

From the Author of Forex Trader's Daily

# GUIDE TO FOREX

## LIVE-ON-THE-NEWS

# TRADING



Discover how to make more money with a lower risk of loss, in a less stressful manner, and in a fraction of the time you probably devote to trading now...

## DUSTIN PASS



For up-to-the-minute Forex trading commentary, trading videos, free articles, guides and glossaries, and a Forex Trader Community and Forum -- visit <http://www.forextradersdaily.com/>

Receive...

- Daily posts and commentary concerning the most recent Forex Live-on-the-News trades, with expert analysis ...
- Archives of ALL previous Forex Live-on-the-News trade calls...
- A Forex Trader Community and Forum where you can discuss with like-minded traders issues connected to all aspects of trading...
- Archive of Forex Live-on-the-News trading videos for learning and research...
- Updates on upcoming events in the world of Forex trading and Forex news trading...
- Free reports, articles, guides, glossaries ...
- RSS feed, and much more...

Visit <http://www.forextradersdaily.com/>

### **HOT RECOMMENDATION: Forex "Live-on-the-News" Trading Calls...**

If you want to discover how one professional Forex trader jumps in and out of the market at the very instant economic news releases hit the wires, often at a time the Forex markets move 50 to 280 pips sometimes in seconds... which can generate profit potential in the \$500 to \$2,800 range in minutes...

Then subscribe today to the Forex Trader's Daily Trade Calls...  
<http://www.forextradersdaily.com/subscribe.php>

# **Guide to Forex “Live-on-the-News” Trading...**

**by Dustin Pass**

## **Forex Trader’s Daily**

6999-02 Merrill Road Suite 151 Jacksonville Florida 32277

[www.ForexTradersDaily.com](http://www.ForexTradersDaily.com)

Copyright © 2008 Forex Trader’s Daily. All rights reserved.

## **Table of Contents**

Preface .....	5
Introduction to the Forex .....	7
Types of Charts.....	11
Candle Stick Basics.....	14
Chart Patterns .....	22
Trend Lines .....	28
Fibonacci Basics .....	35
Trend Analysis .....	38
Trading the News .....	43
Risk Management.....	53
Controlling Your Emotions .....	59
Conclusion.....	63
Glossary.....	65

## **Preface**

As a beginner in the Forex, I wanted to learn everything I could to get an edge. I took multiple courses and entered into mentoring programs. I tried every technical indicator available in an attempt to find the "Holy Grail." After this extensive testing, I realized success in the Forex relied heavily on my ability to stick to the basics.

All the indicators in the world won't make you a good trader. The more stuff I tried, the more cluttered my screen got, and the more confusing trading became. The process I underwent reminds me of a spiritual metaphor I once heard where a farmer who spent every day tilling his soil and working his land decided to search for enlightenment. He left his farm behind and traveled the world looking for enlightenment. Eventually, after years of spiritual searching, he found the enlightenment he was looking for right there, on his farm, tilling his soil and working his land. However, the journey was necessary to discover and appreciate this.

Trading is a journey; it's a skill honed from hours of research, back testing, and trading. I have put this course together because I would like to provide you with a shortcut to becoming a profitable trader. Every word in this course is here for a reason. I believe that by showing you these methods, you can create a profitable income. Although I am relaying the method to you, make no mistake, you are the one who has to convince yourself to implement the method and finally push the button.

As you read through this course, you will find that I advocate buying high and selling higher and selling low and buying lower. So many traders try and find the very bottom or the very top; this is not necessary. Wait for the market to choose a direction, and then look for a valid entry in that direction. The ability to act in your own best interest is important. If your trade is not going well then you must be able to identify this and immediately close the position.

On the other hand, if you find yourself in a winning trade, you must have the discipline to continue and not close the position. Imagine sitting at a poker table with a royal flush, you can't be beaten. No matter what happens, there isn't a stronger hand. You have to ask yourself: why would I ever fold? All successful traders employ a

strategy to let these profits run. If you don't let your profits run, you're cheating your account.

If you are new to trading, I have the utmost respect for your efforts in becoming successful in the Forex and I am confident that the materials in this course will greatly jump-start your trading. If you get confused by any of the terms or concepts covered in the course, the glossary at the end of the book is a good reference. For the experienced traders, I equally respect your desire to continue your education. This course will ground you and bring you back to the basics, and in return your trading will greatly improve. You never know what little piece of information can take your trading to the next level.

The foreign currency market is a smart way to diversify your investment portfolio. Whether you're new or experienced, the concepts I outline in this book will put you ahead of the learning curve by improving your knowledge of how the Forex works and giving you the tools you need to invest with confidence in foreign currencies.

## **Introduction to the Forex**

The Forex is a cash inter-bank and inter-dealer market established in 1971 when bank float exchange rates began to materialize between countries. The simplest definition of the Foreign Exchange is the exchange of one currency for another. Unlike the traditional exchange of the stock market, you can earn profits whether buying or selling within the Currency Exchange. Banks are guaranteed a buy or sell twenty-four hours a day by the inter-bank currency exchange float. Liquidity in this market is like no other.

Prior to the recent and explosive international growth of the Forex, the industry was limited to master traders who positioned themselves with a \$100 million account and were connected directly to the inter-bank currency exchange. Today the exchange of currency has expanded from master traders, banks, and trading floors to include independent traders like you. Through broker relationships and trading margin establishment, leveraged accounts are established and individual traders can enter the market with home-based computers. Individual traders now share the same leverage guarantee banks have.

Comparing the Forex to other markets, the current daily trading volume average as of 2004 was about 400 billion in the U.S. Treasury Bond Market and less than 15 billion in exchange in the U.S. Stock Markets. However, the Forex market is currently peaking at 3.7 trillion per day. In September 1992, the Wall Street Journal estimated the trading volume at one trillion per day. In 1998, an estimated average of 1.5 trillion per day was announced, and in 2001 there were often currency exchanges of 3.5 trillion per day. In 2002, 3.7 trillion levels had been reached. In 1989, Alan Greenspan estimated that, based upon previous growth of the Forex and the advent and growth of the home computer industry, the Forex would reach levels of 6.5 trillion as early as 2005. With the new Chinese Yuan appearing on the markets with such renewed strength, many market experts feel the Greenspan prediction will come true at some point.

Activity within the Forex market is created by several groups of influence. These influencing market factors are created by central banks, commercial banks, other financial institutions, corporate investors, brokers, and independent currency traders who have established home-based businesses. Currently the most important Foreign Exchange activity is the spot business between the dollar and

the four major currencies; the Euro, British Pound, Swiss Franc, and Japanese Yen. This currency group is known as the "Big Four" and influences the market activity of the cross-country combinations. Very soon, the "Big Four" will become the "Big Five" if the Chinese Yuan continues to reach predicted volume goals.

Forex transactions occur by telephone and computer entries at thousands of established locations, as well as home-based businesses worldwide. So although the Forex was once dominated by major financial players, everyday independent traders can successfully earn a profit in this highly liquid market.

### **Three Major Exchanges**

The Forex has three major markets. These are the European market, which opens at 3:00 a.m. EST and closes at 12:00 noon EST; the U.S. market, which opens at 8:00 a.m. EST and closes at 4:00 p.m. EST; and the Asian market, which opens at 7:00 p.m. EST and closes at 4:00 a.m. EST. The European and U.S. markets overlap, and the European and Asian markets overlap.

	<b>Open</b>	<b>Close</b>
London	3:00 a.m.	12:00 p.m.
U.S.	8:00 a.m.	4:00 p.m.
Tokyo	7:00 p.m.	4:00 a.m.

Familiarizing yourself with the way each of these markets act is important. The best time to trade is from midnight until noon EST. This way you get in on the European Market and the U.S. Market. These markets tend to provide more volatility, which translates into volume, which is required to make a profit. The Asian market tends to have less movement; however, you can occasionally find entry opportunities during this timeframe.

Keep in mind that these are not the only exchanges; many smaller exchanges exist in almost every country around the world. These are just the major three.

### **Transaction Basics**

When trading on the Forex, you are trading currency lots. One lot represents \$100,000 of another country's currency. Before trading, you must establish a relationship with a Forex broker by depositing

funds in a margin account. A margin account allows you to leverage your money and the amount of leverage available from most brokers is 100:1, which means that for every \$1,000 you have in the market you control \$100,000 worth of currency. However, you are only responsible for your \$1,000. Using this leverage, \$1,000 will control one lot of any given currency.

The currency market moves in increments called price index points (pips). The value of a pip is calculated by the broker's dealing station and varies from one currency to another. Currency units are divided into 100 parts. One pip is equal to 1/100 of a currency unit. If the broker's dealing station has valued the EUR/USD at \$10 per pips and you sell the EUR/USD, then you will make \$10 for every pip the market goes down and lose \$10 for every pip the market moves up. The following chart demonstrates how quickly the Forex market can move.

<u>PIP Movement Explained</u>		
EUR/USD	10:35pm	1.2150
	10:42pm	1.2135
Price Movement equals 0.0015 PIPS		

In only seven minutes, the market has moved fifteen pips, which means that if the broker's dealing station has valued the dollar at \$10 and you invested \$1,000 at 10:35 p.m., by 10:42 you will have made \$150.

You may be asking how you can sell something you don't own. Brokers use terms like "buy" and "sell" to distinguish market position, however they are not in the literal sense. If you enter the market selling, then you anticipate it to go down. If you enter the market buying, then you anticipate it to go up.

### **Major Currency Pairs**

Many currencies are available to trade (approximately sixteen on most dealing platforms); however, 85 percent of all trading volume occurs on the following four pairs:

EUR/USD	(Euro/U.S. Dollar)
GBP/USD	(Greater British Pound/U.S. Dollar)
USD/CHF	(U.S. Dollar/Swiss Franc)
USD/JPY	(U.S. Dollar/Japanese Yen)

One of the major advantages to the Forex over comparable markets is the fact that you do not have thousands of items to choose from when selecting a trade. Therefore, you can focus your studies on a select few and become familiar with the way a specific currency moves.

Each currency pair has an average range and volatility. The following figures are the daily average ranges of the four majors:

EUR/USD	111 Pips
GBP/USD	156 Pips
USD/CHF	127 Pips
USD/JPY	102 Pips

What does this mean for a trader? On average, in any given twenty-four-hour period, you can expect the specific currency combination to move within this average daily range. You can use this information to trade by analyzing the current market movement since midnight eastern. For example, if the EUR/USD has been trading in a range of 40 pips since midnight, it is currently 8:45 a.m., and the market breaks out of this range then it is safe to assume that it will attempt to travel an additional 80 pips. However, in the last year and a half the numbers have been slightly lower than the numbers above. For instance, 75 pips seems to be the norm for the EUR/USD instead of the 111 posted.

### **Your Basic Understanding**

The Forex market is a relatively new option for individual traders. But it offers high liquidity and great potential for making profits when you understand how it works. Once you understand the Forex basics presented in this chapter, you're ready to start analyzing market information.

