



COMPASS



TRADING ESSENTIALS

UNDERSTANDING THE BASICS OF FOREX

e-book

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COMPASS

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Trading of FOREX, CFDs, derivatives and other investment products that are leveraged, can carry a high level of risk, and may not be suitable for all investors. The nature of leveraged products means that any market movement will have an equally proportional effect on your deposited funds. This may work against you as well as for you. It is possible that you could sustain a total loss of initial margin funds and will need to deposit additional funds to maintain your position. If you fail to meet any margin requirement, your position may be liquidated and you will be responsible for any resulting losses. Selling short may result in losses beyond your initial deposit as well, because you may have to purchase a security at a very high price in order to cover a short position. **YOU MAY RAPIDLY LOSE ALL OF THE FUNDS DEPOSITED FOR TRADING.** Therefore, you should not speculate with capital that you cannot afford to lose. In particular, you should not fund trading with retirement savings, student loans, second mortgages, emergency funds, funds set aside for purposes such as education or homeownership, or funds required to meet your living expenses. Trading requires good knowledge of financial markets, trading techniques and strategies. You should understand that while trading you will compete with other market professionals, licensed traders and those employed by trading firms. In addition to normal market risks, you may experience losses due to system failures. Trading also may result in paying large commissions. The total size of commissions that you pay on your trades may significantly add to your losses or significantly reduce your earnings.

Before deciding to trade you should carefully consider your objectives, financial resources, needs, your level of experience and other circumstances. We recommend you seek advice from an independent financial advisor before going into real trading.

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WHAT YOU CAN EXPECT FROM THIS TRADING e-book

**A detailed background
into the FOREX market**

Practical FOREX skills

Real life case studies

WHAT ARE THE REQUIREMENTS TO GET STARTED?

A trading account

Watch the Markets

Listen to the News

**Practice and application
of elements taught**

**ALWAYS FOLLOW YOUR
RULES, NO BENDING!**

WHY TRADING ON THE FOREX MARKET?

FOREX is the biggest and fastest financial market in the world with a current average daily trade volume of between \$3 – 6\$ trillion

A 24/5 market

**Multidirectional trades
(long or short positions)**

**Lower Costs / barriers of
entry and no commissions**

**High Liquidity for ease
of entry and exit of positions**

**Margin, the minimum
balance
required to place a trade**

**Leverage, the borrowing of
money needed to invest,
offered by the broker**

WHAT YOU CAN EXPECT FROM THIS TRADING e-book

FOREX, also known as FX, is the foreign exchange market, where the worlds currencies are traded

Trade volumes are currently around \$ 6.6 Trillion USD a day (2019) and were as high as \$ 5.8 Trillion in 2013

A SHORT HISTORY IN FOREX:

While we think of currency markets as a relatively new invention, money changers were first mentioned in the Talmud, which dates back to biblical times. The money changers charged a commission, of course.

The gold standard was set in 1880, the year which many people hold as the start of modern Forex.

WHAT IS FOREX?

In July 1944 the Bretton Woods agreement that gave way to forex trading. This agreement established fixed exchange rates between countries whose currency values were all pegged to the U.S dollar, and the US dollar's convertibility to gold at a fixed rate of \$35 dollars per ounce.

By the end of 1971 this system had essentially collapsed and
where speculation in currency markets determined a floating currency's value.

It was once exclusively available to banks, hedge funds, corporations and other financial institutions where exchanges took place for speculative reasons.

With the advent of the internet, the scope of the reach of this facility was extended to everyday participants and FOREX trading was available to everybody.

WHAT IS FOREX?

MADE UP OF MAJOR, MINOR, AND EXOTIC CURRENCY PAIRS:

MAJORS	EUR/USD <i>Euro/US dollar</i>	USD/JPY <i>US dollar/ Japanese yen</i>	GBP/USD <i>British pound/ US dollar</i>	USD/CHF <i>US dollar/ Swiss franc</i>	USD/CAD <i>US dollar/ Canadian dollar</i>	AUD/USD <i>Australian dollar/ US dollar</i>	NZD/USD <i>New Zealand dollar/US dollar</i>
	EUR/GBP <i>Euro/British pound</i>	EUR/AUD <i>Euro/Australian dollar</i>	GBP/JPY <i>British pound/ Japanese yen</i>	CHF/JPY <i>Swiss franc/ Japanese yen</i>	NZD/JPY <i>New Zealand dollar/ Japanese yen</i>	GBP/CAD <i>British pound/ Canadian dollar</i>	
	EUR/TRY <i>Euro/Turkish lira</i>	USD/HKD <i>US dollar/Hong Kong dollar</i>	JPY/NOK <i>Japanese yen/ Norwegian krone</i>	NZD/SGD <i>New Zealand dollar/ Singapore dollar</i>	GBP/ZAR <i>British pound/South African rand</i>	AUD/MXN <i>Australian dollar/ Mexican peso</i>	

HOW DOES FOREX WORK?

1

You are already probably a FOREX market participant. If you have ever travelled abroad and had to exchange currency, then you completed a physical transaction, which is exactly the same as a FOREX trade. The difference being that, as you need to use that currency in your destination country, you took delivery of the currency and not just speculated on price movements. There are seven strategies to use FOREX to hedge in anticipation of upcoming travel!

2

As listed above, the FOREX market is made up of various quoted exchange rates. That is, the price of a particular currency relative to another. Take for example EUR/USD (Euro / US Dollar). This is given as a single amount because it is indicative of the amount of USD you can buy for 1 EURO.

3

The BASE currency, in this example, the EURO. This is always the first of the two in the ISO code, so USD/JPY, the USD would be the base currency. The quote would be how many Japanese Yen you can buy for 1 USD.

HOW DOES FOREX WORK?

4

The second currency is called the QUOTE or CROSS. This amount is variable dependent on market conditions at a particular time on a particular day.

5

When you see an increase of the EUR/USD that would mean that the purchasing power of the EURO is increasing. This can be for two reasons, either the EURO is getting stronger against the USD, or the USD is getting weaker against the EURO. For 1 EURO you would be able to buy more USD. This would be an opportunity to buy the EUR/USD as the value when you close the trade would be greater than the value when you opened the trade. Let's say you buy at 1.09 and you sell at 1.12. You made profit of 0.03.

6

If you would like to reverse the quote to see how much, for example, a USD/EUR quote price would be you can simply divide 1 by the quote price, e.g. EUR/USD is 1.10, then USD/EUR would be $1/1.10 = 0.9090$ so that 1 USD would purchase 0.9090 EURO.

HOW DOES FOREX WORK?

7

Trade size, in the above example, the profit of 0.03 may not seem like much, however, you need to take the size of the trade into consideration. The amount of a pip/point is variable depending on the size of the trade, measured in LOTS. Depending on a trade size, 0.01 might be worth \$ 0.01 or it might be worth \$ 500.

8

The overall objective of currency trading is to buy a currency that increases in value relative to the one that you sold. If you have bought a currency and the price appreciates in value, then you sell the currency back to lock in the position.

9

Now you have an idea of how the currencies relate to one another, the next question should be, well what makes them move then? In the above example, what would be causing the EUR strength or USD weakness and how can I tell the difference? This is where the holy grail of trading FOREX comes in, the news. More specifically, the Economic News releases which are very largely responsible for the movements in a particular currency on a particular day.

HOW DOES FOREX WORK?

These are all conveniently released at predetermined times and at predetermined levels of significance, all of which can be located on an Economic Calendar

Time			Actual	Forecast	Prior
17:30		EIA Weekly Gasoline O/P	—	—	-0.352M
17:30		EIA Weekly Dist Output	—	—	-0.249M
17:30		EIA Weekly Rfg Stocks ▾	—	—	0.004M
17:30		EIA Weekly Heatoil Stock	—	—	1.503M
17:30		EIA Weekly Crude Imports	—	—	-0.071M
17:30		EIA Weekly Crude Runs	—	—	-0.392M
17:30		EIA Wkly Crude Cushing	—	—	-3.15M
17:30		EIA Weekly Prods Imports	—	—	0.664M
17:30		EIA Weekly Refining Util	—	-0.5%	-2.1%
17:30		EIA Weekly Dist. Stocks ▾	—	-1.5M	0.639M

SETTING UP FOREX CHARTS?

Asset:
Opening charts in
currencies you want to
trade and alternating
between them

Line/Candlesticks/Bar:
Choose which type of
chart you prefer

Time periods: How to
alternate between
timeframes & seeing
how this can affect
your view of a
currency's directions

STYLES OF TRADING FOREX (TIMEFRAMES)

1

SCALPING

This is the shortest timeframe of trading. The idea is to keep the charts on 1 or 5 minute timeframes and relies on incredibly fast action opening and closing positions, often within a few seconds. The aim is that the profits of each successful trade are small, but that the volume of them is large enough to add up to an overall profit which is decent enough to warrant the time investment.

This style of trading is dependent on traders having access to very tight spreads and a very fast and reliable internet connection. It also requires stop-loss limits being set for every trade so that any bad decisions that lead to losing trades do not wipe out the entire amount of profits made. It is also a style of trading that can take advantage of economic news releases which can be the occasions which can cause largest predicted in a particular currency.

Please note that many brokers or market makers discourage this style of trading and some will outright ban it due to the difficulty posed for them to cover the opposite side of the positions that are opened and closed in such quick succession.

STYLES OF TRADING

FOREX (TIMEFRAMES)

1

DAY TRADING

This is arguably the most popular and well-known style of trading. As the name would indicate, it is trading on a timeframe whereby the duration of a trade does not exceed a single day. The idea is not to hold positions overnight to avoid rollover costs and the risk associated with the unpredictability of price changes that take place while you are asleep or away from the charts.

