

# *Mastering The FOREX Market Beginner Course*



Electronic Book Edition  
By FXTSP.COM

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## ***Forex Beginner Guide***

## ***What is Foreign Exchange?***

Foreign Exchange or **FOREX** is the financial market where a nation's currency is exchanged for that of another. The foreign exchange market is the largest financial market in the world, with the equivalent of over \$1.7 trillion changing hands daily; more than three times the aggregate amount of the US equity and bond and commodity markets combined.

Unlike the other financial markets mentioned, the Forex market has no physical location and no central exchange; this makes the Forex market an OTC or over-the-counter market. It operates through a global network of banks, corporations and market makers trading one currency for another.

The lack of a physical exchange enables the Forex market to operate on a 24-hour basis, spanning from one time zone to another in all the major financial centres of the world.

Traditionally, private traders only means of gaining access to the foreign exchange market was through banks that transacted large amounts of currencies for commercial and investment purposes. Trading volume has increased rapidly over time, especially after exchange rates were allowed to float freely in 1971.

Over recent years the way the interbank currency market operates has changed dramatically. The Forex market has become accessible to private traders. The market makers have achieved this through a combination of low margin and high leverage and providing the professional tools and services needed to trade effectively in an independent atmosphere.

For the active trader, foreign exchange should be no different than other investments or financial instruments such as equities, commodities, bonds, notes, bills, etc.

In fact because of the globalisation of the economic world and the consolidation of whole economic regions such as the European Union, having currencies as part of a diversified portfolio simply makes sound portfolio and investment sense.

Just like these other investment alternatives mentioned, foreign exchange offers private traders and investors a market where they can buy and sell an investment

product. In this case it is a specific Currency Pairs.

The currency pair may be the Euro versus the US Dollar, the US Dollar versus the Japanese Yen, the British Pound versus the US Dollar, the Euro versus British Pound, or a number of other currency combinations.

The different currency combinations represent nothing more than the value of one currency versus the value of another. That relationship is represented by a single price.

In foreign exchange, the price of a currency pair is the markets expectations at that time of the value of that currency vis-à-vis another currency given the current and expected economic and political situation of the two countries. In equity terms, it would be the price of the stock.

If for example, a country's inflation and interest rates are low and stable. If it's economy is strong and politics are stable and the expectations are for more of the same, then one can expect "in general" for that country's currency to remain strong versus a less fundamentally favourable currency. Keeping in mind that all comparisons are relative to that of other economic regions.

Contrasting that with equity, if the domestic and global economy is strong and inflation is not running away. If competition is not taking away market share or eating into margins as well product demand and growth are strong.

If the companies internal "politics" are such that the workers are happy and productive, and expectations are for more of the same, then you can expect that companies stock to remain strong versus a company with less favourable fundamentals within the same sector.

Like equities there are other factors that determine the short-term value of a product including technical analysis, short-term supply and demand, seasonal capital flow patterns, the current price of the instrument, etc.

By analysing the pricing dynamics and combining that with sound money management discipline like stop loss orders, the trader can insure greater success in his foreign exchange trading.

## *A brief history of the Forex Market*

Foreign exchange dates back to ancient times, when traders first began exchanging coins from different countries. However, the foreign exchange itself is the newest of the financial markets.

In the last hundred years, the foreign exchange has undergone some dramatic transformations. The Bretton Woods Agreement, set up in 1944, remained intact until the early 1970s.

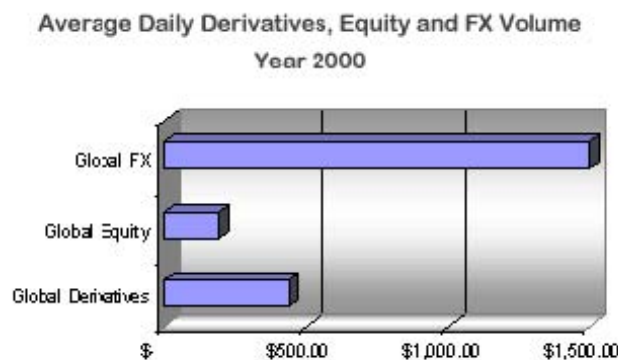
At this conference, representatives from 45 nations came together to discuss the future exchange system. The conference result in the formation of the International Monetary Fund.

It produced an agreement that fixed currencies in an exchange rate system that tolerated 10% currency fluctuations to gold values, or to the dollar that was established as the Gold Standard.

In 1971, the Bretton Woods Agreement was first tested because of uncontrollable currency rate fluctuations, by 1973 the gold standard was abandoned by president Richard Nixon, currencies where finally allowed to float freely.