## **Types of Charts**

Most traders use three types of charts for technical analysis in any market. Most charting packages include these as options for traders to use in determining where to enter or exit a trade. The three types of charts are:

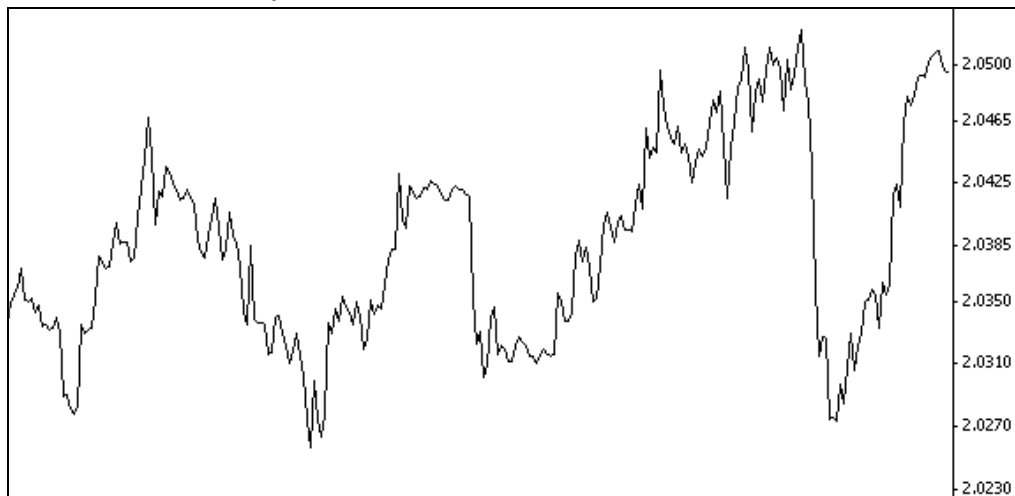
- Line chart
- Bar chart
- Candlestick chart

Let's consider each type of chart in detail.

### **Line Charts**

A line chart draws a line from one closing price to the next closing price, and they are helpful because they show the direction of the currency over a period of time. In other words, they reveal how the currency is trending so you can identify whether or not the conditions are right to enter or exit the market.

Here is an example of a line chart for the GBP/USD:



### **Bar Charts**

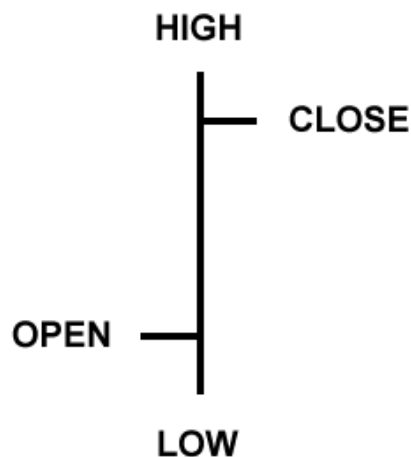
A bar chart also shows closing prices, but it adds additional information such as opening prices, and the highs and lows for the period. Bar charts are more popular than line charts because of the

range of trading information they represent. They are also easier to read and interpret.

The bottom of the vertical bar indicates the lowest traded price for that time period, while the top of the bar indicates the highest price paid. So, the vertical bar indicates the currency pair's trading range as a whole. The horizontal hash on the left side of the bar is the opening price, and the right-side horizontal hash is the closing price.

Bar charts are also called "OHLC" charts because they indicate the Open, the High, the Low, and the Close for that particular currency.

Here is an example of a price bar:



**Open:** The little horizontal line on the left is the opening price.

**High:** The top of the vertical line defines the highest price of the time period.

**Low:** The bottom of the vertical line defines the lowest price of the time period.

**Close:** The little horizontal line on the right is the closing price.

Here is an example of a bar chart for the GBP/USD:



### **Candle Stick Charts**

Candle stick charts show the same information as the bar chart, but in a more graphic format. Many Forex traders prefer to use candle stick charts as they show a better representation of the price movement of the currency pair. We will talk more next chapter about candle sticks, as I use them most in my technical analysis.

Here is an example of a candle stick chart for the GBP/USD:



### **Using Charts**

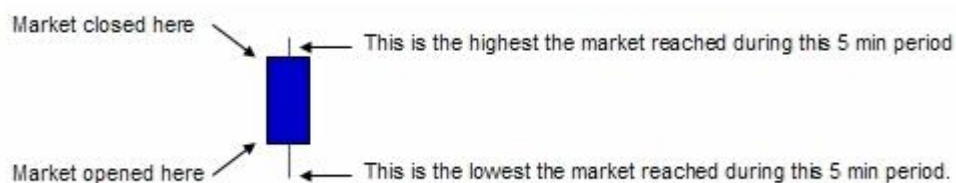
Line, bar, and candle stick charts represent snapshots of market activity and give traders critical information that can be applied to their trading decisions. Each chart presents the information in a slightly different way, but by understanding the differences and knowing how to read the three types, you can determine which chart you prefer for making your trading decisions.

## Candle Stick Basics

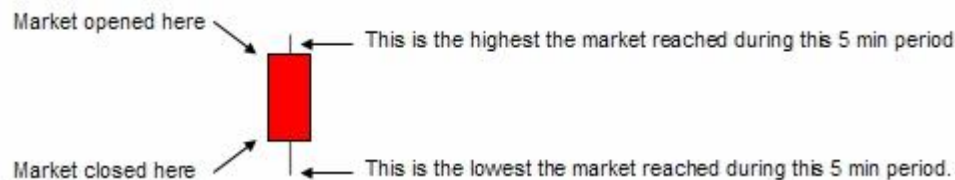
Japanese rice traders developed candle stick charts centuries ago to visually display price activity over a defined trading period. A candle stick informs the trader of the specific price movement of a given timeframe. A candle stick can represent price action for one minute, one year or anything in between.

To demonstrate how they can be used in Forex trading, I will first break down the different parts of a five-minute candle stick. Keep in mind that the components would be the same for any time period. The solid portion is referred to as the body of the candle and the lines protruding above and below are referred to as the wicks or shadows.

### **Bull Candle**



### **Bear Candle**

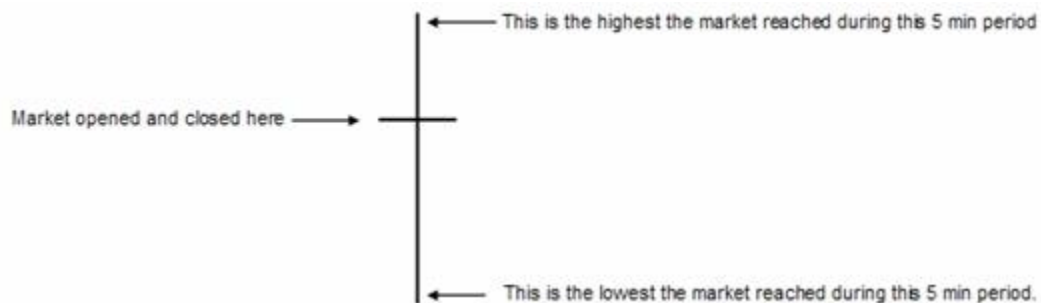


In the instance of the Bull candle, you can see that the market open is found at the top of the candle body and the market close is represented by the bottom of the body. The Bear candle is exactly the opposite in that the market open is the top of the body and the market close is the bottom of the body. The wicks illustrate the high and the low the market traded at during the given timeframe.

The next candle formation is the Doji. The Doji represents a period of time in which the market was indecisive and could not choose a direction; a fight between the bulls and the bears, so to speak.

This candle is also a sign of market exhaustion. And when found at the end of a long run, you should watch for signs of a reversal. This candlestick formation is best if found on a fifteen-minute chart or greater, as the smaller time compressions don't provide enough information on trend direction. Keep in mind this is only a sign of exhaustion if the market is currently trending. If this is found during low volume time periods when the market is range bound it cannot be trusted as an exhaustion bar.

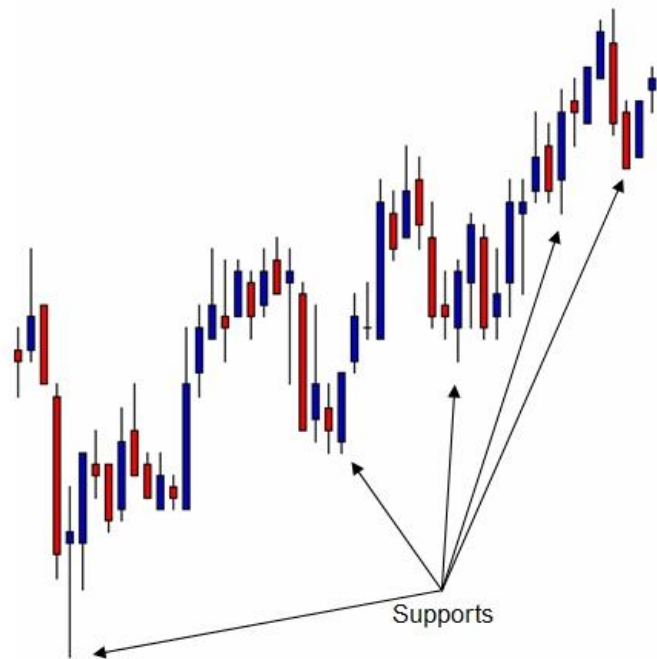
## Doji



In this example, the market opens and closes at the same value. However, during the candle period the market traded higher and lower, which is revealed by the wicks. Many times the Doji indicates a reversal.

## Support versus Resistance

Support is a price level below the current market price. At a support level, buying interest should be able to overcome selling pressure, which should keep the price from going any lower. A support level is usually a very low level in market and would look like a dip or low point on any analysis chart. We generally look for supports on the lower portion of a market trending upwards (the bottom side of an uptrend).



Resistance is a price level above the current market price. At a resistance level, the selling pressure should be strong enough to overcome the buying interest, which should keep the price from going any higher. A resistance level would usually look like a rise or high point on any analysis chart. We generally find resistance points on the upper portion of a market trending downwards (the topside of a downtrend).



When a currency price moves over a level of support or resistance, the role of the level reverses. In other words, if a currency price crosses a resistance level, that resistance level will later serve as a support level.

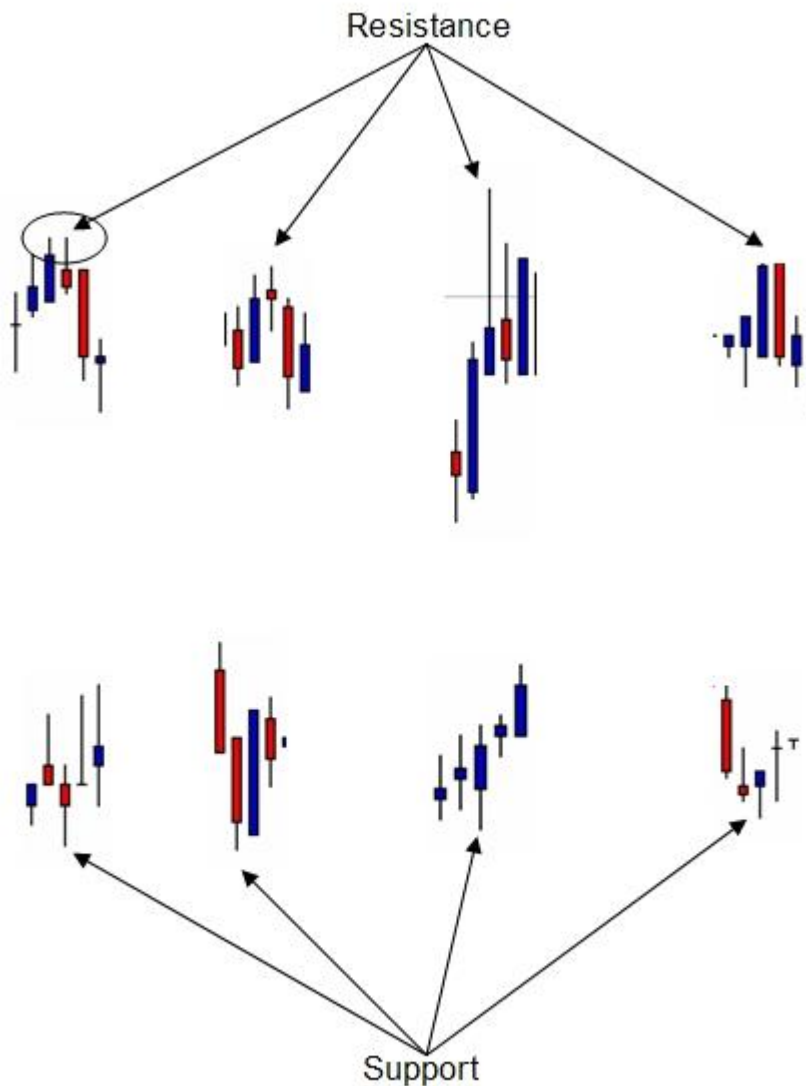


On the other hand, if the market price moves through a support level that level becomes a point of resistance.