This style of trading is not as frantic as scalping; however, it relies heavily on the trader's time investment and patience waiting for good quality trading opportunities to arise. As with scalping, the Day Trader relies heavily on the economic data releases to predict when a particular asset will experience a particular move.

2

SWING TRADING

This style of trading is characterized by traders holding positions for a several days to a week or so. As with Day Trading, the trader's objective is to identify trends early and ride the move to maximize profits. The profit level is set higher than with Day Trading or Scalping and the time allowed for a move and the range of the move is set higher. This style of trading however, is set to incorporate overnight risk.

Swing traders need to keep up to date with fundamental and technical analysis of the changes in the markets, even when not watching the charts.

STYLES OF TRADING

FOREX (TIMEFRAMES)

4

LONG-TERM TRADING

This is the trading style that spans the longest timeframe and can see traders holding their open positions for weeks or months. Position traders aim to identify “medium” to “long-term” trends playing out. It allows traders to make very sure that they are correct in having identified trend before they enter the position, it also allows them to have several different entry points over the course of several days or weeks as the trend deepens in the trader’s favour. Trading can also be closed by placing a trailing stop to gradually close out of positions as the asset trend starts to move against the trader.

This method of trading is the least onerous in terms of time investment and the profit expectation is also by far the largest among the trading style options. It is, however, dependent on a particular asset trending in a particular direction, which often isn’t the case, so this can mean that much of the year is spent with no trading activity on your account.

STYLES OF TRADING FOREX (TIMEFRAMES)

5

WHICH TRADING STYLE IS RIGHT FOR YOU?

It really depends on how much time you have to dedicate to trading and at what times of the day.

Understandably, due to the volume of trading, you do not usually use magnitude of moves in assets during the Aussie session as you would expect to during the European session leading in to the US session, based on sheer numbers of traders.

Ultimately it will come down to personal preference, however, the more adaptable trader will occasionally be flexible on their strategy and trade on a shorter-term time frame when the asset allows and trading longer term trends when the present themselves.

We explore strategies more in the final chapter of this course Strategy Trading.

FOREX

CASE STUDY

1

GEORGE SOROS - 1992 POUND SHORT (a.k.a. BLACK WEDNESDAY)

Soros had been building a huge short position in pounds sterling for months leading up to September 1992.

Soros had recognized the unfavourable position of the United Kingdom in the European Exchange Rate Mechanism because the Bank no longer had the funds to hold the GBP at the prescribed rate.

For Soros, the rate at which the United Kingdom was brought into the European Exchange Rate Mechanism was too high, their inflation was also much too high (triple the German rate), and British interest rates were hurting their asset prices.

By September 16, 1992, Black Wednesday, Soros's fund had sold short more than 10 billion in pounds, profiting from the UK government's reluctance to either raise its interest rates to levels compared to those of other European Exchange Rate Mechanism countries or float its currency. Sellers stepped in.



FOREX

CASE STUDY

Finally, the UK withdrew from the European Exchange Rate Mechanism, devaluing the pound. Soros's profit on the bet was estimated at over \$ 1 billion. He was dubbed "the man who broke the Bank of England".

Had the Bank of England not tried to support the falling GBP, and instead maintained its currency reserves, it is estimated the devaluation of the GBP would have actually resulted in a 2.4 billion-pound profit. The estimated cost of Black Wednesday to the UK Treasury was 3.4 billion pounds. The Bank of England, and the English taxpayer, lost about 3.3 billion pounds.

It goes to show that those in power didn't always know the best way to handle economic situations. In an ironic twist, the crash stabilized the English economy and brought about the lower interest rates that the Bank of England was trying to attain in the first place with the artificially high GBP.

2

WHAT IS THIS CHART OF?



FOREX

CASE STUDY

3

THE BIGGEST ONE DAY MOVE IN HISTORY

January 15th, 2015. The Swiss National Bank (SNB) reneged on a commitment that they gave the market back on September 6th, 2011. This promise was stated and reaffirmed as early as January 12th, 2015, that the SNB would defend the strengthening of the Swiss Franc (CHF) by not allowing the CHF to weaken against the Euro to a level below 1.20. In the early morning as trading commenced the SNB posted on their website "The Swiss franc poses an acute threat to the Swiss economy and carries the risk of a deflationary development. The SNB is, therefore, aiming for a substantial and sustained weakening of the Swiss franc". It caused a 41% drop in the pair.

Within 24 hours of the announcement, several brokers were bankrupted, as well as a few hedge funds who had to close their doors due to unsustainable losses because they were certain the EUR/CHF 1.2000 floor would hold and were accordingly levered long into an EUR/CHF. - Use as stop loss!



GLOSSARY OF FOREX TERMS

APPRECIATION	A currency is said to appreciate when it strengthens in price in response to market demand.
ASK RATE	The rate at which a financial instrument is offered for sale.
BASE CURRENCY	The base currency is that which an investor maintains its book of accounts.
BEAR MARKET	A downward market, distinguished by decreasing prices.
BID RATE	The rate at which a trader is willing to buy a currency.
BID/ASK SPREAD	The difference between the bid and the offer price, the most widely used measure of market liquidity.
BOOK	In a professional trading environment, a book is the summary of a traders or desk's total positions.
BROKER	A firm who acts as an intermediary, putting together buyers and sellers for a fee, or commission.
BULL MARKET	A market that is trending upwards, distinguished by rising prices.
BUYING/SELLING	In FOREX currencies are quoted in pairs – all trades are the result of simultaneously buying one currency and selling the other.
CABLE	Trader jargon for the GBP/USD exchange rate.
CENTRAL BANK	A government organisation that manages a country's monetary policy. For example, the US Federal Reserve, the Bank of England, European Central Bank, Bank of Japan or German Bundesbank.

GLOSSARY OF FOREX TERMS

CLEARING	The process of settling a trade.
CLOSE	The beginning of a timeframe or trading session.
CONSERVATISM	Fiscal conservatism, also known as economic conservatism is a political-economic philosophy regarding fiscal policy and fiscal responsibility advocating low taxes, reduced government spending and minimal government debt.
CONSOLIDATING	When a currency is trading in a range, typically after a large move or before a news announcement which is highly anticipated.
CONTRACT	(UNIT/LOT) The standard unit of trading on certain exchanges, the trade size.
CURRENCY	A form of money issued by a government or central bank and used as legal tender and a basis for trade.
DEALER	An individual who acts as a principal or counterpart to a transaction.
DEMAND	Refers to how much (quantity) of a product or service is desired by buyers.
DERIVATIVE	A fall in the value of a currency due to market forces.
DEVALUATION	Deliberate downward adjustment of a currency's price, normally by official announcement.
DOVISH	Tentative, no committal language regarding future fiscal policy changes, usually by Central Bank heads.
DUMB MONEY	The 'sucker' who gets in when the Smart Money is getting out.

GLOSSARY OF FOREX TERMS

ECONOMIC INDICATOR	Economic indicators such as Interest rates, inflation, GDP, foreign investment, and the trade balance reflect the general health of an economy and are therefore responsible for the underlying shifts in supply and demand for that currency.
END OF DAY ORDER	An order to buy or sell at a specified price which remains open until the end of the day.
EURO	Currency of the European established in 2002 comprised of the.
(ECB) EUROPEAN CENTRAL BANK	The Central Bank for the new European Union.
FEDERAL RESERVE SYSTEM	The Central Bank for the United States, responsible for implementing the country's monetary policy and regulating member banks.
FIXED EXCHANGE RATE	Official rate set by monetary authorities for one more currency.
FLOATING EXCHANGE RATE	Floating exchange rate refers to the relative value of a currency as determined by supply and demand.
FOREIGN EXCHANGE	FOREX or FX is the simultaneous buying of one currency while selling another. This market exchange has more daily trade volume than any other.
FORWARD	A pre-specified exchange rate for a foreign contract settling at some agreed future date. Based on the differential between the two currencies involved.

GLOSSARY OF FOREX TERMS

FORWARD RATES (SWAPS)

A forward rate refers to a cash price of 2 currencies interest difference for a fixed term.

FUNDAMENTAL ANALYSIS

Focuses on the economic forces of supply and demand that causes price movements. The Fundamentalist studies that causes of markets movements, whereas the Technician studies the effects.

GAP

Empty spaces between the close of one candle and the open of another in any given timeframe.

GEARING

Known as margin trading, a term used in the relationship of actual equity vs controlling equity.

GROUP OF FIVE (G5)

The five leading industrial nations (France, Japan, Germany, the UK and the US), which meet from time to time to discuss common economic problems.

GROUP OF SEVEN (G7)

Seven leading non-communist industrial nations composed of G5 plus Canada and Italy.

GOOD 'TIL CANCELLED

An order to buy or sell at a specified price. This order remains open until filled or until the client cancels.

HAWKISH

Aggressive, bold, direct language usage regarding future fiscal policy changes, usually by Central Bank heads.

HEDGING

A hedging transaction is a purchase or sale of a financial product, having as its purpose the elimination of loss arising from price fluctuations in the foreign exchange rate.

GLOSSARY OF FOREX TERMS

INFLATION	An economic condition whereby prices for consumer goods rise, eroding purchasing power.
INTERBANK RATES	The foreign exchange rate at which large international banks quote other large international banks.
LEADING INDICATORS	Statistics that are considered to predict future economic activity.
LIMIT ORDER	An order with the restrictions on the maximum price to be paid or the minimum price to be received.
LINE CHARTS	The Line Chart connects single prices for a selected period.
LIQUIDITY	The ability of the market to accept large transactions with minimal 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. When one buys a currency, their position is known as 'Long'.
MARGIN	The required equity that an investor must deposit to collateralise 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 a client. If the equity balance in an account falls below the margin requirement, a margin call will be generated. In the event that an account exceeds its maximum allowable leverage, open positions are liquidated regardless of the size or the nature of positions held within the account.

