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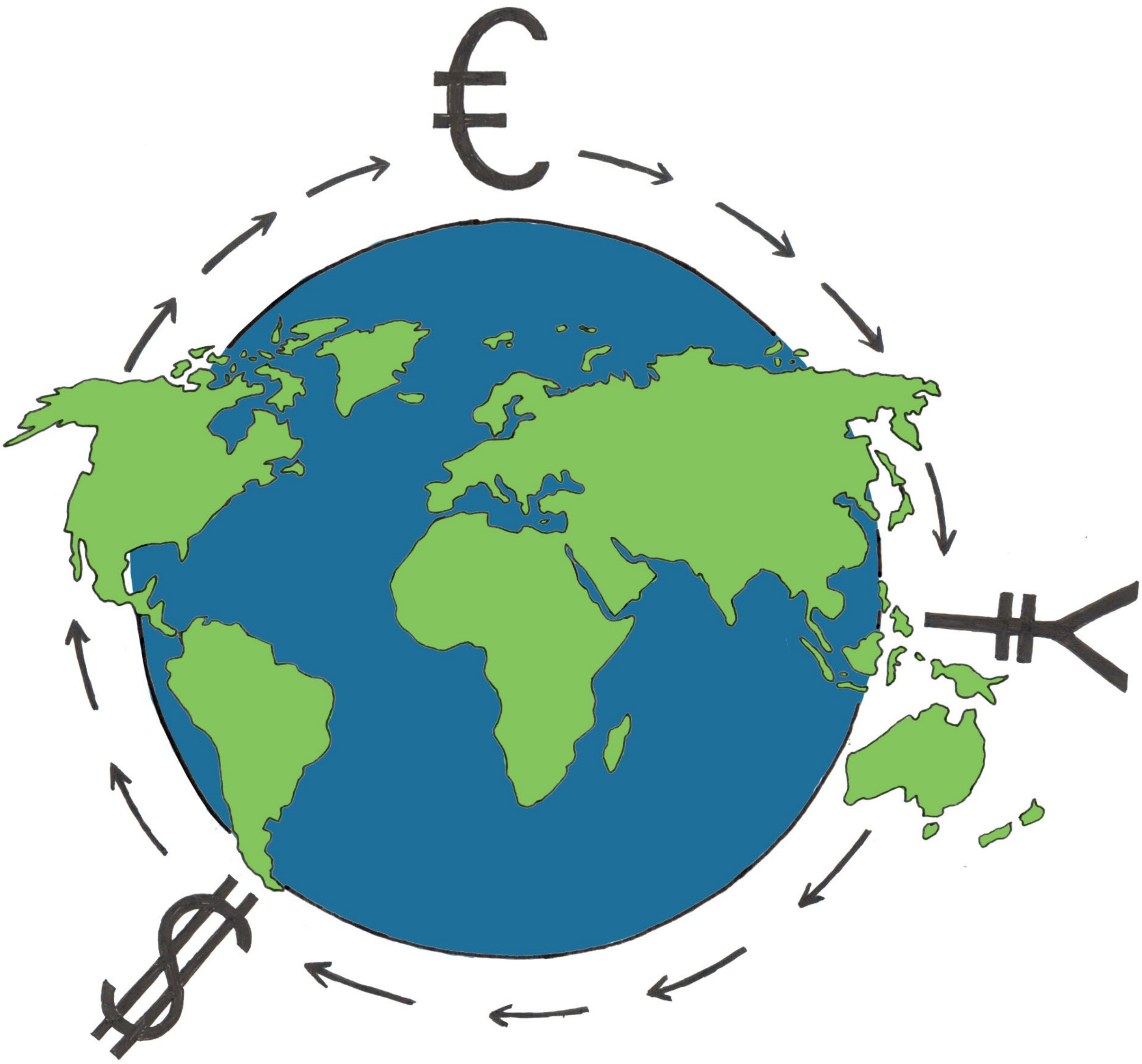
Get Started in Forex



easy forex ready.trade

Welcome to forex trading

Congratulations! You have taken your first step towards becoming a forex trader. We are pleased to provide you with this **forex education book for beginners** that will help you learn about the forex market, explain the history of forex and give you some great tips and strategies for trading success. Education is the key to successful trading and with almost $4 trillion traded each day globally, the forex market is huge, exciting and captivating.

At **easy-forex** we believe that everyone should have access to the forex market, which is why we pioneered online currency trading to make it accessible for beginners and expert traders alike and developed web based trading platforms that are downloadable and user-friendly.

Our fast and straightforward registration means you can be trading within minutes. And, with just one **easy- forex** account, you can trade forex using web, desktop or mobile platforms, from any location in the world, at any time.

We support all of our traders with personal service and for those clients who would like to take their trading to the next level, we offer our award-winning dealing room services.

So, happy reading and we look forward to supporting you on your forex journey with us.

With best wishes

Michael Konnaris

Michael Konnaris
Chief Executive Officer

Michael Konnaris
CEO of easy-forex group

With over 20 years of experience in the forex market Mr Konnaris is a specialist in the field of currency trading. He has held senior posts with large financial institutions such as NatWest Bank and the Royal Bank of Scotland in the UK. Mr Konnaris joined **easy-forex** in 2005 as Chief Dealer, was appointed Chief Operating Officer in 2010 and Chief Executive Officer in 2011. Milestone product and management innovations under his stewardship have ensured that easy-forex remains a world leader in the online forex market.

Contents

Tell me more

Throughout this book you will find additional information on the topic under discussion in the 'Tell me more' box, like this one. Also, at the end of each chapter, we give you tips on where to go to learn more. Any terms you don't understand can be looked up in our online forex glossary on the **easy-forex** website.

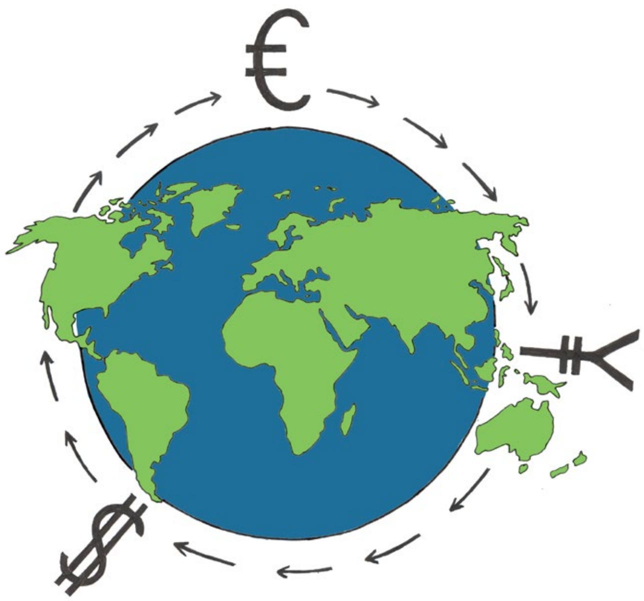
Chapter 1 | Forex basics

What is the forex market?

The forex market is the world's most exciting and dynamic market. With $4 trillion traded every day, it is also the largest financial market in the world.

Forex (or FX) stands for 'foreign exchange' which a traveller will know as the currency that you buy when visiting another country. For example, you may sell euros and buy dollars for your trip to the USA. The online forex market is, however, 90% speculative, which means that you don't take possession of the actual, physical currency. Rather, you open and close deals and make either a profit or loss which gets reflected in your online account.

The forex market is an over-the-counter (or OTC) market which means that trading takes place directly between two parties without dealing through an exchange. This means you can conveniently access the virtual market online anywhere in the world.



Unique features

The forex market has several advantages over other types of trading, such as traditional stocks:

- **Liquidity**. The high volumes traded globally lead to high liquidity. The big advantage of liquidity is that you can always find demand to sell or buy the currency pair you wish.
- **Increased leverage**. Leverage is when you 'borrow' money so that you can use a small investment to get a greater yield. Most stock markets offer 1:2 leverage. With forex, 1:100 and higher is common. This means your opportunities for gain are greatly enhanced. Remember though that your risk increases too.
- **Increased opportunities**. Forex market conditions can change at any time in response to real-time events. While you must be aware of the risks such changing markets can pose, remember that volatile markets also offer high profit opportunities.
- **Easy access**. At easy-forex you can start trading forex with a low first deposit. You can fund your account with a debit or credit card and start trading within minutes.
- **No commissions**. easy-forex does not charge you a commission. Instead, as the market maker, we make our money from the spread (i.e. the difference between the buy and sell price), as well as any rolling fees if you have kept a trade open overnight.
- **Controllable risk**. Forex traders set a stop loss which means you set the maximum amount you are prepared to risk. At easy-forex we guarantee your stop loss on our platforms.

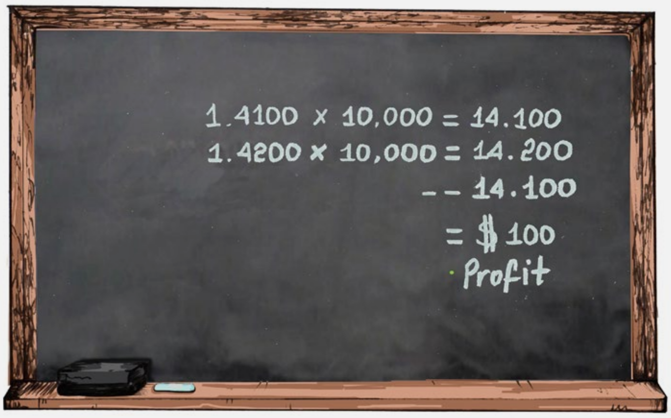
What do you trade?

In forex trading you mainly trade currencies, which are always traded in pairs. There are four major currency pairs (called the majors) which are mostly traded against the US dollar. They are the euro/dollar (EUR /USD), the British pound/dollar (GBP/USD), the Japanese yen/dollar (JPY/USD) and the Swiss franc/ dollar (CHF/USD). Trading in the four major pairs makes up the majority of the market and the most commonly traded currency pair is the euro/dollar (EUR/USD).

You can also trade hundreds of other currencies against each other (called cross currencies because the exchange rate is calculated via the US dollar), but remember that the majors are the most liquid. At easy-forex you can also trade precious metals (gold, silver), indices and commodities like oil and gas.

Tell me more

In a pair, the first currency is called the 'base' currency and the second is called the 'counter' currency. When you buy a currency pair you are always buying the base currency and selling the counter currency. Conversely, when you sell the pair, you always sell the base and buy the counter. For example if the exchange rate of the euro/dollar currency pair is 1.4100 this means that you need 1.41 US dollars to buy 1 euro. This also means that if you sell 1 euro you will get 1.4100 US dollars. Let us say



you bought 10,000 euros against the US dollar. At an exchange rate of 1.4100 this means you would pay €14,100 (1 euro = $1.41, therefore €10,000 = $14,100). The next day the euro rises against the dollar and the exchange rate goes to 1.4200. This means that for every euro that you bought, you have earned 1 cent, which in this case means you would have profited by $100 ($14,200 minus $14,100). If you had decided to trade in the opposite direction by selling the currency pair, this means you would have sold the euro to buy the dollar and in our example the dollar then decreased in value against the euro. You sold 10,000 euros at 1.41, which means that for every euro that you sold you would have lost 1 cent. For a trade valued at 10,000 euros that would have been a loss of $100 ($14,200 minus $14,100).