The easiest way to identify a support or resistance is by looking for candles or a group of candles that are surrounded by at least two additional candles on both sides that are shorter than they are. Take note of the circled example. This insures that you are aware that more than one candle can form a support or resistance.

The only rule we have implemented is that the support or resistance must have two candles on each side that are not as high or low and the actual support or resistance. These are just a few examples of what supports and resistances might look like. Keep in mind that although we call these formations supports and resistances, they actually identify a level in the market that provides support or resistance.



## Using Supports and Resistances to Trade

When you're trading in the Forex market, you can use supports and resistances in two ways. One method is to anticipate a reversal in the market upon striking a support or resistance.

The other method is to wait for the trend level to be broken and then enter in agreement with the trend. Both methods work well. However, when using either one, never enter based on a support level alone. You must have more than one reason to enter the trade. These levels, combined with pivot points, trend lines, and Fibonacci levels become very reliable.

## Candle Stick Formations

Many different candle stick patterns exist. However, I will only cover engulfing bars and hammers—the ones I feel are easily identified and relevant to our trading methodology. The first few formations are examples of reversal candlesticks and are best used when found at the end of a run. They give a good indication that there is high probability that the market will reverse and not just consolidate.

### Engulfing Bar

The first pattern I would like to address is a reversal bar, known to many as an engulfing bar.



This pattern is generally found at the end of a run during market conditions that are over sold and over bought. In a downtrend or within a pullback of an uptrend, the market hits a point after a single

candle fall that provokes an influx of buyers, thus retracing an amount equal or nearly equal to the fall down.

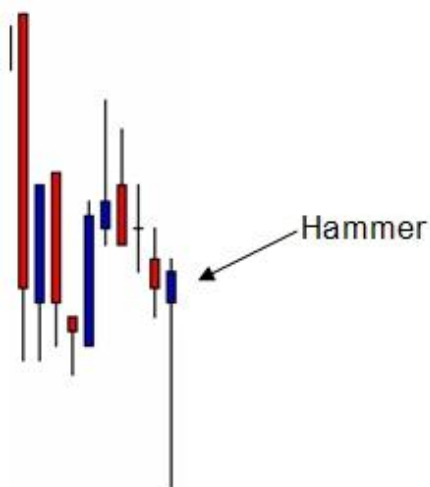
The engulfing pattern is very common. Literally dozens occur every day and many are just incidental. Watch volume for confirmation, as volume is extremely important to any trade. This is a good time to exit a trade if you are in an existing short position and/or considering taking on a long position.

As usual, you would not want to enter solely based on the engulfing bar. Wait for some additional confirmations, such as a trend line break to the opposing side, thus allowing the price to prove to you that a reversal is occurring. When using an engulfing bar or any of the other reversal candle stick patterns covered here, place a stop on the other side of the pattern.

### **Hammer**

A hammer is a reversal candle and occurs when the market price reaches a certain bottom or top and is quickly bought or sold. This produces a small body near the high with a long trailing wick and little or no wick on the top of the candle. Generally buyers attempt to rally the market above the former highs. Once again, this is a good time to exit a trade if you are in an existing short position and/or considering taking on a long position.

As usual you do not want to enter solely based on the hammer. Wait for some additional confirmations, such as a trend line break to the upside, thereby allowing the price to prove a reversal is occurring.



The hammer candle formation has a similar affect as the engulfing bar. Buyers attempt to rally the market above former highs, and as buyers come in, sellers panic and close their positions, forcing the price higher.

Understanding and using candlestick charts is very important to your success as a trader. The charts give you the visual information you need to make an informed decision to enter a trade. And recognizing candle stick patterns will help you find entry or exit points for a trade.

To familiarize yourself with these concepts, select a currency and a fifteen-minute chart, and then start looking for the candle stick patterns mentioned in this chapter, as well as points of support and resistance. This practice will help give you more confidence when you actually start trading.

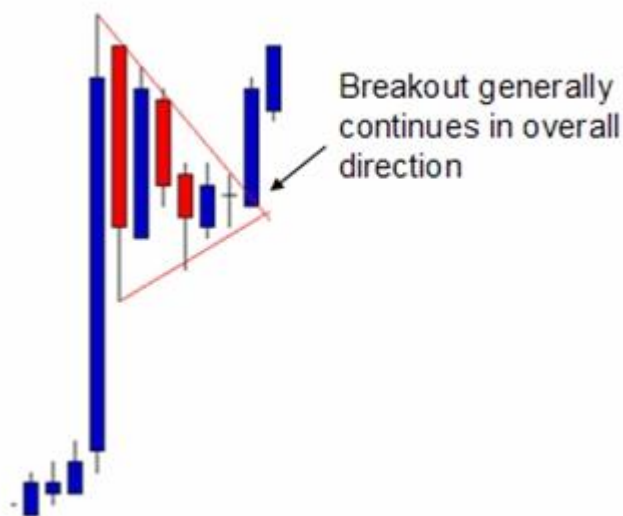
## Chart Patterns

A chart is simply a graphic representation of supply and demand. Any news or information that is important or relevant will show up in the chart. It is a totally unbiased, unemotional, direct representation of everything going on in the market.

History has shown that the market often forms patterns, and when these patterns are broken, price movements can be predicted with a high degree of accuracy. The first pattern I will go over is the pennant.

### **Pennant**

Pennants are small continuation patterns that represent brief pauses within an already existing trend. They are typically seen right after a big, quick move. The market then usually takes off again in the same direction. Research has shown that these are some of the most reliable continuation patterns. They are characterized by converging trend lines and have a definite bullish or bearish bias depending on the overall trend.



Although it generally breaks out in the overall direction of the trend, the wise choice is to wait until the break occurs and enter on a retest of the trend line, rather than anticipate the move and risk getting stuck in a trade.

## Symmetrical Triangle

Symmetrical triangles can be characterized as areas of indecision. They occur when a market pauses and future direction is questioned. Typically, the forces of supply and demand at that moment are considered nearly equal. Attempts to push higher are quickly met by selling, while dips are seen as bargains. Each new lower top and higher bottom becomes more shallow than the last, taking on the shape of a sideways triangle. Eventually, this indecision is met with resolve and usually explodes out of this formation (often on heavy volume).

Research has shown that symmetrical triangles overwhelmingly resolve themselves in the direction of the trend; however, I prefer to wait for a break of the triangle before entering. This confirmation provides greater confidence that the market will move in the desired direction.



## Ascending and Descending Triangles

The ascending triangle is a variation of the symmetrical triangle. Ascending triangles are generally considered bullish and are most

reliable when found in an uptrend. The top part of the triangle appears flat, while the bottom has an upward slant.

In ascending triangles, the market becomes overbought and prices are turned back. Buying then re-enters the market and prices soon reach their old highs, where they are once again turned back. Buying then resurfaces, although at a higher level than before. Prices eventually break through the old highs and are propelled even higher as new buying comes in.

The descending triangle, also a variation of the symmetrical triangle, is generally considered to be bearish and is usually found in downtrends. Unlike the ascending triangle, this time the bottom part of the triangle appears flat. The top part of the triangle has a downward slant. Prices drop to a point where they are oversold. Tentative buying comes in at the lows and prices perk up. The higher price however attracts more sellers and prices re-test the old lows. Buyers then once again tentatively re-enter the market. The better prices once again attract even more selling. Sellers are now in control and push through the old lows of this pattern, while the previous buyers rush to dump their positions.

Once again, I prefer to wait for a break of the lows unless the pattern is very small. We will discuss strategy later in the course. The example below is a descending triangle in which volume greatly increases upon breaking the low of the triangle. An ascending triangle would of course be the exact opposite.



When trading wedges, pennants, flags, or banners, you place your stop 10 to 15 pips beyond the opposing trend line that defines the triangle. However, if the market becomes congested and begins to trade within a channel then it would be wise to place your stop above/below the channel level. Enter on a break in the trend lines that define the triangle.

### **Head and Shoulders**

A head and shoulders top or bottom is a powerful and reliable reversal pattern that appears as a large distribution period after a significant uptrend. Its completion signals a trend reversal. Three successive peaks characterize the pattern, with the middle one being the tallest and the two outside ones being shorter and approximately equal.



When the market first breaks a support, traders in an existing long position tend to panic and many of them close immediately. This in return increases volume as the market trades lower, concern becomes fear, and selling accelerates. Then fear becomes panic, and people sell regardless of price. This is why delayed volume surges typically occur with breaks to the downside.

### **Double Tops and Bottoms**

When the market tests a certain support or resistance and falls away, many times it will retest that level, which establishes a solid top or bottom. If a level holds after two attempts at a break, it can be considered a good point for entry and stop placements. Be careful when trading this pattern because occasionally these levels are broken. Generally when a break of a strong level occurs, such as a double top or bottom, volume increases. Therefore, you should exit as soon as possible if you are trading against this level.

These patterns should be treated like a hammer or engulfing bar. If you are in a current long or short position against this level, consider taking profit or at least moving your stop closer. Unless you are in an extremely strong trending currency, it is best to take profit and wait for another entry. As usual, if entering off of one of these levels, wait for other confirmations such as a trend break to the downside.

These patterns become more trustworthy as you get to larger compressions. The one-hour or greater is ideal when trading this pattern as a reversal. The example below depicts a double top combined with an engulfing bar, which provides multiple confirmations for an entry short. The third retest has a candle stick similar to a Doji, which is a sign of exhaustion followed by a sell off. This image is a good depiction of the combination of multiple confirmations leading up to a potential entry.



### **Using Chart Patterns to Trade**

Recognizing and interpreting chart patterns is important because they provide a visual confirmation to enter the market. The more you understand and are able to recognize these patterns, the more confident you will be in your trading.

To practice, select a currency, look at its history, and try to identify some of these chart patterns and what the market did after they formed. This will help you identify and be more confident in your trading when you see these same patterns in the future.

## Trend Lines

Trend lines illustrate the direction of the market movement and provide a primary consideration in any analysis. The market can only move in three directions: up, down, and sideways. We will first focus on an uptrend, which can be described as higher highs and higher lows.