GLOSSARY OF FOREX TERMS

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.
OPEN	The beginning of a timeframe or trading session.
OPEN ORDER	An order that will be executed when a market moves to its designated price. Normally associated with Good 'till Cancelled Orders.
OPEN POSITION	A deal not yet reversed or settled with a physical payment.
OVER THE COUNTER (OTC)	Used to describe any transaction that is not conducted over an exchange.
OVERTRADING	A trader's inability to sit out of trades and wait for real opportunities to present themselves. 'Has to be in mentality. Leads to blowing up an account and indicates that the trader has no plan.
PIPs	Digits added to or subtracted from the fourth decimal place, i.e. 0.0001 – also called Points.
POLITICAL RISK	Exposure to changes in governmental policy which will have an adverse effect on an investor's position.
POSITION	The netted total holdings of a given position.
QUOTE	An indicative market price, normally used for information purposes only.
RANGE	When a currency pair is trading between specific high and low prices during a range of time.

GLOSSARY OF FOREX TERMS

RATE	The price of one currency in terms of another, typically used for dealing purposes.
RESISTANCE	A price point on a bar chart for a security in which upward price movement is impeded by an overwhelming level of supply for the security that accumulates at a particular price level.
RISK	Exposure to uncertain change, the variability of returns significantly the likelihood of less than expected returns.
RISK CAPITAL	The amount of money that an individual can afford to invest, which if lost would not affect their lifestyle.
RISK MANAGEMENT	To employ financial analysis and trading techniques to hedge one's risk.
ROLLOVER	The 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 between two different countries.
ROLLOVER RATE	The daily rollover interest rate is the amount a trader either pays or earns, depending on the established margin and position in the market. To avoid rollovers, simply make sure positions are closed at the established end of the market day.
SHORT POSITION	An investment position that benefits from a decline in market price. When one sells a currency, their position is 'short'.
SLIPPAGE	Occurs when an order is executed, often without a limit order, or a stop loss occurs at a less favourable rate than originally set in the order. Slippage is more likely to occur when volatility is high, perhaps due to news events, resulting in an order being impossible to execute at the desired price.
SMART MONEY	Big institutional investors and mutual fund companies are labelled smart money.

GLOSSARY OF FOREX TERMS

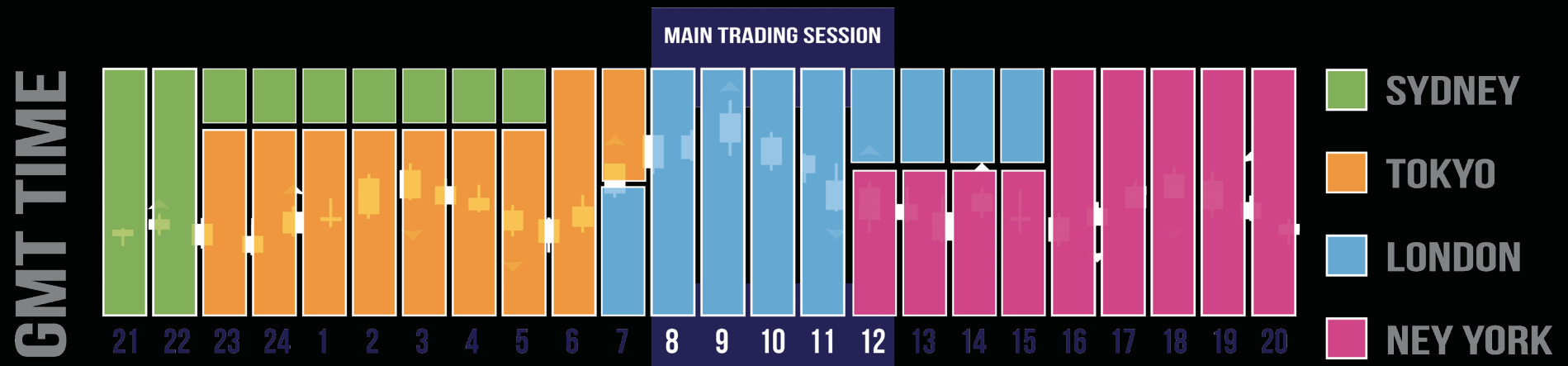
SPOT PRICE	The current market price. Settlement of spot transactions usually occurs within two business days.
SPREAD	The difference between the bid (buy) and offer (ask/sell) prices; in other words, the spread is the commission that the brokerage house makes on each trade. This can vary widely between currencies and between brokerage firms.
STERLING	Slang for British Pound.
STOP LOSS (ORDER)	Order type whereby an open position is automatically liquidated at a specific price. Often used to minimise exposure to losses if the market moves against an investor's position.
SUPPLY	Supply explains how much of a good or service the market can offer.
SUPPORT LEVEL	A term used in technical analysis indicating a specific price level at which a currency will have the inability to cross below. Recurring failure for the price to move below that point produces a pattern that can usually be shaped by a straight line. It is the opposite of Resistance levels.
SWAP	A currency swap is the simultaneous sale and purchase of the same amount of a given currency at a forward exchange rate.
TECHNICAL ANALYSIS	An effort to forecast prices by analysing market action through chart study, volume, trends, moving averages, patterns, formations and many other technical indicators.
TREND	Simply the direction of the market, usually broken down to three categories, major intermediate and short-term trends. Three directions are associated, up, down and flat.
TICK	Minimum price move.

GLOSSARY OF FOREX TERMS

TRENDLINE	This is a Technical Analysis indicator also called or linear regression, which is a statistical tool used to uncover trends.
VOLATILITY	A measure of price fluctuations. The standard deviation of a price series is commonly used to measure price volatility.
VOLUME	Represents the total amount of trading activity in a particular stock, commodity or index for that day. It is the total number of contracts traded during that day.
WEAK DOLLAR/ STRONG DOLLAR	The dollar is said to be weak compared to another currency when more dollars are required to buy one unit of another currency and vice-versa.
WHIPSAW	Slang for a condition of a highly volatile market where short price movement is followed quickly by a reversal.

TRADING TIMES

The FOREX market session begins in Sydney and follows on to Tokyo and Singapore. London and other European centers open as the Asian markets are preparing to close which signals the heaviest trade volumes through to the afternoon of the European session. At this time the US centres New York, Chicago and Los Angeles all open respectively. As the US session draws to a close, the Sydney market starts a new trading cycle.



LEVERAGE

1

When you are trading a leveraged account, you are essentially borrowing money from the broker that you require in order to trade.

2

FOREX typically offers high leverage compared to alternative areas of investing.

3

The current standards across CFDs are now set by law as 30:1 for major FX pairs, 20:1 for non-major pairs, gold, and major indices, 10:1 for other commodities and non-major indices, 5:1 for stocks and 2:1 for cryptocurrencies.

4

The change took place in a regulatory attempt to protect the client and you are now limited to these maximums. Previously you could leverage an account up to 1:400! The reason it was outlawed was that, yes, a trader can make more money per dollar invested with higher leverage, but the reverse was also true. Traders could then trade larger than they should have been, and ended up eating up most their account, usually on one or two trades. Sometimes this could take a few days but it could also happen in a matter of minutes.

MARGIN

TRADING TIP:

You can think of leverage a little bit like a mortgage when you are buying a house. You as the mortgagor are required by the mortgagee, the bank or other lender, to provide a deposit (or Margin) in order for them to provide you with the remainder of the purchase price of the property. In essence, you are leveraged when you take out a mortgage.

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MARGIN CALL

1

Margin call occurs when the amount of available capital in an account falls below the broker's required minimum. This happens when one or more of the assets that are being traded moves against the trader sufficiently so that the capital of the account is now in risk. The account holder is required to add additional funds to the account in order to prevent one or all of their open positions being closed.

2

To make sure that this doesn't happen to you, it is important to understand how much leverage you have and how much margin is required by any given trade. Luckily there is a calculation that you can do to determine this in advance.

a

The formula is as follows:

Required Margin = Trade Size (units of currency) / Leverage * Market Price

b

For example, if we're trading 10,000 units of EUR/USD at 1:30 leverage at an open price of 1.1404 = \$ 380.13 or margin required.

MARGIN CALL

TRADING TIP:

You are not bound by the amount of margin required to be held by each trade as you risk amount. You are free to set a stop-loss within that trade range to close your trade out before the account reaches that level.

Did you know that you can also be margin called when you have a mortgage? This can happen when the loan to value ratio falls below a certain level. This would happen in a declining property market when the current value of the underlying asset, the property, falls below a certain level. Meaning that, if the property was foreclosed on, the lender will not recover the full amount of the outstanding loan. The lender can request additional funds to be paid on the debt of the mortgage and if this is not done, the risk is that the property will be repossessed.

PRICES AND PIPS

What is a PIP? Pip means “percentage in point”. It refers to the smallest increment of an exchange rate. For example, it is 0.0001 for the currency pair EUR/USD, but it is 0.01 when referring to USD/JPY.

This means that when you are trading Euro/Dollar, if the price goes from 1.1591 to 1.1592, that is a gain of one pip. Likewise, a move in USD/JPY from 111.23 to 111.24 would be a one pip move. The currency value of this move depends on what the size of the trade is.

Pips actually aren't always correlated to the same amount of currency.

If the USD is the cross, then in a 1 Lot trade, one pip always equals 10 USD per 100,000 units of currency.

For the other pairs the USD is the base currency, it varies depending on what the base currency is and the size of the trade. They are calculated as follows:

$$\text{Pip value} = (1 \text{ pip [with decimal placement for currency being referred to]} / \text{currency exchange rate}) \times \text{trade amount}$$

For example, that means that if you are trading EUR/USD at 10,000 units, $(0.0001/1.1404) \times 10,000 = 0.8768$ EUR per pip

HOW FOREX WORKS?

