FOREX

FOREX TRADING

FX Trading and Inflation Protection

FOREX OPTIONS & TECHNICAL ANALYSIS

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Forex Trading

Learn About: FX Trading & Inflation Protection, Various Forex Options & Technical Analysis

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Introduction

Ever since stocks were first bought and sold in 1792, the stock market has only grown in size and volume. It has transcended boundaries and is now popular all over the world. There are many stock markets (places of exchanges) in the world including physical and virtual.

As you know, the stock market as a whole, (composer of these many local exchanges around the world) is a very vast place where thousands of trades take place on a daily basis. These trades are carried out locally and also internationally.

The stock market deals with a very big amount of what we call "financial instruments" Shares, CFD, Futures, Indexes, etc., but as big as grown and known to be, we have another Financial market that has become even bigger in the last 10 years. Estimated to exceed the stock market with 10x the daily volume traded of all stock exchanges combined.

Such market is known as the Forex Market. Forex stands for Foreign Exchange.

The exchange here refers to currencies. As a trader, you have to understand what forex trading stands for and how it takes place in the market. And before you start trading in these currencies, you have to know everything that there is to about it in order to make a profit out of it.

In this book, we will look at the different aspects of forex and see how you can trade in it with ease.

The book will cover topics such as understanding the meaning of the forex market, the basic concepts, the different dos and don'ts and general tips that will help you invest in the forex market. The book will act as your one true forex investment guide and usher you in the right direction.

Let us begin.

Chapter 1: What is Forex Trading? An Introduction to Forex Trading

First and foremost, I thank you for choosing this book and hope you have a good time reading it.

In this first chapter of the book, we will look at the meaning of forex trading and the basic concepts that govern it.

What is forex trading?

Forex (Foreign Exchange Market) is the biggest financial market of the world, therefore, Forex trading refers to Currency exchange trading. As you know, it is extremely important for currencies to exist in this world. Without them, people will not be able to buy and sell goods. Now these goods will not always be bought and sold in the local country alone and will also have to be bought from a foreign country. Now say for example you line in Germany and wish to buy a laptop from China. The German currency is Euro and Chinese currency is Yuan. Now when you wish to buy the laptop, the Chinese seller will most likely not accept the Euro as payment, but would accept Dollars, as up until now, Dollars is the most widely accepted currency and easy to convert into Yuan as he will want the Yuan, which is the ultimately currency he will want in his bank account in China. So, you will have to exchange your euro for Dollars to pay the Chinese seller. Here, you have to understand that the currency will get converted to certain "Exchange rate" quoted by the market at the time the conversion occurs. This "rate" will always be a difference in the values of the currencies. This difference will always prove to be an advantage for one country and a disadvantage to another in ways that we could analyze in the future.

Now say 1 euro is valued at 20 Yuan. This means that the German trader can exchange 1 euro for 20 Yuan and 100 euro for 2000 Yuan. Here, the Yuan trails the euro, which means that Germany is in a better place in terms of forex trading. On the other hand, if a trader in china were to buy wine from Germany then he would have to pay a lot more towards it due to the difference in rates between the two currencies. This is just an example and the difference in rates can be quite different from this. It can be higher or lower in value.

Now here, a buyer wanted to exchange the money because they wished to buy something from a foreign seller, but Forex is not always traded for this reason alone. It is also traded to capitalize upon the difference in values. You could be able to make big profits, if you play the game right, but there are certain things that you must learn about first in order to invest in the Forex market.

Through the course of this book, we will look in detail at how you can do so. In this next segment, we will look at the basic concepts of forex trading.

Concepts of forex trading

The majors

The very first concept that you must understand is the majors. The majors refer to the major currencies that are regularly traded in the Forex market. The stock market has thousands of shares that the trader can choose from to invest in. This more often than not, ends up confusing the trader and might also cause them to make the wrong investments. But this problem is tackled in the Forex market, as there are certain major currencies that you can trade in on a regular basis. These are based on trends and after understanding which countries provide you with the best overvalued and undervalued advantages. Here is the list of the 8 major countries that you can turn to in order remain with the highest profit.

United States of America

Canada

Europe

United Kingdom

Switzerland

Australia

New Zealand

Japan

These countries and their currencies are identified as the big 8 because they have the best financial markets and/or manufacturing capabilities. These facts allows their currencies to always remain in demand for exchange. If you exchange any of these currencies in the right moment, your investment will surely be safe. For that, you have to constantly follow the economic scene of all the individual countries.