Thereafter, the foreign exchange quickly established itself as the financial market. Open 24 hours a day, 6 days a week, transactions in foreign exchange gained from about \$70 billion a day in the 1980s, to more than \$1.7 trillion a day in the year 2004.

## *The Forex Market Compared to other Markets*



## ***Forex Market Players***

The FOREX refers to the Foreign Currency Exchange Market in which over 4,600 International Banks and millions of small and large speculators participate worldwide.

Every day this worldwide market exchanges more than \$1.7 trillion in dozens of different currencies. With the current growth rate the market is projected to grow to more than \$2.0 trillion per day by the year 2005.

## ***Forex Investment Myths***

The foreign exchange market is one of most popular markets for speculation, due to its enormous size, liquidity and tendency for currencies to move in strong trends. Presumably, these characteristics would enable traders to have tremendous success.

However, success has been limited mainly for the following reasons: Many traders come with false expectations of the profit potential and lack the discipline required for trading. Short term trading is not an amateur's game and is usually not the path for quick riches.

Because currencies may seem exotic or less familiar than traditional markets (i.e. equities, futures, etc.), it does not mean that the rules of finance and simple logic are suspended.

One cannot hope to make extraordinary gains without taking extraordinary risks. A trading strategy that involves taking a high degree of risk means suffering inconsistent trading performance and often suffering large losses.

***Trading currencies is not easy*** (if it was, everyone would already be a millionaire), and many traders with years of experience still incur periodic losses. One must realize that trading takes time to master and there are absolutely no short cuts to this process.

The most enticing aspect of trading currencies is the high degree of leverage used. Leverage seems very attractive to those who are expecting to turn small amounts of money into large amounts in a short period of time.

However, leverage is a double-edged sword. Just because one lot (\$100,000) of currency only requires \$1000 as a minimum margin deposit, it does not mean that a trader with \$10,000 in his account should easily be able to trade 10 lots or even 5 lots.

One lot is \$100,000 and should be treated as a \$100,000 investment and not the \$1000 put up as margin. Most traders analyze the charts correctly and place sensible trades, yet they tend to over leverage themselves (take a position that is too big for their portfolio), and as a consequence, often end up forced to exit a position at the wrong time.

If an account value is \$10,000 and the trader places a trade for 1 lot, he is in effect, leveraging himself 10 to 1, which is a very significant level of leverage. Most professional money managers are not allowed to leverage even this high.

Trading in small increments on the account will allow the trader to endure many losing trades without experiencing large monetary losses.

### ***Online Currency Trading: A Growing Trend***

Online currency trading is the fastest growing market. The FOREX Market never sleeps. A currency trader may take advantage of all profitable market conditions at any time.

There is no waiting for an opening bell as in the case of trading stocks. It is a 24-hour, continuous currency exchange that never closes (normal hours of operation are Sunday 1pm through Friday 2pm Pacific standard time).

This is very desirable for those who want to trade on a part-time basis, because you can choose when you want to trade: morning, noon or night.

Traditionally the foreign exchange market was only available to larger entities trading currencies for commercial and investment purposes through banks. Now online currency trading platforms, such as the ***FX Trading Station***, allow smaller financial institutions and retail investors access a similar level of liquidity as the major foreign exchange banks, by offering a gateway to the primary (Interbank) market.



## *Forex Time Zones Activity Table & Activity Level*

Time Zone	GMT						EST	PST
Market	Sydney	Tokyo	Hong Kong	Moscow	Frankfurt	London	New York	Vancouver
Aussie Start	9:00	7:00	6:00	1:00	23:00 prev.day	22:00	17:00	14:00
Asian Open	12:00	10:00	9:00	4:00	2:00	1:00	20:00 prev.day	17:00
Euro Open	18:00	16:00	15:00	10:00	8:00	7:00	2:00	23:00 prev.day
London Activity	19:00	17:00	16:00	11:00	9:00	8:00	3:00	0:00
US - NY Open	0:00 next day	22:00	21:00	16:00	14:00	13:00	8:00	5:00
European Close	4:00	2:00 next day	1:00 next day	20:00	18:00	17:00	12:00	9:00
US Close	8:00	6:00	5:00	24:00:00 next day	22:00	21:00	16:00	13:00

**Market is Usually Very Active**

**Market is Usually Less Active**

**Market has Medium level of Activity**

### *Forex: Another Perspective*

Importers and exporter, and multi-national corporations are particularly concerned about the strength and weakness of specific currencies.

If you are Coca-Cola, McDonalds, BMW or simply a wine importer of French wines to South Africa, having the right currency position can provide a tremendous amount of value to the bottom line profits.

Taking the example of the regional wine importer, generally speaking that importer

knows the level he could sell his product to wholesale suppliers. He may also know the price in EUR that he will have to pay for the wine. If the value of the USD weakens or gets stronger versus the EUR, the price of importing the wine will change.