FOREX quotes are provided in two-way price. The bid and the ask prices. The bid is always lower than the ask price.

This means that as a trader, you can enter the market to buy at a slightly lower price than you would enter as a seller.

Before you are going to start making profit, your trade needs to cover this spread. This means that as soon as you open the trade, you will see that you are down the piece of the spread, before the asset has even moved a pip.

Once this is covered by the asset moving in the favoured direction you, you start making profit.

Symbol	Bid	Ask
✚ EURUSD	1.15706	1.15711
✚ GBPUSD	1.28703	1.28711
✚ USDCHF	0.99018	0.99025
✚ USDJPY	110.890	110.896
✚ USDCAD	1.30371	1.30380
✚ AUDUSD	0.73976	0.73983
✚ EURCHF	1.14573	1.14583
✚ EURJPY	128.308	128.315
✚ EURGBP	0.89900	0.89905
✚ EURCAD	1.50841	1.50856
✚ GBPCHE	1.27440	1.27456
✚ GBPJPY	142.720	142.732
✚ AUDJPY	82.033	82.042
✚ AUDCAD	0.96440	0.96453
✚ AUDCHF	0.73248	0.73265
✚ AUDNZD	1.11657	1.11673
✚ CADCHF	0.75949	0.75962
✚ CADJPY	85.057	85.066
✚ CHFJPY	111.983	111.994

FIXED OR FLOATING

SPREADS CAN BE SET BY BROKERS AND WILL BE IN ONE OF TWO FORMATS: FIXED OR FLOATING (VARIABLE).

Floating spreads are sensitive to volatility and are subject to change by the broker whenever there is a volatile period in the market like a news announcement or a political event, etc.

This means that while you are normally trading an asset, let's say EUR/USD at a 2-pip spread, during a time of high volatility, the spread is more likely to be 6 or even 10 pips. This means that the unaware trader has unwillingly spent a significant amount more on that trade than they otherwise would have. If you are trading at 10 USD per pip, that is going to be up to 100 USD just in spread.

The alternative is to have a fixed spread. This means that the broker has predetermined the levels at which they are happy to offer the asset to the maker. It is essentially an average of what the floating spread would have been over a period of time offers as a constant. So, were a floating spread might range from 1.3 pips to 10 pips as discussed earlier, a fixed spread might be offered at 2 or 4 pips all the time, depending on the asset.

Which is better? The differences and preferences on a grassroots level for each trader is going to be what kind of trader you are. For example, for a scalper or day trader, it is probably going to make more sense for them to take an account that has fixed spreads because they are very likely to be trading at times of high volatility such as new announcements and economic releases.

A swing or position trader, however, is probably better advised to look at an account that has floating spreads because they are aiming to hold their positions on a much longer time frame and are more likely to already be in a trade when there is a release or event that is going to cause volatility. Alternatively, they are more likely to wait until the volatility has left the market and the asset has started to move in a trend or range before entering their trade. A floating account will allow that type of trader to enter the trade at a lower spread than a fixed account would.

LONG AND SHORT

One of the great things about trading CFDs and in particular FOREX is that you can trade in either direction. The logic of this can be a little bit confusing to begin with but it becomes second nature after a while.

You are always dealing in the base currency, this is a key concept to master. In reality, you actually don't need to understand how the exchange works on a technical level, although it can help.

As we will discuss throughout this course, there is never a simple answer to the question of buying or selling a particular asset at a particular point in time. In FOREX, when you hear people talk about buying, what they are referring to is buying the base currency and selling the cross. This is known as going "Long".

For example, if a trader goes Long EUR/USD at 1.1404 then that is saying that 1 EUR = 1.1404 USD, so after buying that currency and waiting for the X period of time the exchange rate is now 1.1434. That means that now 1 EUR can purchase 1.1434 USD. Therefore, the purchasing power of the EURO has increased against the US Dollar. You have made a profit of 0.0030, or 30 pips.

The reverse is also true, if you feel that the currency pair is going down, you will want to sell the base currency and buy the cross. This is known as going "Short".

In this instance, you will be selling the base currency and buying the quote currency at a point in time, then waiting while the asset decreases, at which time you would then buy the base currency back at a lower price.

For example, if a trader shorts EUR/USD at 1.1404, they open their trade and wait until the asset decreases to 1.1394, 1 EUR can now only purchase 1.1394 USD. In that scenario, it is now costing less US Dollars to buy 1 EUR than it was before. You have made a profit of 0.0010 or 10 pips.

ROLLOVER

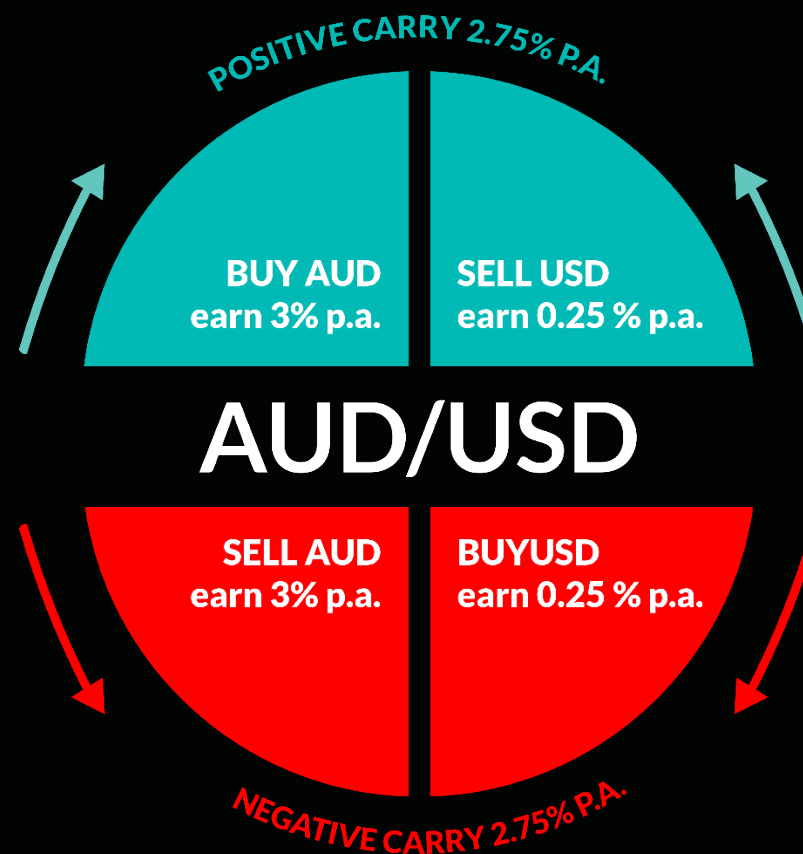
In spot FOREX transactions are "due for settlement" two days later.

In practice, as traders using a leveraged account never intend on taking delivery, the broker will "rollover" the trade. This involves closing the open position and opening an identical one with a settlement date in two days-time.

This process is usually done on a daily at 5:00 pm New York Time. (Please note, that this will only affect traders who are holding their positions overnight, or longer.)

During this process, the broker pays or charges you whatever the interest rate differential is between the two currencies in the pair.

For example, if you have a long trade, and the currency you have bought has a higher overnight interest rate than the cross currency, you will gain.



TRADE SIZE (LOT)

FOREX is traded in Lots.

The standard value for a lot is 100,000 USD which correlates to 10 USD per pip. Depending on your broker, you may also be able to trade Mini Lots (10,000 USD) or even Micro Lots (1,000 USD) which risk a lot less capital per pip respectively 1.0 USD and 0.1 USD. We discuss this further in the Risk Management section below.

So, what is the best trade size for you? This can be determined by doing some calculations based on your account size, or capital, and how much you can achieve out of a given trade.

Let's look at the calculation:

$\text{Total Capital} \times \text{Risk Appetite \%} = \text{Value of Risk per Trade}$

(if we use our example from earlier, we have $10,000 \text{ USD} \times 2\% = 200 \text{ USD}$)

So, now that we have that, we can look at what trade size to use in order to attain that Capital at Risk Rate. The calculation for that is:

$\text{Value of Risk per Trade} / \text{PIP value of Risk} = \text{Trade Size}$

Following on from the above example, that would mean that if we were using a 1:3 risk return ratio (100 pips to 300 pips): $200 \text{ USD} / 100 = 2 \text{ USD per pip}$, or two Mini Lots.

It all depends on the amount of capital you have to start with and what kind of trader you are to determine what your risk appetite is. Understandably, a scalper is not going to have the same trading goals as a swing trader. It will be virtually impossible for a scalper to make 300 pips in a single trade, where as a swing trader should be able to achieve that target in a few days.

STOP LOSS AND TAKE PROFIT

Depending on the kind of trader you are, it might be faster for someone who is trading the news just to open and close trades manually as opposed to clicking through screens setting stop loss and take profit.

The levels that you are going to set your stop-loss and take profit at are going to be determined in one of two ways which are very different.

You will either be a trader who is happy to perform their calculations as indicated throughout and set your levels as is indicated exactly by the results of these calculations. This is numerical and entirely unbiased way of trading.

Then there is the alternative, which is to take the time looking at your analyzed charts to determine where the support and resistance levels are, and knowing the behaviour of the asset. This requires having a very good understanding of the fundamentals affecting the currency pair, which only comes with months or even years of exposure to the market. With this knowledge and experience, the trader understands the chart to be indicating as to the future direction of the asset. The trade and associated stop-loss level can then be set by identifying the level that, if broken, would indicate a reversal about this trade and set a stop-loss to protect their capital. This is a visual way of deciding levels and is probably suited to a more experienced trader who has a better feel for the market that they are watching and can draw on years of experience in order to make their decision.