Buy and sell

You have to understand that the Forex market works in a simultaneous buying and selling fashion. This means that if you want to buy one currency, you will have to sell the one you have at the same time. This is easy to understand if you have, for example physical Euros, and walk into a Bank and exchange for physical Dollars. You sell your euros and purchased Dollars. One transaction that includes buy and sell.

But in the Forex world we trade Forex symbols called “pairs”. So when you are buying one currency, you will automatically be selling another. In the simple example mentioned above you traded the pair EUR/USD. In a trading platform, you use this symbol if you want to buy Euros (in Dollars) or Dollars (in Euros). All pairs or symbols have the same principle. If you "buy the symbol" you are buying the first currency if you "sell the symbol" you are buying the second currency. You have to get used to this concept in order to trade in Forex. You will have to calculate the basis points of the currencies based on their difference. That you can calculate by looking at the trending rates of the two currencies. The basis points refer to a measure of the interest or any percentages that you need to calculate before you go ahead with a deal. You will be able to calculate your gain by doing so.

Rate of return

The rate of return in the forex market is quite large. This means that you can remain with a big profit or a big loss depending on your investment. There have been cases of people making millions by just investing a few hundred or thousand dollars. This is possible if you know to invest in the market the right way. Let's say you invest $10 in the market and it gives you a return of $1000. That is highly possible in the currency market. However, if you get it wrong, then you might end up losing a lot of money. The currency market is extremely volatile and you have to remain abreast of the difference in values of the currencies. The idea is to look for currencies that are momentarily undervalued, that way, you can expect a big change in value to finally close the transaction at your desired profit. If at any time you feel that the prices of the currencies are going to cause you a loss, then you must sell them off.

Dual benefits

The forex market offers you dual benefits when you invest in the market. It is better known as the currency carry trade. The currency carry trade is one where the person stands to benefit in two ways. Let us look at an example. Now let's say a Chinese trader exchanges 5000 Yuan for dollars and buys a bond with the dollars' worth. The trader will receive an interest of 5% on the bond provided the rate of exchange between the two countries remains the same. If it does, then the trader will stand to gain a profit of 50% owing to the difference in the currency values. This is an added benefit to the fact that the trader will also be able to avail a profit from selling the bond later. Here, you have to understand that the exchange rate between the two should remain the same otherwise the trader will lose money. This risk is quite high with currencies whose rates are quite volatile. You will not be able to predict the difference in rates and by the time you withdraw from it, you probably would have lost quite some money. The difference in the rates usually occurs over a period of years and will not be within a short period of time.

OTC

Unlike the regular Stock Market (that deals with regulated Financial Instruments), Forex is always traded OTC (over the counter). This means that the currencies are not considered “financial instruments” in most countries and are not regulated as such. Banks and Brokers trade currencies via an Electronic Communication Network (ECN). A medium that is different from a stock market exchange like NYSE or AMEX. A dealer will be responsible for the trade and there will be no centralized control over the trade. It is the same manner in which penny stocks and bonds are exchanged. You will have to do some homework on how you can start trading in your local market as the method differs from country to country. You have to look at dealers that will help you get these currencies. All Banks and Brokers, authorized to exchange, are connected to this network. In essence, you need an authorized bank or broker to handle your orders via the internet.

These form the different basic concepts of forex that you have to understand if you wish to trade in it. They will act as your guide when you partake in forex trading.

Chapter 2: Benefits of Forex Trading

There are many benefits to trading in forex markets. Let us look at some of them in this chapter.

Liquidity

The first and most important benefit of forex trading is its liquidity. As you know, the forex market is extremely liquid meaning you can sell your currency at any time. There will be a lot of takers for it, as they will be looking to buy the particular currency. The highly liquid market can help you avoid any loses as you don’t have to wait on your currency to be sold. And all of it is automatic. You only have to give the sell order and within no time your entire order will be sold.

Timing

The forex market is open 24 hours a day, which makes it a great place to invest at. You can keep trading during the day and also during the night if you are dealing with a country's currency whose day timings coincide with your night timings. You can come up with a schedule that will allow you to conveniently trade with all of the different countries that lie in the different time zones. You can also quickly sell off a bad currency without having to wait the whole night or day.

Returns

The rate of returns in foreign currency trade is quite high. You will see that it is possible for you to invest just $10 and control as much as $1000 with it. All you have to do is look for the best currency pairs and start buying and selling them. We looked at the 8 majors in a previous chapter and you have to look at their rates and trade in them. The leverage that these investments provide is always on the higher side, which makes them an ideal investment avenue for both beginners and old hands.