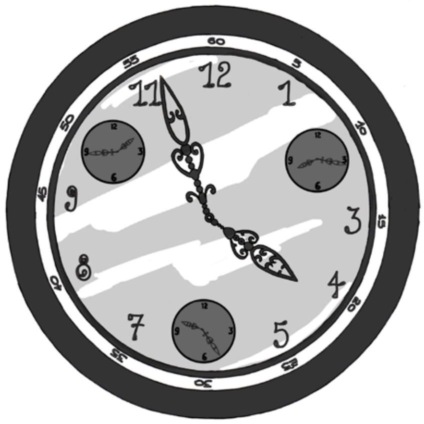
Who trades?

There are two parties involved in an online forex deal: you as the trader and the market maker, for example easy-forex. A market maker is a company that facilitates trading by offering an ask and bid price on a currency, literally making the market for traders to trade in.

Individual forex traders like you make up the fastest-growing segment of the global forex market. The other players include the inter-bank market which is mostly made up of the largest commercial banks and securities dealers, after which you have the smaller banks, multi-national corporations and hedge funds.

When to trade

Because forex is a truly global market, you can trade 24 hours a day, five days a week. As one region's market day ends, the next region's market day begins. This means you can trade on any region's news as developments take place.



Tell me more

The forex market is open 24 hours a day from the Monday morning open in Sydney to the close on Friday evening in New York. Each trading day can be broken down into three sessions: the Asian, the European (EU) and the US. Generally these are referred to as the Tokyo, London and New York sessions. The Asian session opens around 21:00 GMT (summer hours) and closes around 08:00 GMT. This overlaps with the EU session which opens around 06:00 GMT and closes around 16:00 GMT. Then the US session, which overlaps with the EU session, opens around 13:30 GMT and closes around 21:00 GMT. Then the cycle starts over again with the Asian open.

This means you can theoretically trade forex non-stop from 21:00 Sunday GMT (summer hours) until 21:00 GMT Friday!

The times when two sessions overlap are the most exciting as it is then that you will find high volumes being traded and maximum volatility which presents opportunities. The European session has the most volume traded since it is sandwiched between the Asian and the US sessions. Approximately 50% of the daily forex volume goes through the EU session.

Where can I trade?

Online, anywhere, anytime, on the device of your choice. You have full control to monitor the status of your trades, modify the terms of your open deals, close deals, or withdraw profits. The ability to access your deals 24/7 is a great benefit of online trading.

How do I make a profit?

You can profit from forex trading by correctly determining whether one currency in a currency pair will go up (strengthen) or go down (weaken) relative to the other currency in the pair. With forex, you can profit whether the market is rising or falling. This is because currencies are traded in pairs. The key is to buy when a currency is low and sell it back once it is high. In chapter 2 we take you step by step through a trade.

Traders develop trading strategies based on technical and fundamental analysis. Technical analysis (chapter 4) is the use of charts and other statistical measures to predict future price movements based on past prices, while fundamental analysis (chapter 3) looks at how macro-economic data releases, news announcements and other reports may cause rates to change.

What happens to my investment?

At easy-forex, we like to keep things simple for you, and all transaction-related calculations are automatically done for you by the **easy- forex** platform. It's simple to use and easy to understand. Your account is in a 'base currency' of your choice, often the local currency where you live. You trade using your base currency no matter which currency pair you choose to trade.

What drives forex prices?

As with any marketplace, the main factor behind changes in exchange rates is supply and demand. In the forex market there are however many other factors that cause prices to fluctuate as well. These factors may be of an economic, political or geographical nature. Fundamental analysis (chapter 3) explains how you can use these factors to forecast currency rate movements.

Tell me more

A number of economic indicators affect currency prices, ranging from unemployment to Gross Domestic Product (GDP) to retail sales data. One of the most influential indicators is interest rates. A change in interest rates in one country can have an impact on many other exchange rates at the same time. For example, when the Federal Reserve Bank (Fed) of the United States announces a change in the interest rate at which it loans to banks, this influences the value of the US dollar, which is involved in nearly 90% of all forex transactions.

Politics are closely related to economics and so it is natural for changes in government or policy to also play a role in currency price fluctuation.

Finally, geography can play an important role. Think of the earthquake in Japan in March 2011 and the negative effect it had on the value of the Japanese yen.

How risky is forex trading?

While forex trading is risky, the risk can be minimised through the use of various controls you can put in place. For example, through setting a stop loss, you ensure that you cannot lose more than the amount you decide to risk on a trade (also called your 'margin'). In this way, your loss is capped while your potential profit is unlimited. You are strongly advised never to risk more than you can afford to lose. We also advise you to start with an investment that is comfortable for you and to continue to educate yourself as your interest in trading increases.

Pulling it together

This chapter covered the what, where, when and who of forex trading. If you are happy that you understand the information, move on to chapter 2 which deals with the how of forex trading.

Need more?

Visit our learn centre to see:

- Education videos
- Forex articles
- FAQs

Remember you can also:

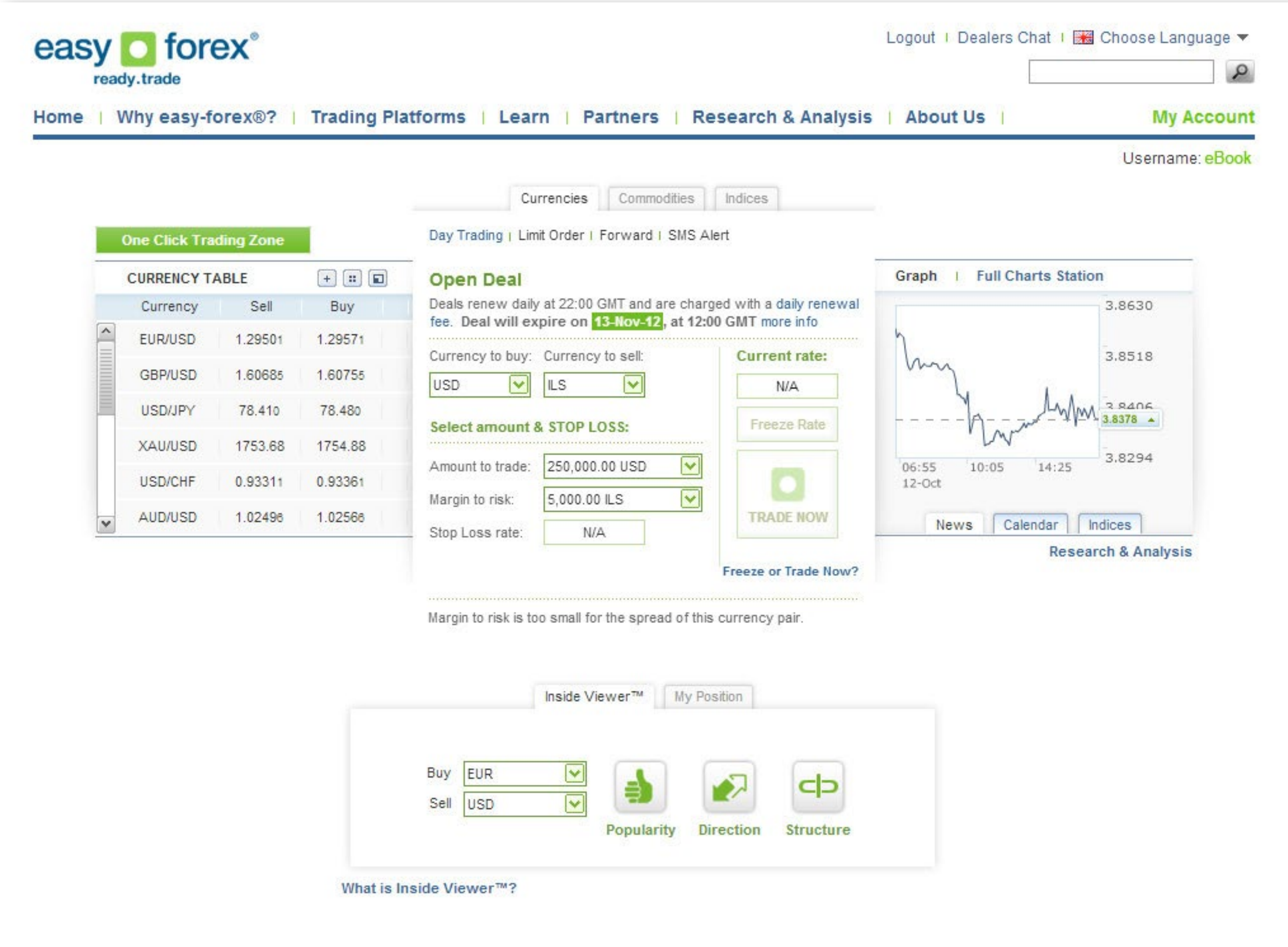
- Look up terms in our online glossary
- Call a personal account manager, contact us at cs@easy-forex.com or post your questions/comments on our Facebook page.

Chapter 2 | Getting started

How do I start trading?

It's simple. Register on the easy-forex website and deposit the amount you wish to invest into your account. We accept many different payment types which vary according to the region you live in. Generally, we accept deposits via most major credit or debit cards, bank wire transfers and ewallets. Contact your account service manager through our Live Chat or email cs@easy-forex.com to find out which payment solutions are available to you. Once your deposit has been received, you are ready to start trading.

Your personal account service manager will provide you with one-on-one training and support. If you are new to forex or not ready to start trading yet, you can open a free demo account or try our trade simulator where you can experience trading under real market conditions without risking any real money. However, the best way to really understand the psychology of trading is to trade in a live account with real funds. You can get started by opening a mini account with a low first deposit and making small trades.



The easy-forex advantage

Our web trading platform is fully web-based and does not require the download and installation of software, unlike many other online market makers. Traders are only required to log in, ensure they have available funds to trade and if not, top up their accounts and trade. In this chapter we take you step by step through a forex deal, but first here are some of the terms you will come across as you plan your first trade.

What is a pip?

One pip is the smallest unit of change in price. It stands for 'percentage in point'. Because most currency pairs are quoted with four decimal points, one pip usually equals 0.0001 but there are some currency pairs such as the USD/JPY where 1 pip equals 0.01.

What is a spread?

When looking to trade a currency there are always two prices. On the currency table (from the previous page) the price you can buy for is on the right side and is called the ask or the buy price. The price you can sell at is on the left side and is called the bid or the sell price. Remember when you buy a pair you are buying the base currency and selling the counter and when you sell a pair you are selling the base and buying the counter. The difference between these two prices is called the spread, which is the difference between what you pay to buy a currency to what you get when you sell it.

The spread is essentially the cost of your trading. You may come across brokers advertising low spreads but be sure to check what other commissions and costs they may be charging you. With easy-forex you only pay the spread.

Tell me more

Let's look at a EUR/USD example. If the price moves from 1.2853 to 1.2873, it has gone up by 20 pips. If it goes from 1.2853 down to 1.2792, it's gone down by 61 pips. Pips provide an easy way to calculate the profit or loss (also known as the P&L) on a trade. To turn that pip movement into a profit or loss, all you need to know is the size of your deal. For a 100,000 EUR/USD position, a 20-pip move equates to $200 (€100,000 × 0.0020 = $200). For a 50,000 EUR/USD position, the 61-point move translates into $305 (€50,000 × 0.0061 = $305). Depending on which direction you decide to trade in (either to buy or to sell) you could make or lose the calculated corresponding amount.