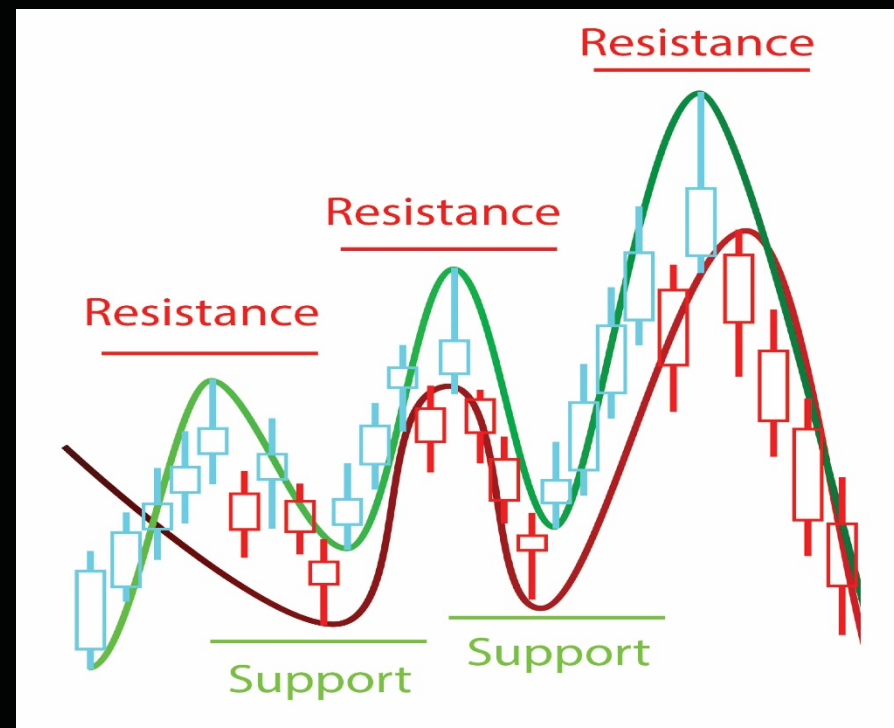
As a beginner it is better to learn the ropes using a numerically based system of predetermined decisions and learn from what happens under those controlled conditions before deciding to wing it and go off intuition alone.

UNDERSTANDING CHARTS, SUPPORT AND RESISTANCE

The importance and significance of support and resistance in FOREX Trading cannot be overestimated. Being able to identify these correctly is a huge part to being able to understand where points of interest are in the market.

In reality, the levels aren't always strictly adhered to by the market, but they are indications of points of interest for traders. The exact levels can be "tested". Furthermore, when there is a high level of volume in a particular market, you will see the price literally crash through the previously held levels, making them redundant in that scenario.

Initially it can be confusing to try to mark lines of support and resistance that are actually significant. We recommend that, depending on your preferred style of trading, you use a top-down method of looking at candlestick charts to identify which areas are stronger than others. This will probably mean for most people, starting on a Daily or even Weekly timeframe and working your way down to the timeframe that you are trading on, 4 Hourly or Hourly.



UNDERSTANDING CHARTS, SUPPORT AND RESISTANCE

TRADING TIP:

Sometimes when you are watching an asset, despite your expert analysis of the market, it behaves in a way that is not in keeping with its established pattern. For this reason, we would always advise that while you are learning to trade Forex, it is very important to have set stop-loss and take-profit levels for every trade.

Some more experienced traders prefer not to use a stop loss, especially in times of high market volatility, however, at this beginning stage, it is advisable in order to avoid being margin-called and losing all the hard-won profits you have made on one silly mistake, a.k.a. 'blowing up' your account.

WEEKLY



DAILY



FOUR HOUR



ONE HOUR



TRENDS AND CHANNELS

Trends and Channels are probably the most useful analysis method in FOREX. They are basically levels of support and resistance that occur in a diagonal fashion as a market is trending up or down.

Uptrend is essentially what it sounds like, when you notice that an asset is moving in a set direction in a set range over a certain period of time. It allows the trader to look at the chart and identify that the levels of support are increasing in a linear diagonal way.

This provides insight into the pattern that the asset has settled into. While it ebbs and follows its way in an upward direction, it obeys a certain range increasingly high highs and higher lows.

This gives the trader the opportunity to enter the market at a point what will allow them to maximize profits and minimize risk.

Downtrend is the same as an uptrend but in the opposite direction.

TRADING TIPS:

Markets quite often will NOT move in a neat trend. They can spend a lot of their time simply consolidating or 'drifting' sideways in a fashion that does not indicate a specific intention of direction.

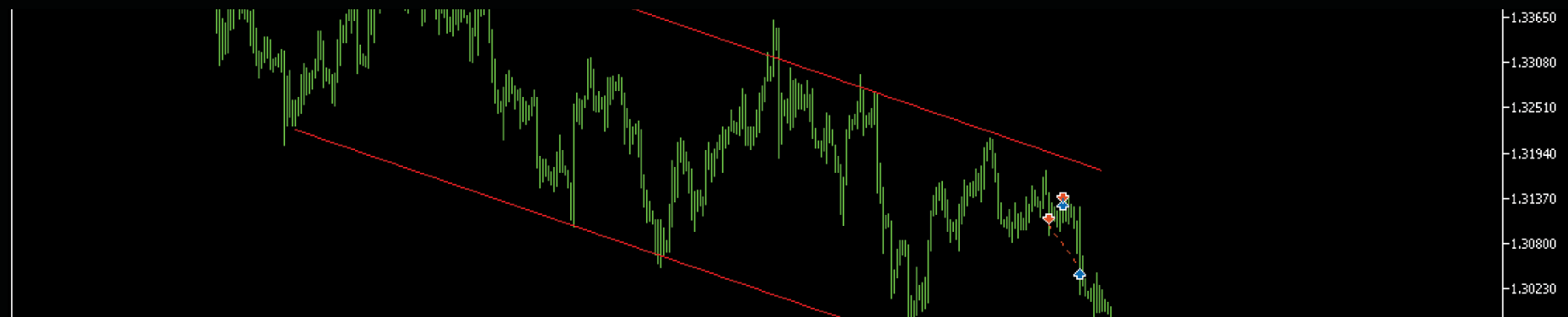
It is always very important to appreciate that the trading opportunities presented in these trending markets are not there indefinitely. For that reason, it is always advisable to trade with a stop-loss, even if it is very wide.

FOREX CASE STUDY

UPTREND



DOWNTREND



VOLATILITY

Volatility is extremely important for trading FOREX. It is essentially the level of velocity of price change within a set period of time. If the price increases and decreases over a wide range during a short period of time, then there is said to be high level of volatility. Accordingly, when there is very little price movement in an asset over a period of time, it is said to have low volatility.

For traders, their appetite for volatility is a spectrum. Some who trade on fairly short-term timeframes prefer a higher level of volatility as this presents opportunities for them to make money. Others prefer a slightly more conservative level of volatility because their style of trading is better suited to slightly slower and predictable rates of change.

In the end, all traders require a sufficient level of volatility for the market to be moving enough for them to trade. It is virtually impossible to safely make money out of a stagnant or drifting market.

PRICE GAPS

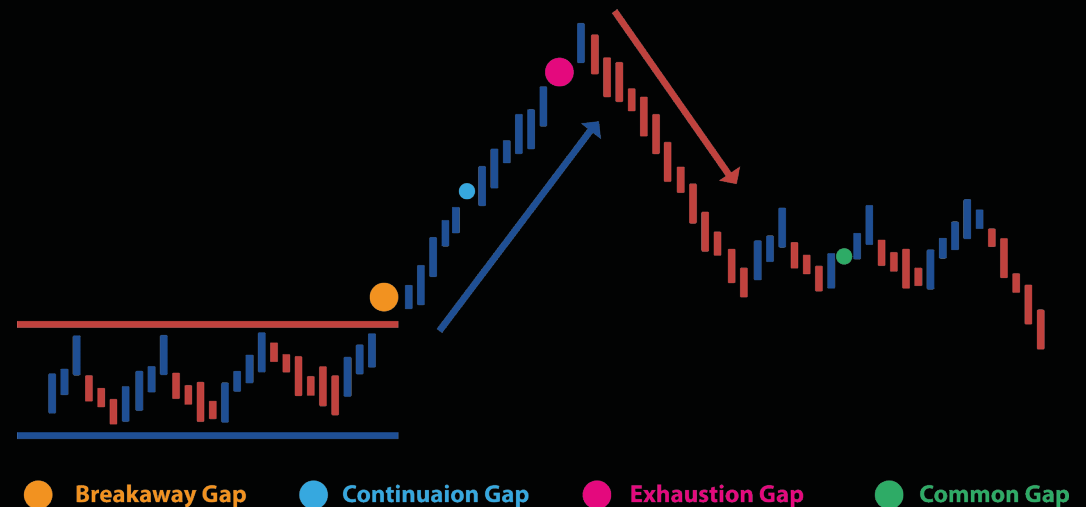
Price Gaps are empty spaces between the close of one candle and the open of the next. It is pretty rare but it does happen from time to time. It is usually caused by an announcement that has such an effect as to cause a vast increase in the differences between ask and bid prices. There are several types of Gaps which traders use as indications of changes in the current market:

Breakaway Gaps are considered significant indicators that it is the beginning of a new trend.

Exhaustion Gaps occur near the end of a price pattern and signal a final attempt to hit new highs or lows.

Common Gaps are those that cannot be placed in a price pattern – they simply represent an area where the price has “gapped”.

Continuation Gaps or Runaway Gaps occur in the middle of a price pattern and signal a rush of buyers or sellers who share a common belief in the underlying stock’s future direction.



RISK MANAGEMENT

Managing capital is one of the most important elements of trading that a trader needs to learn. It is all well and good to have expert opinions on the global economy and be a superior chartist, but with no money it is all for naught. You have to try to protect your capital investment as if it was your first born.