Costs

The transaction costs of this type of trade are very low. You don't have to worry about big fees when you buy and sell foreign currencies. That is the one big concern that most stock traders have, as they will worry about having to shell out a lot of money towards transaction costs. But that worry is eliminated in currency exchanges and you can save on quite a lot of money just by choosing to invest in currency.

Non-direction trade

The forex market follows a non-directional trade. This means that it does not matter if the difference in the currencies is going upwards or downwards, you will always have the chance to remain with a profit. This is mostly because there is scope for you to short a deal or go long on it depending on the situation and rate of difference. You will understand how this works as and when you partake in it. The main aim of investing in forex is to remain with a steady profit, which is only possible if you know when to hold on to an investment and when to sell it off. This very aspect is seen as being a buffer by traders and is the main reason for them choosing to invest in forex.

Middlemen eliminated

With forex trade it is possible for you to eliminate any middlemen. These middlemen will unnecessarily charge you a fee and your costs with keep piling up. So, you can easily avoid these unnecessary costs and increase your profit margin. These middlemen need not always be brokers and can also be other people who will simply get in the way of your trade just to make a quick buck out of it. You have to be careful and stave such people off in order to avoid any unnecessary costs that they will bring about. Education is key here and the more you know the better your chances at avoiding any such frauds.

No unfair trade

There is n0 possibility of any one rich investor controlling the market. This is quite common in the stock market where a single big investor will end up investing a lot of money in a particular stock and then withdraw from it quickly and affect the market negatively. This is not a possibility in the foreign currency market as there is no scope for a single large trader to dominate the market. These traders will all belong to different countries and it will not be possible for them to control the entire market as a whole. There will be free trade and you can make most use of it.

No entry barrier

There is no entry barrier and you can enter and exit the market at any time you like. There is also no limit on the investment amount that you can enter with. As was mentioned earlier, you can invest something as big as $10,000 or as small as $10 and control the market. You have to try and diversify your currency investments in a way that you minimize your risk potential and increase your profit potential. You can start out with a small sum and then gradually increase it as you go.

Certainty

There is a certain certainty attached with foreign currencies. You will have the chance to avail guaranteed profits if you invest in currency pairs that are doing well. These can be surmised by going through all the different currency pairs that are doing well in the market. With experience, you will be able to cut down on your losses with ease and also increase your profits. You have to learn from your experience and ensure that you know exactly what you are doing.

Easy information

Information on the topic of foreign currencies is easily available on the internet and on other sources. This information can be utilized to invest with the best currency pairs. You have to do a quick search of which two pairs are doing well and invest in them without wasting too much time. If you need any other information on the topic then this book will guide you through it. You can directly go to the topic that you seek and look at the details to provide there.

Apart from these there are certain other benefits like minimal commission charged by the OTC agent and instant execution of your market orders. No agency will be able to control the foreign exchange market.

These form the different benefits of trading in the forex market but are not limited to just these. You will be acquainted with the others as and when you start investing in it.

Chapter 3: How to Get Started with Forex

Now that we looked at the meaning, concepts and benefits of forex trading, let us now look at how you can get started with it.

Good Computer

The first step is to buy yourself a reliable computer that you will be using to trade in the forex market. Try to buy yourself a separate laptop that will be dedicated only towards trading in the stocks. You have to set up separate room for your stocks, as it is important to feel like you are engaging in an important activity. The computer should be fast and have the latest operating system installed. You can take the help of someone to set it up for you if you wish to have a well operating system in place.

Fast Internet

The next step is to set up a fast and reliable internet connection. As was mentioned before, all transactions occurs in a network called ECN and speed is an important factor to send the orders to the market. If you have relevant experience in buying and selling stocks in the stock market, you can easily buy and sell the currencies in the Forex market. But you have a fast internet connection in order to proceed with the trades. You cannot have a slow connection as every minute counts in the currency market and being slack will only cause you to lose a lot of money. You must also have a back-up Internet system in place to avoid any losses.

Trading account

The next step is to set up a trading account. For this, you have to contact a company (could be a Bank or Broker) that deals in Forex trading and will handle your settlements. You can either request for a personal account where you do all the trading yourself or a managed account where a professional trader does it for you. Once you find out about the best firm, you have to approach them and ask for appropriate forms that you have to fill up to start an account. You have to then activate your account by typing in the information that the company or bank will provide you with.

