

**FOREX** or **Foreign Exchange market** kick-start in 5 simple steps  
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## 1. The **FOREX**

Those who have read nothing about **FOREX** yet will find this eBook to be a short and useful opening which will allow you to dive right in that big fish-bowl called the **Foreign Exchange market**, with a few guidelines, basic facts and a lexicon.

### 1a. **Foreign Exchange market** introduction

The **FOREX**, or **Foreign Exchange market**, is the main monetary market on the globe, growing every day with more than \$3 trillion shifting hands on a daily basic, With a limitless amount of contracts and consumers, no wonder it's called "the ideal market". We all used **FOREX** before, if we traveled to another region and purchased their coinage, or ordered a paperback via the internet.

Also large intercontinental conglomerates which do business in many nations find value in keeping their cash assets in a mixture of nations, and holding their means in a variety of ways. For instance, a US business may have a fraction of its working assets in US dollars, but if it does a rather large portion of business in Europe it will probably also find it advantageous to keep a cut of its money in European banks in Euros. There is revenue to be made in investment and conjecture in the currency or **FOREX** markets as many private investors have found out over the years. The **FOREX** is the most liquid market in the world with the aptitude to create immediate deals without the jeopardy of being wedged with futile goods.

### 1b. **FOREX** background and history

When trading just began, countries would trade with each other using the bargain structure. If one country was in need for wool but had lumber, they would trade one product for the other. This was wholesome trading. This type of financial system has many confines, yet it has served mankind well for a lot of centuries.

The **foreign currency trading** has instigated in 1973 and was built over the ruins of the Bretton-Woods agreement which used gold to support each currency (and was later neglected in 1971). This turned the **FOREX** into an open market for all, based on supply and demand. Initially the main players were the exchange patrons such as: importers, exporters, overseas companies etc. Nowadays the **Foreign Exchange market** is comprised of over 97% private investors and brokers, a fact which made it unfeasible for central banks, commercial banks and hedgers (large mutual fund companies which control enormous amounts of money and are able to influence the value of a currency through assumption) to manipulate the market for the long term. During 2002-2003 the central bank of Japan tried to strengthen the USD in opposition to the JPY by buying USA debenture in hope to egg on the weak export sector. Had they succeeded the

Japanese could have gained more sales in the USA, yet in actual fact the interference lasted merely a couple of hours and didn't stop the JPY's intensification.

The main cities in which trades occur are London, New York and Tokyo. This covers a 24-hour period. When Asian trading ends, European trading begins, and when European trading ends, American trading opens. When that one ends, it is time for Asian trading to open again, and ceaselessly it goes.

### 1c. How do I trade in the **FOREX** market?

In **FOREX** you are able to buy and sell currencies through a broker. Buying one currency is in fact selling other currency. The lost or profit on **Foreign Exchange market** trading depends on the foreign currency movements. Due to the fact the **foreign currency exchange** is a ratio between two currencies; they will always come in pairs (I.e. USD/JPY EUR/USD and etc). Therefore, if we believe that the USD will grow stronger from the CAD, we'll sell our CAD in favor of retaining USD. Remember, currencies always come in pairs, there are common mistakes in the different media such as saying: "The CAD/USD ratio stands on 4.41". There are two mistakes in that saying;

1. Currency ratio will always show in 5 digits (i.e. 4.4105 instead of 4.41), Investors generate most of their revenue from out of the movements in front of the decimal point.

Each point is counted from right to left, and thus saying that the USD/CAD ratio had increased 100 points means that the ratio moved from 4.4105 to 4.4205.

2. When listing currency pairs, the base (leading) currency will forever be written first to the counter/quote (weaker) currency. The CAD will always be lead by the USA so by saying the CAD/USD=4.4105 is actually saying that 1 CAD=4.4105 USD, which is wrong.

**Accuracy** is the keyword in **FOREX**, a typical deal sums up in between 2-5 seconds! So it's important to be precise when making a contract through your broker.

**Currency shortcuts:**

- USD (U.S. dollars)
- GBP (United Kingdom pounds)
- JPY (Japanese yen)
- CAD (Canadian dollars)
- EUR (European euros)
- AUD (Australian dollars)
- CHF (Swiss francs)
- CNY (China Yuan)
- CZK (Czech koruna)
- HKD (Hong Kong dollar)
- HUF (Hungarian Forint)
- ILS (New Israeli Shekel)
- INR (Indian Rupee)
- KRW (Korean Won)
- MXN (Mexican Peso)
- PLN (Polish Zloty)
- SGD (Singapore dollar)
- ZAR (South African Rand)
- THB (Thai Baht)

London is the number one city in the world as far as **FOREX** is concerned, a fact which puts the GBP in the lead until not so long ago. At the present time the EUR leads all currency. The US dollar is the most frequently traded currency, drawn in in almost 90% of all trades. The Euro follows with 38% of all trades, followed by the yen (20% of all trades and the pound (17% of all trades). It is vital to emphasize the fact that the leading currency has nothing to do with the currency ratio; it's a stable agreement by the commercial banks, which goes to ease communication and make things easier for the investors and brokers.