### **Uptrends**

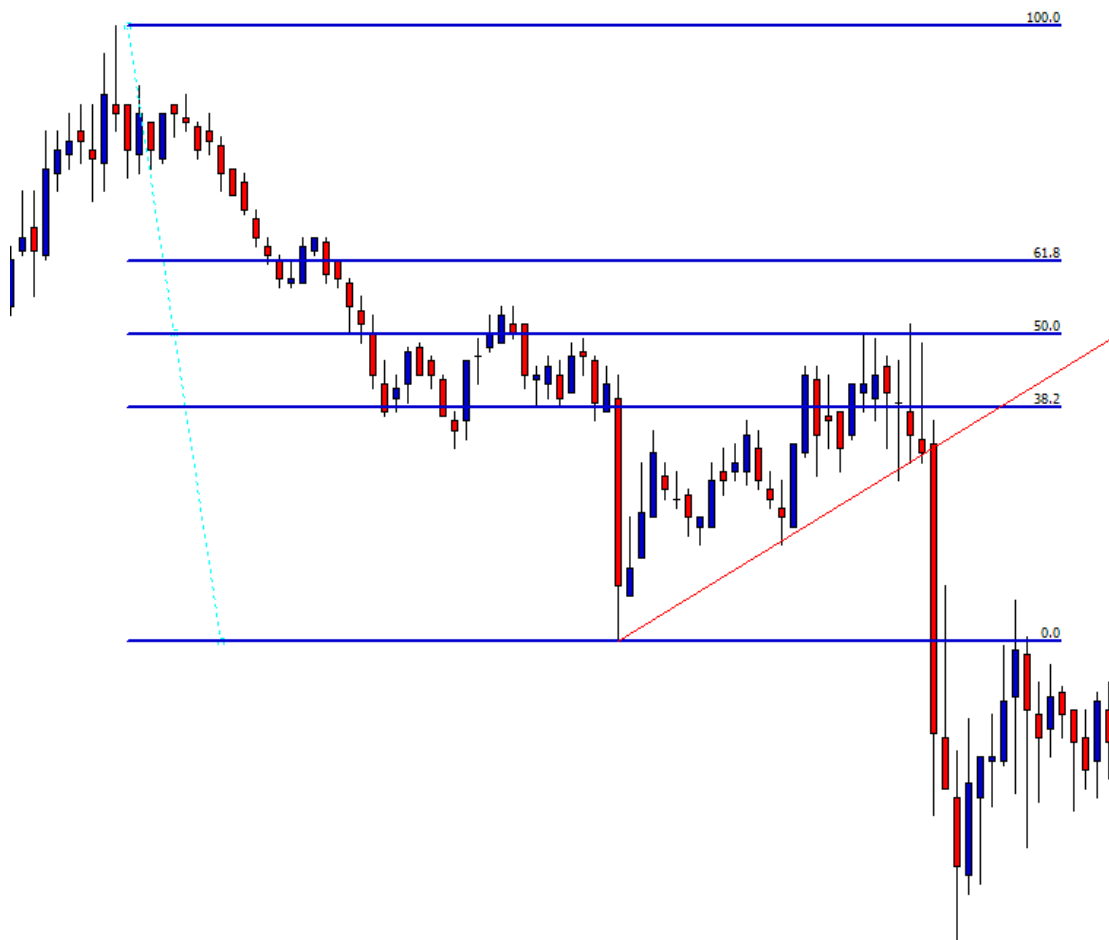
We draw uptrend lines by connecting the two most recent swing lows. However, the trend line does not have to be limited to two swing lows. It can be as many as are lined up. When drawing up trend lines we draw on the bottom of the market. The trend line drawn will identify a dynamic point of support that will change as time passes. These trend lines allow for two different entries, one being a reversal entry (bounce) and one being a continuation entry (breakout).

The illustration below shows a break of the trend line; notice that once the market breaks it tends to retest the trend line, which becomes resistance, then a volume increase. The example also shows a bounce; notice the third time the market contacts the trend line, an influx of buyers occurs and the market rallies.



In the next example, you see that the market is in an overall downtrend; however, an uptrend can be found within it. Notice that once the market has made a correction and retraced to an approximate Fibonacci level of 50 percent, it reversed. A trader could have entered at the 50 percent level; however, without multiple confirmations it is best to let the price prove it is going to reverse.

Once price breaks the lower trend line, we have a valid reason to enter this trade. Notice the increase in volume once the breakout occurred. This screen shot was taken from a one-hour chart. However on a fifteen-minute chart, an open and close occurred outside the trend line, which would have provided you with a sell opportunity.



The next example shows the reversal method and should only be used with multiple confirmations trading with the overall trend. As shown below, the trend line overlaps a Fib level, which provides additional support. If the lower trend wall had been broken, then upon retesting this level an entry down would have been in order.

You must not allow yourself to become biased to trade one direction or another. Constantly reevaluate the market and realize that you are not always going to be right. This trade could have just as easily broke support and continued down. You must be flexible and realize when you are wrong, so that you can reverse positions and make up your losses, providing the market gives you an entry. Never trade just because you *think* the market is going to go in one direction or another.



### **Downtrends**

Downtrends are defined as lower lows and lower highs. These can be illustrated by connecting the last two swing highs. When plotting a downtrend, we draw our lines on the top of the market. Notice that once the market made a clean break above the trend line, it moved up fairly quickly. By clean break, I mean it opened and closed above trend line, which can be seen as a Doji in this example.



This is a good example of a bounce-type trade where we find that the market bounces off of the trend line; however, we would need more confirmation than a single trend line. I prefer to enter these trades based on the overall trend, which, in this case, is down as signified by the trend line we have drawn.



After further investigation, we find that a Fibonacci level overlaps the trend line. The level we find here is .618 or a 61.8 percent retracement. This means the market has retraced 61.8 percent of the overall move down.



If for some reason we miss this entry, there is yet another opportunity to enter this trade. As shown in the illustration below, as the market headed toward the upper trend wall it established a lower trend wall opposite the overall trend. Once the market breaks below this level it proves that the market is in fact reversing and not just falling back temporarily.



Notice that once the market broke below the lower trend line, it retested the trend line before falling. This is an excellent place to enter short with multiple lots because you are entering this trade at the top of the range, which allows for sufficient profit. When trading with multiple lots you can close one or two just above the low in case of a reversal, and allow one lot to run chasing it with a stop.

### **Using Trend Lines to Trade**

Trend lines are another visual representation of market behavior, and they give you critical information on when and how to act. But regardless of trends, money management plays a key role in being profitable. Keep in mind that you must have a positive ratio of average profit to average loss.

## **Fibonacci Basics**

Leonardo Fibonacci was a great Italian mathematician who lived in thirteenth-century Pisa. He was the first to observe a number series that describes the natural proportions of things in the universe, including price data. The ratios arise from the following number series: 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, and 144. The ratios are derived by dividing any number in the series by the next higher number. After 3 the ratio is always 0.625. After 89, it is always 0.618. If you divide any Fibonacci number by the preceding number, after 2 the number is always 1.6 and after 144 the number is always 1.618.

These ratios are referred to as the "golden mean." Additional ratios were then derived to create ratio sets. The first of these are considered Price Retracement Levels and are as follows: .236, .382, .50, .618, and .786.

Fib levels are extremely useful when deciding entries; however, they do not work as a standalone trading system and are definitely not the Holy Grail. Yet they can be a very effective component of your trading. Fibonacci ratios describe the interaction between trend and counter trend markets -- 38.2 percent, 50 percent and 61.8 percent retracement form the primary pullback levels. Apply these percentages after a trend in either direction to predict the extent of the counter trend swing.

We use this set of ratios as support and resistance levels for placing buy and sell orders. Price action is in part controlled by speculative traders who use technical analysis to assist them in their decision making.

When a large group of traders, including banks and other trading institutions, sell a particular currency combination, that currency will fall. Therefore you should be looking for the most obvious levels in the market in order to remain on track with the rest of the world. After all, if everyone else is selling and you are buying, chances are you are going to get stopped out.

With that said, I would like to point out what should be very obvious: if someone is selling a trading system and it is proprietary, in that no one else has this information, then how does it work? If no one else

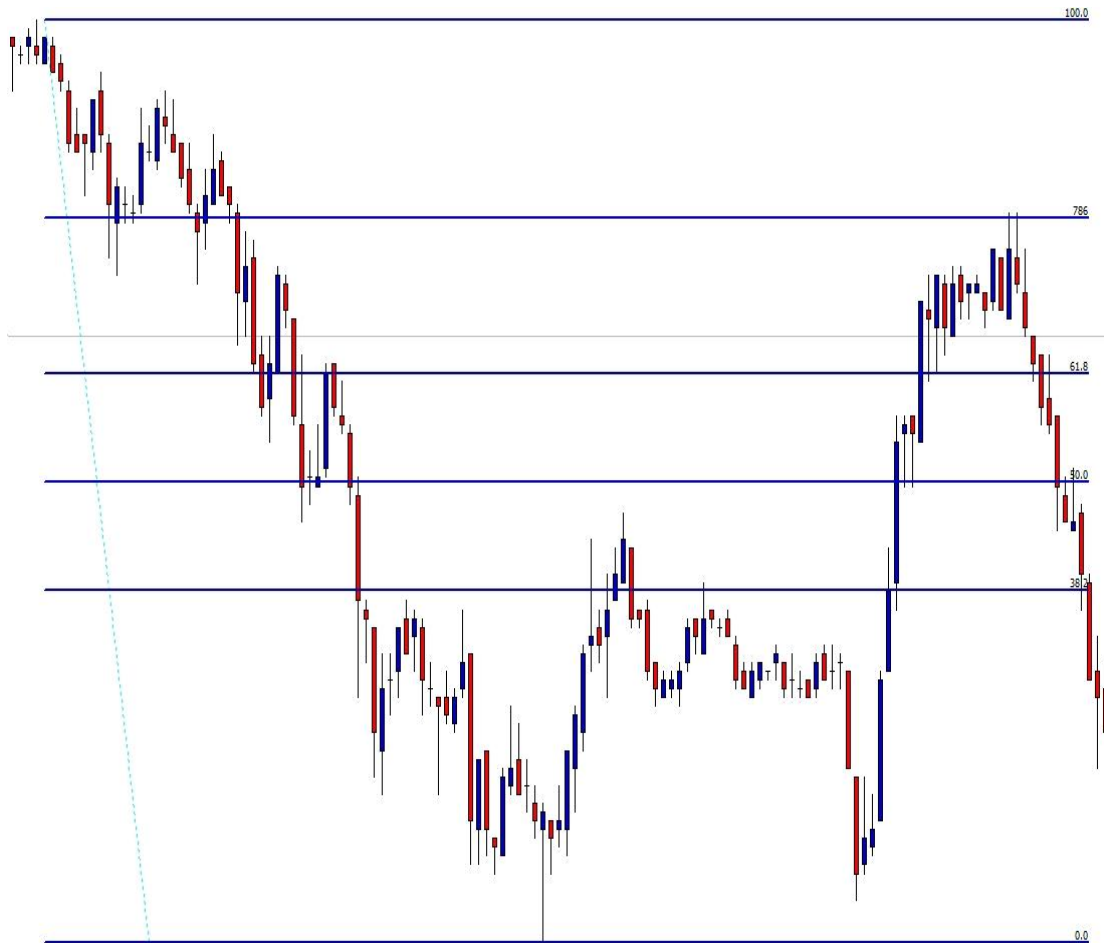
receives the signal to sell at a particular price then why should we expect the market to turn? In order for the market to turn sellers must enter the market. The reason I tell you this is to help you understand why Fibonacci works. It works because the whole trading world sees it and reacts to the levels. It's not some big secret. All through the course you will see that the elements we use to produce a profitable trade strategy are well-known by many traders and have been used successfully for years.

The example below shows two separate trading ranges and the retracement that followed each drop in price. Notice how accurate these Fibonacci levels can be. When the market price returns to these levels a correction is being made and we are anticipating the market to reverse and continue down with the overall trend.



The 78.6 percent retracement is another important Fibonacci level. It is the last price retracement level resistance when considering an entry for continuation. The 78.6 percent retracement can provide an excellent entry with profits much greater than that of the other three

levels. You can see in the example below the market turned at the 786 and continued down for a nice run.



### **Using Fibonacci Lines to Trade**

When drawing Fib lines, there is no secret to what ranges to use. I suggest that when you see the market beginning to reverse, insert your Fib levels from that last high to the point of reversal. You can't use this tool enough! Draw as many Fib lines as possible on multiple chart compressions, constantly looking for levels that overlap. Fibonacci lines will help you determine an entry point if you are looking to enter a trade, and it can also help you determine a stop loss level if you are already in a trade.

## **Trend Analysis**

Trend directions can be established in many different ways, and I will cover a few in this chapter. What's important is that you have a peripheral awareness of the market and that you trade in the direction of the established trend.

The first method is to mark the trend using trend lines as we did in the last sections and decide on the overall direction based on multiple chart compressions. The trade strategies covered in this course work best when traded with the one-hour trend or greater.

The second method uses moving averages to distinguish the trend direction. These averages should be monitored on the week, four-hour, and one-hour charts when establishing a trade direction. When entering a trade, always use proper money management and proper trend analysis, as this will help with deciding lot size.

