a few hundred dollars in your brokerage account to trade on the margin - the amount that you think the price will fall. Your broker will in effect lend you the balance.

Trading on margins is also known in stock and futures trading, but because of the special nature of currencies, you can get a lot more leverage in the Forex market. Depending on your broker's terms, you may be able to control 50, 100 or even 200 times your account balance.

This can lead to big profits if you are successful, but it can also mean big losses if not. In general, the more leverage you use, the more risky your trading is.

We can understand leverage and margins if we consider an example.

Imagine that the current rate on the British pound to US dollar Forex market is shown as GBP/USD 1.7100. So to buy one British pound you would need \$1.71. If you expected the value of the dollar to rise against the pound you might decide to sell enough pounds to buy \$100,000. If your broker used lots of \$10,000 each, this would be 10 lots. Then you would sit back and wait for the price to go up.

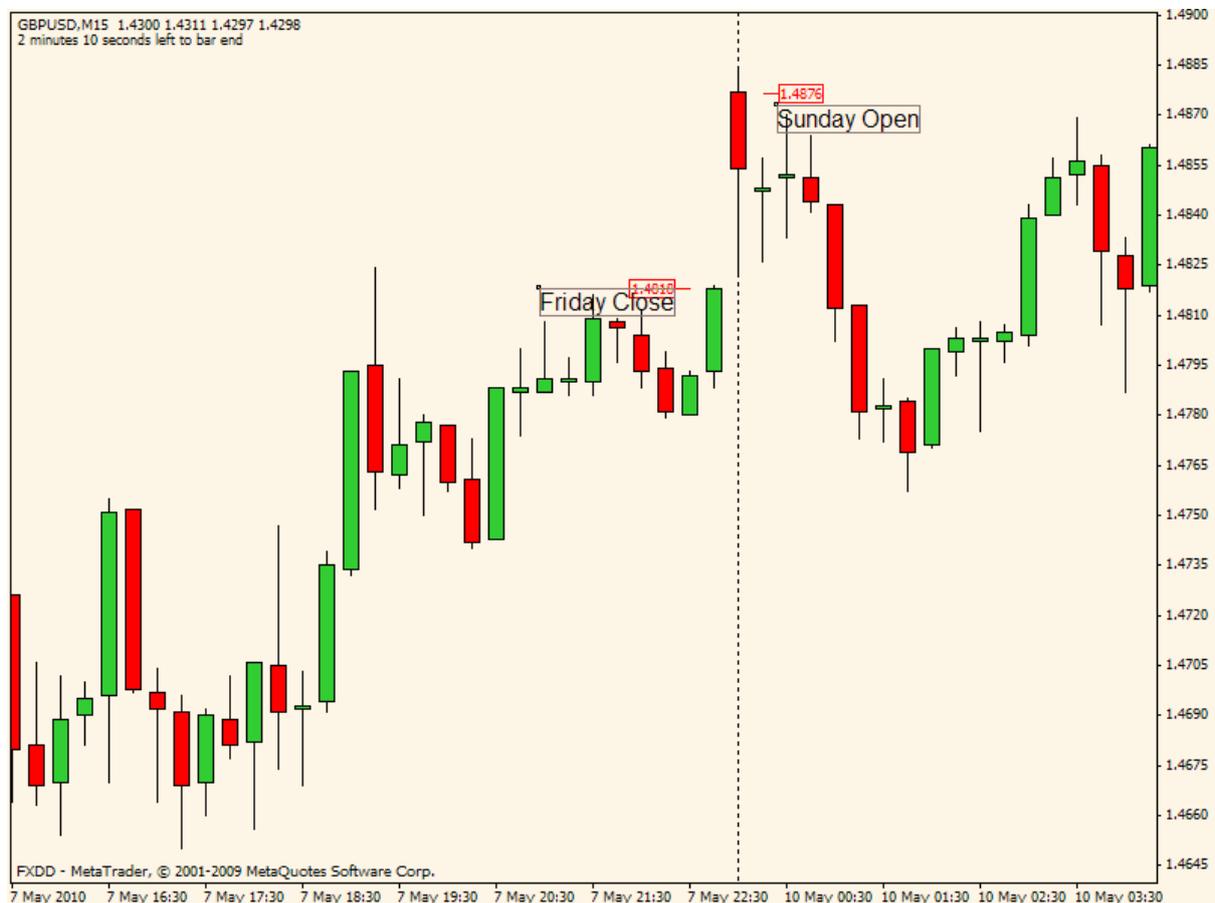
A few days later you might find that the price had moved to GBP/USD 1.6600. Sure enough, the dollar has risen and the pound is now worth only \$1.66. If you sell your dollars now and buy back into pounds, you will have made a profit of 2.9% less the spread. 2.9% of \$100,000 is \$2,900, so that would be an excellent trade.