<b>Base currency</b>	<b>Counter currency</b>
EUR	GBP,JPY,USD,ILS
GBP	ILS,JPY,USD
USD	CAD, CHF, ILS, JPY

## 2. FOREX trading formations

### 2a. Leverage

Leverage is a professional expression which describes the aptitudes of the liquid source, broker, company or a bank to offer credit to his clients. on the whole, leverage is the relation between the money you deposit in your account (Margin) to the actual value; with this system the investor doesn't need to invest mammoth amounts of money to start a contract. I.e. using \$1,000 to buy a **FOREX** lot (contract) with a \$100,000 value, this means the trade has a leverage of 100 to one. This amount of leverage allows an investor to make good profits very quickly. But always remember, with the chance of high profits also comes high danger.

### 2b. Spot Market

This is the essential **foreign currency exchange** trade agreement for buying and selling currencies which is usually for settlement within 2 business days. It is also known as the value date. "Spot day" formed due to the fact that it used to take two business days to transfer currencies between two countries.

The exchange rate, which used to be set to the day of the currency transfer, is based on the foreign exchange rate for that day and the difference between the interests for two business days. Nowadays, import and export demands for physical money is very low and most of the investors and brokers on the **FOREX** platform carry out spot deals/contracts which are essentially deals without any delivery which expire after two business days.

Conscious to the fact that a large of amount investors wishes to hold a deal for more than a couple of days, most broker companies use an automatic "roll-over" for a contract, with no extra charges. Therefore the investor has a possibility of holding a contract for more than two days and for even as long as a whole year.

### 3. Analysis and forecasting the [FOREX](#)

#### 3a. Analyzing the **foreign exchange market**

Among traders there are two common systems for trading **FOREX** - the fundamental and the technical. The fundamental method stands is based on both political and economic issues to help the decision making process, using past economic data which as effect over the currency or over the country where that currency is traded. The technical system id about trading based on charts and on attempting to forecast where prices are going by examination of historical price movement. Most short-term expert traders and brokers use this system.

There is an endless quarrel among the two sides of this barrier and it has at all times been a complicated one, which requires acquaintance and grouping of both systems. The fundamental analysts mainly stress commercial banks and hedgers meetings, employment against unemployment data, and interests and inflationary measures. On the other hand, traders who use the technical system identify support and resistance points, trends and alteration.

**Bear in mind, neither of the systems is a bullet-proof formula. The best way to go by is to merge the two.**

#### 3b. The fundamental approach

The fundamental approach claims that dissimilarities between values of currencies derive from the daily news. Changes in gross domestic product growth, inflation, interest rates, budget and tirade deficits, hedge founds markets, surpluses and other economic conditions will cause changes in currency values. For this reason investors and traders follow the news very strictly. There are 24-hour cable news channels and many web sites dedicated to news for currency traders. From those characteristics they analyses changes in supply and demand requests.

The government has a big power on the [FOREX](#) market; through their central bank the government can stand in the way of the market and interfere in a direct or indirect way in purpose to prevent their local currency from unwanted movement. Usually the government can always affect the market in the short-term.

There are 3 ways to examine the **foreign currency exchange** through the macro economy. From each of them you can come to a conclusion about the future of a local currency:

**1. The product.** The product represents the value of a year's production, or "the crude product" to be more accurate (GDP). The GDP includes all the financial performances of the local companies in crude products terms. Any influence on those components can affect the local currency rate.

**2. Payment balance.** Payment balance assumes the currency ratio is in equilibrium. A country that suffers from deficit may also suffer from the loss of balance in the currency that is in her possession and in result its local currency rate will begin taking a downward movement. As the local currency drops it keeps increasing the attraction of export products and raises the import prices.

**3. Interests.** A raise or a decrease of one currency against the other has to be counterbalanced by alterations to the interest differences between the two of them. I.e. if the interest in the USA grew higher than the interest in Japan, the USD would get stronger against the JPY.

Currencies with high interest enjoy an increase in value. As it happens, this increase derives from fund movements to the market and from the strengthening of the local currency.

A central bank can get in the way of the financial market by raising or lowering the interest rate, for the purpose of matching the interest to the market but also for affecting the inflation.