What do 'long' and 'short' mean?

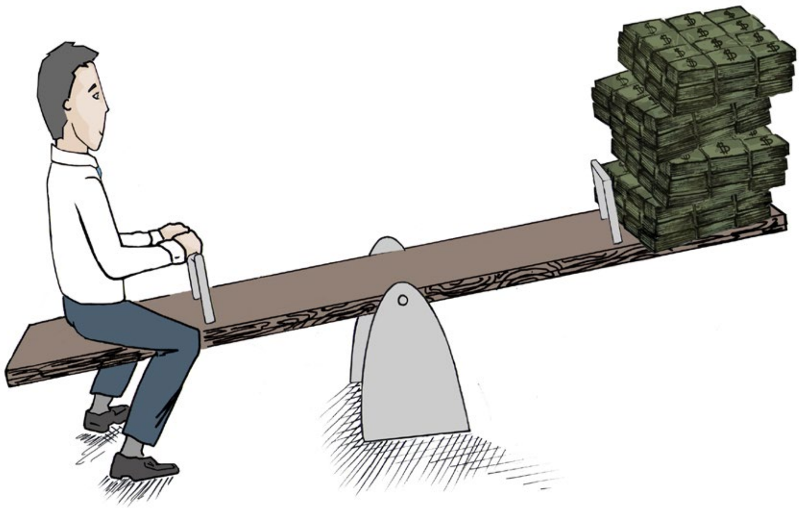
The forex market is bi-directional, meaning that you can trade both ways. You can buy or sell depending on your strategy. 'Long' means to buy, and you will go long when you are looking for prices to appreciate, or rise. If you are going 'short' you are selling because you are looking for prices to fall. Going short is just as common in currency trading as going long. If you are 'square' or 'flat', it means that your buy positions exactly offset your sell positions, or that you have no positions in the market at all.

Margin and leverage

Through the use of leverage, traders are able to invest a small amount of money and trade much larger deal sizes. This is useful because the movement in currency rates can be very small, and larger trades represent larger profits/losses for every pip change in the rate.

Leverage allows you to trade with more money than you have in your account, because you effectively "leverage" your free balance to open a larger trade.

Leverage is shown as a ratio, for example 1:100. Note that leverage amplifies both potential profits and losses alike.



Tell me more

Let's say you decide to buy 100,000 EUR and sell USD at a rate of 1.4100. Your account leverage is 1:200. Do you need 100,000 US dollars to open the trade? No! With a leverage of 1:200 you will need to put down only 1/200 of the deal size as the margin, which works out to $500.

Calculate the margin:
Leverage 1:200
Deal size = 100,000
Divide 100,000 by 200= 500
Margin = $500

This is the amount that will be used to cover your potential losses. In other words, the margin is the actual amount that you are risking to lose if the trade goes against you.

Stop loss and take profit

Setting a stop loss is a way to limit your risk. You decide upfront what your maximum loss could be by choosing the stop loss rate. If the market reaches that rate, your deal will be automatically closed. Since you are the person setting the rate, you are in control of your investment.

Setting a take profit rate works in the same way. You decide on a desirable profit amount and your deal is automatically closed when the profit rate you have chosen is reached. Using a take profit rate helps you to control your trading without having to continuously monitor your position.

Types of orders

You can decide to open a day trade, limit order or forward order.

- A day trade, also known as a market order, is an order to buy or sell at the best available price. This type of order is typically executed immediately.
- A limit order is an order to open a day trade deal at a rate that you have pre-defined when and if the market reaches that rate. The limit order will remain pending (i.e. waiting to be turned into a day trade) until the market reaches that rate, or the time expires. It has the usual features of a day trade, including a margin requirement.
- A forward order is an open trade with a value date greater than the spot value date. It has the usual features of a day trade, including a margin requirement.

All three types of orders can have tailored stop loss and take profit rates set by you, in order to help you manage your risk.

The easy-forex advantage

At **easy-forex** we protect our traders by guaranteeing the stop loss, take profit and limit order rates on the **easy-forex** platforms.

How long should I hold my position open?

If you are day trading, you usually hold your position open anywhere from a few minutes to a few hours and generally not longer than a day - hence the name, “day trading”. A medium-term trader will look to get the general market direction right and profit from more significant currency rate moves. This kind of trading requires many of the same skills that a day trader would use, especially when it comes to entering and exiting positions. However it also demands a broader view on the markets, additional analytical work as well as much more patience. Chapter 3 and 4 provide you with the basic tools and knowledge to take your trading further.

Pulling it together

This chapter covered the how of forex trading. We explained some terms and then took you step by step through a forex deal on the **easy-forex** platform. Now let’s move on to chapter 3, which covers the basics of fundamental analysis.

Need more?

Visit our learn centre where you can download our eBook guide to forex.

Remember you can also:

- Look up terms in our online glossary
- Call a personal account manager, contact us at cs@easy-forex.com or post your questions/comments on our Facebook page.

Chapter 3 | Fundamental analysis

Fundamental analysis and market moving events

Fundamental analysis can be defined as the study of a country's economic and financial performance in order to determine the fair market value and future direction of its currency. Fundamentals focus on factors that determine exchange rates, such as countries' economic health, political stability, and environmental events. A popular way to gauge the health of a country's economy is through looking at its economic indicators and data releases, which is why every trader should be familiar with them and how they influence the value of a currency.

Data releases

Data releases on their own are not as important as whether they come out above or below market expectations. In other words, in addition to knowing the data that will be released, it is also important to know what the market is expecting the data to come out as. For example, if unemployment comes out at 5%, lower than the previous month's data release of 5.1%, this may seem like good news. However, the market will react negatively to this release if the expectation was that unemployment would fall to 4.5%. For this reason, you should always know what the market is expecting in order to evaluate whether the actual data release is a positive or a negative surprise. You should also note that the more a data release deviates from expectations, the more it will impact on exchange rates.

In the short term, the market typically reacts to any data release within half an hour from the time it is announced. After that, exchange rates usually settle and give you a chance to analyse the longer term implications of the news.

You can follow the day's major data releases and expected results on the **easy-forex** financial calendar, under the research & analysis section of our website.

Now let's have a look at some major indicators every trader should know and follow.

Interest rates

Interest rates are perhaps the single most important indicator when it comes to determining a currency's long term value. In fact, most other economic indicators affect a currency's exchange rate because they imply a potential change in interest rates. Central banks usually announce interest rates every month, with the whole forex market closely watching to see what they will do.

By adjusting interest rates, a central bank can control the supply of its currency, directly affecting its value. If interest rates are increased, it becomes more expensive to borrow and more attractive to save, causing the amount of money in circulation to shrink as people store more money in the banks. The money supply is thereby reduced, and as lower supply causes higher prices, the domestic currency strengthens. Conversely, if interest rates are cut, borrowing from banks becomes cheaper and saving becomes less attractive, causing the supply of money in free circulation to increase, resulting in a weaker currency.

Major sources that release interest rate announcements are outlined in the table below. Note that you should focus on rate announcements from the countries whose currencies you are trading.

Country	Source	Acronym	Frequency	Biggest impact on
USA	Federal Open Market Committee	FOMC	8 times per year	USD
UK	Bank of England	BOE	Monthly	GBP
EuroZone	European Central Bank	ECB	Monthly	EUR
Japan	Bank of Japan	BOJ	14 times per year	JPY
Canada	Bank of Canada	BOC	8 times per year	CAD
Switzerland	Swiss National Bank	SNB	Quarterly	CHF
Australia	Reserve Bank of Australia	RBA	Monthly	AUD
New Zealand	Reserve Bank of New Zealand	RBNZ	8 times per year	NZD

Tell me more

Traders compare the actual interest rate announcement to what the market is/was expecting (forecasting). If rates are higher than expected, the currency is likely to strengthen, while rates below expectations usually cause the value of the currency to fall.

Gross Domestic Product (GDP)

A country's Gross Domestic Product is the value of all goods and services produced within a country in a given time period. It represents the health of a country's economy, which directly affects the strength of its currency. GDP is normally released monthly or quarterly, and the outcome is compared to the country's forecasted growth.

Tell me more

Traders compare the actual GDP with what the market is/was expecting. If GDP exceeds the forecast, the currency is likely to strengthen, while a lower than expected GDP release tends to weaken the currency.

Inflation

High inflation erodes the value of a currency and is therefore considered very bad for any economy in most circumstances. Central banks normally target an inflation level of around 2-3%, and if their target is exceeded, they usually take action to get back to the desired levels.

When inflation is high, the market begins to expect that central banks may increase interest rates, reducing the supply of money in the economy, and lowering inflation. The expectation of an interest rate hike will cause the currency to strengthen, as the market prices-in the anticipated change in an effort to benefit from an announcement before it is officially made.

Common measures of inflation include the Consumer Price Index (CPI) and the Producer Price Index (PPI), and are usually released on a monthly basis.

Tell me more

If inflation is above expectations, the currency is likely to strengthen, while lower than expected inflation is likely to weaken the currency.

Unemployment

Without people who work, there would be no economic activity. For this reason, unemployment is an important gauge of the health of a country's economy and the pace of its economic growth. Increasing unemployment (or decreasing employment, as it is sometimes also referred to as), has a negative effect on a country's economic growth, while decreasing unemployment (or rising employment) is seen as a positive sign for the economy.

Because rising unemployment signals a troubled economy, the market expects the central bank to reduce interest rates in order to increase the supply of money and help boost economic activity and growth. As we saw earlier, the expectation of a rate cut tends to weaken the currency.

The converse is true when unemployment is falling – a fast growing economy may soon experience increased inflation because of all the financial activity taking place, and to prevent inflation from getting out of hand central banks are likely to increase interest rates. As a result of the expected rate hike, the currency is likely to appreciate.

As well as unemployment and employment figures, other common labour-related indicators are US Non Farm Payrolls (NFP), Private Payrolls and Claimant Count, and usually come out on a monthly basis. By far the most important employment indicator is the US NFP, as it tends to have the greatest effect on the forex market. It represents the change in the number of employed people during the previous month (excluding the farming industry), and is released shortly after the month ends, on the first Friday of the following month.

Tell me more

Higher than expected unemployment (or lower than expected employment) normally causes the currency to weaken, while lower than expected unemployment (or higher than expected employment) usually results in a stronger currency.

Consumer-related data

As we saw with unemployment, it is people who drive the economy, so their income and their demand for goods and services directly affect a country's economic growth. When consumers demand more, economies tend to grow faster, and when their demand shrinks, we experience an economic slowdown.

Common consumer-related indicators include retail sales, durable goods orders, consumer confidence, consumer sentiment and ZEW (economic sentiment), and tend to come out on a monthly basis.

Tell me more

Higher than expected sales, orders, confidence or sentiment usually result in a stronger currency, and data releases below expectations cause the currency to weaken.

Trade balance

This number represents the difference between the value of goods and services that a country exports and the value that it imports them at. A surplus occurs if the value of exports is greater than the value of imports, and a deficit occurs if the value of imports is greater than the value of exports.