Moving a stop loss as a trade is running is very common among amateur traders as they watch the asset move against them. They somehow convince themselves that if they just risk a little more and a little more, then the asset will change direction and they will not only cover their losses but start trading in profit (essentially, that their analysis was right on to start with). It is also as common to see a trader double down on a losing trade, convinced that if they open another position trading in the same direction as their original losing trade, when the asset moves in the direction they expected it to, they will make even more profit than they were going to when they just had one trade open. If you ever find yourself considering doing this then you should immediately agree with yourself on a palatable stop loss level, set it and walk away. Or you could simply close your losing trade and recalibrate where you are at.

Interestingly, lots of analysis has taken place of the retail FOREX Market and noted a fascinating trend. Over the majority of cases, traders usually closed the majority of their trades in profit, however, when they closed their losing trades, they had allowed their losses to exceed the profits, due to having risked more on losing positions than the amount gained on the winners. It was found that the average profit on the EUR/GBP was only 30 pips, while the average loss was closer to 51 pips.

What this shows it is that there is a tendency for traders to seriously doubt their winning positions and get out of the market with a small profit, however, when the market goes against them, they are far more likely to stick with the losing trade struck by an incapacity to take the hit and move on the next one. This is probably one of the single most significant differences between professional (profitable) traders and an amateur. The amateur seems to be unable to stick to their predetermined trading plan and risk/reward ratio (RRR). The better solution is to agree on a set risk/reward ratio and stick to it while you determine your win rate.

It is always going to be disappointing when the trading decision that you made doesn't turn out to be correct, however, it will not hurt as much as opening your trading account and seeing that 50% of your capital has been eaten up by one silly trade decision.

RISK RETURN RATIO

There are millions of strategies out there to tell a trader to mindlessly only risk a certain ratio of what they aim to make. This idea is wonderful in theory but the problem is that we can never know in advance what the market is going to do on any given day and thus we need to become experts in reading different kinds of markets that are constantly changing.

In addition, each trader is different and has different success rates. This is why as a general rule you can look at ratios on a sliding scale.

Let's look at some calculations to help us understand RRR better.

If we take into consideration that the amount of trades we win is as important as the amount we win on those trades, we can create a formula to help us understand.

Minimum Win Rate = $\left[1 / (1 + \text{Reward} : \text{Risk}) \right] \times 100$

For example, if our Reward to Risk Ratio is 1:2, the calculation will be: $\left[1 / (1 + 2) \right] \times 100 = 33.33\%$

This means that if we are correct 33.33% of the time or more, we are profitable traders with a RRR of 1:2. If you had a RRR of 1:10 you would only have to get it right 9.09% of the time.

There are also other things to consider with thinking about RRR. The important thing to consider is how many pips are you willing to lose in order to gain? A 1:2 ratio would mean that a trader is willing to risk 50 pips, for example, to gain 100. 1:5 ratio would mean that for every 50 pips risked, the upside is expected to be at 250. Bearing in mind that GBP/USD moves on average 127 pips a day during the London session, these figures are pretty achievable.

RISK RETURN RATIO

Firstly, earlier we discussed volatility. If you are trading in a very volatile period in a market, then you are going to be well advised to set your stops with more breathing room than what you would be when you are trading in a nice neat trending market.

Secondly, it will depend what style of trader you are, so to what preferred timeframe you are trading on. It is much more likely for a trader who lets trades run over a few days to make 200 or 300 pips out of a trade, whereas the trader who is only leaving positions for the duration of that day to aim for a more conservative 30-50 pips.

The third key point to consider is your risk appetite, as we mentioned earlier. Generally, 1-2% of capital of perceived as being pretty conservative and a good place to start.

In summary, how much you should sensibly and realistically aim to make is completely depending on how much you invest in the first place, and that will directly affect what your trade size is.

PSYCHOLOGY

Lesson one on trading psychology is to accept the inevitable – YOU ARE GOING TO LOSE TRADES.
It is what you do with that information that makes the difference.

Do you remember learning to ride a bike? If so, you can probably recall the bitter taste of gravel and nursing the burn of grazed knees and elbows. But you had seen other kids riding around on their bikes like it was in their second nature, so you picked yourself up and got back on as a better rider from what you were before you fell off. You did that because you had the absolute belief that it is possible to ride a bike, after all, all those other kids were doing it, so why not you? And of course, you knew you had to do something different this time than last time to avoid same sting. Well, trading is no different.

If you speak to almost any professional trader, he will probably tell you something similar to: “don’t aim to make big wins, aim to make small losses”. Or “if you cover your downside, then your upside will look after itself”.

This can really only be done by doing your calculations in advance, knowing the assets you trade, and accepting reality – be ready to accept the unpredictable market moves. In essence, you need to be able to take emotion out of the equation when you are making your trading decisions during trading. You have probably heard the saying “don’t change horses midstream”, well it couldn’t be more true in trading FOREX.

In order to do this, you need a plan!

TRADE PLAN

TIMEFRAME

Before you can really start analysing a trade, you need to decide how long you are planning on trading for.

IDEA, 8/10 CONFIDENCE

Only open a trade when you have a very clear idea of where that trade is going. This can be checked by sitting down and writing a kind of trading journal. In this trading journal you can write a few short notes of the trade, why you think this and in what timeframe you anticipate the asset will make this move. If at this stage you have conflicting ideas of why you are making the trade, don't place the trade. You need to have a very clear idea and to be approximately 8/10 sure you are right. You still may not be right, but you really need conviction in the decision or doubt will kick in as soon as you have placed the trade and you will start to fiddle.

DETERMINE YOUR PROFIT TARGET

Once you have noted what you think is going to happen, you can decide what your profit target is for that trade.

RISK RETURN RATIO

Now you have your trade decision, and your expectation of the reach of the trade, you can decide how much you are willing to risk on this trade.

STOP-LOSS AND TAKE-PROFIT

You now have your target and risk levels decided, determine exactly where you are going to place your stops.

TRADE PLAN

CAPITAL AT RISK, TRADE SIZE

Once the above have been calculated, you can then decide what size you are going to trade. Take the levels that you have decided on, determine what you are comfortable risking per pip on this trade.

MARGIN REQUIRED

Use the calculator to decide if this trade size is realistic for your capital and adjust if necessary.

TRADE

Once you have covered everything above stated, you can open your first trade and start analysing it.

TRADE EXAMPLE

A trader has an account with 10,000.00 USD. This trader has taken the maximum leverage that he is allowed of 1:30. The trader has been watching the EUR/USD for a few days and has decided that the asset is oversold and wants to open a long position. (To continue from our previous example, the EUR/USD currency is at 1.1404). The trader is happy to let his trade open a day or two but doesn't want it to go for longer than a few days. After observing the EUR/USD for a while, the trader decides that the asset's support level is at strong position and will likely hold to it. As a result, the trader waits until the level has been hit and held. The trader is in a confident position to open his long position.

The price is currently at 1.1404 and the trader thinks that the asset will easily reach 1.1544 (140 pips movement) within the timeframe. Knowing this asset well, the trader decides to use 1:5 Risk-Reward Ratio. This means, that for this trade he would risk 28 pips to make the forecasted 140 pips. Now the trader decides where to set his take-profit (at 1.1544) and stop-loss (at 1.1376). Now, because this is a relatively new FOREX trader, he decided to risk 2% of his total capital on this particular trade.

Total Capital x Risk Appetite % = Value of Risk per Trade

For this trade, the calculation will be: $10,000.00 \times 2\% = 200$

Now we can calculate the trade size as follows:

Value of Risk per trade / PIP value of Risk = Trade Size

Following on, that would mean that if we were using a 1:5 Risk Return Ratio, the calculation will be:

$200 \text{ USD} / 28 = 7.142 \text{ USD per pip}$, 0,7 Lots, or 7,000 units of currency.

TRADE EXAMPLE

In reality, this can be done by trading 7 mini lots on one trade position.

Before opening the trade, we are going to make sure that we have sufficient margin to accommodate this trade:

Required Margin = Trade Size (units of currency) / Leverage x Market Price

$$7000 / 1.1404 = 266.09$$

Once we are happy with all these figures we need to hurry up and place our trade before the price changes.

MARKET ORDERS

ENTRY ORDERS

Entry orders are an incredibly useful tool that all traders need to become comfortable with using regularly.

MARKET ORDERS

Market orders are the manual execution of the order on your trading software by entering all the specific trade information then selecting **SELL** or **BUY** as required. This can result in slippage which occurs when the liquidity on an asset isn't sufficient to fill your order at the requested price, so it is filled at the soonest price with liquidity.

MARKET ORDERS

PENDING ORDERS

Future orders which will be automatically filled once the price reaches the set entry point. There are six varieties of Pending Orders:



MARKET ORDERS

LIMIT ORDERS

A limit Order is set to buy or sell an asset at a set price. Once the asset reaches the set price, the order will be filled.

BUY LIMIT ORDER

A Buy Limit Order is an instruction to buy at a set price or lower.

SELL LIMIT ORDER

A Sell Limit Order is an instruction to sell at a set price or higher.

STOP ORDERS

SELL Stop Order or Stop BUY Order is executed after the specified price has been reached. The BUY Stop is placed above the market, and SELL Stop is placed below the current market.

STOP LOSS ORDER

Set to protect the trader's capital by limiting the risk exposure on any given trade.

MARKET ORDERS

BUY LIMIT ORDER

This is another kind of Stop Loss, however, in this instance, it moves in relation to the price fluctuations. This means that the stop chases the price, so that, once you are in your trade, the stop still always stays a set amount of pips away. This means that no matter what happens, you will never be more exposed than , and at the same time, you can protect profits once the stop moves beyond your entry point.