Therefore, shaping the interest is deemed one of the major occurrences in **the foreign currency exchange market.**

### 3c. The Market and forecasting

Fundamental analysis is essential for the **FOREX** dynamics and contains the orientation and forecasting rudiments. The forecasts are fashioned based on economic measures - figures which don't have the ability to route the currency course.

#### **Forecasting is the market psychology.**

In the year 2000 the EUR got weaker against the USD despite the positive information in the EUR coalition, as a result of the market momentum that prefer investing in the USD due to its growth, the lack of inflation and forecasting of its interest increase in the USA.

### 3d. Indicators

The commercial market is inclined by several economic records which together produce a list of pointers that influence the **FOREX**, such as:

- Producer price index (PPI)
- Consumer price index (CPI)
- Gross domestic product (GDP)
- Trade balance and current account
- Employment report
- Payrolls
- Consumer confidence
- Durable goods orders
- Retail sales

### 3e. The Technical approach

The technical approach is a central part of daily trading in **FOREX** and has more recompenses than the fundamental one. For instance, in lack of economy information you can trade in a technical formation according to known limits or predictable market trends. The technical approach basically prevent the trader any emotional interfering or lack of confidence in relevant economic information, most successful traders use the technical approach.

Charles Henry Dow, originator of the “DOW JONES”, came to the conclusion that the market always moves in two lines - one above the market and the other beneath it. The upper line is called “the resistance line” and the lower “the support line”. In technical analysis investors identify those lines. And if a currency rate breaks one of those lines it is a flashing sign that it will keep moving in the same direction of the breakout and that this is the time to invest.

A trend defines as one when, in case of bullish, there are a couple of ebb-points headed up and two peak points moving up. In case of bearish, there are a couple of peak points moving down and two ebb points moving down. When one of those points breaks it means there is a trend movement in that bearing, and it is almost always suggested to invest in favor of the trend direction.

### 3f. Candlesticks

Candlesticks were invented in Japan. The candles are sorted by short periods of time and characterize a few data: Daily peak, daily low, opening point and closing point.

The candlestick chart is the most practical way to gauge the sentiments of other traders. Candlesticks hold the same data as a normal bar chart but stress the connection between opening and closing prices. The narrow stick represents the variety of prices traded during the phase (high to low) while the tinted part of the candle represents the gap between the opening point to the closing point in a specific time frame and is called “the body” (If the close is higher than the open - the mid-section is hollow or shaded blue/green and If the open is higher than the close - the mid-section is filled in or shaded red). The biggest advantage in candlesticks is the ability to easily spot trend faults and setback signals that may not be observable on a normal bar chart. While candlesticks may present practical indicators as to short-term direction, trading by means of candlestick signals alone is not clever nor recommended.

### 3g. Relative strength index (RSI)

These bar charts calculate the strength of the bullish days against the bearish days in an exact time frame. This tool is called an “oscillator”, and its aim is to spot the power level of a trend. The RSI does not come to signal you about a trend – it goes to validate it.

When you see a breakout trend you can check the RSI to see if your forecast is successful. The RSI goes to help the investor in the decision making process.

The RSI can also show divergences between itself and the market trend, what you can view as a warning sign that the trend doesn't have a momentum and it's a risk to invest and this way the RSI avoids slip-ups. Investing when the market and the RSI correspond regarding a trend is wise since the chances of profit are high.

### 3h. Fibonacci and the [FOREX](#) Market

Fibonacci was a bright mathematician who wrote a number of books. His father was Guilielmo, of the Bonacci family. Because of his father's work as a diplomat, Fibonacci was brought up in North Africa, where he learned bookkeeping and mathematics. His most well known discovery was the sequence 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, etc. Basically each number in the sequence is the sum of the two numbers before it. The ratio between the numbers in an upper movement come close to 61.8%, when we inspect the relation connecting figures between a subsequent number when skipping of one number forward. I.e. the ratio 5 to 13 aspires to 38%, those ratios spotted in the nature by Fibonacci in snails, shells, between the middle finger and the arm, patterns of leaves, grass and flowers, etc. As a result of that fact investors took on that system. The FOREX is a liquid market and so in any chart, you will see many twists, as cost advances and repeats and will frequently retrace in Fibonacci proportions, and move ahead in Fibonacci proportions, not any time and not precise by the inch but often and in very comparable

measures. Fibonacci lines are one of the most widespread analysis methods amid investors. The system states that each trend goes through changes at some points and that the goal is to predict when precisely these adjustments will occur.