First, place a 13 simple moving average (SMA) applied to the median price (HL/2) on the week chart; this will establish the long-term or overall trend. If the market is above the 13 SMA this signifies an uptrend, if the market is below the 13 SMA this signifies a downtrend. If the market is trading close to the SMA this is a sign of consolidation. After a long run either up or down, the market tends to move sideways, which causes the market to trade in a range. When this happens it is best to wait until there is a break.

When the market is trading on or near the 13 SMA, this indicates a period of indecision; therefore you should be cautious with your entries. When there is space between the 13 SMA and the current market price, and the angle of the 13 SMA is approximately 20 degrees or greater, conditions are ideal for taking long term positions.

Realize that the week chart has very little to do with what is happening right now, and positions taken based on a week chart require a larger stop and should be avoided until you have conquered these concepts on smaller compressions.

## Week Chart



When looking for a trade, compare the four-hour and week charts to establish agreement between the two. Secondly, place a 13 SMA on the four-hour chart. When agreement exists between the two compressions this is a good time to look for an entry. If you find that the four-hour and the week are both in agreement, and the four-hour 13 SMA has space between the market and an angle of 20 degrees or steeper, then trades should be held open longer with the expectations of a larger run. This is also a good time to increase lots. I use this as part of my money management strategy in deciding lot size based on increased probability of trade profit. When the 13 SMA is close to or touching the market, trade more conservatively using smaller lot sizes and taking profits earlier.

## Four-hour Chart



The third SMA we will use is a 55 SMA HL/2 on the one-hour chart. Keep in mind the SMA's are used to help identify trend directions and nothing more. They are a lagging indicator and must be used as such. Once you have established the trend, look for the one-hour SMA to move into agreement with the four-hour chart. When this occurs you will have an extremely good idea of trend direction.

### Putting it all Together

If the one-hour is trading against the four-hour this does not mean you can't take a trade, it only means that you should be cautious with your entries. If you can exercise patience and discipline and wait for the trade to occur, rather than trade just to be trading, you will see that when the one-hour goes against the four-hour, it is generally setting up a great trade to continue with the four-hour trend.

In the following example the week and 4hr are in agreement. Notice that the one-hour 55 SMA was on the bottom. However, once it fell into agreement with the four-hour and the 55 SMA was on top, it provided a valid entry upon retracing to the Fib level 382 and an overlapping trend line.

### One-hour Chart



## **Analyzing Trends as You Trade**

When analyzing trends, realize that the trend direction is relative to the chart you use and the amount of pips you target. If you are only targeting 5 or 10 pips, then it is not necessary to concern yourself with the day chart; however, you should be aware of the thirty-minute trend. I don't advise trading for 5 pips, if you fall into this trap then you will find yourself struggling with the broker and losing your margin. The average stop is 15 to 35 pips. It is important to keep your risk to reward ratio in balance, otherwise you will execute multiple profitable trades only to find one trade taking all your profit.

This section outlined how to properly verify trend direction using SMA's, and broke down the process of identifying a trade using Fibonacci and trend line overlaps when trading with the overall trend. Your chances for success improve greatly when you trade in the direction of the trend, and you will have more confidence when you can use these tools to verify a potential trade.

## Trading the News

Forex trading has been complicated over the years by the barrage of technical indicators and proprietary trading systems. Forex trading, in its most basic form, is actually quite simple and I wish more people understood that there isn't a special indicator or magic system.

I suggest traders go back to the basics and trade what is obvious. If a country's economy is growing stronger then they will gain against an opposing country. You can easily predict this by monitoring the economic calendar and trading the news. You might be thinking, "No way man, that's way too dangerous." But I disagree. Certain news releases consistently produce 30 to 50 pip moves in a predictable direction. You only need to know the following strategies.

First, news releases, which come directly from government agencies and other research departments that study and monitor economic trends, consistently move the market when released. I have compiled a list of the releases that I believe are tradable depending on the outcome of the release. They break down into two categories.

The first is made up of releases that consistently result in strong predictable moves. These are the "best of the best," so to speak. As with all reports you need to know the expected number and then how much deviation will move the market enough to gain a profit. The deviation I use is listed next to the reports that I actively trade. These numbers can change from time to time as market trends shift.

Reports for USA		Reports for UK		Reports for Canada	
Dev.	Category I	Dev.	Category I	Dev.	Category I
+/- 50k	NonFarm Payrolls	+/- 500M	Trade balance	+/- 15k	Labor Change
+/- 1.5B	Trade Balance	+/- 0.2%	CPI	+/- 0.2%	CPI
+/- 1.5	ISM Manuf.	+/- 0.4%	Retail sales	+/- 0.3%	Retail Sales
+/- 0.4%	GDP	+/- 0.4%	GDP	+/- 0.3%	GDP
+/- 0.2%	CPI	+/- 0.5%	Ind. Production	+/- 0.5	Merch. Trade
+/- 1.5%	Durable Goods				
+/- 0.7%	Retail Sales				

The second category is comprised of releases that have historically provided good trade opportunities, but only if the numbers are off

substantially. These releases are good to watch and practice on; however, the likelihood of a trade is lower than those releases found in the first category.

In the beginning I suggest you watch all the reports listed in the charts above and below so that you get as much experience as possible. As time goes by you will find the releases that you like best.

I personally do not trade many of the releases below; however they can move the market and you can make money trading these carefully. I have not included numbers for deviation for the following releases because I don't trade them, but you can build your skills by doing a homework assignment. Go back on some of the releases below and identify what the expected number was, what the actual number was and the direction and distance the market moved.

Category II – US Reports	Category II – UK Reports
<ul style="list-style-type: none"> <li>- Personal Income and Outlays</li> <li>- FOMC announcement</li> <li>- Michigan final consumer sentiment</li> <li>- NAPM Chicago</li> <li>- Philly fed survey</li> <li>- Michigan Preliminary Consumer Sentiment</li> <li>- FOMC Minutes</li> <li>- Treasury International Capital (TIC)</li> </ul>	<ul style="list-style-type: none"> <li>- Nationwide house price index</li> <li>- CIPS Services PMI</li> <li>- Halifax House price Index</li> <li>- MPC interest rate decision</li> <li>- PPI</li> <li>- RICS housing price index</li> <li>- MPC minutes</li> <li>- GFK Consumer confidence</li> </ul>

Second, you need to know how the market will react if the number comes out higher or lower than expected. This is actually quite easy. I will walk you through the process using the Producer Price Index as an example.

The Producer Price Index (PPI) measures the rate of inflation experienced by manufacturers. The reading represents the monthly change in the average price of a fixed basket of goods and services purchased by manufacturers. Higher inflation generally leads to higher interest rates, which tend to strengthen the country's currency. In other words, if the number comes out higher it is good for that currency. For example, the expected number for U.S. PPI is 0.5

percent and the actual number comes out 0.9 percent, which is higher than expected. That would be good for the U.S. dollar and any currency against the U.S. dollar will fall, i.e. GBP/USD, EUR/USD, etc.

On the other hand, if the number comes out lower than expected the GBP/USD would go up. Now let's look at what higher and lower numbers do for the releases I trade.

### **Tradable U.S. Releases**

If you are new to news trading then you have probably never heard terminology like CPI, GDP, and TIC. This section will explain these economic indicators and how you can use them to trade.

The Federal Reserve uses economic indicators to monitor inflation. When the indicators show inflation pressure the Fed increases interest rates. On the other hand, a decrease in interest rates will result from deflation. The interest rates are very important to our economy. The rates play a huge role in individuals' and business's willingness to make investments and borrow money.

### **Consumer Price Index**

The Consumer Price Index, or CPI, is an index that measures the change in price of a representative basket of goods and services such as food, energy, housing, clothing, transportation, medical care, entertainment, and education. It's also known as the cost-of-living index.

The main portion of this report is the CPI ex Food and Energy. When trading currencies, the CPI ex Food and Energy (MoM) will have the most immediate effect on market movement. However, monitoring the CPI (MoM) is also a good idea. A higher-than-expected number strengthens the economy.

These numbers are released by the Bureau of Labor Statistics U.S. Department of Labor on a monthly basis. You can view the raw data at <http://stats.bls.gov/news.release/cpi.toc.htm>.

### **Durable Goods**

Durable Goods is officially known as the Advance Report on Durable Goods Manufacturers' Shipments and Orders. This is a government index that measures the dollar volume of orders, shipments, and unfilled orders of durable goods. Durable goods are new or used items generally with a normal life expectancy of three years or more.

Analysts usually exclude defense and transportation orders because of their volatility.

This report provides information on the strength of demand for U.S. manufactured durable goods, from both domestic and foreign sources. When the index increases, it suggests demand is strengthening, which will probably result in rising production and employment. A falling index suggests the opposite.

This is also one of the earliest indicators of consumer and business demand for equipment. Increased expenditures on investment goods reduce the prospect of inflation. A higher than expected number strengthens the economy.

This report is released by the Bureau of the Department of Commerce on a monthly basis. You can view additional information on this report at <http://www.census.gov/indicator/www/m3/>.

### **Employment Situation (NonFarm Payrolls)**

This report lists the number of payroll jobs at all non-farm business establishments and government agencies. The unemployment rate, average hourly, weekly earnings, and the length of the average workweek are also listed in this report. This release is the single most closely watched economic statistic because of its timeliness, accuracy, and importance as an indicator of economic activity. Therefore, it plays a big role in influencing financial market psychology during the month.

Non-Farm payrolls is a coincident indicator of economic growth—the greater the increase in employment, the faster the total economic growth. An increasing unemployment rate is associated with a contracting economy and declining interest rates. Conversely, a decreasing unemployment rate is associated with an expanding economy and potentially increasing interest rates.

The fear is that wages will rise if the unemployment rate becomes too low and workers are hard to find. The economy is considered to be at full employment when unemployment is between 5.5 percent and 6.0 percent. If the average earnings are rising sharply, it may be an indication of potential inflation. When the average workweek trends higher, it forecasts additional employment increases.

A higher-than-expected number will strengthen the country's currency.

The Bureau of Labor Statistics, U.S. Department of Labor releases the report on the first Friday of every month. The data is revised monthly for the prior month. These revisions can occasionally be substantial. They also conduct an annual revision in June. The report can be viewed here <http://stats.bls.gov/news.release/empsit.toc.htm>.

### **Gross Domestic Product**

The Gross Domestic Product, also known as the GDP, measures the dollar value of all goods and services produced within the borders of the United States, regardless of who owns the assets or the nationality of the labor used in producing that output. Data is available in nominal and real dollars. Investors always monitor the real growth rates because they are adjusted to inflation.

This is the most comprehensive measure of the U.S. economy's performance. Healthy GDP growth is between 2.0 percent and 2.5 percent (when the unemployment rate is between 5.5 percent and 6.0 percent). This translates into strong corporate earnings, which bodes well for the stock market. A high GDP growth leads to accelerating inflation, while low growth indicates a weak economy. Higher-than-expected numbers will strengthen a country's currency.

This report is released the third or fourth week of the month at 8:30 a.m. Eastern for the prior quarter, with subsequent revisions released in the second and third months of the quarter.

The Bureau of Economic Analysis, U.S. Department of Commerce releases the report. And the data can be seen at <http://www.bea.gov/bea/dn/home/gdp.htm>.

### **Retail Sales**

This index measures the total sales of goods by all retail establishments in the U.S. (sales of services are not included). These figures are in current dollars, that is, they are not adjusted for inflation. However, the data is adjusted for seasonal, holiday, and trading-day differences between the months of the year.

This is considered the timeliest indicator of broad consumer spending patterns. It gives you a sense of the trends among different types of retailers. These trends can help you identify economic strength and weakness. A higher-than-expected number strengthens a country's currency.