It is in a country's interest to export more than it imports and thereby generate money that it can use to further its growth. This figure is usually released on a monthly basis.

Tell me more

A greater than expected figure tends to be good for the currency, while a lower data release tends to be bad for the currency.

Speeches, press conferences & meeting minutes

In addition to scheduled data releases, as a trader you should also closely follow the opinions of influential figures who vote on a country's monetary and fiscal policies. Look out for any hints of economic improvement or worsening, changes in policy stance, or anything that can signal the future of a country's economic state and affect the value of its currency.

In the US, the Chairman of the Federal Reserve and voting members of the Federal Open Market Committee (FOMC) are figures of influence who can move the markets and are closely observed by traders. Other notable figures include the President of the European Central Bank (ECB), Governors of the Bank of England (BOE), Bank of Japan (BOJ), Bank of Canada (BOC), Royal Bank of Australia (RBA) and Royal Bank of New Zealand (RBNZ), members of the UK Monetary Policy Committee (MPC), and the Chairman of the Swiss National Bank (SNB), among others. Furthermore, traders also pay attention to releases of central bank meeting minutes.

Tell me more

If the message is dovish (pessimistic) this tends to hurt the currency, while a hawkish (optimistic) tone generally boosts the currency's value.

Why technical traders should follow news releases

Technical analysis is the study of historical price movements. It is less likely to work when market focus turns to important fundamental factors or economic data, as market participants become more sensitive to any developments. Major economic data releases such as US Non Farm Payrolls can cause large market moves and increased volatility, which can disrupt technical trends and levels of support and resistance.

The easy-forex advantage: financial calendar

The **easy-forex** financial calendar on our website is available in multiple languages, and is designed to provide you with all the information you need about upcoming data releases and announcements in a clear, easy-to-understand way. It tells you the previous and expected data releases, the time at which they will be announced, and their expected degree of impact on the markets – shown as either low, medium or high.

The financial calendar is an important tool in forex trading. The market usually reacts to economic news and can get volatile if the news is different from what is expected. By watching the financial calendar, you can prepare your trading strategy in advance and open specific positions to try and benefit from market volatility. Placing trades in anticipation of or in reaction to data releases is called trading the news.

Financial Calendar - Indicators

Indicators I Holidays

What are Economic Indicators?

Date	Time	Location	Indicator	Period	Unit	Forecast	Previous	Actual
20-Dec-12	09:00	Switzerland	Trade Balance	November	Mln		2821	2946
	09:00	Germany	Import Prices mm	November	%	-0.3	-0.6	0
	09:00	Germany	Import Prices yy	November	%	0.9	1.5	1.1
	09:00	Germany	Producer Price Index (PPI) m/m	November	%	-0.2	0	-0.1
	11:30	United Kingdom	Retail Sales mm	November	%	0.3	-0.7R	0
	11:30	United Kingdom	Retail Sales yy	November	%	1.5	0.8R	0.9
	15:30	Canada	Retail Sales mm	November	%	0.2	0.2R	0.7
	15:30	United States	GDP final Q3	Qtr3	%	2.8	2.7	3.1
	15:30	United States			k	357	344R	361
	17:00	Euro Zone				-26.85	-26.9	-26.6
	17:00	United States			Mln	4.87	4.76R	5.04
	17:00	United States			%	-0.2	0.3R	-0.2
	17:00	United States	Philadelphia fed manufacturing index	December		-3	-10.7R	8.1
21-Dec-12	09:00	Germany	Gfk Consumer Sentiment	January	%	5.9	5.9	

Philadelphia fed manufacturing index
Survey conducted by the Philadelphia Fed questioning manufacturers in the Third Federal Reserve District on general business conditions

importance: ● high ● medium ● low

How other financial instruments and sentiment move the forex market

In addition to data releases, the forex market can also be moved by financial instruments such as stocks, bonds and commodities, and a savvy trader always keeps one eye on developments in other major financial markets.

A quick look at stocks and stock indices can tell a lot about the market's sentiment, which is very useful information for every trader. Market sentiment refers to how confident investors feel about the markets – the more confident they are, the greater their appetite for risk. Stocks rise when sentiment is good (also known as 'risk appetite'), and fall when sentiment is negative (also known as 'risk aversion').

When gauging market sentiment, investors usually look at stock indices such as the S&P and Nasdaq in the US, the DAX in Germany or the FTSE in the UK. You too can follow or trade any of these indices with easy-forex.

A case-study of positive sentiment moving the forex market

Let's look at what would happen to the EUR/JPY during an economic boom, when market sentiment is positive and risk appetite is high. During a period of economic growth investors tend to feel good about taking on increased risk. One way they can do this is by choosing to borrow money from Japan (which usually keeps very low interest rates) and store these funds in banks abroad where interest rates are higher – in our example, this is the EuroZone. Because they feel safe to take on extra risk which is associated with the euro, they essentially sell the JPY and buy the EUR, aiming to earn a profit. This example explains why we often observe the EUR/JPY rising when economic sentiment is good and investors have an appetite for risk.

This logic can be generalised and applied to many different forex pairs. When we have a positive market sentiment and stock indices rise, investors are buying higher yielding assets, including currencies like the EUR, GBP, AUD, NZD and CAD. Demand for these higher yielding currencies usually causes them to appreciate against the lower yielding and safer ones, which include the JPY, CHF and USD. Positive sentiment and risk appetite can apply upward pressure on numerous USD, CHF and JPY pairs, including EUR/USD, GBP/USD, AUD/USD, EUR/CHF, GBP/CHF, AUD/CHF, GBP/JPY and AUD/JPY, to name a few. If you decide to trade the JPY and CHF crosses, be prepared for big moves, as they are among the more volatile forex pairs.

In contrast, when market sentiment turns negative and stock indices decline, higher yielding and more risky currencies like the EUR, GBP, AUD, NZD and CAD often depreciate in value. Negative market sentiment and risk aversion may be caused by the release of worse-than-expected economic data, geopolitical risk events, or anything that would scare investors off from taking on large risks. For this reason, traders should pay attention to all scheduled data releases relevant to the instrument they are trading.

Correlation between currencies and oil or gold

Correlation is a statistical term describing the relationship between two variables. Professional forex traders have long known that trading currencies requires looking beyond the world of forex, because currencies are moved by many factors - supply and demand, politics, interest rates, economic growth, and so on. More specifically, since economic growth and exports are directly related to a country's domestic industry, it is natural for some currencies to be heavily correlated with prices of the main commodities a country exports or imports.

Highest correlations with gold and oil can be found with the Australian dollar (large gold exporter), and the Canadian dollar (large oil exporter). Another currency that is affected by oil prices but has a weaker correlation is the Japanese yen (large oil importer). Knowing which currency is correlated with which commodity can help you understand and predict certain market movements before they happen, increasing your chances of success.

Gold and the Australian dollar

Trading the Australian dollar (AUD) is very similar to trading gold. As the world's third-largest producer of the precious metal, the Australian dollar and the precious metal are highly correlated – for example, their monthly correlation between 2000 and 2012 was 89%.

During times of market uncertainty such as economic or political troubles, gold, represented by the symbol XAU, serves as a safe haven and a hedge against inflation. As commodities such as gold act as a store of value that is likely to outlast market uncertainty in these troubled times, their price tends to rise. As gold is commonly traded against the USD, the two have a mostly inverse relationship, meaning that a higher gold price generally results in a weaker US dollar and vice versa. When the US dollar depreciates, it becomes cheaper to buy gold. Therefore AUD which is correlated to gold also rises. The AUD is commonly referred to as a commodity currency because of its heavy reliance on the export of metals such as gold.

The Canadian dollar and the Japanese yen

Just like the AUD is affected by the price of gold, the currency of a country like Canada which is a large oil producer tends to be affected by changes in the price of oil. The Canadian dollar (CAD) usually strengthens on increases in the price of oil, and weakens when oil price falls. On the other hand, a country like Japan which is heavily reliant on oil imports benefits when oil is cheap, but is negatively affected when oil prices rise.

Note that correlations can become stronger or weaker with time, and the relationship between AUD/USD & Gold and CAD/JPY & Oil is therefore not always stable. For this reason, as a trader you should always have a sufficiently funded account and be cautious when placing a trade on a currency pair based on recent oil or gold price moves.

Pulling it together

This chapter covered the basics of fundamental analysis and took a look at some other market moving events. It also explained ways you can stay up to date with the latest market-moving events.

At **easy-forex** we make tracking the fundamentals simple for you, by providing all relevant economic data releases in the financial calendar page in our research and analysis section. However, as we live in a dynamic and ever changing world, not all news is scheduled, and market-moving events can happen at any time. **easy-forex** helps you stay informed via an SMS news service, keeping you up to date on breaking news. You can also get our daily and weekly outlooks which give information on both fundamental and technical analysis. You can read the major newsfeeds from Reuters and Market News International on the **easy-forex** platform, and watch daily video news reports.

You have now learned about the basics of how you can use fundamental analysis in your trading. But there's more to learn. Our next chapter deals with technical analysis. Traders often use a combination of both fundamental and technical analysis to help them assess the markets and identify when to place a trade, when to wait, and when to exit.

Need more?

Visit our learn centre or check out our economic indicator definitions

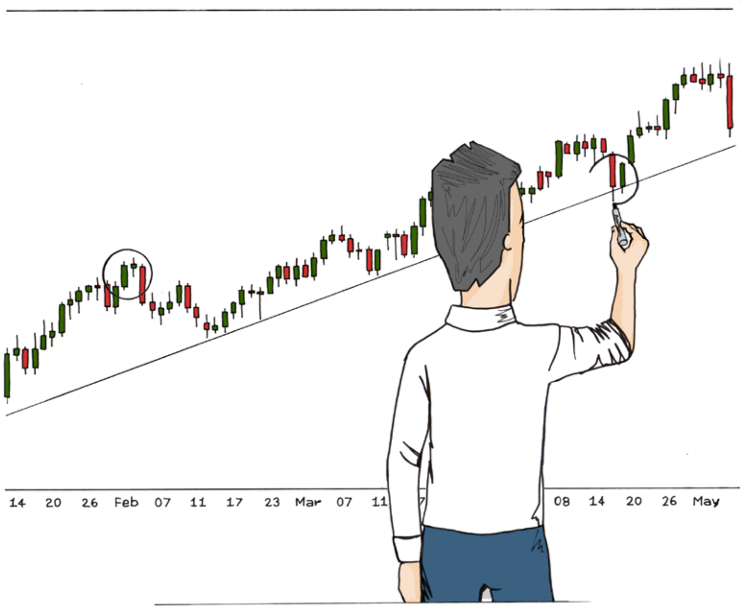
Remember you can also:

- Look up terms in our online glossary
- Read more articles on our blog
- Call a personal account service manager, join us on live chat, contact us at cs@easy-forex.com or post your question/comments on our Facebook page.

Chapter 4 | Technical analysis

Technical analysis is the study of historical price movements by using charts in order to predict future price movements. Charts, and all the various technical analysis indicators that can be applied to them, are essential tools for traders. In its most basic form, technical analysis helps you to identify entry and exit points for your trading.

In this chapter we introduce a few different charts, go through some basic concepts and explain some of the popular indicators. Once you understand some of the more basic concepts of technical analysis you can continue your forex education in the easy-forex learn centre.