The change given a constant EUR purchase price and constant Rand sale price goes directly to or from the importers bottom line profits.

## ***Transacting Foreign Exchange Fundamentals***

### ***Foreign Currency Symbols***

Foreign Currencies like equities have their own symbols that distinguish one from another. Since foreign currencies are quoted in terms of the value of one currency against the value of another, a currency pair includes the "name" for both currencies, separated by a "/".

The "name" is a three-letter acronym. The first two letters are in most cases reserved for identification of the country. The last letter is the first letter of the unit of currency for that country.

### **Examples**

USD = United States Dollar

GBP = Great Britain Pound

JPY = Japanese Yen

CAD = Canadian Dollar

CHF = Confederatio Helvetica (Latin for Swiss Confederation) Franc

NZD = New Zealand Dollar

AUD = Australian Dollar

Since the new European Euro has no specific country attached to it, it goes simply by the acronym EUR. By combining one currency, EUR, with another USD, you create a currency pair EUR/USD.

## *The Liquid Currency Pairs*

Currencies, like equities and bonds, have pairs that are very liquid and those that are not so liquid. The liquid currencies can be characterised as those that are the most stable economically, and politically.

They include the countries that form the Group of 7 or G7 - the United States, Japan, Great Britain, France, Germany, Italy, and Canada.

Since the unification of the European currencies into the Euro, the currencies that are most liquid now include the US Dollar, the Japanese Yen, the British Pound, and the Euro, known as the “major pairs”.

It is estimated that activity in these currencies comprises of more than 85% of the daily foreign exchange volume.

Liquidity is essential when trading foreign currencies. Currencies that are illiquid generally will have wider bid ask spreads, have a much greater chance to have "fast market" conditions where liquidity can be non-existent and volatility greatly increased, and are also often more susceptible to short term market manipulation or deception, like false technical breakouts.

Liquid currency pairs like the *EUR/USD*, *USD/JPY*, *GBP/USD* and *USD/CHF* will enjoy a level of liquidity that will in most cases protect the trader from unfavourable market spreads and market conditions where liquidity dries up.

The following are examples of situations that might lead you to choose a particular currency pair to trade:

### **EUR/USD**

• Dollar weakness drives EUR/USD higher • US recovery and strong influx of foreign demand will send EUR/USD lower

If, for example, you think the US economy will continue to worsen and that will hurt the USD, you click on BUY, which means that you are buying euros and expecting them to go up against the USD.

If, for example, you think that there will be increased foreign demand for US assets such as equities and treasuries and that will benefit the USD, you click on SELL, which means that you are buying US dollars and expecting them to climb in value

against the euro.

### **USD/JPY**

- Japanese government intervention to weaken their currency sends USD/JPY higher
- Gains in Nikkei and demand for Japanese assets drive USD/JPY down.

If, for example, you think that the Japanese government will continue to weaken the yen in order to help its export industry, you would click on BUY, expecting the US dollar to increase in value against the yen.

If you think that Japanese investors are pulling money out of US financial markets and repatriating funds back into the Japanese asset markets, such as the Nikkei, you would click on SELL.

This means that you expect the yen to strengthen against the US dollar as Japanese investors sell their assets and convert their dollars back into yen.

### **GBP/USD**

- High yield and attractive growth in the UK drives GBP/USD higher
- Speculation about UK adopting the euro will send the GBP/USD lower.

If, for example, you think the British economy will continue to benefit from its high yield and attractive growth, thus buoying the pound, you would click BUY, which means that you expect the British pound to strengthen against the US dollar.

If you believe the British are about to commit themselves to adopting the euro, you would click SELL, expecting the pound to weaken against the dollar as the British devalue their currency in anticipation of merging with the euro.