But most of us do not have \$100,000 spare cash that we want to trade on the currency exchange market. So here is where the principle of Forex margins comes into play.

Since you are buying and selling different currencies at the same time, your own money only has to cover any loss that you might make if the dollar falls instead of rising. And you would put a stop loss into place to limit that loss, so \$1,000 might be all you needed to have in your account to make this \$100,000 purchase. Your broker guarantees the other \$99,000.

In fact many brokers now operate limited risk amounts where the account will automatically close out the trade if whatever funds you have in your account are lost. This prevents margin calls which can be disastrous for a trader because they mean that you can lose more than you have. But with a Forex limited risk account that is not a possibility. The broker's software that you use to control your account will not let you lose more than your account balance.

Using leverage in this way is so common in currency trading that you will soon do it without even thinking about it. Still it is important to keep in mind the risks. Lower leverage is always safer and you may never want to go to the maximum Forex margin that your broker would allow.



## Foreign Exchange Markets: What You Need To Know

The foreign exchange markets are situated all around the world. Currency trading is a global activity. Every country in the world uses money and needs to change that money into other currencies in order to trade or interact with other nations.

Currency exchange happens at every level of society. As an individual, you may have changed money when traveling on business or on vacation. Or maybe you have sold something on eBay to somebody in another country. Their payment comes in to your account in their own currency, and the bank or other payment processor such as PayPal changes it for you. That is currency exchange at the root level.

Foreign exchange or Forex trading has a different purpose, however. When you are trading on the foreign exchange markets you are not buying another currency because you need it. You are buying it in the hope that it will rise in value, so you can change it back and end up with more money than you started out with.

Of course, it is risky. The price movement could go against you and then you would end up with less money instead of more. So you will want to gather plenty of information about currency trading before you start.

Forex trading began in the 1970s when the major currencies were deregulated so that their values were no longer fixed. The banks and large investors quickly saw the potential for making money from the changing prices.

The main Forex marketplaces are the big financial centers of the world. London sees the highest activity with New York second and Tokyo third. Other major players are Sydney, Zurich and Frankfurt.

Originally you had to be in one of those places to trade money, or at least have a telephone connection with a broker who was there. It was very difficult for somebody who was not on the spot to act fast enough to react to the sudden fluctuations in price that can happen in the forex markets.

But modern advances in technology have changed all of that. Since the rise of the internet it has been possible to trade on your own account from anywhere. This means that it has become easier and easier for the little guy to get a piece of the action.

While some people never think about foreign currency from one overseas trip to the next, others are studying charts and financial information or even using automated software in the form of Forex robots to make money from the rising and falling prices with the aim of becoming financially free by trading on the foreign exchange markets.

### **Day Trading Forex Currency: 5 Tips For Making Money**

Day trading Forex currency is becoming a more and more popular way to make money. Forex is the foreign exchange market where trillions of dollars' worth of currencies are exchanged worldwide every day. Money is made by

exchanging one currency for another when you think that the values will change, and then exchanging them back at a profit if this was successful. Day trading systems involve opening and closing trades within the same day, although many day traders work on a much shorter timescale of just a few minutes.

Some people become involved in Forex day trading because they only have a short time available to trade. One advantage of the Forex markets is that they are open 24 hours Monday through Friday, so you can hold down a job and trade in the evenings. Other traders become successful enough to do this full time. The fast and furious atmosphere provides a big rush, and although it is risky, there is the potential to make a lot of money very fast.

Of course you cannot just jump in and make tons of money. You will need to know something about currency trading and have a profitable system that tells you when to open a trade, when to close it and how much profit to aim for.

Here are our top 5 tips to help you make the most from day trading foreign currency.

### 1. Choose your broker carefully.

Some brokers do not like day trading and will close your account if you make money this way. Others are fine with it. Check this out before you open an account to save yourself a lot of time and frustration.

### 2. Start with a demo account.

Most brokers will provide a free demo account and you should start implementing your system with this. This will help you get to know the trading platform thoroughly and understand how to make the most of your system before you ever risk any real money.

### 3. Plan your trading time.

You cannot be sure of having a trading opportunity right when you want it so it is important to be prepared through all of your potential trading time. Arrange not to be interrupted and minimize distractions by switching off your email and phone. See what is happening in the market including major world news.

Check whether any financial reports are due during your trading time. A report being released when you did not expect it can lead to disaster!