Charts

Charts are a major tool in forex trading. A forex chart is a graph representing the movement of market prices during a specific time period. There are many kinds of charts, each of which helps to visually analyse market conditions, identify behavioral patterns, and assess and create forecasts. When traders perform technical analysis, they usually overlay lines on a chart and apply technical indicators to reach conclusions about future price action.

Tell me more

Charts are used by both technical and fundamental analysts. The technical analyst studies the "micro" movements, trying to match the actual price move with known patterns. The fundamental analyst tries to find correlation between the trend seen on the chart and "macro" events, which are usually either political or economic.

Types of charts

Three of the most popular chart types are bar, candlestick and line charts. At easy-forex, you can view all three types, and choose the one that best suits your trading strategy.

Aside from choosing a chart type, when looking at a chart traders also need to select which timeframe they want to analyse. A chart is usually composed of many points or bars or candlesticks, each representing a period of time. In a 30 minute timeframe, the individual point or bar or candlestick shows what happened to the price by plotting the opening, closing, high and/or low price of each 30 minute interval. Timeframes can be chosen and changed by traders, and we'll look at them in more detail later.

Let's take a closer look at each of the different chart types a trader can follow and the benefits of each choice.

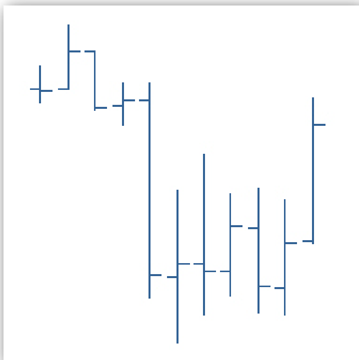
Line chart

This chart type is least informative and line charts are mostly useful for identifying trends. However, this type of chart is the least informative as it only shows the closing price for a series of periods.

Line chart

Bar chart

Bar charts provide traders with four key pieces of information within any timeframe: the opening, closing, high and low prices during each interval. Bar charts can be viewed in many different timeframes, and hence a single bar can summarise price movements over the past minute, over the past month or even further back in time. Different traders use timeframes in various ways, although a good rule of thumb is that the longer the timeframe, the greater its significance, as it accounts for more data and hence better reflects the market's psychology.



Bar chart

Candlestick chart

Candlestick charts are similar to bar charts as they also contain each interval's open, close, low and high prices. The main difference is that the candlestick chart has a body, which represents the range between the opening and the closing prices of a particular timeframe. In this example, when the candle's body is red, it means that the closing price was lower than the opening. When the body is green, it means that the closing price was higher than the opening. Above and below the candlestick's body are the 'wicks'. The top of the wick represents the highest price reached within the interval, and the bottom of the wick represents the lowest price.

Candlestick chart

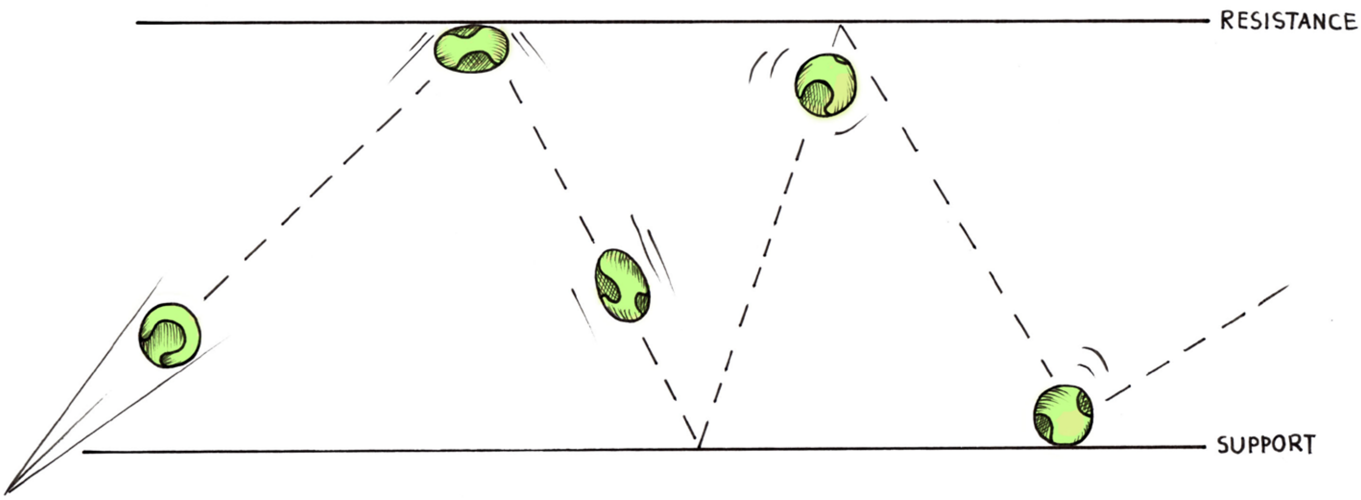
Timeframes

What timeframe should I look at on a chart?

This depends on your trading strategy and how long you like to keep your deals open for. Available timeframe views usually include: tick-by-tick; 1, 5, 15 and 30 minutes; 1, 2 and 4 hours; 1 day and 1 week. A day trader would normally start by looking at a longer timeframe to gauge the long term trend and then move down the scale of time periods to 1 hour, 30 minutes or 5 minutes, to look for entry and exit signals.

Support and resistance how to trade them

Imagine throwing a tennis ball on the floor really hard. It bounces and then hits the ceiling before coming back to the floor and bouncing again. This is analogous to how support and resistance work on a chart; the price is the ball, the support is the floor and the resistance is the ceiling.



Support levels represent 'floors' - areas where buying tends to be strong. If the price falls to a strong support, then sellers in the market are less keen to sell at a cheaper price and buyers are happy to buy at that attractively low level. This drives the price up, or at least stops it from falling any lower. By knowing the support levels, you can identify good buying opportunities, because that's where buyers are supposed to be strong and push the price up. However, if the price falls below a support level, this is also a trade signal. It shows that sellers are still stronger than buyers, and may prompt buyers to close their trades and more traders to sell even more of the traded security.

The next chart shows EUR/USD repeatedly finding support at 1.4000 between June and September, finally breaking below in September, and dropping even lower after that.

Support and resistance

Resistance levels are the opposite of support levels, as they can act as a 'ceiling' to rallies. If the price rises to a strong resistance level, chances are that buyers might be reluctant to buy at these high prices, whereas sellers are more comfortable to sell as they consider their entry price a good one. This dynamic tends to drive the price down, or at least keep it from moving higher. By knowing the resistance levels you can recognise possible selling opportunities.

The reason support and resistance levels exist is because markets remember prices where buyers or sellers tend to cluster. For example, if EUR/USD rises to 1.5000 and then reverses lower, the next time it reaches that price, the market will remember what happened last time, and buyers and sellers will begin positioning themselves for another reversal both knowing what happened last time at 1.5000.

Tell me more

- The more times a support or resistance level has been touched and confirmed, the stronger it is considered to be. As a general rule of thumb, a price level is considered as a support or resistance if it has been tested at least three times. Exceptions can be around numbers such as EUR/USD 1.5000, 1.4900, 1,2000 etc or OILUSD $100, $200 etc which are considered psychological supports and resistances.
- Support and resistance levels found on longer-term time frames are considered stronger and more significant. Start by analysing long-term charts and then move to shorter-term charts.
- If you are trading in the direction of a trend and that trend approaches a resistance or support, a good idea would be to tighten your stop loss to protect your profits in case the price reverses against your trade.
- Once a support level is broken in a downtrend, it often turns into a resistance level in an uptrend (and vice-versa).

Trend lines - how to trade them

'Trend' is a term used to describe prices moving in the same direction over time. When prices are generally rising, this is known as an uptrend, and when they are falling, this is a downtrend. Prices tend to trend only 20-30% of the time, which means that the remaining 70-80% they are trading in a range or without a clear direction. For this reason, it is important to have a clear way of identifying the existence of a trend, or lack thereof.

There is a simple rule traders use to confirm a trend. In an uptrend, we look for two consecutive higher highs and higher lows in an uptrend, and a third higher high confirms the uptrend.

In a downtrend, we look for two consecutive lower lows and lower highs, with a third lower low confirming the downtrend. Start by checking for a trend on a shorter time frame, and once you identify it, run the same check on a longer timeframe. For example, if you confirm a trend on the 30 minute chart, look at the 4 hour chart and also confirm it there. If you get confirmation, go back to the first time frame and look for a good entry point. Remember, the trend is your friend, meaning it is less risky to trade in the direction as the trend than to go against it. For this reason, if you identify an uptrend it is safer to buy, and if you find a downtrend, it is safer to sell.

Traders can place limit orders to buy at the support line

Eventually, the price will stop following the trend and fail to reach a new high or low. It will stall, and then reverse direction. Traders often use another rule to identify trend completions or reversals. During an uptrend, if the price reverses down and dips below the most recent low, then it may be a sign that the uptrend has broken. Similarly, if during a downtrend the price bounces up and rises above the most recent high, the downtrend may have come to an end (see image above).

Drawing a trend line on your chart can help you see the trend and decide when to enter or exit a trade. To draw an uptrend line you need to connect at least three lows. For a downtrend line you need to connect at least three highs.

For a downtrend line you need to connect at least three highs (see next image).

Traders can place limit orders to sell at the resistance line

Tell me more

When using trend lines:

- Draw the lines through the edges of congested or 'busy' areas rather than the extreme high or low points. If a trend line can be drawn using the body rather than the wick of a candle, the body should be used. The extreme points are still important as highs and lows, but are not that useful for trend lines.
- The breaking of a well-established trend line may signal the trend is changing direction, as it shows that the dominant trading crowds have lost their power. Note that a trend line break is only valid if the candlestick closes on the other side of the line.

Trend lines are used in many different ways by different traders. New traders usually open a trade when they see something unusual happen in the market, whereas an experienced trader waits for prices to finish the unusual movement and then opens a trade, knowing that the price will most likely return to its long-term trend.

Popular indicators

We are about to look at a few major indicators that can be used during technical analysis by traders. Each indicator is suitable for different situations, so you need to know which work best under different conditions and base your choice of indicator on your specific needs. Some, like MA and MACD, work best in trending markets, while others such as the RSI are good for identifying trend turning points.

Before choosing an indicator, you should first identify the market environment. The market can be in a range, in a trend, or trading sideways with no clear direction. Once you have completed this quick analysis, you are ready to choose the best indicator for your needs.

A common mistake beginners make is applying the same three or four indicators during all market environments. This tends to produce conflicting signals and makes it hard to correctly identify good entry and exit points.

Moving averages

The chart below shows Moving Averages (MAs) for 20, 50 and 100 days. You can see the MAs generally moving with the price, and the price crossing the MAs when it changes direction. MAs are what we call a lagging indicator, meaning they follow the trend. You can also notice that the longer MA is a lot smoother than the shorter MAs – this is because it averages out more prices and is less sensitive to new prices as they only make up a small part of the average.

There are three types of MAs; the Simple Moving Average (SMA), the Exponential Moving Average (EMA), and the Weighted Moving Average (WMA). The SMA is a straightforward average of the last “x” prices. For example, a 10-day SMA shows the average price of the last 10 days. So if we calculate the average of the last 10 days for every day over a long period of time and we connect the values, the SMA line is created.