### **USD/CHF**

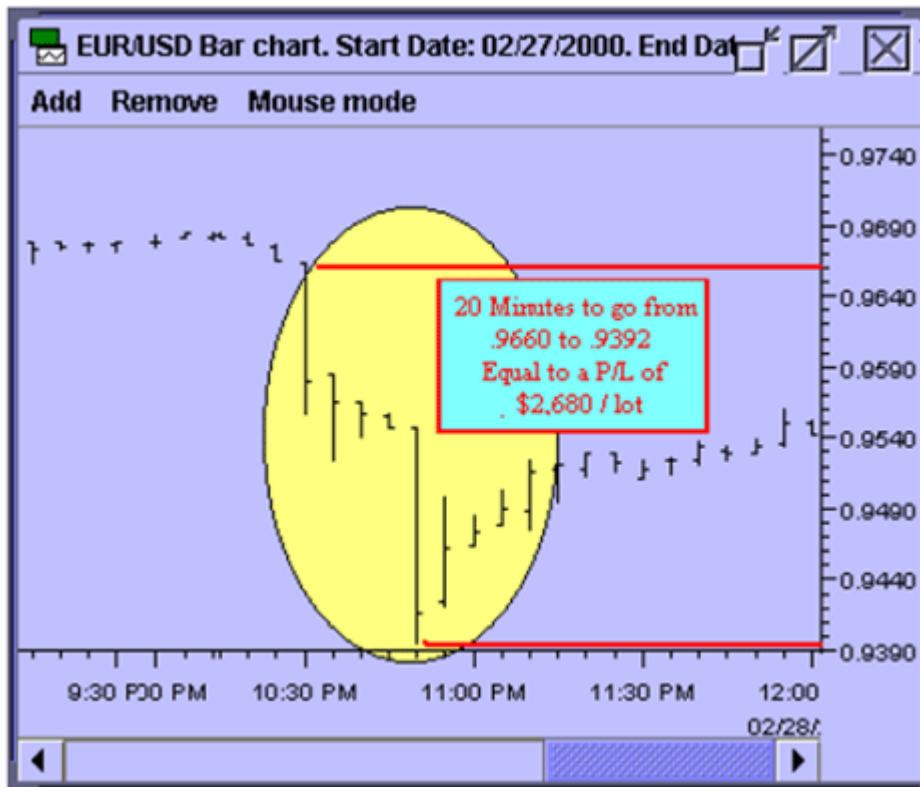
- Global stability and global recovery will send USD/CHF higher
- USD/CHF rallies on geopolitical instability.

If, for example, you think that the market is headed towards a period of global stability and economic recovery, meaning that investors no longer need to park their money in the safe haven currency, or Swiss franc, you would click BUY, expecting the US dollar to strengthen against the Swiss franc.

If you believe that due to instability in the Middle East and in US financial markets, the dollar will continue to weaken, you would click SELL, expecting the

Swiss franc to strengthen against the dollar.

*Nevertheless*, there are instances when even the most liquid, become illiquid. The chart below outlines a 25-minute period where the EUR/USD went from a high of 0.9660 to a low of 0.9392 (268 pips).



Also, remember that Sunday morning when news reports emerged that Saddam Hussein has been captured?



The currency markets were closed for the weekend but set to open on Sunday evening “ET”.

On that occasion the EUR/USD currency pair opened that evening with a 130-pip down gap.

The illustrations above are meant as a visual reminder that no matter what the market or the level of market understanding, although few and far between, there are pockets of extraordinary volatility where traders get off sides.

That, combined with a market shock, can lead to short term periods of scarcity of liquidity and a sharp price movement that is outside what normal statistical modelling can predict.

## *The “Major” Currencies*

Often you will hear on CNBC or read in the financial press that the "dollar was stronger today". When that is said, it usually implies that the dollar got stronger vs. the major currencies or what is often referred to as the “*Majors*”.

Some days you will hear that the USD was mixed. This implies that against some currencies it got stronger and against some currencies it got weaker.

The majors generally refer to those currencies that represent the countries that make up the Group of 7 or G7, as mentioned above these are the most liquid of all currencies traded. That group includes the British Pound, the US Dollar, the Euro, and the Japanese Yen.

Since the Euro replaced the Deutsche Mark, Italian Lira and the French Franc, the Major Currencies are really only five in number. However, many also consider the Swiss Franc and the Australian Dollar worthy of inclusion as these currencies are well traded and have favourable liquidity.

### **Question:**

When the USD is said to have gotten stronger, what happens to the other currencies in the Currency Pairs i.e. USD/CHF, USD/JPY, GBP/USD, USD/CAN, EUR/USD?

### **Answer:**

When the USD gets stronger, the other currencies all get weaker.

## ***The Base Currency***

One currency in a currency pair is always dominant, “only in the way it is quoted”. It is called the Base Currency. The base currency is identified as the first currency in a currency pair. It also is the currency that remains constant when determining a currency pair's price.

The Euro is the dominant base currency against all other global currencies. As a result, currency pairs against the EUR will be identified as EUR/USD, EUR/GBP, EUR/CHF, EUR/JPY, EUR/CAD, etc. All have the EUR acronym as the first in the sequence.

The British Pound is next in the hierarchy of currency name domination. The major currency pairs versus the GBP would, therefore be identified as GBP/USD, GBP/CHF, GBP/JPY, GBP/CAD. Apart from the EUR/GBP, expect to see GBP as the first currency in a currency pair.

The USD is the next dominant base currency. USD/CAD, USD/JPY, USD/CHF would be the normal currency pair convention for the major currencies. Since the EUR and the GBP are more dominant in terms of base currencies, the dollar is quoted as EUR/USD and GBP/USD.