The Fibonacci line for the trend is long-drawn-out all through the width of a chart and generates three options for trend alterations. Each level is a certain percentage from the trend sum. The three levels are 61.8%, 50% and 38.2%. There are two possibilities for an uplifting breakout on each level, and for the progress or reversal back to the trend. On any Fibonacci level, if there is a setback of the change back to the trend, we will turn to the candlestick indicator for confirmation. Expert traders and brokers linger for a couple of candlestick indicators before deciding to invest in a certain trend movement.

To sum up, the technical approach allows us to trade with no emotional involvement. In hunt for chances like main level breakouts you can gain a lot of income by neutralizing the risk that comes alongside trading. There is a physiologic aspect due to the fact that the majority of the market is comprised of chart readers. The more investors you have reading the same chart, the more meaningful the movement breakout becomes.

#### 4. Rookie mistakes and how to avoid them

We are prone to make mistakes in any new field we take on; yet making mistakes can be a normal part of progression. When educating yourself on to invest in **FOREX**, mistakes can lead to a great loss of income and are in times too costly. An excellent investor will recognize the market he uses. Whether you are fresh or knowledgeable, you can still do wrong. There are widespread slip-ups which many traders and investors experience when trading on the **FOREX** market. With a little research, you can learn how to keep away from these no-brainer **FOREX** trader mistakes and move on.

Using excess margin when trading or investing on the **FOREX** market may cause the loss of money. Margin is the use of borrowed money to pay for securities. While it is correct that using margins can aid in making additional cash, it can also dramatically increase your losses. When fresh investors look at margins as “free cash”, they are in fact prone to lose a lot more. Margins are not free money and using them often can lead to the creation of more liability than income. You would never acquire stocks using your credit card, so you would not use margins to trade currency. When investors use margins on the **FOREX** market, it requires them having to monitor their investments far more strictly than when margins are not used. Margins should never be used if the investor does not have the experience or time to strongly monitor his or her trades.

An additional frequent, yet precious mistake is when investors buy and trade on speculative information. This is one of the most widespread blunders, even with more skilled traders. It is easy to be tempted into buying or trading currency or even stocks when you eavesdrop on someone talking about “a big thing coming up”. At times this can help, sure; and yet customarily, it will lead to losses. Do not be tricked into investing and trading based on tips you have heard or read about on TV or on the net. If you take notice of about a trade which appeals to you, then your rule to go by should be doing some research and talking to your broker before trading or investing. Getting a second opinion can also be beneficial before buying, selling or trading any form of currency.

To not understand how the **foreign exchange market** operates is yet another great mistake those newbie traders and investors possibly will make. Becoming familiar with the jargon of **FOREX** is fundamental for new traders. There are tutorials and free demos extensively accessible on the Internet, which grant traders and investors the opportunity to learn how to use the **FOREX** market to their own gain. In addition, it is wise to choose an experienced broker who can assist you in carrying out actions. These brokers should know everything about the **FOREX** market and can help traders and investor make clever choices. Find a broker that is tied with a good financial institution and that has experience in **FOREX**.

Also, one more common error is when traders and investors buy or sell when the charge on currency is inexpensive. From time to time this is a wise move - but just since the rate is low, does not mean that it will yield profits for the investor. Rather than choosing a currency to buy or trade, it is best to inspect all factors which have an effect on the exchange rate and look at the trends and history. Avoid buying or selling currency simply because the rate is short. As a rule, there is a divergent explanation as for why these rates are low. Investigate the trends of the currency and realize which the ones who make the best profit are.

Finally, the last mistake I would like to stress out which costs money for both new and experienced traders is that they undervalue their trading capabilities. Some investors feel like they do not comprehend **FOREX** sufficiently well to trade to their fullest capacity. Anyone with willingness to learn can profit with some education and research. It can take some time to really get to know all the different sides of the foreign exchange market, but even newbie investors can eventually learn how to trade with great success.

## 5. The trader's Ten Commandments

1. Buy when the trend is bullish and sell when the trend is bearish. Keep your eye out for trends!
2. Build up gain and cut losses with no uncertainty.
3. Always use "Stop-loss", even if it seems you have made a mistake and that the market is back on track. Most of the biggest losses are caused by deals with no stop-loss.
4. It is important that you plan your every step in order to continue and make profit. Do not make trades out of impulse or emotion - control your gut feelings and don't let them mess up your strategy.
5. Use the benefit in leverage for more revenue, but learn it first and use it carefully.
6. Enlarge only the favorable contracts. The "average-system" only increases the risk.
7. Use the "stop-loss" in a point where you break-even at first and only then to a point where you would profit.
8. Enlarge the gainful position in the original position amount or less. It is time to increase your exposure when on a trend movement.
9. Seal losing contracts before closing profitable ones.
10. Take the day off and rest for a while! [FOREX](#) will be there tomorrow as well, just like always.