Hiring a Trader

If you are a newbie in this field and wish to start with forex then you should probably hire yourself a trader or money manager. A trader will do for you, for a percentage of the profits obtained. A good trader or money manager should be able to take care of everything in regard to your investment.

Commission information

The next thing is to look into your commission information. This means that you look at what the broker and the firm is charging you. Most of them charge based on how much you are trading with and what investments you have made. If they are charging you too much, (a good broker should be able to offer USD5-USD7 for purchasing 100 000 unit of money) then you can try negotiating with them. If they still charge too much then it is best to move to another company.

Currency picking

The next step is to pick the currency in which you will carry out your trades. This currency can be two of the majors that were discussed before or any other pairing that you think will work in your favor. The most common pairs are the dollar/yen, dollar/euro etc. You have to look at each of these and see which one will work best for you. Once you have made your choice, you should move to the next step.

Basic math

You have to now calculate your potential profit. Your potential profit is the amount that you will be able to make from your investment. That depends on the two currencies that you have chosen. You have to calculate the basis point and see how much money will come your way when you buy and sell the two currencies. If it is a good amount then you must invest without thinking twice but if the amount of profit is only marginal then you are better off without the deal.

Market research

The next step is to conduct a research on the currencies. You have to perform the technical, fundamental and sentimental analysis in order to know if the currencies that you have picked are good choices. The market research will always have to be done with perfection in order for you to remain in profit. If you indulge in something rough then it will not work for you.

Ordering

The next step is to place a market order. For this, you have to get acquainted with the order placing process that your brokering firm offers you. You have to login and place an order for a currency pair. Once you do, you will be awarded the currency depending on the amount that you have chosen. All it takes is a few clicks and your order will be completed. If you are going through a broker then he will also go through the same process to place your order. Once done, he will intimate you about the same.

Selling

Once you own it, you can sell it also with a click or two.

These form the different steps that you need to take up in order to get started with Forex.

We recommend asking the bank or broker you choose to handle your orders and settlement for demo account. They easily provide one. In that way you get acquainted with the trading platform they offer.

Chapter 4: The Strategies Employed in Forex Trading

Forex trading is not as complex as you think it is. In fact, it is quite easy if you know what to do.

Fundamental analysis

Now those of you that are stock market experts will be aware of the fundamental and technical analysis that is conducted on stocks. It involves looking at the company's background, calculating the P/E ratio, calculating the return on investment ratio etc. All of these are calculated to check whether a particular stock is undervalued and to quickly invest in it.

But this system only works in the stock market and not the forex market. The fundamental analysis that is conducted in the forex market is much different. Although they are both known as fundamental analysis, they take into consideration different factors.

In the forex market, the fundamental analysis refers to studying the economic conditions that prevail in the individual countries in order to understand their impact on currency fluctuations. Let us look at some of the factors that you have to understand in detail if you wish to conduct this type of analysis on the currencies.

Interest rates

The very first factor that influences the currency rates is the interest rates. The interest rates that prevail in a particular country are always controlled by the country's central bank. The interest rates control the currency values to a very large extent. In fact, it has been observed that mere rumors of changes in the interest rates have generated a lot of movement in the forex markets. The two are that closely knit and go hand in hand. So, in order to know whether or not the rates will be affected by the economic make up of a country, you have to keep an eye on the interest rates.

Employment

The employment scenario of a country determines the value of the local currency. As you know, if a person is employed then he or she will have the power to buy more. This will impact the value of the currency. It ends up affecting inflation and this will cause the value of the currency to rise. For this, you have to look at the number of employed and number of unemployed people. If the employed is more than the unemployed then the prices will be stable. But if there is a wave of layoffs then the value of the currency will be affected.

GDP

GDP refers to gross domestic product. Gross domestic product refers to how much the nation is earning collectively. This includes per capita income and also the consumer price index. You have to study these two factors of a company if you wish to understand how much they are earning and how it will affect the value of the currency. Some countries think of it as a good thing for the GDP to rise, as it will indicate the economic stability that prevails in the country. However, if the GDP rises then it also means that the value of the goods in the country is rising which makes it a bad thing for the economy of the country.

Prices of commodities

The prices of commodities will have a direct bearing on the country's currency value. You have to look at the prices that basic goods are sold at. They will help you determine whether or not the value of the currency will remain stable or fluctuate. You have to read the news regularly and see if there is any movement in the prices of these commodities. If so, is there news of it affecting the economic situation in the country? These are the questions that will have to be asked and answered to arrive at the answer.