Knowing the base currency is important as it determines the values of currencies “notional or real” exchanged when a foreign exchange deal is transacted.

## ***The Counter Currency***

The Counter Currency is the second currency in a Currency Pair notation. For example, the JPY is the Counter Currency in the USD/JPY pair. The USD becomes the counter currency in the EUR/USD pair.

## ***The Value of Currencies***

The base currency is always equal to one of the currency's monetary unit of exchange i.e., 1 Euro, 1 Pound, 1 Dollar etc.

When a trader buys 100,000 EUR/USD, he is said to be buying or receiving the EURO or the Base Currency and selling or paying for the USD or Counter



Currency. The amount of the Base Currency he is buying is equal to 100,000 Euros.

**Note** that this is true no matter the current exchange rate at the time. The base currency amount remains constant.

The Counter Currency equivalent amount that the investor is selling (or paying), on the other hand, will fluctuate with the exchange rate for the Currency Pair.

It is equal to:

***(Amount of Base Currency x Market Foreign Exchange Rate)***

Since the Counter Currency is the part of the currency pair that fluctuates higher or lower, it indicates the relative strength or weakness of both currencies in a currency pair. As one currency goes up, the other must go down in relation to one another.

### **Question 1:**

Given a Foreign Exchange rate for the EUR/USD Currency Pair of 1.2049, a trader who buys (or receives) 100,000 Euros would be selling (or paying) what equivalent amount of US dollars?

### **Question 2:**

If a trader buys the EUR/USD at 1.2051 because he has identified a trading opportunity, and the value of the EUR/USD Currency Pair goes to 1.2095, did the trader make a profit or loss on the trade?

### **Question 1 - Answer:**

Base Currency Amount = 100,000 Euros Foreign Exchange Rate = 1.2049  
 $100,000 \times 1.2049 = \$120,490.00$

The trader would be buying or receiving, 100,000 Euros and selling or paying, 120,490 US Dollars.

## Question 2 - Answer:

The trader made a profit.

By buying the EUR/USD at 1.2051, the trader bought or received 100,000 Euros and sold or paid US\$120,510. When the exchange rate rose to 1.2095, the trader could now sell the 100,000 Euros for US\$120,950.

Since the trader initially paid or sold \$120,510 for the Euros, the total profit on the transaction is equal to \$120,950 (the amount now received or bought from selling the Euros at 1.2095) minus \$120,510 (the price originally paid or sold).

Total Profit = \$440

### *Buying and Selling Foreign Exchange*

What exactly do you buy or sell when you make a foreign currency transaction?

In reality, you are doing both actions, buying and selling. A transaction of buying the EUR/USD at 0.8800 is actually buying the Euro and selling the Dollar at 0.8800 cent. If the Euro increases in value in relation to the dollar, the price would increase and the trader will make money.

If for whatever reason, a trader could not execute an order using his trading or dealing platform, a verbal order to a broker could be the following:

"I buy 100,000 Euros and sell the dollar at the Market", one lot traded  
or

"I buy 500,000 EUR/USD on a .8800 stop", five lots traded  
or

"I buy 100,000 Euros vs. the Dollar at the market", one lot traded

What are required on all verbal orders are the amount, the Currency Pair, the rate and the type of order. Simply saying "I buy the Euro at the Market" is not good enough, as it does not say what counter currency the trader wants to sell.

## *Understanding the Concept*

Since exchange rates represent what a fixed amount of currency is equal to in terms of another currency, we have seen there is just one price for the currency pair. The movement of that price determines whether a currency is getting stronger or weaker.

If the EUR/USD exchange rate goes from 1.2097 to 1.2124, we have concluded that the EUR got stronger, the USD weaker.

### **Why?**

When looking at foreign exchange rates or prices an action to buy the currency pair implies buying the base currency, or EUR, and selling the counter currency, or USD.

If the EUR/USD exchange rate moves higher, as expected, the trader can now sell the EUR/USD at a higher price. The difference represents a profit to the trader that was Long, or who bought the EUR/USD Currency Pair.

Another way of looking at it is, if at the rate 1.2097, a trader could exchange 1 EUR for \$1.2097. At 1.2124, however, the same single EUR can now be exchanged for a higher amount of USD, in this case \$1.2124 USD. The EUR has strengthened or gotten stronger versus the dollar.

***In the following examples, what has happened to the respective currencies in the Currency Pairs?***

EUR/USD goes from 1.2096 to 1.2134  
USD/CHF goes from 1.2450 to 1.2430  
USD/JPY goes from 108.90 to 113.00

### **Answer:**

When the EUR/USD exchange rate goes from 1.2096 to 1.2134, the EUR gets stronger and the USD gets weaker. Remember, when one currency gets stronger, the other gets weaker.