#### 4. Improve your analytical skills.

The fast moving world of day trading almost always relies on quick and accurate interpretation of charts and financial data. You do not need to be a math genius because most of the calculations are done by the software. You just need to understand what you are seeing and make confident decisions based on the data.

#### 5. Stay level headed.

All Forex trading relies on maintaining calm judgment, without being swayed by our hopes and fears. The fast pace of day trading makes this even more important. You must be able to apply your system patiently and consistently without being carried away by greed or panic.

Remember that day trading is risky and money can be lost as well as made. Be sure you have your system tested and these tips fully mastered if you want to make big money by day trading Forex currency.



## Choosing A Forex Trading Broker

An account with a Forex trading broker is something that you must have when you are beginning currency trading. You always have to have a way into the market and your brokerage company will provide software so that you can control your trades online. They will also give you leverage so that you can trade on margins and control much larger sums than you have yourself.

There are several things to take into account when choosing a Forex broker. Here are some of the most important points to consider.

### 1. Reliability

Finding a broker that you can trust is not as straightforward as you might think. The Forex market operates worldwide and there is no global regulatory body, so some brokers are unregulated. Check where their business is based and what registrations and memberships they have. American brokers should be registered with the Commodity Futures Trading Commission (CFTC) and/or the National Futures Association (NFA). Other countries have other associations.

You can usually see if a broker has a big problem by checking Forex forums for user feedback. However, be sure to get several views. Do not accept one person's point of view as fact. That person may have personal or financial reasons for praising or criticizing a broker.

### 2. Services provided

The Forex is a 24 hour market, five days a week. You will want your broker's trading software to be live online all of this time (most are). You may also want to check if they have 24 hour customer support Monday through Friday.

Check that they cover all of the major currency pairs, that is USD against EUR, JPY, GBP, CHF, CAD, AUD. They should also offer at least some cross pairs of the major currencies that is two of the other currencies not including the US dollar.

All brokers will offer charts and technical analysis. Check that these meet your needs. You will also want to check whether they offer instant execution of orders at the displayed price without slippage.

### 3. Charges

Forex trading brokers generally do not charge a fee or commission. Instead they make money from the spread, which is the difference between the bid and ask prices of a currency pair. Spread is usually in the range of 1-3 pips, depending on the broker and the currency pair, but it can vary at times of volatility.

The size of the spread can make a big difference to whether you make profits in the long term. If you know which pairs you are likely to trade most often, the spread on those pairs will be more important to you than others.

### 4. Minimum account and lot size

The minimum investment will be an important factor. Some brokers only offer standard accounts where the minimum investment could be \$10,000 or more. Mini Forex trading accounts have a much lower minimum account balance, often \$250-\$1,000. These are better for almost all beginners.

### 5. Leverage

Leverage is the factor that determines how much you can control with the money that is in your account. You can often control a lot that is up to 100 times the money that you actually put in, with your broker covering the rest. Some brokers offer even higher leverage but be aware that the higher the leverage, the more you are risking on each trade.



You can also look at a prospective broker's rollover percentages and other policies. However, the above 5 points are the main factors to take into account when selecting a Forex trading broker.

### **Reasons Why Currency Changes Value**

Many factors affect the value of a currency. You cannot control these things that affect currency change. However, you can learn to understand these things in order to make a well-informed decision when buying or selling a particular currency.

Currency, just like other products that are bought or sold, may be affected by the fundamentals of economics and business cycles. The laws of supply and demand are equally valid when talking about the value of currency, as they are when we talk about the value of all goods.

When the supply of a certain currency is high, the price for that currency crashes as holders of the currency try to find ways to get rid of it. For example, if everyone decides that he or she do not want to keep the U.S. Dollar further and try to sell him or her, to do so they would probably have to lower their price to find a buyer. In this case, there is more supply than demand.

Other things that influences currency change is when the supply of currency is low and there are more who want to buy it than there are available foreign exchanges, the price of the currency as buyers compete for the currency. In this case, there is more demand than the supply. Use the same equation; you can do in relation to home sales in your area. If there are few homes available, buyers will offer the full asking price and sometimes even higher bid price will surely get the house.

You might wonder how a market can suddenly be flooded with a currency in order to increase the offer and eventually drive the price of the currency down. Well, governments and central banks take a role when they want to affect the value of a currency.

Governments may also decide they want the value of its currency to rise, and they have purchasing power to buy the currency and availability of its scarce

foreign exchange. This will make the price of the rise thus, creating currency change.

The government manipulation is not the only thing that can affect the value of the currency economically. The impact of businesses and consumers as a whole can drive currency values up and down.

The key is to know what type of market, each country faces and how this market that affect the value of the currency. Remember that every currency trade requires at least two countries: the one you are selling and the currency that you are buying.