Weather conditions

Sometimes, extreme weather conditions or natural calamities also have an impact on the rate of the currency. You have to watch the news to know about these and see if they really are impacting the value of the country's currency.

These form the different things that you should look into to see if the value of a particular country's currency would rise or fall.

Technical analysis

The technical analysis of forex deals with indulging in some heavy-duty mathematics and statistics. It is comparable to the approach that is taken towards calculating the technical analysis related to the stock market. There are a few complex equations that you should calculate and they are discussed as under.

Moving averages

Moving averages refer to using the power of the trend to assess the direction of the market. As you know, it is extremely important for you to be able to predict how the value of the currency will move next. For this, it is best to go through the different trends that the value of the currency has been following in the recent past. The basic idea is to trace the trend that the price has been following. How is it moving ahead, where does the price reversal point lie, at what point is it most profitable to sell the currency etc.

There are three main types of moving averages namely the simple moving average, the weighted moving average and the exponential moving average. The simple moving average method is the easiest one. You have to take a series of price points, add them all together and then divide them by the total number of price points. This is a very basic method yet quite effective. The next type is the weighted moving average method. In this method, you assign the rates numbers based on the time when they were calculated. The oldest one receives 1 and so on. The third method is the exponential moving average method and involves extreme mathematical calculations, which goes beyond the scope of this book.

Bollinger bands

Bollinger bands are the next technical analysis that you must run your currency pair through. This type was developed by John Bollinger. It involves understanding the real time volatility that a pair of currencies will go through. Just like the moving averages, here too, there are certain situations where you have to employ this technique to arrive at the appropriate results. For example, you have to use at the standard deviations as a tool to measure the pattern of fluctuations in the currency pair. Similarly, you have to use other statistical tools and use it in relation to the Bollinger bands to arrive at a particular trend.

<u>Relative strength index</u>

The relative strength index is a great statistical tool that you can use to check whether a currency is valued at the right price or over or under valued. It is important for you to check this, as you need to buy a currency that is valued at the right price. Once you apply this technique on the trend of the currency you will find a number. If the number is 30 or under then the currency is oversold and if it is 70 or higher then it means that it is overbought. Both of these can be a bad thing for any currency. So you have to steer clear off of them and look for pairs that lie in between. The calculation of RSI is generally seen as a tedious task. But the good news is that there are many software available that will easily and quickly calculate the amount for you without having to put in too much effort towards.

Stochastic oscillator

The stochastic oscillator is a system that you can use to look at the difference in prices of a currency and use a scale to measure it. This too requires you to conduct an in depth statistical calculation which you can easily do using a simple software. The software will give you a quick result and you won't have to do all the calculations.

Fibonacci retracements

If you are aware of the Fibonacci number sequence then you will find this technique easy to adopt. It makes use of the Fibonacci number sequence to find the trend that the currency will follow. It is a predictive approach and is meant to help understanding whether or not the currency pairs will prove to be a lucrative investment.

These form the different technical analysis that you can perform to understand the trend of the currencies.

Sentimental analysis

Sentimental analysis refers to understanding the sentiment of the investors in the market. You have to analyze their mood and see what they are thinking about a certain currency. Whether they are interested in buying it or they wish to steer clear from it. You have to understand the course that they will take in order to make your own decision. In general, you have to follow the crowd if you wish to make a safe investment. But if you want to do something different then you should move against the crowd.

Forex hedging against inflation

It is obvious that every investor will worry about the inflation at some point in time or the other. For this, the trader can indulge in hedging. Hedging refers to protecting the investment from potential future loses. The trader will buy an asset that is priced much higher. That way, even if the value of the currency decreases then the trader can safeguard the investment. Forex is often compared with gold investments as the two provide similar protection against inflation.

Chapter 5: FAQs on Forex Trading

It is obvious that you will have a few questions pop up when you take up a new topic. In this chapter we will look at some of the most common questions that get asked on the topic of forex trading and answer them to help you understand it better.

Is the forex trade lucrative?

Yes. Forex trading is a lucrative business. You will have the chance to make a lot of money if you understand how exactly to play. We looked at the basic concepts and strategies that you need to employ when you choose the currencies to trade in. Once you choose the best pair, you can easily make a lot of money from it. You have to remain alert and attentive and that will help you in a big way. You can make thousands of dollars a year by indulging in forex trading.

Should I be commerce literate for it?