**Answer:**

When the USD/CHF exchange rate goes from 1.2450 to 1.2430, the USD gets weaker and the Swiss Franc gets stronger.

**Answer:**

When the USD/JPY exchange rate goes from 108.90 to 113.00, the USD gets stronger and the Japanese Yen gets weaker.

***Lessons Learnt:***

- The exchange rate of a currency pair reflects how much of the counter currency is been paid for the base currency at any point in time.
- If you buy one currency, you are selling another currency to obtain the currency you are buying.
- If you are LONG EUR/USD you have bought “long” Euro or the base currency and sold “short” the US Dollar or the counter currency.
- If you are SHORT EUR/USD you have sold “short” Euro or the base currency and bought “long” the US Dollar or the counter currency.
- When a currency pair or exchange rate goes from a low price to a higher price, the Base Currency is said to have strengthened or gotten stronger. The converse is true for the Counter Currency. That is, it has weakened or gotten weaker as the Base Currency has gotten stronger.

### ***Price Interest Point (PIP)***

Currencies trade in “fractions” of a cent: these are the smallest movement in price an exchange rate can make during forex trading.

***This fraction is called a "pip" or Price Interest Point.***

Currencies trade in pips because exchanges of currencies for speculative and other reasons are generally for large amounts and this makes representation in one currency more accurate in another. A pip represents 1/100 of 1 cent.

Therefore the following currency pairs correspond to 1 pip or the smallest price increment that the rate can make.

EUR/USD = 0.0001 or a move from 1.2104 to 1.2105 or to 1.2103

GBP/USD = 0.0001 or a move from 1.8210 to 1.8211 or to 1.8209

USD/CHF= 0.0001 or a move from 1.2546 to 1.2547 or to 1.2545

USD/JPY = 0.01 or a move from 110.38 to 110.39 or to 110.37

### ***Calculating Pip Size***

To determine the value of a pip for the deal above the following calculation would be made:

US\$ = 1.2097 x Par Amount of Base Currency = \$120,970

US\$ + a pip = (1.2097+.0001) x Par Amount of Base Currency = \$120,980

The value of a pip in dollars is equal to \$120,970 - \$120,980 or \$10.

### **Question:**

What is the Dollar value of a pip on a \$100,000 position in USD/JPY at an exchange rate of 108.33?

### **Answer to Question:**

An exchange rate of 108.33 means, that for every US\$1 (The Base currency), you can buy or sell 108.33 yen.

Therefore, US\$100,000 would be the equivalent of  $100,000 \times 108.33$  or 10,833,000 yen.

A pip move in the exchange rate from 108.33 to 108.34 would create a yen amount of 10,834,000 yen, an increase of 1,000 yen.

Converting the 1,000 yen gain to dollars requires dividing by the 108.34 exchange rate. The 1,000 yen gain divided by 108.34 exchange rate yields a dollar pip value of \$9.23

$$1,000/108.34 = \$9.23$$

### ***The Bid/Ask Price***

Like equities, foreign exchange has a bid price and an ask price. The bid price is where the market maker will buy. The ask price, is where the market maker will sell.

For traders, the reverse is true. The bid price is where a trader can sell, while the ask price is where a trader can buy. The bid price is always less than the ask price. This makes logical sense, as a market maker, like any investor, wants to buy low and sell high.

The spread between the bid and the ask price is called the bid/ask spread or dealing spread. The bid/ask spread is the premium that market makers charge to provide constant liquidity to a client base.

The specialist is always willing and able to make a market, which essentially means, provide liquidity to the market or trader.

For this service, he will have a bid where he buys the stock and an offer or ask, where he will sell the stock. The bid/ask spread the specialist charges will fluctuate with the general liquidity of the underlying stock.

Although in FX trading the bid/ask spread is much more stable, the same principle applies to any other FX market makers bid/ask spread.

Dealing spreads for the major currency pairs are 3-5 pips wide and a few, less liquid currencies, will be a bit wider. This reflects the relative liquidity and risk in the professional market for that particular currency pair.

The dealing spreads that are quote reflect a normal market making spread given the risks taken and the costs incurred by the market maker for providing a service to the market.

Obviously, if the volatility and risk of making a market increase because the markets become less liquid, it stands to reason that spreads may increase as well. These are universal realities of market makers however this dealing spread is much more stable with large and reputable firms.

### ***Types Of Orders***

The placement of orders in the market saves the trader the time and tedious job of monitoring market price for levels and also ensures that he does or implements what he intends to do.

When placing an order with the market maker, it is very important to make sure you are placing your order properly to avoid easily made costly errors.