### Understanding the Limit Order in Forex Trades

In FX trading, there are two types of conditional order -- stop loss and limit order. These are called conditional because it could not be used unless a specific event takes place.

Stop loss is a really well known statement that the risks related to trade control. With a stop loss, you say to the broker, "If the price goes so far against me, I want out." Hence, when you bought the foreign currency pair, you are hoping for an increase in price, but when the price drops, you will not see your total balance wiped out. Stop Loss will protect most of your capital.



The limit order is similar but shows the opposite scenario. By using a limit order, you say to the broker, "When the price comes to this particular level that is enough, I will close here and take it." The limit order will be activated if pre-arranged price is achieved, and the trade will be closed at that price.

Many traders are unwilling to use instructions that restrict when they start. It seems counter intuitive. If the market goes your way, why would you need to close the trade? Would not you want to hang as long as possible to the most profit out of it?

The problem with this strategy is eventually the price will go, and often it does so sooner rather than later. If you do not place a limit order, once you close the trade, how will you recognize when it has gone as far as it is going? If you wait too long, a sudden change could see your profits are eliminated.

Therefore, unless you have a method that is defined by very precise criteria to tell you when to close a trade, you will probably be better if you use the limit order. Where do you put them? Back testing system can be useful here. You can check through the past months, years of Forex markets, that would trigger a trade according to your system, and figure out exactly what would have been the perfect setting for the limit order. Do not forget, of course, that past performance is not always going to be repeated in the future. Testing in a simulated demo account is also useful.

Generally, you limit to be further from your starting point than your stop loss, even after the spread is considered. This will probably mean that you only have to score a 50% success rate to be in surplus. Establishment limit the order of twice the pips of stop loss, either before or after dispersal, may be suitable. On the other hand, this depends on your system.

Working with limit orders, which is another valuable benefit as well. Once you have both set stop loss and limit order, you will be able to get behind the computer and get on with your day. You do not look at every little fluctuation in price until either enabled.

This reduces tension and makes it more unlikely that you will not panic and deviate from the original strategy. In using limit orders in Forex trading, you can produce a happier, more profitable trader.

## Things To Know When Opening a Currency Trading Account

Forex trading has become an obsession for millions of people around the world. Everyday its popularity increases and probably you yourself want to join these traders whether on a full-time or part-time basis. In order to get the best start in your career as a trader you need to find a good broker and open a currency trading account. This process can take time. It's essential to find the right broker for your level of experience and capital.

### Types of Trading Accounts

#### \* Demo

This type of service can introduce you to the exchange market. Brokers offer this free version to aid beginners in the currency business in making their investment choices on paper only first.

#### \* Micro

Micro accounts are usually used by beginners who do not have large amounts of capital. You can start with as little as \$300.00, however, some don't have stop-loss orders. Meaning you have to risk a huge percentage of your capital. Not all brokers offer this option thus; you have to take time in finding someone who will cater to your needs.

#### \* Mini

Beginners in the currency exchange market usually use this type of account. It allows you to start at the size of 10, 000 units instead of the standard 1,000,000 units. This will give you more flexibility in amount of risk. They can give you the opportunity to set up your own stop-loss system. When you have this in place, you will not lose too much money with small or large price fluctuations.

#### \* Managed/Premium

In this type of portfolio, a manager takes charge of your finances. If you have this service, you will have the opportunity of modifying it according to your specific needs. The minimum capital for this is \$5000.00 and trading starts with

100,000 units. This is recommended for individuals who can afford high capital input and don't want to execute the trades themselves.

### Opening Your Own Currency Trading Account

It is easy to get your own currency trading account. All you need to do is fill out an online application form and submit it to the broker. Then, this will be reviewed for approval. If everything goes right with your application, you will be receiving an email for you to start activation procedures. Finally, you have to deposit your capital.

You can use a credit card when depositing your capital. This is the fastest way of funding your investment because it only takes a few minutes to transfer your money. When doing transactions like this, you should be careful in giving the information of your card. Make sure that the site that you are joining is not fraud so that your personal information will be protected. A more secure way of paying is through an electronic check.

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We hope you enjoyed this introduction to Forex currency trading and it has given you a good idea of what is involved.

So what should you do next?

A good idea if you are new is to work through the technical analysis school at BabyPips.com. This is a free learning course online for learning the basics of Forex and financial trading. You can start that by [clicking here](#).

Or get your hands dirty quickly with our day trading Forex strategy – Pipdaq. It is suited for the complete newbie and seasoned traders alike. [Click here for information](#).

Thank you for reading and enjoy your trading journey!