No. You don't necessarily have to be commerce literate for it. You also don't have to have any relevant experience in the stock market in order to invest in forex trading. You will be able to start from scratch and make it big in the world of currency investments. The currency market welcomes everyone with open arms and does not really discriminate. It will not know who is a beginner and who is an expert and will treat everyone the same way. So don't think of your lack of knowledge or experience as a drawback to trade in the stock market.

What about bid/ ask, spread etc.?

Bid/ask and spread are all terminologies that you should acquaint yourself with before you start investing. These are common terms that are used across all stock market trades and are not unique to just forex trade. Once you understand what these terms stand for you can easily start trading in forex. You can go through a glossary of all these terms and understand each carefully.

How much money should I invest?

That is completely up to you. When you open an account to trade in forex, the company might ask you to deposit a certain sum. This sum can be $100 or $250 depending on the company. You don't have to use up all of the amount to invest and can allow some of it to remain back in the account. You might have to maintain a certain minimum amount which cannot be used or invested and will make for a buffer in case you are unable to pay for any of the investments that you have already made. There are people who use as less as $10 to make thousands of dollars of profit.

Can I trade on my own?

Yes. You can independently trade in the forex market. You don’t have to rely on others to do it for you. It follows a very simple process where you type in the name of the currencies and also type in the amount. Once it is approved, you will be given your currency. You then hold it until you wish to sell it again. You can continue with this process for as long as you like. There is no limit on how much you can buy and sell. If at the very beginning you find it tough to indulge in this process then you can take the help of an expert to get started with it.

Can I trade over the phone?

Yes. You can trade over the phone. You need to call your broker and ask him to buy you the certain currencies. You can also have the currency buying software installed on your phone and use it to buy and sell your currencies. It is really simple and will help you trade in currencies on the go.

Why do the currency prices fluctuate?

There are many factors that contribute towards the fluctuation in the currency prices. There are economic and political causes that affect the prices and cause it to change. There are also other geographic and business related causes that can cause the currency prices to vary. There is just no telling what will end up influencing the prices of the currencies and will entirely depend on the current events.

Can I have my account funded?

Yes. You can have your account funded by someone else. They will have to directly add the money into your account in order for you to invest it. But you have to show evidence that they have willfully added in the money into your account for you to use in forex. There is no limit on the amount that can be transferred to your account.

Can I withdraw all profits?

Yes. You can withdraw the entire amount that you get as profit from your forex trade. But you might have to leave behind a certain amount that is seen as the minimum balance that needs to be maintained. You have to leave that much behind and ensure that you don't invite any unnecessary fines. Some companies might not even have this minimum balance scheme and you can easily withdraw all the money at once.

Will I get possession of the foreign currencies?

Yes and no. It depends on the time that you wish to hold the currency. If the time exceeds the 5-day limit then you might have to take possession of the currency. If you are indulging in intra-day trading then you will not have to take physical possession of it.

These form the different FAQs that get asked on the topic and hope you had yours answered successfully.

Chapter 6: Forex Holding Period

When it comes to forex trading, there are three options available, which are the same as the options available in the stock market. The three include intraday trading, 1 month and longer periods. Let us look at each in detail.

Intraday trading

Intraday trading refers to buying the currencies in the morning and disposing them off by the time the markets close. This will ensure that the trader is not holding any currencies at the end of the trading day and has arrived at a profit. This type is quite popular amongst many traders as it helps the trader see an instant profit and will not have to pay any money towards the deal. Many people have a $0 balance and still trade in forex by making use of this very method. Say for example you bought yen using dollars. $1 is equal to 50 yen when you purchased. By the time the markets close, the value of yen moves to 55 yen per dollar, here, the trader stands to gain 5 extra yens for the same amount that was invested thereby realizing a profit from the transaction. He can immediately sell it and walk away with the profit.

1 month hold

The 1-month hold is another strategy that the trader can use. This is mainly for those that are interested in following a set pattern. It is observed that certain currency pairs follow a pattern. They will rise at the same time each month and fall at the same time. Keeping this in mind and observing the currencies for some time, the trader will buy when the price falls low and sell when the price rises high. This will help them remain in profit.

Long hold

You can hold the investment for a longer period if you like. For this, you have to determine where the difference in values is headed. If there is a particular goal in mind then you must dispose off the currencies as soon as the goal is attained. This time can vary from currency to currency. Some people might hold it for 6 months, some for a year and some for more. It depends on how long you are willing to remain invested in the particular currency. Some people will also not care if the profit goal is not attained as yet and will sell the currency.