#### **The main types of orders are:**

##### Market Order

This is an order to buy or sell a given currency at the current market price. This means that the trader will be buying at the “current” ask or selling at the “current” bid that is quoted. The market order can be used to enter or exit trades.

When placing a market order, the currency trader specifies the currency pair that he wants to buy or sell and the number of lots or contracts he wants to trade.

With most currency trading platforms, this order is placed with a single click and is

executed instantly at the current rate quoted.

Often small market makers are unable to fill market orders instantly and usually re-quote traders. This can be a major source of problems as unnecessary costs of trading are incurred that can affect performance over time and the profitability of each trade.

However, this type of order is very popular with certain trading strategies i.e. strategies which react to market conditions and require instantaneous execution of a trading position, either to enter or exit.

Therefore it is important to make certain you are trading through a firm that have the necessary credit lines within the Interbank market to attract large hedge funds and money managers as clients.

This will ensure you can obtain the necessary liquidity required to execute market orders regardless the size, with no hassle.

### Limit Order

This is an order to buy or sell a given currency at a pre specified exchange rate or better, and can be used to enter or exit trades. It “limits” the price at which you are willing to trade at.

When a Buy Limit order is placed, the trade cannot be executed at a price that is higher than the specified limit price. Therefore the buy limit is placed below the current market price.

It can be used to obtain a better entry price when looking to go long, or used to close out or exit an existing short position at a profit.

When a Sell Limit order is placed, the trade cannot be executed at a price that is lower than the specified limit price. Therefore the sell limit is placed above the current market price.

It can be used to obtain a better entry price when looking to go short, or used to close out or exit an existing long position at a profit.

When using limit orders to exit existing trading positions, long or short, it is usually



associated with pre-determined trading targets.

### Stop Order

This is also an order to buy or sell a given currency at a pre specified exchange rate and can also be used to enter or exit trades. It is activated when the specified exchange rate, in this case the stop price, is reached.

This is a very useful order, in that it is placed on the opposite side of the current market price than the limit order.

When a Buy Stop order is placed, the order cannot be placed at a specified price that is lower than the current market price. Therefore the buy stop is placed above the current market price.

In this way it can be used to enter a new long position when the price of a given currency breaks above, “a price break-out”, a certain rate or it can be used to limit a loss in an existing short position.

When a Sell Stop order is placed, the order cannot be placed at a specified price that is higher than the current market price. Therefore the sell stop is placed below the current market price.

In this way it can be used to enter a new short position when the price of a given currency breaks below, “a price break-down”, a certain rate or it can be used to limit a loss in an existing long position.

As briefly mentioned above the stop order can also be used to stop a loss or protect profits, when the price of a currency moves against a trading position. This is why it is also referred to as a "Stop Loss" or “Protective Stop” order.

If a trader that is looking to go long an exchange rate, wanted to protect against the possibility of a large loss, he would, after careful evaluation place a sell stop order at a strategic “safe” spot below his entry price as soon as he entered the long position.

This would then act as a “protective” stop loss and guard the trading account against an unprotected adverse movement in the exchange rate.

In the same way, if a trader who is already holding a short position in an exchange

rate and is making money in the trade or what is referred to as been “in the money”, wanted to protect some of the profits already showing but still have the opportunity to benefit from a further fall in the rate, would, after careful evaluation place a buy stop order at a strategic “safe” spot, above the current price but below his short entry level, thereby “locking in” profit if stopped out.

This trading technique is referred to as a trailing stop or a Ratchet Stop and is incorporated into the strategies of many successful traders.

At all times remember, “Always trade with the probability and protect against any possibility”

### *Margin*

Margin is the aggregate amount of customer cash pledged against the aggregate open position or positions. The margin pledged is a function of Maximum Trading Leverage Ratio. The higher the leverage the lower the pledged margin needed to carry the position. The lower the leverage, the higher the margin needed to carry the position.

By trading on margin traders have the ability to control trading positions much larger than the amount of cash pledged. Leverage is a very nice tool to enhance the performance of a trading account but without the correct controls in place can very easily be used incorrectly and the trader can run the risk of ruin.

The amount of leverage or gearing used during trading is a matter of risk management and needs to be addressed accurately by each trader to have optimal market exposure.

The margin pledged for leverage is not a down payment on a purchase of equity as in the stock market but rather a performance bond to insure against trading losses.

Most market makers provide a Minimum Trading Leverage Ratio of 50:1, which can also be represented by 2%. At that ratio, a 100,000 EUR position would require \$2,419 of Margin at an exchange rate of 1.2097.

This is calculated by taking the US\$ equivalent of 100,000 EUR or US\$120,970 and dividing by the 50:1 leverage ratio or calculating 2% of the value.