ONE CANCELS THE OTHER

OCO is a combination of two pending orders which are set up to account for either outcome of a trading situation. In the event that one of the orders is filled, the other is deleted, or cancelled, as it is no longer needed given the movement of the asset.

NAKED STRATEGY

PRICE ACTION

Support and Resistance analysis can be used on its own or as part of a strategy combining other patterns and/or indicators. Support and resistance will also be important when we go into Fibonacci Retracements and Pivot Points.

It can be used to assess and validate the price points when looking at possible entry points for trades.

Every trader will have slightly different ways of identifying and implementing Support and Resistance points or zones. Support and Resistance points or zones are defined as being Major, Less-Major and Minor.

Entry points and Exit points relate to risk management. Poor Risk Management is the reason why most traders fail, so, if you can master details on this point (please refer back to part 2), then you are already in a select group of traders who are always in control of the two possible outcomes when FOREX trading, which are – will it go up or down.

Support and Resistance are recent and historical points of interest in the behaviour of a FOREX quote.

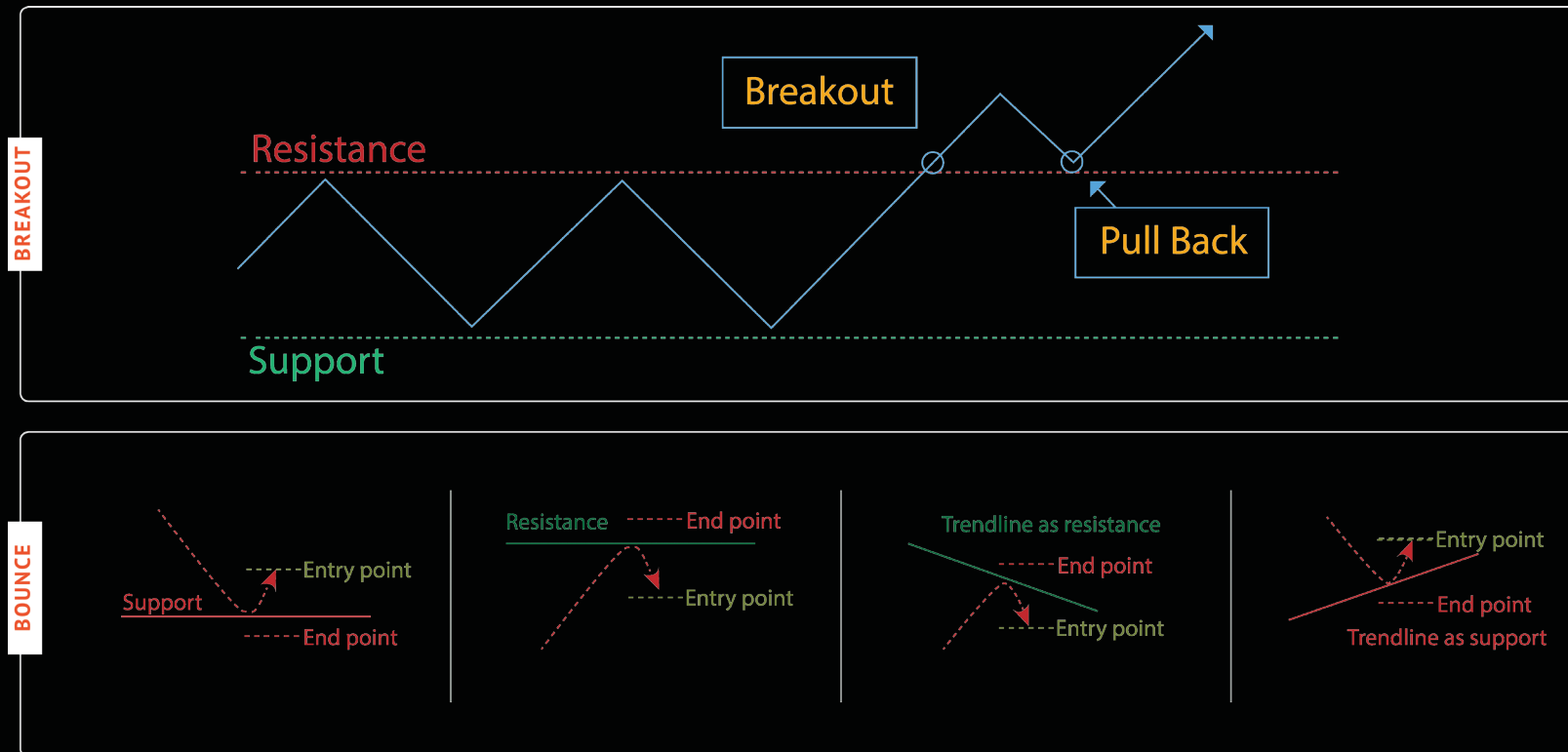
Key Support and Resistance Levels, known as psychological levels, help to reliably anticipate price points at which to make strategic decisions about entry and exit. These actually become self-fulfilling in many ways, because key levels cause additional buying/selling pressure on an asset as it reaches a certain price point which, ultimately, will become so strong that it overpowers the current directional move of the asset and causes a reversal of the trend.

When looking for major levels of Support and Resistance it is best to use Multiple Timeframe Analysis. This requires an asset being viewed and studied across multiple timeframes monthly, weekly and daily down to 1 hour or less, depending on which timeframe you are trading.

NAKED STRATEGY

HOW TO TRADE THE "BOUNCE" AND THE "BREAKOUT"

The **BOUNCE** is when an asset bounces off the support or resistance point, where the **BREAKOUT** is when the price breaks through the support or resistance.



FUNDAMENTAL

FUNDAMENTAL ANALYSIS

The Fundamental Analysis focuses on the underlying reasons why an asset is moving as it is in the market, in order to attempt to anticipate future moves. It differs from Technical Analysis in that technical traders do not care about the reasons why an asset is moving in a certain way, but fundamental traders do.

MARKET SENTIMENT

Sentiment is based on the cumulative, on balance attitude of traders towards a financial market, generally, or in relation to a particular security. Being able to analyse how many long vs short positions are currently open on an asset, provides great insight into what the overall view of the market is by all contributors. Of course, no matter what the asset, there will always be traders who are taking opposing positions, however, when one dominates the other, then you will see a move in that direction.

CARRY TRADE

As initially introduced in our Mechanics of FOREX chapter, a carry trade is possible due to the interest rate differential between the two economies of the pair that you are interested in trading.

This strategy works when a trader borrows a currency with a low interest rate and buys with it, a currency with high interest rate. It is a very logical process when you stop and think about it. You borrow money at a low interest rate, then invest that money in a high interest investment.

This strategy is very popular, because it allows a trader to find profits in low-volatility areas and takes advantage of relatively stable markets. Especially when you consider that interest rates are reviewed quarterly, there is a lot of warning of a change in circumstances.

FUNDAMENTAL

This logic can then be taken further, whereby a trader will buy a currency whose interest rate is expected to go up, and to sell a currency whose interest rate is expected to go down. This will work in the trader's favour, not just due to the interest rate differential, but also because the price of the underlying currency will also increase accordingly due to the increased demand for that currency. This is a very nice trading opportunity.

CORRELATED ASSETS

Assets in the financial market are said to have a correlation when they have a tendency to move in relation to each other. The correlation can either be positive or negative. Two assets are said to be positively correlated when they move in a direct way to one another (i.e., they both go up at the same time). The assets are said to be negatively correlated when they move indirectly to one another (i.e., one goes up and one goes down during the same period of time).

Common correlations tend to be most predominant between currencies and commodities and equity indexes such as:

Canadian Dollar (CAD) and the price of Crude Oil (OIL). This is because Canada is a major exporter of OIL and therefore the two have a positive correlation.

Japanese Yen (JPY) and the price of Crude Oil (OIL), as Japan is large importer of OIL and therefore had a negative correlation to the price of OIL.

Therefore, the logical question would be to trade (or not) CAD/JPY, however, it is important to note that the CAD/JPY can often have a wide spread and depending on the direction of the trade, may incur high swap fees as Japan historically has very low interest rates.

In order to properly visualize the correlations on the charts, traders can use an indicator which will overlay one chart on top of another so that they can see the convergence or divergence of the prices.

FUNDAMENTAL

Note that as economic conditions change with time, so too will the correlations that may have been apparent.

Some further correlations include:

POSITIVE: USD and Gold, Gold and Silver, AUD/USD and Gold, NZD/USD and Gold, USD/CHF and Gold

NEGATIVE: EUR/USD and USD/CHF

As the trading conditions are continually changing there is a technical indicator to overlay several charts on top of one another in the same chart window.

HEDGING

Hedging is generally understood to be a way that a trader will protect their capital by taking an off-setting position, which, in the event that the climate changes without warning will compensate for some of the losses incurred.

In FOREX trading this strategy best works when the two assets purchased are negatively correlated (see Correlated Assets above). One of the key differences in this trading strategy is that it is not designed to be used to make a profit, but to defend one's position against losses and to mitigate risk.

NEWS TRADING

The importance of News releases cannot be underestimated. It is the incremental release of economic data which is largely responsible for the supply and demand, and therefore price of the asset.

In order to be able to take advantage of these releases of information, you need to know when they are coming out. This is done through the use of an Economic Calendar.

FUNDAMENTAL

As a beginner trader, please exercise caution when trading the news. The movements of the assets can be exceptionally unpredictable. Often the asset will trade sharply in a direction which is absolutely opposite to what logic would predict. This is a sure-fire way to lose money in a hard and fast game in which you are a small player. If you are interested in trading News, perhaps watch a few rounds of the releases that interest you, such as NFP, etc. Once you feel that you have a sufficiently well-established understanding of how many pips and in what timeframes the asset moves, then you may be able to enter the market on the subsequent occasion.