The WMA is a weighted moving average where, as we go back in time, weights of each price decrease in arithmetical progression. Although it is a more complex indicator than the SMA, it is also more popular since it puts more weight on current prices.

Another weighted MA is the EMA, also sometimes referred to as the Exponentially Weighted Moving Average (EWMA). In general, the 50 and 200 day EMA are used as signals of long term trends. For example, when the EMA rises it shows the market is bullish and can indicate an uptrend. If the price candle closes on the other side of the EMA line, this can indicate a change in direction of the trend.

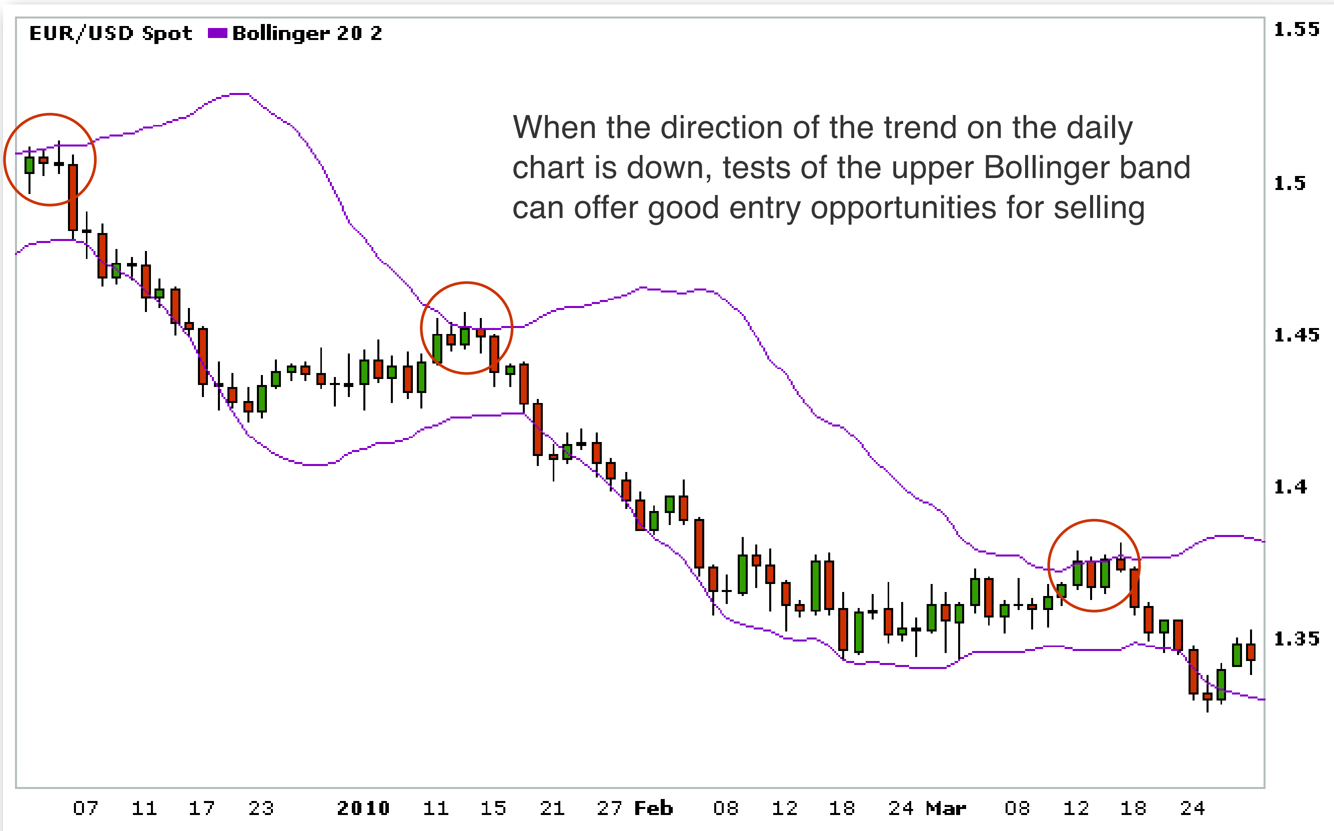
Aside from identifying trends, EMAs are also used to signal trading opportunities. You could plot two EMAs with a different number of periods on the same chart, for example a 12-period EMA and a 26-period EMA, and look out for the lines crossing - depending on whether the shorter period EMA is heading above or below the longer period EMA, it can be seen as a signal to buy or sell, respectively. Note that when the EMA goes flat and only fluctuates a little, it identifies a trendless market, and one should not trade using indicators suited for trending markets.

Bollinger bands

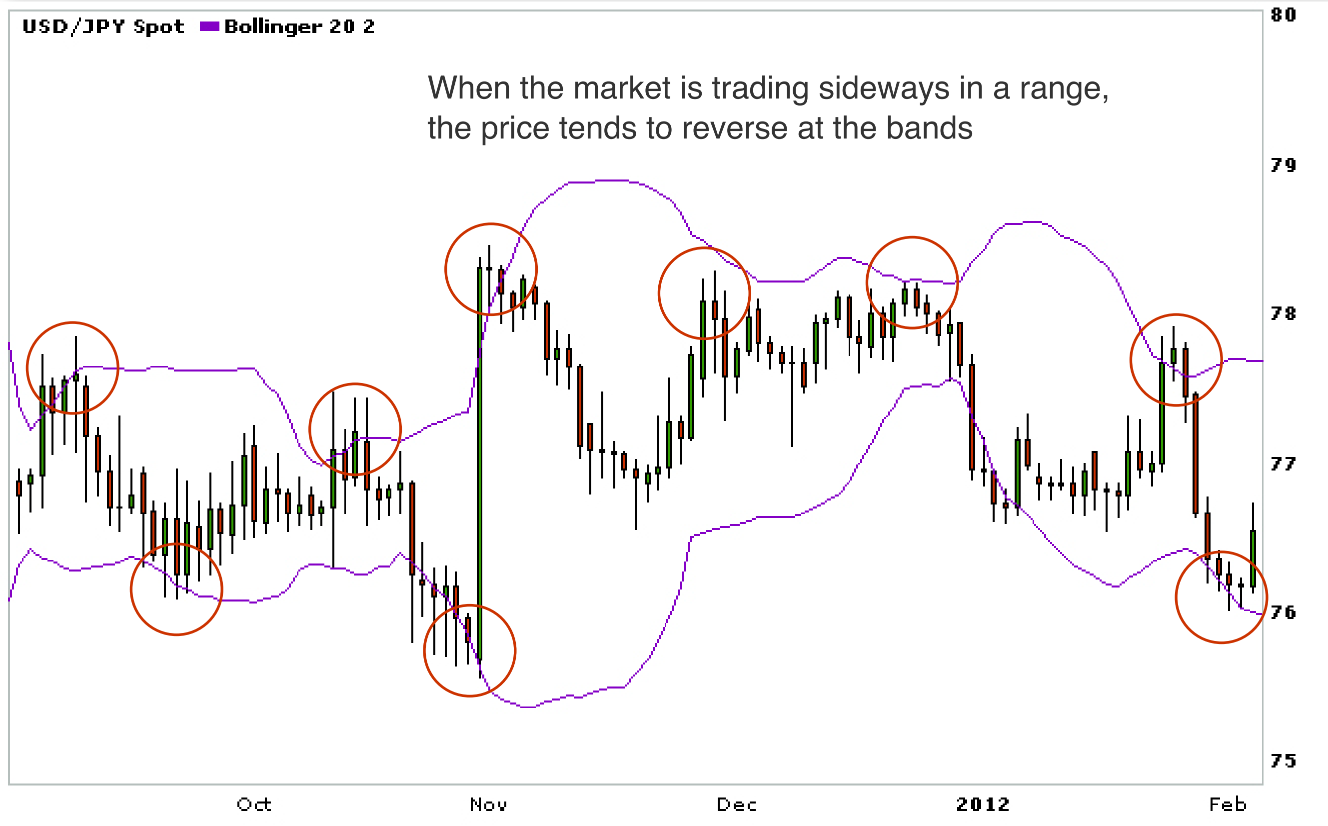
Bollinger bands is a technical analysis tool that helps measure volatility, and are made up of two lines moving around an exponential moving average. The lines above and below the EMA form the Bollinger bands and are designed so that 95% of prices fall within the bands. The bands widen when market volatility increases and narrow when it decreases. This is a useful feature because if the average price move is 50 pips in a quiet market and expands to 100 pips in a volatile market, you will need to adjust your trading to account for these bigger moves. The price that you choose to enter the market will move further away from the market in volatile times, giving a better entry that is adjusted to the current situation rather than past activity. Furthermore,during times of high volatility when bands are wide, you will need to place your stop loss further away from your entry point. The opposite is true for times of low volatility where the bands are narrow, and the stop loss may be placed closer to the entry point. Remember, as always, the Bollinger bands are best used in combination with other indicators to avoid false signals.

Bollinger bands work well in both ranging and trending markets. In ranging markets, they may forecast reversals, as prices are likely to bounce off the upper and lower bands. In trending markets, after we identify the trend direction on the daily chart, we can look to sell when the price touches the upper Bollinger Band if the market is in a downtrend, and look to buy when the price touches the lower Bollinger Band if the market is in an uptrend.