Margin required =  $\$120,970 / 50 = \$2,419$  or

Margin required =  $\$120,970 \times 2\% = \$2,419$

### ***Interest Rollover***

When a trading position is still open at 5 pm EST, trader need to pay a daily rollover interest on that position, the price you have to pay is always listed on the FX tradestation.

If you don't want to pay, be sure the position is closed before 5pm EST. On Wednesdays, the amount added or subtracted to an account as a result of rolling over a position tends to be around three times the usual amount.

This "3-Day" rollover accounts for settlement of trades through the weekend period.

**Important Notice: When a trader is on a 2% margin account, you can have earnings on the daily rollover.**

Example: When trader is on 2% margin and bought GBP/USD and the position is still open at 5pm EST, trader will earn the rollover.

## ***Forex Basics Frequently Asked Questions***

How do I know which currency I am buying and which I am selling?

In the FX market currencies are always priced in pairs; therefore all trades result in the simultaneous buying of one currency and the selling of another.

The objective of currency trading is to exchange one currency for another in the expectation that the market rate or price will change so that the currency you bought has increased its value relative to the one you sold.

### **Consider the following example:**

The current bid/ask price for USD/JPY is 110.02/110.07, meaning you can SELL \$1 US for 110.02 Yen or BUY\$1 US for 110.07 yen.

Suppose you decide that the US Dollar (USD) is undervalued against the Japanese Yen (JPY).

Since the US dollar is the base currency, to execute this strategy you would BUY the pair i.e. buy dollars (simultaneously selling yen), and then wait for the exchange rate to rise.

### How can I enter a short (sell) order to sell a currency pair that I don't own?

In every currency trade, you are borrowing one currency to buy another. For example, if you buy the USD/JPY, you are simply borrowing yen to buy US dollars; if the US dollar rises in value, you will be able to sell them for more yen than you borrowed, and thus profit accordingly.

If on the other hand you enter a short, or sell, order on the USD/JPY, you are simply borrowing US dollars to buy Japanese yen. If the yen rises in value, then you will be able to sell them back for more dollars than you initially borrowed – and will reap a profit in doing so.

In every trade, regardless of whether you are buying or selling the currency pair, you are buying and borrowing a currency.

### What is leverage?

Leverage is a means of enhancing returns or value without increasing the investment size. Leverage allows you to magnify your potential returns by trading more than you actually deposit.

For instance, traders can utilize up to 100:1 leverage -- meaning they can trade 100 times the amount they deposit -- without being liable for more than their deposit.

This means with a \$100 margin deposit you can place a 10,000 base currency position in the market. In the event the total value of the account falls below margin requirements, the system automatically closes all open positions.

This prevents clients' accounts from falling below the actual available equity particularly in a highly volatile, fast moving market.

Bear in mind, though, that leverage is a double-edged sword. Without proper risk management, this high degree of leverage can lead to large losses as well as gains.

### What is a margin call?

Accounts are set-up on a default margin on 1% (approximately 100:1 leverage). Meaning, clients must maintain in excess of \$1000 in the account for every lot (100,000 position) that is open on the trading account. (\$1000 is 1% of 100,000).

The following is an example of a margin call situation:  
Assuming account balance is \$8000:

If the client buys 6 lots of EUR/USD (\$600,000) at a rate of .8960, which uses up \$6000 (\$1000 x 6) of the account's usable margin, leaving an available margin of \$2000.

If the position were to go against the client by 34 pips to .8926, the floating trading loss would be \$2040 and open positions will be closed on a margin call. from the computer without constantly monitoring the market.

### Where is the Central Location of the FX Market?

Currency trading is not centralized or an exchange, as with the stock and futures markets. The FX market is considered an Over the Counter (OTC) or 'Interbank' market, due to the fact that transactions are conducted between two counterparts over the telephone or via an electronic network.

## ***What's next?***

You've just discovered what forex is and how it works, what's next?

- If you want to open a free demo account with FXTSP.COM and test your skills, [please click here.](#)
- If you want to learn more advanced techniques / systems to make profits forex trading, below listed are some forex trading courses / systems that can help you in becoming a profesional currency trader. All courses / systems listed below include **FULL eight week 100% Satisfaction Guarantee!** So, you have nothing to lose.

# *Forex Courses/Systems Resources*



## [Learn The Amazing \*\*Stealth\*\* Forex Trading System.](#)

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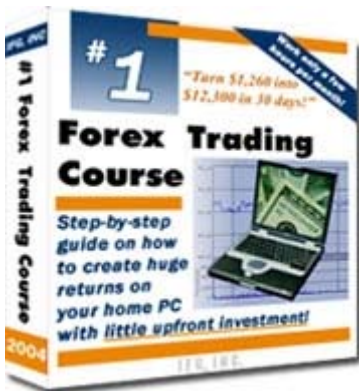
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