This report is released monthly around the 12th of every month at 8:30 a.m. Eastern and the data can be found at <http://www.census.gov/svsd/www/advtable.html>.

### **International Trade (Trade Balance)**

The international trade measures the difference between exports and imports of U.S. goods and services. Imports and exports are important components of aggregate economic activity, representing approximately 12 to 14 percent of GDP respectively. Typically, stronger exports are bullish for corporate earnings and strong economical growth. Changes in trade balance with particular countries can have implications for foreign exchange and policy with that trading partner. A higher-than-expected number will strengthen a country's currency.

The Census Bureau and the Bureau of Economic Analysis of the Department of Commerce release this report on a monthly basis. You can view the raw data at <http://www.census.gov/foreign-trade/www/press.html>.

### **ISM Manufacturing**

The Institute of Supply Management (ISM) Manufacturing Index measures the activity level of purchasing managers in the manufacturing sector, with a reading above 50 indicating expansion. A rising trend has a positive effect on the nation's currency.

To produce the index, purchasing managers are surveyed on a number of subjects including employment, production, new orders, supplier deliveries, and inventories. Traders watch these surveys closely because purchasing managers, by virtue of their jobs, have early access to data about their company's performance, which can be a leading indicator of overall economic performance.

The Institute of Supply Management releases this report on a monthly basis. You can view the raw data at <http://www.ism.ws/index.cfm>.

### **Tradable UK Releases**

This section lists economic releases that I believe produce enough movement to trade for safe profit. The necessary deviation required to consider an entry on one of these releases varies from one indicator to

another. I have included a list of the necessary deviations within this manual for the releases I believe to be safe to trade. In this section I will cover reports out of the UK. Although all of these reports are duplicates from the United States, some of them are figured differently.

### **Consumer Price Index**

Like the CPI in the United States, the UK version is an index that measures the change in price of a representative basket of goods and services such as food, energy, housing, clothing, transportation, medical care, entertainment, and education. It's also known as the cost-of-living index.

The main portion of this report is the CPI ex Food and Energy. When trading currencies the CPI ex Food and Energy (MoM) will have the most immediate effect on market movement. However, monitoring the CPI (MoM) is also a good idea. A higher-than-expected number strengthens a country's currency.

The Bureau of Labor Statistics U.S. Department of Labor releases these numbers on a monthly basis. You can view the raw data at <http://www.statistics.gov.uk/instantfigures.asp>.

### **Gross Domestic Product**

Gross Domestic Product (GDP) is an integral part of the UK national accounts and provides a measure of the total economic activity in a region. GDP is often referred to as one of the main "summary indicators" of economic activity and references to "growth in the economy" are quoting the growth in GDP during the latest quarter. A higher-than-expected number will strengthen a country's currency.

In the UK, three different theoretical approaches are used to estimate the national GDP figure. GDP from the output or production approach, GDP from the income approach, and GDP from the expenditure approach. The estimates are "gross" because the value of the capital assets has actually worn away (the capital consumption) during the productive process.

For raw data visit <http://www.statistics.gov.uk/cci/nugget.asp?id=192>.

## **Retail Sales**

This is an index that measures the total sales of goods by all retail establishments in the UK (sales of services are not included). These figures are in current dollars, that is, they are not adjusted for inflation. However, the data is adjusted for seasonal, holiday, and trading-day differences between the months of the year, just like the American version.

This is considered the timeliest indicator of broad consumer spending patterns. It gives you a sense of the trends among different types of retailers. These trends can help you identify economic strength and weakness. A higher-than-expected number strengthens a country's currency.

Retail sales is a sample survey carried out by the Office for National Statistics on five thousand businesses in Great Britain. Raw data is available at <http://www.statistics.gov.uk/cci/nugget.asp?id=256>.

## **Trade Balance**

The UK trade balance is comprised of data provided by Customs & Excise on the physical movement of goods out of the country. UK trade has been one of the country's key economic indicators since 1967. A higher-than-expected number strengthens a country's currency.

All information included in the monthly UK Trade First Release is on a balance of payment basis and is seasonally adjusted. The release contains tables showing the total value of trade in goods together with index numbers of volume and price, figures analyzed by Broad Commodity Group (values and indices) and according to geographical area (values only).

Statistics for the Trade Balance are compiled by the Office for National Statistics (ONS). The raw data can be found at <http://www.statistics.gov.uk/cci/nugget.asp?id=199>.

## **Balance of Payments**

The Balance of Payments, also referred to as Current Accounts, is one of the United Kingdom's key economic statistics. It measures the economic transactions between United Kingdom residents and the rest of the world. It also draws a series of balances between inward and

outward transactions, provides an overall net flow of transactions between UK residents and the rest of the world, and reports how that flow is funded.

The Office for National Statistics releases the Balance of Payments on a quarterly basis. Get the raw data at <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=1118&Pos=&ColRank=1&Rank=272>.

### **Release Time**

Speed is critically important when entering the market. Your entry must be immediate upon hearing the news. Because of this a good news service is required. Unfortunately, I have not found a broker that has a news feed fast enough to allow you time to enter the market. I don't think this is a coincidence.

Brokers know that individuals who know how to properly trade the news would put them out of business if everyone got the news on time. I use a news feed that helps me interpret the numbers and allows me to simply buy or sell if my triggers are hit.

Once you have a news service in place and you have planned your trade, meaning you have gone through the entire news portion of this manual and you: (a) have identified the report you are trading, (b) have a general idea how it affects the particular countries currency, (c) know which direction the market will move based on the actual release verses the consensus, and (d) know how far off the release needs to be before you enter. You are now ready to trade. Have your charts open and some kind of anatomical clock on your desktop so that you will be ready when release comes out.

Before the release, be sure to identify obvious points of support and resistance on either side of the market using Fibonacci, pivot points, and trend lines. You will use these as exit points once you are in the trade. As the release draws near keep an eye on the clock and when it gets down to the last few seconds prepare yourself and concentrate on your dealing station so that you don't make a mistake.

When the news comes out quickly enter either buy or sell depending on the news and monitor it closely. When you see it nearing a level of support or resistance, be prepared to close the trade if it begins to

slow down. If the numbers come out significantly above or below the triggers then you will be able to ride it a little longer.

Also, monitor the tunnel and your major trend lines on the one-hour chart. If you see a trend line breach, then you may want to hold the position. Many times a news release is also the beginning of a tunnel trade. Remember the news is only a trigger to enter. You have to use your brain to manage the trade.

I suggest using a demo account when first learning this system or any other. Don't get in a hurry, as there will always be another trade. Any trader will tell you it is better to wish you were in a trade that is skyrocketing without you than getting in a trade at the top and wishing you weren't in it as it goes crashing against you.

### **Helpful Links**

The following links will help you find news releases and additional helpful information to use while you trade.

#### **Economic Calendars**

[Econoday Calendar](#)  
[Forex Factory](#)  
[The Street](#)  
[Market Watch](#)  
[Daily FX](#)  
[UnderstandMarket.com](#)

#### **Monthly Calendars**

[Forbes](#)  
[Oanda](#)  
[International Bank Holidays](#)  
[EMU Economic Indicators](#)

#### **Federal Reserve Bank certified buying rates**

[10:00 a.m. buying rates](#)  
[12:00 a.m. buying rates](#)

#### **News Services**

[Need To Know News](#)  
[Trade The News](#)

#### **Government Web Sites**

[Bureau of Labor Statistics](#)  
[U.S. Census Bureau](#)  
[Bureau of Economic Analysis](#)  
[Department of The Treasury](#)  
[National Statistics UK](#)

## **Risk Management**

One of the most important aspects of trading is money management. An individual trading with proper money management skills will do better in a mediocre trading system than a person trading an excellent system who lacks money management skills.

Every good trader has a strict set of money management guidelines that he or she adheres to. The Forex market features a heightened volatility that has made a huge impact on traders in today's market. The risk you take on in any given trade has increased; meanwhile the time you have to address it has decreased considerably. A trader cannot expect to eliminate this risk; however, he can take measures to effectively manage it.

To properly manage risk you must first identify what risks are involved and apply the appropriate risk management technique. Rules that you won't follow don't matter. No matter how good a risk management system is, it won't have any impact on your trading if you don't apply it.

There are five basic components to any money management program.

- Currency Selection (Volatility)
- Lot size (How much margin will we use)
- Stop Placement (How much margin to risk)
- Entry Level (When no to trade)
- Limit (how much money will we make)

Let's consider each component in detail.

### **1. Currency Selection**

The first decision you must make when trading currency is what currencies you want to trade. Why is this important? Your decisions should align with your goals. For example, the EUR/GBP moves very slowly. If you enter a trade on this currency you must be aware of the possibility of having our margin tied up for a long period of time. The longer you are in a trade the more risk you take on due to the possibility of political upset, fundamental announcements, etc. This also affects your ability to enter additional trades because it ties up your margin.

## **2. Trade Size**

The decision regarding how much to buy or sell is absolutely fundamental yet often overlooked or improperly handled by most traders. The amount which a trader buys or sells affects both diversification and money management. By diversifying, you spread the risk over multiple currencies, which increases the probability for profit by increasing the opportunity for catching successful trades.

To diversify properly, make similar, if not identical, trades on many different currencies. The purpose of money management is to control the risk by not overextending your margin and putting yourself in a position to have a margin call. This concept is the single most important aspect of trading in regard to rules.

The majority of beginner traders and many seasoned traders greatly increase their chances of failure by overextending themselves and using poor money management before they can swing the odds in their favor. With all that said, let's break down the process of choosing the proper lot size. In order to correctly calculate lot size we must first decide on a few rules. The rules are as follows:

- Maximum allowable risk overall
- Maximum allowable risk per trade
- Desired Stop Placement

### **Maximum Allowable Risk**

Maximum allowable risk defines the amount of money you are willing to risk in total between all the open positions. For example, let's say you are using 3 percent as your maximum allowable risk and you have \$100 thousand of available margin. This means that you can never have more than \$3,000 exposed at any one time.

How can you calculate your exposure? This is calculated by taking the traded currencies pip value and dividing it by \$3,000. At the current time the EUR/USD is worth \$10 per pip per lot therefore  $3000/10 = 300$  pips. If 300 pips is our maximum exposure then the combined pip count of all our stops cannot equal more than 300.

### **Maximum Risk per Trade**

This defines the amount of money you are willing to risk on a single entry. I suggest no more than 1.5 percent to 2 percent on any one

trade. This allows for additional positions to be added and doesn't use your entire available margin. This is calculated the same as maximum allowable risk only using the 1.5 percent figure instead of the 3 percent figure used above.

### **Desired Stop Placement**

To decide lot size, you must first decide where the optimum place to put your stop is. Let's assume that you are using a support that is located 30 pips below your entry and you plan on setting your stop 5 pips below that. You have the same margin in the example above and are only going to risk 1.5 percent on a single trade. 1.5 percent of \$100 thousand is \$1,500; therefore, you can risk a maximum of four lots, assuming you get stopped out at 35 pips. This would equal \$1,400, so the trade size would be 4 lots at the most.

### **3. Stop Placement**

As a trader you must learn to embrace your losses, as they will save you tons. This sounds quite hypocritical; however, as explained in the section regarding controlling your emotions, it is something you must learn to accept. Traders who do not cut their losses will not be successful in the long term.

The most important part of this concept is to predefine this level before entering the trade. Using the information above to calculate acceptable losses along with support and resistance levels will give you a good idea of where to place your stops.

### **4. Entry Level**

When considering an entry, understand the process of calculating the maximum allowable risk per trade. Let's assume that you have multiple trades open and you receive a sell signal on the EUR/USD. You have \$20 thousand in available margin after allowing for the stops that are in place on the existing trades; assuming a 1.5 percent risk allowance, that would allow you \$300 to play with. If the nearest resistance was more than 30 pips away, to properly trade your stop would need to be above that level.