Trending market - EURUSD daily chart



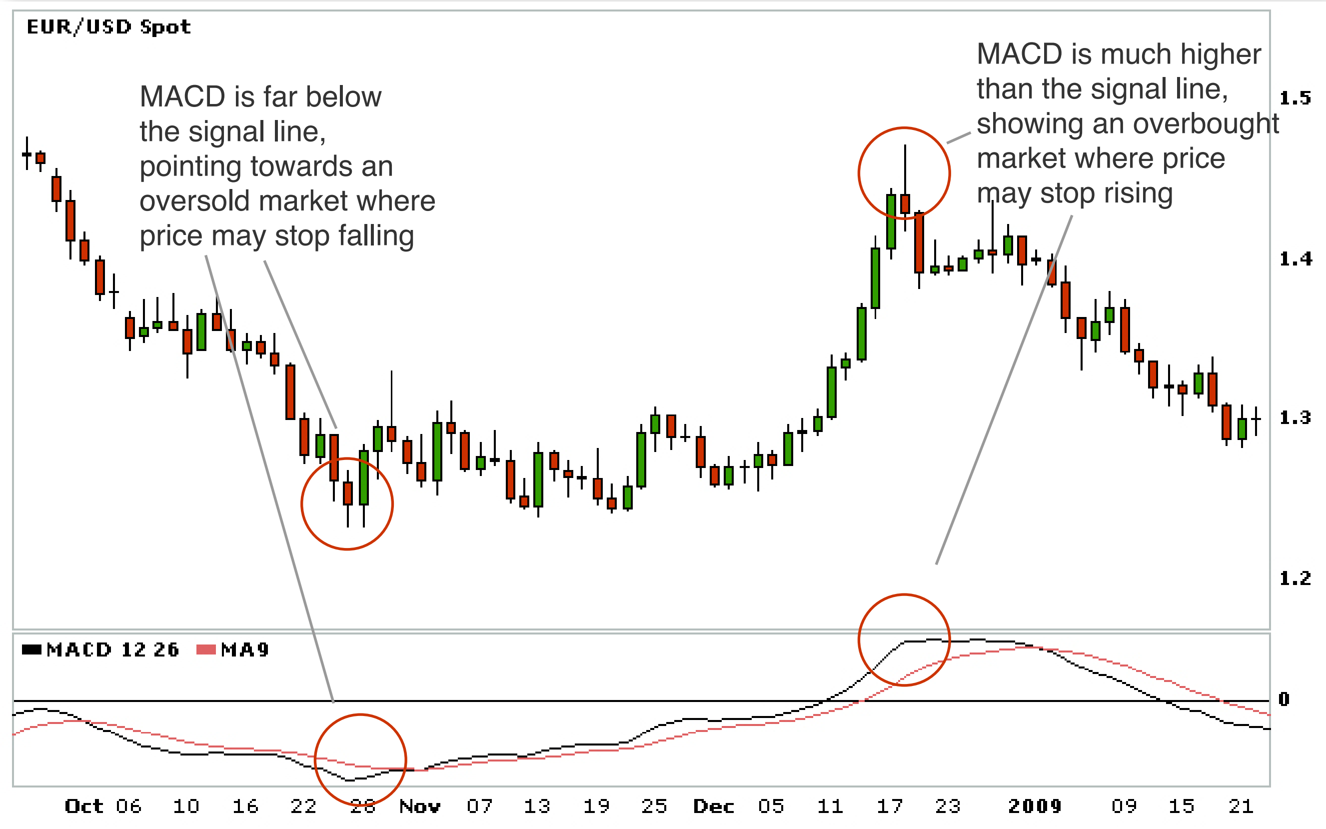
Ranging market - reversals at the bands



MACD

MACD stands for Moving Average Convergence Divergence, and is an indicator designed to detect momentum change and signal overbought or oversold conditions. It is made up of two parameters: the 'MACD line' showing the difference between 12 and 26 period EMA, and the 'signal line' showing the nine day EMA of the MACD line. Sometimes it also contains a histogram which gives a visual representation of the difference between the MACD line and the signal line.

Overbought and oversold signals are generated when the MACD line moves far above or far below the signal line - the higher above the signal line the MACD line is, the more overbought the currency, the lower below the signal line, the more oversold the instrument.



Aside from showing overbought and oversold conditions, MACD also gives signals when the signal line and the MACD lines cross over each other. The MACD line crossing above the signal line is a buy signal, and crossing below is a sell signal.

Finally, you can also get important information by looking at the slope of the MACD line relative to the price trend. Most often, they will move up or down in tandem, but occasionally they will either converge towards each other or diverge away from one another. When you see the price moving higher while the MACD is moving lower, this is a signal that the trend is weakening, and that we may even see a trend reversal soon. The reverse also holds that when the price moves lower while the MACD moves higher, then the signal is that the trend is weakening.

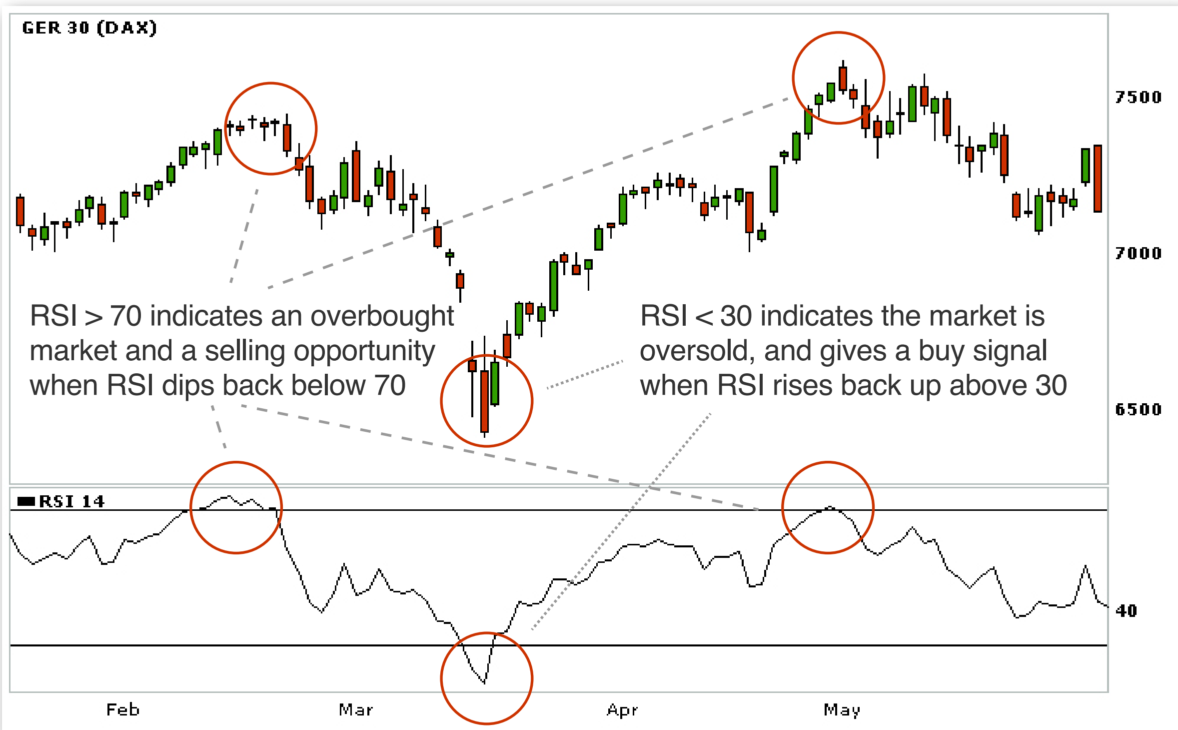
RSI

The RSI or Relative Strength Index is an indicator that measures the strength of all upward movements against the strength of all downward movements, and identifies turning points by indicating overbought and oversold levels. In trending markets, it can detect momentum change; while in ranging markets, it can spot overbought or oversold conditions.

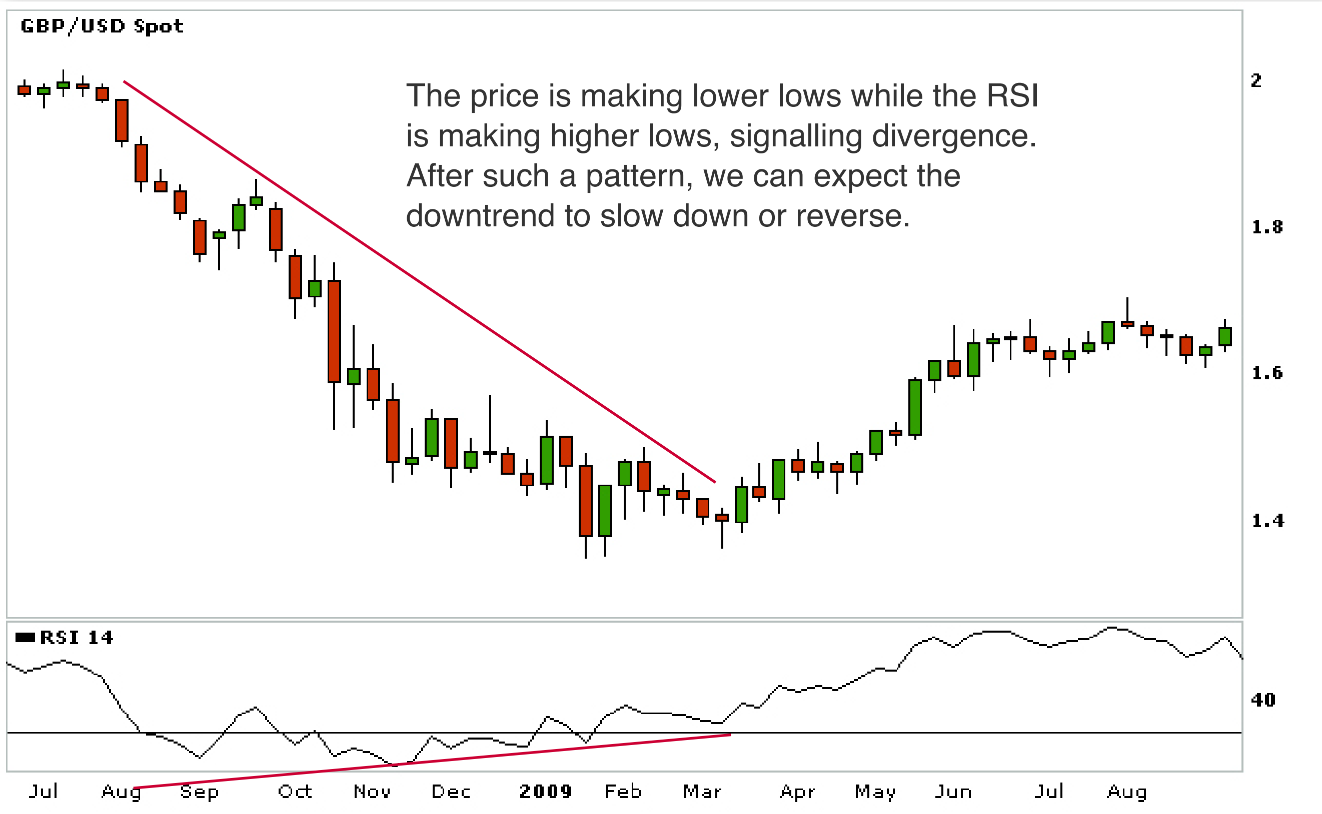
The RSI gives a reading between 0 and 100. If it is greater than 50, the upward force is stronger than the downward force, and if it is below 50, the downward force exceeds the upward force. For us to derive any signal from the RSI though, we normally look for readings greater than 70 or 80, or below 30 or 20. An RSI above 70 indicates that the instrument we are looking at is overbought, pointing to a potential sell opportunity. A more conservative trader may wait for the RSI to exceed 80 before selling, as this is considered an even stronger overbought signal. By the same logic, the opposite is true when the RSI is low - an RSI below 30 indicates an oversold market and gives a potential buy signal, while an RSI below 20 gives an even stronger buy signal.

For example, if RSI is rising above 70, which is your preferred RSI reference level, you may choose to sell the instrument when the price turns back down below the reference level of 70, placing your stop loss just above the most recent high. Note that a common mistake is to sell the instrument as soon as the RSI reaches your overbought level, and not wait for it to move back down. This can be a costly mistake as the RSI can continue to move up with the price, so always wait for a move lower before getting in. Again, the exact opposite is true if prices are moving in the other direction; when the RSI reaches or passes below your oversold level and then rises back up above it, this can be considered a buy signal and you may choose to buy the instrument, with a stop loss below the most recent low.

Most traders use 70 as their overbought reference level and 30 as their oversold level, and the most common parameter setting for the RSI is period 14. However, whatever levels you use in your trading, you should still stick to the rules we just mentioned, waiting for the RSI to come out of the extreme zones before acting.



Another signal that can be derived from the RSI is based on the way it moves relative to the instrument price. If you see that the price is near a support or a resistance, and the RSI starts to diverge from the trend and move in the opposite direction, we can expect the trend to weaken, or perhaps even reverse.