These form the different time periods that you can choose from to hold your currencies.

Chapter 7: Dos and Don'ts of Forex Trading

In this chapter, we will look at the different dos and don'ts of forex trading that you should bear in mind while indulging in the trade.

Dos of forex trading

Research

The very first thing to understand is the research that you need to conduct on the topic. You have to understand everything that there is to about it in order to make the right investment choices. This book will act as your one true forex guide no doubt but you must not limit yourself to just the information that is provided in it. You should turn to other sources as well and increase your knowledge as much as possible. Just ensure that you are turning to reliable sources such as reliable websites and other book publications that will provide you with the correct information.

Terminologies

The next step is for you to get acquainted with the different terminologies that are used in forex trading. These terminologies are an important part of the trade. Many of your fellow traders will use these words and you have to understand what they are saying. You should not take it for granted and think that you will understand the words as and when you go. You have to put in the efforts and by-heart the different words if possible. You will be able to trade easily when you are acquainted with these words and your trade will start to flow like water.

Operation

The next thing is to understand how you can operate the software. You should understand how to access the website, how you can login, look for the currencies, understand the bid/ask ratio etc. All of this will be a bit difficult for all those that are not accustomed to the practice of buying and selling stocks. If you are new to it then you have to take the help of an expert to understand all of these and carry them out smoothly.

Strategies

The next thing is to understand the different strategies that are employed in forex trading. You have to understand how to calculate the fundamental analysis, the technical analysis and also the sentimental analysis. All three are important aspects of forex trading and you have to understand each in detail in order to make the most of your trading. You will see that it is easy for you to choose the currencies that you can invest in when you do the fundamental and technical analysis of the stocks. You can go through how each one is calculated in order to effectively conduct it on a daily basis. Don’t take it lightly as these calculations are what will help you make the right choice.

Gain ratio

You should always keep track of your profits. If you have made a lot of investments then you should maintain a book and record all the different profits that you have gained from each of the different investments. You have to be abreast with all the income that is coming in. Remember to always set a specific limit on all your currencies. As soon as the limit is reached and you have earned the desired profit, you should immediately sell it. Don't wait on it for too long as the market can be quite volatile and the prices might start to dip. Calculate the profit margin at the very behest and sell the currency as soon as the limit is reached.

Calculate loses

When you gain profits, it is obvious that you will also suffer loses. You have to calculate both your profits and your losses in order to understand whether it is a lucrative deal for you or not. Keep track of all your losses and also ensure that you try to reduce it as much as possible. That is only possible if you make the right decisions and invest in the right currencies. Don't get over enthusiastic and start investing in the wrong stocks just to cover up a bad one. Take it slow and you will be able to reverse the damage.

Firm head on shoulders

Remember to always have a firm had on your shoulders. Don't make the mistake of making impulsive decisions. You should not take it to heart if you suffer a loss. You have to instead think of it as a learning curve and move on. There is really no point in taking offence for an unforeseen circumstance. You have to remain confident and continue trading. You will be able to cover a loss, no matter how big and move ahead.

Software

You have to make use of the latest prediction software to understand how the prices of the currencies will move. The software will give you a near guarantee prediction, which will be enough for you to make your choice. But you must not over rely on the software. It might end up giving a near accurate reading or something that is completely off. You have to be prepared for either result.

Fundamental and technical analysis

You have to learn to calculate the fundamental and technical analysis. You must use it to find the best currencies to trade in.

Don'ts of forex trading

Relying too much

Do not make the mistake of over relying on someone as that will only end badly for you. You have to make your own choices and remain confident of them. It can be your broker or just a friend or family member. They might give you the wrong advice and you might end up suffering loses. Before you make any kind of investment you have to compulsorily do a personal inspection and only then invest in the currencies. It is after all your money that is being invested and so, you have to be careful about it.

No planning

As an investor, you should always work with a plan. Those that don't work with a plan will end up getting lost. It is the same as a tourist going around a new place without a map. He will obviously get lost. So, in order to avoid such a situation, you have to work as per a plan and avoid falling into unnecessary traps. You will be better prepared to take quick decisions. Now say for example there is an opportunity for you to buy a lucrative pair. But just as soon as you buy it you hear that the currency value is going to drop. Here, you have not planned the buying and so your investment has the chance of going bad. So, to avoid any such issues you should have a plan in place.