With each pip worth \$10, that stop would cost more than \$300; therefore this trade should be passed on. You should have your trade planned before entering; you should know stops levels, expected profit targets, risk reward ratio, your available margin, etc. Bottom line, your entry should be close to a support or resistance.

## **5. Limit Level**

Having a target in mind is important when entering a trade; otherwise you have no way to compare the risk to reward. For example, if you have a target and it is only 18 pips away, it would not be wise to risk 30 or 40 pips to capture that move.

When taking a position in the Forex, or any other market, be sure that the possible profit is at least equal to the accepted risk. When trading a system that has proven to be profitable, proper money management will ensure that you can weather the losses and stay around when the trade goes your way. After all, if you have a system that is 70 percent accurate and you lose the first thirty trades out of one hundred you better have enough margin left to trade for the next seventy.

## **Hedging**

There are many misconceptions as to why a trader would hedge a trade. I would like to clarify that hedging serves one purpose and one purpose only: limiting risk. The fear of being stopped out can be eliminated by using proper hedging techniques. If a hedge entry is properly managed the worst possible turn out is a minor loss.

The downside is resolving an active hedge order may require some patience due to the nature of the trade. When hedging, you have a choice between two approaches: wide and narrow. Both methods have advantages and disadvantages depending on the objective of the trader.

A hedge order is a trade place in opposition of an existing trade of the same currency pair. The majority of the brokers do not allow this; therefore, you must first verify with your broker that they do hedge; otherwise an attempt at a hedge order will cancel both trades.

A hedge order is a great alternative to a stop and should be used for the same purpose: limit risk, not making a profit. Regardless of your trading experience, realize that losses are inevitable and therefore you must manage them.

When your stop is hit, you are done, no second chances. However a hedge position allows for some flexibility and maybe even some profit. The initial order is your primary focus for profit, the hedge order

merely allows for less of a blow to our margin when the market does something unexpected.

Another advantage of hedging is the ability to increase or decrease position sizing on the hedged position. For example, your first entry is long on the EUR. With two lots, your second position is entered short with one lot or even four lots. I only suggest entering with more lots if you have strong indicators telling you that the market is going to continue against your first entry.

When managing a hedge, treat it as a standalone trade. Take caution when closing a hedge trade and your primary entry is in the negative. You should immediately place a second hedge order at your regular stop distance to protect the primary trade.

Many people have a problem grasping the concept of hedging, so be assured that this is not a complicated method. Simply manage it as if it was a standalone trade and this will simplify things significantly. If you are trading on a platform that doesn't allow hedging, you may still use this strategy. However, it requires two separate accounts. All hedge orders will incur the standard broker fees and margin requirements in place.

The first thing to do before hedging is open a demo account and practice, practice, practice. As with any new concept in trading, you must experiment with it until you are confident in your ability to manage a trade that has been hedged. Secondly, always place your hedge orders at the place you would regularly place your stop. The objective is not to trigger your hedge order only to protect your primary entry.

The worst case scenario is the hedge position is brought in and the currency reverses again. At this point you have two options. The first is to ignore the pair completely (both the initial order and the hedge) and compensate the negative with a later trade. The second option is to place an additional trade in line with the primary entry with multiple lots. This should only be done if you are trading with the overall trend and you have a valid reason to enter the trade. This trade must be hedged as well; you would place the hedge order at the proper stop level just as if this were a new trade.

## **Managing Your Risk**

Risk management is the most important factor to consider in your trading. It should dictate all of your other decisions, including how much to trade, where to place stops, and your strategy once you enter. Use the strategies outlined in this chapter to determine your risk management guidelines, and then stick to them—doing so will protect your margin and your sanity.

## **Controlling Your Emotions**

Looking out for number one is critical in trading. When taking part in any market, you must control your emotions; simply put, you must act in your own best interest. Wishing and hoping have no place in trading.

You must be able to realize when you have entered into a losing trade and close it immediately. Failure to do so will only further damage your ability to make decisions based on technical data. The worst thing a trader can realize is that he or she is in a losing trade and not close it, only to find that it comes back and makes them money. Although your loss is recovered, this can build false expectations and, in essence, shifts responsibility to the market. Do not allow yourself to think, "Maybe it will come back," because you will then have crossed from technical trading to wishing and hoping. If the market does come back, this should encourage further unnecessary risks.

You must learn to enjoy taking losses and embrace them. Right now you are probably thinking, "What are you talking about?" Well, let me say it could be worse, much worse. Building your account on wishing and hoping falls apart when the market takes back everything you have made in one trade because you thought it would come back. Learn to act in your own best interest, if you are in a losing trade close it.

Closing out of losing trades is only one part of acting in your own best interest. What does it matter if you have learned to close losing trades but you are only taking 5 pips per winning trade? Once again, taking 5 pips isn't in your best interest when you are risking 15 or more pips per trade.

On the other hand, if you're risking less than five, you should let the profitable trades continue. Think of it like a bass tournament with a big fish prize that pays out five levels. Let's assume that you have entered as a candidate for the big fish prize. You don't know how big your fish is in comparison to the others; only that it has made it to the top five. In essence you have already won; you can't lose. You may not get the jackpot but whatever the outcome still means money in the bank. With that said, would you ever withdraw from the contest? Of course not—no matter what happens you will benefit from the contest. Let's

assume you are in a trade and you are earning profit. You, like the fisherman, have already won. So why would you ever forfeit the possibility of getting the big fish jackpot. To summarize, traders must learn to act in their own best interests by cutting losses and letting profits run.

### **Visualizing Success**

Confidence is extremely important when trading; you must visualize yourself being successful. The saying, "What we think about comes about," has more truth than you may realize. The power of the mind has been pondered for centuries and affects us in every aspect of our lives.

I recently saw a special on television about studies on humans and the power of the mind that Hitler conducted during the Holocaust. . The Jews were lined up to be branded like cattle with numbers, and they could hear the screams and smell the burning flesh of their countrymen while they waited. Occasionally the Nazis used a very cold brand in place of the usually red hot brand, and they found that the pain this caused was equally as agonizing and in some cases even left an unexplainable mark. As horrible as these tactics were, they serve as a testimony to the power of the brain and the results are quite amazing.

With that said, you must take an active role in goal setting. And you must also visualize yourself making profitable trades. In your mind, break down the criteria in which you base your trading and visualize the market meeting those criteria. See the market bouncing off of your trend line, which overlaps a pivot point. And visualize all the steps you take to confirm each trade, such as trend direction and currency volatility. Then, most importantly, visualize the market accomplishing your target.

### **Be Prepared to Lose**

Be prepared to lose because losing is part of trading. And if you carry the burden of your losses into the next trade, your account will dwindle away. It goes back to visualizing success. If you carry that loss into the next trade you will subconsciously be visualizing a loss.

To regain your edge, you must take responsibility for your losses and realize that it's not the broker's fault or the market's fault. The market holds no prejudices; it doesn't care about your nationality, ethnicity, or

financial situation—it will take your money either way. The sooner you realize this fact, the better off you will be. People who blame others for their shortcomings tend to revenge trade in order to get back at those who made them lose. They need realize the loss is their own fault, there is no one to get revenge on, and trading again will not accomplish revenge.

Accepting responsibility for your losses will greatly cut down on revenge trading. The key to controlling losses is identifying them and immediately closing them. Don't marry a trade either. Realize the market has no boundaries and the direction you are trading may be wrong. When you close a loss you protect your previous profits, and that's why you should embrace your profits as well as your losses.

If you can learn to control your losses the wins will take care of themselves. To summarize, you cannot carry your losses into the next trade as your subconscious is very powerful. What you think about comes about, and if you are trading scared you will ultimately lose. Envision winning!

### **Breaking Rules**

You must have set rules or guidelines when trading; however, just having rules is not good enough. You must follow the rules at all times. Many traders see the market jumping around due to some announcement and just enter because it's moving. In doing this a trader disregards his or her own rules for trading.

Learn to wait for the trade to come to you. There is always another trade just around the corner. In order to follow a set of rules you must be completely aware of each rule in all situations, including stops, limits, risk, etc. This will help you be more mechanical and less emotional in your decision making. I want to reiterate the importance of not wishing and hoping. If you are hoping, then you are not completely prepared for the trade from a technical standpoint and you do not have a good hold on the existing situation. It would be in your best interest to close the trade, cut your losses, and prepare yourself for the next opportunity.

I would like to talk about one of the main reasons traders break their rules: greed. Greed keeps an individual from taking profit at his predetermined level in hopes for more. It also keeps him from closing a trade at a loss at the predetermined stop level. Beyond this it will

persuade an individual to take profit early, which will keep the trader from capturing more potential profit.

A trader must learn to plan his trade and trade his plan. If you plan to take profit at 30 pips, then do it. If you think it's going to continue for more profit, only stay in if you would be willing to enter if you weren't already in it. And make sure you move your stop to break even at a minimum.

Another emotion that parallels greed is fear. Fear will keep you in a bad trade and force you out of a good one. The majority of traders let their losses run and cut their profits short; you must do the opposite. You must conquer your fears or you will sabotage your trading.

### **Conquering Your Emotions**

Emotions can get the best of all of us, but to be a good trader you must conquer your emotions, build a strong self image, stick to a goal plan, embrace your mistakes, learn to relax, and control your anger to minimize revenge trading.

The old adage, "If you fail to plan, you will plan to fail," most certainly applies to trading. Most of us want to hit the home runs, but building up a consistent track record of profitable trades will definitely build your confidence and ultimately make you a much better trader. When you keep these important concepts in mind, your approach to trading becomes more practical and planned, and your profits will reflect your confidence.

## **Conclusion**

The most important thing to learn about the Forex market is that although trading in it is enjoyable and exciting, there is no magic potion that will instantly turn your \$1,000 into millions. The truth is that no matter how you look at it, education is the only fool-proof way to consistently make money in the Forex. Even after you finish reading through this e-book, your journey as a Forex trader is only beginning. I have never met a successful Forex trader who stopped learning. There is always something new to learn and you must actively seek out as much information as you can.

The Forex market is dynamic and continuously changing (as is every market). Being well-versed in all the disciplines of trading gives you the ability to adapt and make quick decisions in this fast-paced market. As with any profession that requires a high level of skill, you can never stop learning and practicing as a trader in the Forex. Otherwise, your skills will deteriorate and you will slowly forget what you have learned. Trading involves becoming proficient in several disciplines; including fundamental analysis, technical analysis, and self-analysis, and each of those require continual study and awareness.

Once you've properly educated yourself, traded a few demos, and saved up sufficient capital, the time will come when you will have to tackle the markets in a live environment. By this time you should know the mechanics of trading and methods to analyze the market that you are most confident. Just make sure you also develop a plan to manage your money. If you follow your plan, it should help control your emotions, whether you feel the pressure of a losing streak, or have the excitement of making a string of profitable trades.

You will need to learn to let go of each trade once it is done and focus on the next opportunity. What separates the profitable traders from the unprofitable ones is that profitable traders can handle the pressure of risk and control their emotions. They realize that losing is just a part of business. Those who have enough confidence in their methods and systems know that a drawdown is a short-term setback and they will soon recover.

For those willing to take the challenge and follow through, professional trading can be a worthwhile goal. However, before you take the big plunge into Forex trading, take advantage of the vast array of information that is available. Trade on the demo accounts that most brokers provide for free, and develop your system for trading using the information provided in this book as well as other resources. This e-book is just the beginning, but hopefully it will be the beginning of a wonderful experience for you as you sharpen your skills and become a successful Forex trader. Remember to never stop learning, and most importantly, never quit!

## **Glossary**

Appreciation - A currency appreciates when it strengthens in price in response to market demand.

Ask Rate - The rate at which a financial instrument is offered for sale (as in bid/ask spread).