Pulling it together

This chapter covered the basics of technical analysis. Once you are comfortable with the basics, you can move on to more advanced technical analysis, using additional indicators and oscillators. You can expect to come across terms like Fibonacci extension and retracement, SAR, ADX, Commodity Channel Index, and more. Don't be put off by the technical names once they are applied in practice they are not nearly so daunting. And remember, with our advanced charting software, you can try out these and many more technical indicators on the instrument of your choice and work your way towards making more informed trading decisions!

Need more?

Remember you can also:

- Look up terms in our online glossary
- Find out more about technical analysis in our learn centre or view our standard charts
- Call a personal account service manager, join us on live chat, contact us at cs@easy-forex.com or post your question/comments on our Facebook page.

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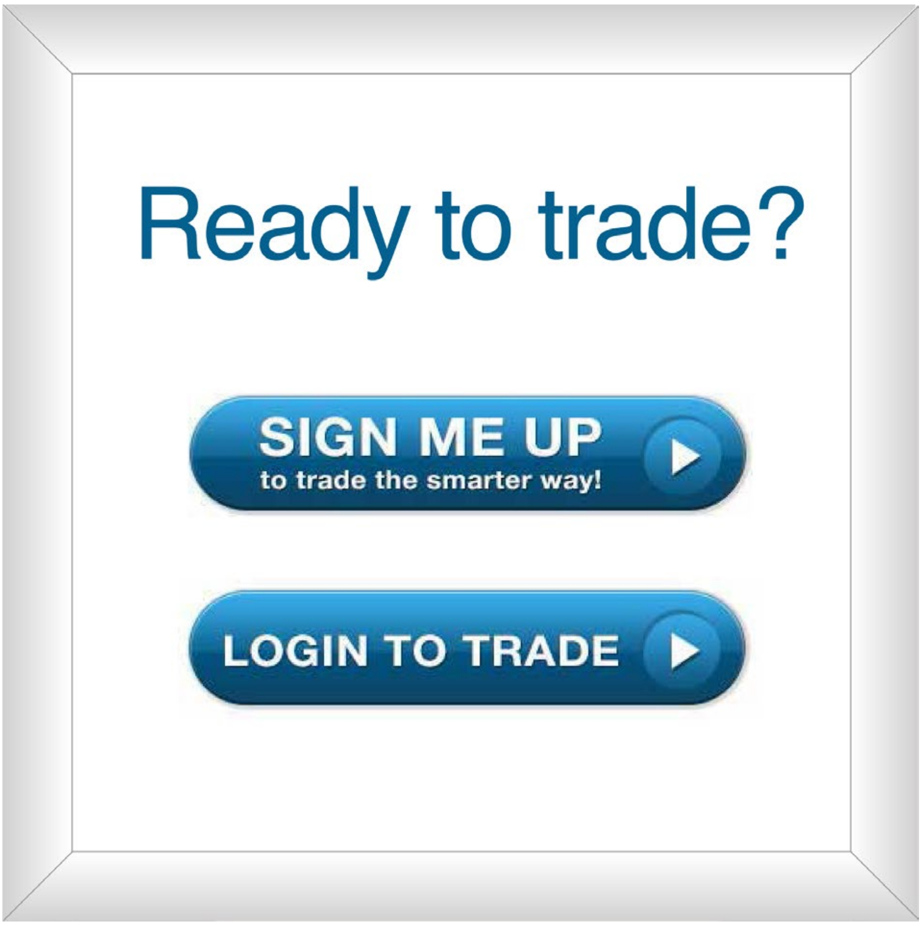
- View trend lines, draw support and resistance lines and insert Fibonacci retracements
- Choose from a variety of chart styles including line, bar and candlestick
- Zoom in to magnify areas to scrutinise or zoom out for a wider perspective.



Chapter 5 | Pulling it all together

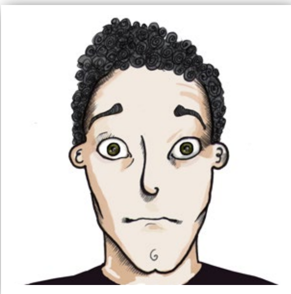
Emotional trading - fear & hope

It goes without saying that understanding the nature of the forex market, knowing how to apply fundamental and technical analyses, and being able to assess the direction of a trend are necessary skills for every trader.

However, one of the most important, yet also most overlooked aspects of trading is related to emotions. Successful traders are aware of their emotions while trading and have learnt how to be disciplined and make rational rather than emotional decisions.

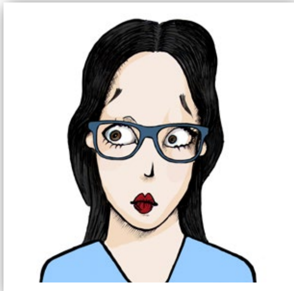
The two emotions that can cause most damage are fear and hope. Fear, which usually creeps up on traders while in profit, can make them doubt the likelihood of taking their initial desired profit amount. This may push them into getting out of a trade too early and realise a much smaller profit than initially planned. It may also prevent them from taking advantage of a good trading opportunity. Hope, which creeps up when a trade is losing, can cause the trader to hold onto a poor trade for far too long.

Small profits and larger losses are the last thing we want to see in our trading accounts, so why do we do it? If you can relate to what you have just read about emotional trading, read on as we look at a few examples when emotions lead to bad trading decisions and assess how we can fix it.



Alex

Alex's two previous trades closed with a loss, and this is weighing on his mind. He is afraid that the next position he takes will result in a loss too. Because of his fear of loss, he delays placing another trade when his methodology tells him to do so and waits for extra confirmation that his idea is okay, at which point it is too late. His hesitation causes him to miss a perfectly good entry opportunity.



Anna

Anna opens a trade with a take profit amount of $1,000, and the trade goes into profit. It jumps from $200 to $550 to $750, and Anna continues waiting for her $1,000 target. Because prices don't usually move in a straight line, the price temporarily reverses, bringing her unrealised profit down to $200. When Anna sees her profit fall, she starts to worry that she will miss her chance of taking any profit at all, and this fear becomes intensified as the profit drops to only $50. She closes her trade the moment she sees it back up at $200. The emotion of fear causes her to take a much smaller profit than what she initially targeted. In this example, had she waited another 10 minutes, the price would have continued moving in her favour and her deal would have closed with her target profit of $1,000.

Mark

Mark sees a potential opportunity and opens a trade, but it quickly turns against him. As he didn't plan to lose his margin so quickly, he decides to wait for some time, hoping that the market will move back in his favour. He sees the loss on the trade grow from -$100 to -$400 to -$850 in minutes, approaching his margin amount of $1,000, and because he doesn't want to take this loss, he quickly increases the margin to $2,000. He thinks that if he keeps his stop loss a safe distance out, it is just a matter of time before the price turns around and he closes the trade at zero. After some waiting, his loss shrinks to -$300 and then -$150, and he continues watching the trade for a chance to close with zero losses. Unfortunately, the market moves against him again and he sees the loss at -$450, and then later at -$900. At this point, the hope of avoiding a loss completely controls his trading decisions; he may move his stop loss even further out so that the market does not take him out, or he may ignore the trade hoping that it will get back to at least break-even. What was supposed to be a day-trade turns into a position trade of a few days, and may even become a long-term 'buy and hold' strategy, with Mark unable to discern the right time to close the deal. After a lot of waiting and hoping, the trade closes with a -$3,000 loss because he added even more money to his margin in the hope of saving the trade.

Plan your trade and trade your plan

Had Alex demo-tested his trading strategy until he was happy with it and had he been aware that even a winning strategy can sometimes have a series of losing trades, he may have been more confident and taken advantage of the good trade set-up that appeared. Similarly, had Anna known that her impulse to close the deal is emotional rather than rational and probably not a good idea, she would have ended up with a bigger profit. Lastly, if Mark stuck to his planned maximum loss of $1,000, he could have afforded to place three losing trades instead of just one, and chances are, some of his trades would have been profitable and boosted his account!

So, we can see these traders are making mistakes by acting on their emotions of fear and hope. Does any of the above sound familiar?

The good news

There are ways in which traders can put their emotions aside and avoid the above mistakes. In order to avoid missing trading opportunities, you should have a strategy which gives clear entry and exit signals when a number of pre-defined factors coincide. Realise that just as some trades will win, some will lose, and it is no cause to panic or doubt a tried and tested strategy. Test your strategy extensively on a demo account or a live account with smaller deals, until you are confident to follow it without question.

The next step is to enter and exit the market every time the pre-defined signals arise, irrespective of the performance of your last few trades, and irrespective of your ‘feelings’ about what the right move is. Every successful trader realises that no matter what trading strategy they use, each and every losing trade might turn in their favour, or might hit their stop loss. The stop loss is in place to minimise potential losses, and should remain in place no matter what. It is the trade strategy that should dictate where the target profit and loss levels are and not the trader’s fear or hope.

The easy-forex advantage

One of the great benefits of trading on the **easy-forex** platforms is that you can set stop loss and take profit limits that allow you to take some of the emotion out of trading. Plan and test your strategy, set your limits and keep your goal in sight.

A trading plan in five simple steps

1. Define your trading strategy

A consistently successful trader always has a defined trading method. Guessing or going by your gut doesn't always work. Without a defined trading method there is no way for you to know what constitutes a buy or a sell signal, or to even consistently identify the trend. Decide what your method is, which technical indicators or other tools (e.g. candlestick analysis, etc.) you will use, what your buy or sell signals are, and finally define how you plan to exit a position, with a take profit and a stop loss in place.

2. Be disciplined

Once you have defined a method or a system that works for you, follow it. It is important to stick to the levels you selected for your stop loss and your take profit, always targeting a larger profit than the amount you are willing to lose. Adding to your margin and moving your stop loss further is likely to result in larger losses. Your stop loss should be placed at a level where you can accept that the market has moved against you and you are willing to take the loss.

3. Be realistic with your expectations

The goal for every trader in their first year of trading should simply be to stay in the game. You can't experience above-average returns without exposing yourself to above-average risk and as a new trader you should not take on more risk. Remember, you should only risk what you can afford to lose. So be realistic with the stop loss and take profit limits you set.

4. Be patient

Markets trend only 20-30% of the time, and the rest of the time they are not moving in one clear direction. This means that you need to be patient, and wait for trends to form and give you good trading opportunities. For example, if you're a medium-term trader, there will usually be only two or three good trading moves in the market in any given week. All too often, because trading can be so exciting, new traders want to trade all the time. But this means you are probably over-trading, and doing it at a much lower standard too. Patience is important, so be prepared to wait and stick to your trading strategy.

5. Manage your money effectively

This is a very important point, and it explains why many traders lose the balance in their account after just a few trades. While new traders may risk half or even their entire free balance on one trade, experienced traders tend to limit their risk on any given position to 1- 5% of their portfolio. If we apply this rule to ourselves, then for every $5,000 we have in our trading account, we can risk only $50-$250 on any one trade. If you have a small trading account, then trade small, or top it up so that you can trade the deal sizes you want.

And remember: plan your trade, and trade your plan. Always!

easy-forex and you

Since 2003, we have guided many new traders like yourself into the exciting world of forex trading. In our experience, education and information are key to successful trading. When people fail, it's usually because they risk too much too early, before they understand what to do. We encourage and help you get the information and understanding you need before you start to trade. This way you will have the right tools, the right knowledge, and the right attitude to trading.