Short selling

The next don't of forex is selling short. Selling short refers to you settling for a loss in order to quickly sell off a certain currency. This will only cause you to undergo unnecessary loses. Short selling is not advisable for any trader unless the situation absolutely calls for it. But situations rarely arise and so, you have to remain patient and wait for the prices to rise again before selling off your currencies.

Picking extremes

Some people make the mistake of picking two extreme currency pairs. That will seem like a good idea but really is not. Say for example you pick a strong currency like the Dollar and a weak one like the Indian rupee. You will have the chance to make a big profit from these no doubt but you have to calculate the risk that such an investment might put forth. The currency market is extremely volatile and you have to account for all those things that can go wrong. Being prepared is key and you have to be as careful as possible while choosing your currency pairs. Stick with the ones that are working well for you and don't experiment too much with it.

Getting emotional

Some traders make the mistake of getting very emotional with their currencies and getting too attached. If that happens then you will not be able to sell it on time and remain with a profit. You have to trade with your mind and not from your heart. If you think that that is what is happening with you then you must take stock of the situation at the earliest and fix the problem. Think of currencies as nothing but moneymaking instruments and not any kind of person. Even if a certain currency has worked well for you in the past and is now doing badly then you have to let go of it and move to another one.

Depending on luck

Do not over depend on your luck. Some people make the mistake of depending too much on their luck and end up making mistakes. Maybe you did well at the beginning owing to beginners luck and the same might not continue for long. You have to try and remain as practical and logical as possible when you invest in the stock market and the same extends to your forex investments.

Expecting too much

Do not expect overnight riches with your forex investments. That has never happened and never will. You have to have practical and reasonable expectations if you wish to make it big in the world of forex. Try to remain as practical as possible and think before reaching any consensus.

These form the various dos and don'ts of forex that you have to follow if you wish to make it big.

Chapter 8: General Tips on Forex Trading

By now, you must have understood the basic concepts of forex trading. In this last chapter of the book, we will look at some general tips that you can use to increase your chances at making it big through forex.

It is important that you always work with risk capital. Risk capital refers to the sum that you are willing to risk. You have to be prepared to lose the money and still be fine with it. Using risk capital will help you safeguard your forex investment to a large extent.

Remember to always invest your own money into the market. This means that you invest money that is completely yours and nobody else has a stake in. This will ensure that there are no discrepancies and you are confident with your investment.

Remember to not have more than 5% of your overall capital in any one-currency pair. You have to understand that you have to spread your risk in order to safeguard your investments. Even if one investment goes wrong then you will have other ones that will save your money.

One rule of thumb to follow in the forex market is to pair a strong currency with a weak one. That way, you will be able to profit greatly. Say for example 1 euro is equal to 200 yen and 1 dollar is equal to 50 yen. In this case, it is best for you to pair euro and yen together. Similarly, you have to look at the different pairs that will prove to be most lucrative for you.

Remember that sometimes, what looks good in the mind might not look good on paper. You have to do all your calculations properly and make sure that the investment will turn fruitful.

If you ever fail or make a bad investment then you should learn from the experience instead of cursing yourself. Everything in life should be a learning curve and nothing should be taken for granted. It is a good idea for you to maintain a journal and record all your transactions in it. You can at any time look back at it to take out a lesson or two. After all, experience is what counts when it comes to the stock market and you have to become wiser with each subsequent investment.

Many times, it is a good idea for you to add to a good currency instead of cursing it. This means that you add more currency in order to improve the average. This will ensure that you have more of the currency at a better price and can come into a big profit later.

Never be cheap in the forex market. As soon as your said profit come by you have to immediately sell your currency. If you get too greedy and keep holding on to it then you will end up taking a loss on it! Don’t wait for too long or be in a hurry, you have to find the middle path.

Conclusion

I thank you once again for choosing this book and hope you had a good time reading it. The main aim of this book was to educate you on the topic of forex or foreign exchange trading.

As you can see, forex can be a lucrative choice for all those that wish to capitalize on the difference in currency rates. It is not as complex as it sounds but it is not as easy either.

There are many things that you need to look into in order to get started and use forex to your advantage.

I urge you to once again go through the basic concepts that were mentioned in chapter one, as they will give you a proper insight into the world of forex.

They will tell you to make the right moves and also teach you as to how you can use the different concepts to your advantage.

Once you are well versed with all of it, you can start investing in the stock market and trade in forex. Don’t be afraid of investing in it as it will surely work for you and help you increase your money’s worth.

I thank you once again for choosing this book and wish you luck.

Best of luck!

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