Balance of Trade - The value of a country's exports minus its imports.

Base Currency - In general terms, the base currency is the currency in which a trader or issuer maintains their book of accounts. In the FX markets, the U.S. Dollar is normally considered the base currency for quotes, meaning that quotes are expressed as a unit of \$1 USD per the other currency quoted in the pair. The primary exceptions to this rule are the British pound, the Euro, and the Australian dollar.

Bear Market - A market distinguished by declining prices.

Bid Rate - The rate at which a trader is willing to buy a currency.

Bid/Ask Spread - The difference between the bid and offer price, and the most widely used measure of market liquidity.

Broker - An individual or firm that acts as an intermediary, putting together buyers and sellers for a fee or commission. In contrast, a dealer commits capital and takes one side of a position, hoping to earn a spread (profit) by closing out the position in a subsequent trade with another party.

Bull Market - A market distinguished by rising prices.

Candle Stick Chart - A chart that uses Japanese Candlesticks to illustrate price movement.

Central Bank - An organization that manages a country's monetary policy. For example, the U.S. central bank is the Federal Reserve, and the German central bank is the Bundesbank.

Channel - A chart pattern in which lines (either trending or horizontal) contain price action. This can be in a trend ("trend channel") or in congestion ("congestion channel").

Contagion - The tendency of an economic crisis to spread from one market to another. In 1997, political instability in Indonesia caused high volatility in their domestic currency, the Rupiah. From there, the contagion spread to other Asian emerging currencies, and then to Latin America, and is now referred to as the "Asian Contagion."

Commission — A transaction fee charged by a broker.

Commitments of Traders (COT) - a weekly report from the CFTC on the volume of long and short futures contracts held by small, large, and commercial traders.

Congestion - A chart pattern in which there is no trend. Horizontal lines mark the top and bottom (support and resistance) prices.

Contract - The standard unit of trading.

Cross Rate - The exchange rate between any two currencies that are considered non-standard in the country where the currency pair is quoted. For example, in the U.S., a GBPJPY quote would be considered a cross rate, whereas in UK or Japan it would be one of the primary currency pairs traded.

Currency - Any form of money issued by a government or central bank and used as legal tender and a basis for trade.

Currency Risk - The probability of an adverse change in exchange rates.

Day Trading - Refers to positions which are opened and closed on the same trading day.

Dealer - An individual who acts as a principal or counterpart to a transaction. Principals take one side of a position, hoping to earn a spread (profit) by closing out the position in a subsequent trade with another party. In contrast, a broker is an individual or firm that acts as

an intermediary, putting together buyers and sellers for a fee or commission.

Deficit - A negative balance of trade or payments.

Delivery - An FX trade where both sides make and take actual delivery of the currencies traded.

Depreciation - A fall in the value of a currency due to market forces.

Derivative – A contract that changes in value in relation to the price movements of a related or underlying security, future, or other physical instrument. An option is the most common derivative instrument.

Devaluation - The deliberate downward adjustment of a currency's price, normally by official announcement.

Economic Indicator - A government-issued statistic that indicates current economic growth and stability. Common indicators include employment rates, Gross Domestic Product (GDP), inflation, retail sales, etc.

End Of Day Order (EOD) - An order to buy or sell at a specified price. This order remains open until the end of the trading day which is typically 5:00 p.m. Eastern.

European Monetary Union (EMU) - The principal goal of the EMU was to establish a single European currency called the Euro, which officially replaced the national currencies of the member EU countries in 2002. On January 1, 1999, the transitional phase to introduce the Euro began. The Euro now exists as a banking currency, and paper financial transactions and foreign exchange are made in Euros. The transition period lasted for three years, at which time Euro notes and coins entered circulation. On July 1, 2002, only Euros became legal tender for EMU participants; the national currencies of the member countries ceased to exist.

EURO - the currency of the European Monetary Union (EMU). A replacement for the European Currency Unit (ECU).

European Central Bank (ECB) - The Central Bank for the new European Monetary Union.

Federal Reserve (Fed) - The Central Bank for the United States.

Flag - a chart pattern in which bars show diminishing range, and the trend lines for the highs and lows are converging to an apex.

Flat/square - Dealer jargon used to describe a position that has been completely reversed. For example, you bought \$500 thousand then sold \$500 thousand, thereby creating a neutral (flat) position.

Foreign Exchange (Forex, FX) - The simultaneous buying of one currency and selling of another.

Forward - The pre-specified exchange rate for a foreign exchange contract settling at some agreed future date, based upon the interest rate differential between the two currencies involved.

Forward points - The pips added to or subtracted from the current exchange rate to calculate a forward price.

Fundamental analysis - Analysis of economic and political information, with the objective of determining future movements in a financial market.

Good Till Cancelled Order (GTC) - An order to buy or sell at a specified price. This order remains open until filled or until the client cancels.

Hammer - a candlestick pattern in which a small real body has one very long lower shadow and little or no shadow on top. This is a reversal signal when it occurs in a downtrend.

Hedge - A position or combination of positions that reduces the risk of your primary position.

Inflation - An economic condition whereby prices for consumer goods rise, eroding purchasing power.

Initial margin - The initial deposit of collateral required to enter into a position as a guarantee on future performance.

Interbank rates - The Foreign Exchange rates at which large international banks quote other large international banks.

Leading Indicators - Statistics that are considered to predict future economic activity.

Leverage - The ability to control more money than you have. Leverage of 100:1 is commonly available from online FX dealers, which substantially exceeds the common 2:1 margin offered by equity brokers. At 100:1, traders post \$1,000 margin for a \$100,000 position, or 1 percent. Rather than merely loading up on risk as many people incorrectly assume, leverage is essential in the forex market. This is because the average daily percentage move of a major currency is less than 1 percent, whereas a stock can easily have a 10 percent price move on any given day.

The London Inter-Bank Offered Rate (LIBOR) – Banks use the LIBOR when borrowing from another bank.

Limit order - An order that will result in a profit when executed buy closing a trade.

Liquidity - The ability of a market to accept a large transaction with minimal to no impact on price stability.

Liquidation - The closing of an existing position through the execution of an offsetting transaction.

Long position - A position that appreciates in value if market prices increase.

Margin - The required equity that a trader must deposit to collateralize a position.

Margin call - A request from a broker or dealer for additional funds or other collateral to guarantee performance on a position that has moved against the customer.

Market Maker - A dealer who regularly quotes both bid and ask prices, and is ready to make a two-sided market for any financial instrument.

Market Risk - Exposure to changes in market prices.

Offer - The rate at which a dealer is willing to sell a currency.

Offsetting transaction - A trade with which serves to cancel or offset some or all of the market risk of an open position.

Open position - A deal not yet reversed or settled with a physical payment.

Overnight - A trade that remains open until the next business day.

Pennant - a chart pattern similar to a flag but more elongated.

Pip - Price Index Point. This is what the Forex is measured in.

Pivot Point - A price reversal point, often signifying support or resistance.

Position - The netted total holdings of a given currency.

Price Transparency - Describes quotes to which every market participant has equal access.

Quote - An indicative market price, normally used for information purposes only.

Rate - The price of one currency in terms of another, typically used for dealing purposes.

Re-quote - Is when a broker backs out of his offer, and subsequently offers a higher new price.

Resistance - A price level at which rising prices have stopped rising and either moved sideways or reversed direction; usually seen as a price chart pattern.

Retest - Price returns to a previous high or low but does not break through the resistance or support at that price.

Retracement - A price movement in the opposite direction of the previous trend.

Revaluation - An increase in the exchange rate for a currency as a result of central bank intervention. Opposite of Devaluation.

Risk - Exposure to uncertain change, most often used with a negative connotation of adverse change.

Risk Management - The employment of financial analysis and trading techniques to reduce and/or control exposure to various types of risk.

Roll-Over - Process whereby the settlement of a deal is rolled forward to another value date. The cost of this process is based on the interest rate differential of the two currencies.

Settlement - The process by which a trade is entered into the books and records of the counterparts to a transaction. The settlement of currency trades may or may not involve the actual physical exchange of one currency for another.

Shading - Phone-based trading requires end users to request a quote for each transaction. This process allows dealers to read a client's position, and shade the price in the dealer's favor. Shading can range from just a few pips for a larger client, and up to 50 pips or more for a smaller transaction.

Short Position - An investment position that benefits from a decline in market price.

Spot Price - The current market price. Settlement of spot transactions usually occurs within two business days.

Spread - The difference between the bid and offer prices. Dealing spreads are typically 5 pips or less.

Sterling – Slang for British Pound.

Stop Loss Order - Order type whereby an open position is automatically liquidated at a specific price. Often used to minimize exposure to losses, if the market moves against an investor's position.

Support Levels - A technique used in technical analysis that indicates a specific price floor at which a given exchange rate will automatically correct itself. Opposite of resistance.

Swap - A currency swap is the simultaneous sale and purchase of the same amount of a given currency at a forward exchange rate.

Swing - a clear reversal in price direction, usually marked by a price rejection or hammer bar.

Technical Analysis - An effort to forecast prices by analyzing market data. For example, historical price trends and averages, volumes, open interest, etc.

Technical Analysis (the study of charts) – The study of past price movements in order to predict future price movements. A currency, as a commodity, is uniquely suited to technical analysis because the economic fundamentals that move the market (recessions and economic booms) tend to repeat themselves. Economic cycles are the ultimate repetitive event, and are easier to identify than equity fundamentals. Currencies rarely spend much time in tight trading ranges, and have the tendency to develop strong trends. On a daily basis, a technically trained trader can easily identify new trends and breakouts, which provide multiple opportunities to exit and enter positions. Most market makers provide clients with free real-time charting packages, as well as paid options for more sophisticated users.

Transaction Cost - The cost of buying or selling a financial instrument.

Transaction Date - The date on which a trade occurs.

Trend - Price makes higher highs and higher lows (uptrend) or lower lows and lower highs (downtrend).

Trend line - A line connecting the highs or connecting the lows.

Turnover - The total money value of all executed transactions in a given time period; volume.

Uptick - A new price quote at a price higher than the preceding quote.

U.S. Prime Rate - The interest rate at which U.S. banks will lend to their prime corporate customers.

Value Date - The date on which counterparts to a financial transaction agree to settle their respective obligations. For example, exchanging payments. For spot currency transactions, the value date is normally two business days forward. Also known as maturity date.

Variation Margin - Funds a broker must request from the client to have the required margin deposited. The term usually refers to additional funds that must be deposited as a result of unfavorable price movements.

Volatility (Vol) - A statistical measure of a market's price movements over time.

Whipsaw - Slang for a condition of a highly volatile market where a sharp price movement is quickly followed by a sharp reversal.



For up-to-the-minute Forex trading commentary, trading videos, free articles, guides and glossaries, and a Forex Trader Community and Forum -- visit <http://www.forextradersdaily.com/>

Receive...

- Daily posts and commentary concerning the most recent Forex Live-on-the-News trades, with expert analysis ...
- Archives of ALL previous Forex Live-on-the-News trade calls...
- A Forex Trader Community and Forum where you can discuss with like-minded traders issues connected to all aspects of trading...
- Archive of Forex Live-on-the-News trading videos for learning and research...
- Updates on upcoming events in the world of Forex trading and Forex news trading...
- Free reports, articles, guides, glossaries ...
- RSS feed, and much more...

Visit <http://www.forextradersdaily.com/>

### **HOT RECOMMENDATION: Forex "Live-on-the-News" Trading Calls...**

If you want to discover how one professional Forex trader jumps in and out of the market at the very instant economic news releases hit the wires, often at a time the Forex markets move 50 to 280 pips sometimes in seconds... which can generate profit potential in the \$500 to \$2,800 range in minutes...

Then subscribe today to the Forex Trader's Daily Trade Calls...

<http://www.forextradersdaily.com/subscribe.php>