**FOREX glossary:**

**Bid** – to buy

**Ask** – to sell

**Liquidity** – financial ease of transaction, i.e. cash

**Trading volume** – the amount traded

**Bid/ask spread (pips)** – the difference between the proposed buying price and the actual selling price

**OTC** – over the counter

**Exchange rate** – the difference between currency values; for instance, a Canadian dollar is valued at .86 of a US dollar

**Hedge funds** – large mutual fund companies that control vast amounts of money and are able to manipulate the value of a currency through speculation

**Central bank** – the national bank of a nation, which usually exerts control over the value of that currency

**Bullish** (Trading Trend) - When price moves consistently in one direction in the market, a trend occurs. When the direction is higher

**Bearish** (Trading Trend) - When the direction of the price is moving lower

**Trend Reversal** - the direction of market prices is changing

**Trading Range** - The trading range is actually a sideways chart pattern. It is often used to represent a resting period before the original trend is resumed

**Marginal trading** - trading with a borrowed capital

**Leverage** - the ratio between the money you deposit in your account (**MARGIN**) to the actual value, i.e. using a \$1,000 to buy a FOREX lot (contract) with a \$100,000 value

**Fundamental analysis** - doesn't rely on Forex charts. It uses both political and economic factors to help determine trades

**Technical analysis** - try to predict where the prices are going by analysis of historical price activity

**Spot Market** - Market for buying and selling currencies that are usually for settlement within 2 business days, also known as the value date

**Exchange Rate** - When the value of one currency is expressed in the terms of another

**Currency Pair** - All currencies must be sold in pairs. There are two currencies that make up an exchange rate, so when one currency is bought, the other is simultaneously sold and vice versa.

**Base Currency**- This is the *first currency* in a pair (*EUR/USD*).

**Counter Currency**- This is the *second currency* used in a pair. The counter currency is also known as the “terms” currency (*EUR/USD*).

**Sell Quote** - This quote is normally displayed on the left side and represents the price that you can sell the base currency for. The sell quote is also referred to as the “bid” price. For instance: *EUR/USD* quotes 1.3200/03, and then you can sell one Euro for 1.3203 USD.

**Buy Quote** - This quote is normally displayed on the right side and represents the price that you can buy the base currency for. The buy quote is also referred to as the “ask” or “offer” price. For instance, *EUR/USD* quotes 1.3200/03, and then you can buy one Euro for 1.3203 USD

**Resistance** – A high point in a market chart that recurs regularly. Generally, it’s the point where the market (or currency) will begin a downturn

**Support** – A low point in the market chart that recurs regularly. Generally, it’s the point where the market (or currency) will begin to climb back up.

**Gross domestic product (GDP)** - represents the total market value of all goods and services that are normally produced within any given country

**CPI** - is the measure of the change in the prices of consumer goods in 200 categories

**Cross rate** - is used to convey the proportional values between the two currencies when it’s not across the USD. For instance, if the quote is *DEM/SFR* at .7000, this means that one German Mark can be exchanged for only .7 Swiss Francs.

**Going long** – investing in the **leading currency** (for example **USD/JPY** = 1.243)

**Going short** – investing in the **counter** currency by saying it will get stronger against the base (leading) currency USD/JPY (for example USD/JPY = 1.243)

**Lot (standard lot)** – \$100,000 contract value (\$10,000 margin)

**Mini Lot** - \$10,000 contract value (\$1,000 margin)

**Pips** – the smallest rise of a change in price (1/10,000 of the value), i.e. EUR/USA price changes from 1.2834 to 1.2836 the price has changed by 2 pips.

**Pivot points** – is a datum that analysts use as an important tool to predict low (support) and high (resistance) points of the graph. If one of those points is broken it's expected to move in the same direction (if in downward movement, then the market is bearish).

*Important!* - Pivot points are short-term trend; they need to be recalculated each business day separately.

### **Currency shortcuts:**

USD (U.S. dollars)  
GBP (United Kingdom pounds)  
JPY (Japanese yen)  
CAD (Canadian dollars)  
EUR (European euros)  
AUD (Australian dollars)  
CHF (Swiss francs)  
CNY (China Yuan)  
CZK (Czech koruna)  
HKD (Hong Kong dollar)  
HUF (Hungarian Forint)  
ILS (New Israeli Shekel)  
INR (Indian Rupee)  
KRW (Korean Won)  
MXN (Mexican Peso)  
PLN (Polish Zloty)  
SGD (Singapore dollar)  
ZAR (South African Rand)  
THB (Thai Baht)

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