If you are interested in trading the news, the best course of action would be to wait until the asset commences it's established directional move (as opposed to whipsawing about uncontrollably). In order to see this, you will need to have the timeframes, 5 Minutes, for example. Once this has taken place, you will be able to identify when the asset retraces. This will be a safer place to enter the market, instead of trying "catch a falling knife".

TRADE SIZE (LOT)

FOREX is traded in Lots.

The standard value for a lot is 100,000 USD which correlates to 10 USD per pip. Depending on your broker, you may also be able to trade Mini Lots (10,000 USD) or even Micro Lots (1,000 USD) which risk a lot less capital per pip respectively 1.0 USD and 0.1 USD. We discuss this further in the Risk Management section below.

So, what is the best trade size for you? This can be determined by doing some calculations based on your account size, or capital, and how much you can achieve out of a given trade.

Let's look at the calculation:

$\text{Total Capital} \times \text{Risk Appetite \%} = \text{Value of Risk per Trade}$

(if we use our example from earlier, we have $10,000 \text{ USD} \times 2\% = 200 \text{ USD}$)

So, now that we have that, we can look at what trade size to use in order to attain that Capital at Risk Rate. The calculation for that is:

$\text{Value of Risk per Trade} / \text{PIP value of Risk} = \text{Trade Size}$

Following on from the above example, that would mean that if we were using a 1:3 risk return ratio (100 pips to 300 pips): $200 \text{ USD} / 100 = 2 \text{ USD per pip}$, or two Mini Lots.

It all depends on the amount of capital you have to start with and what kind of trader you are to determine what your risk appetite is. Understandably, a scalper is not going to have the same trading goals as a swing trader. It will be virtually impossible for a scalper to make 300 pips in a single trade, where as a swing trader should be able to achieve that target in a few days.

TECHNICAL STRATEGIES

DINAMIC SUPPORT AND RESISTANCE

Dynamic Support and Resistance Lines can be used in the same way as traditional Support and Resistance lines are used, however, as they are generated by a technical indicator, they are constantly changing in response to the assets price.

The indicators that can be used to create Dynamic Support and Resistance lines are:

Moving Averages (SMAs, EMAs): Entering a combination of Moving Averages will offer a first and second level of support and/or resistance. This can be done by entering either Moving Average at a higher and lower period, such as 10 period and 20 period.

Bollinger Bounce: Due to the behaviour of the Bollinger Bands ranging from loud to quiet, so does their relationship with the underlying asset. When the asset tends towards trading in the central area between the bands, when there is high volatility (loud), then the price tends to “bounce: off the band as a dynamic support or resistance level.

Ichimoku Kinko Hyo: This indicator can be used as dynamic support and resistance lines. If the price is above the Senkou Span, then it serves as a first and second dynamic support level. If the price is below the Senkou Span, then it can serve as a dynamic first and second resistance level.

BREAKOUT TRADING

Breakouts are when the price breaks a support or resistance level, traditional or dynamic. They often occur after and asset has made a significant price movement, followed by a period of consolidation. From this period of consolidation comes a “break-out” of the range the asset was in. They can come in two main forms:

TECHNICAL STRATEGIES

Continuation Breakouts: This takes place when the asset continues in the original direction of the significant price movement prior to the consolidation.

Reversal Breakouts: Conversely, after a period of significant move in an asset and a subsequent consolidation, an asset will break out in the opposite direction of the initial move.

Bollinger Squeeze: on other hand, when there is low volatility (quiet), there is less distance between the bands, the price is said to be squeezed. This is a period of consolidation and is more indicative of a “breakout”.

Fake-outs: Just as would be expected, on occasion the price of asset spikes or “breaks” above or below the Support or Resistance level, but the break-out loses power almost immediately. This can be due to a rush of activity based on a news release which doesn’t actually alter the underlying opinion in the asset. These can be seen not just in technical indicators such as SMAs, EMAs, and Bollinger Bands, but also in Chart Pattern Formations.

Breakout Fading: In order to protect [yourself from a fake-out](#), the best advice in this case is to wait on entering the trade until the asset has retraced, back to the break-out level. If the break-out is actually a fake-out, then the asset will not continue trading outside the support or resistance level for any significant period of time. Once it returns to break-level, it will return to the area within the level, however, if the break-out is genuine, the asset will bounce off the break level.

TECHNICAL STRATEGIES

CROSS OVER

Moving Averages: When the chart is set up with both the SMAs and EMAs at two different time periods, such as 10 and 20, the shorter period Moving Average will respond to the price more quickly, when it “crosses-over” the longer period Moving Average – this is a signal of the beginning of a new trend.

MACD: as the MACD is made up of a fast and slow moving average, when a new trend starts, it will be the fast moving that reacts most quickly. When this happens, the fast line will physically “cross over” the slow line.

Ichimoku Kinko Hyo: In this case, if the Chikou Span crosses the price from the bottom up, then this “cross over” is a buy signal. If it crosses the price from the top down, then this “cross over” is a sell signal.



TECHNICAL STRATEGIES

DIVERGENCE

Divergence trading is the process of spotting the differences in the directions of price and one or more indicators as an indication of the future movement of the asset.

Typically, then the asset is moving in an uptrend, the price and the oscillator will both be making higher highs and higher lows. In this instance there will be no divergence. However, when the asset is set to reverse the trend, you will notice that the oscillator starts to make lower highs than the price. This will on occasion turn into the oscillator commencing a bearish movement while the price is still hanging on to making higher highs, albeit at a much slower pace than during the height of the trend.

The types of divergence can be broken down into two categories (Regular and Hidden), which each have two sub categories.

Regular Bullish Divergence: it is characterized by the price exhibiting a lower low, the oscillator exhibiting higher lows. This shows underlying buying strength, it can be an indication of a possible change from downtrend to uptrend.

Bearish Divergence: it is characterized by the price exhibiting a higher high, the oscillator exhibiting lower highs. This shows underlying strength, it can be an indication of a possible change from uptrend to downtrend.

Hidden Bullish Divergence: it is characterized by the price exhibiting a higher low, the oscillator exhibiting lower low. This shows underlying buying strength, it can be an indication of an entry point as it often seen during a retracement during an uptrend and is an opportunity to buy on a "dip".

Hidden Bearish Divergence: it is characterized by the price exhibiting a lower high, the oscillator exhibiting a higher high. This shows underlying buying strength, it can be an indication of a possible change from uptrend to downtrend.

TECHNICAL STRATEGIES

PUTTING IT ALL TOGETHER

How you decide to trade is ultimately your own decision. After thoroughly reading through and learning the information within this course, you will be prepared to start to implement trading strategies that best suit your trading style and preferences.

As a general rule, it is not advised to have any more than 3 technical indicators active on your chart at any one time. In case you use more, your eye and mind will be confused by the excess, and often they are presenting conflicting information.

Below are some suggestions of indicators that have been discovered to work well together. Please note that these are in addition to spotting chart and candlestick patterns: Bollinger and Stochastic; MACD and RSI (with or without moving averages); Fundamentals and Ichimoku Kinko Hyo.

Test these combinations on long-term or recent historical data (charts) to see if it is something that can be relied upon during the current market conditions. This way you get to see where the correlated buy or sell signals appeared, and the subsequent move of the asset, without actually risking any capital.

As with everything in FOREX, there is expensive and unreliable software that you can purchase to perform this task automatically, however, it is preferable, especially as beginner traders, to perform this manually. The best thing about manual back-testing is that it can be done over the weekend while the markets are closed.

SPECIALIZED STRATEGIES

PUTTING IT ALL TOGETHER

A Pivot Point is essentially a turning point of an asset. It is calculated by taking the average of the high low and closing price of an asset. The aim of this strategy is to buy at the lowest point and sell at the highest. It is a way of attempting to predict what the future potential Support and Resistance areas will be.

Using Pivot Points to calculate levels is most useful when used in a short-term trading strategy and can be used as trade set-up for a bounce or break trade. As Pivot Points are essentially just another way of identifying potential Support and Resistance levels, they can be traded in the exact same way. The term Pivot actually indicates that it will be a turning point of an asset's price (Bounce), however, as with other Support and Resistance levels, they can be broken (Break).

When using Pivot Points the calculations performed will generate 3 levels of Support and 3 levels of Resistance. Pivot Points are calculated as follows:

$$\text{Pivot Point (PP)} = (\text{High} + \text{Low} + \text{Close}) / 3$$

$$\text{First Resistance (R1)} = (2 \times \text{PP}) - \text{High}$$

$$\text{Second Resistance (R2)} = \text{PP} + (\text{High} - \text{Low})$$

$$\text{Second Support (S2)} = \text{PP} - (\text{High} - \text{Low})$$

$$\text{Third Resistance (R3)} = \text{High} + 2 (\text{PP} - \text{Low})$$

$$\text{Third Support (S3)} = \text{Low} - 2 (\text{High} - \text{PP})$$

SPECIALIZED STRATEGIES

HOW TO TRADE

TRADE	BOUNCE	CONDITIONS Let's say that the price is approaching Support 1 and is about to test this level. If you believe that it will bounce off this level and not break it then do the following:	ENTRY Entry for this trade will be just above S1. As with the previous Bounce trade, the conservative trader will wait for the asset to test the S1 level, bounce off it and begin to retrace. Once this confirmation has been seen then the trader is OK to open their position.	TARGET / STOP In this case, the first Target to set a Take Profit level will be the Pivot Point level itself, however, as a secondary option for a more aggressive trader, the R1 level could also be used as a profit target level. Take Profit can then be set at the level for a more aggressive trader, or slightly before the level for more conservative trader.
TRADE	BREAK	CONDITIONS Let's say that the price is approaching Support 1 and, in this instance, you believe that the asset will continue to move below that level, thus breaking Support.	ENTRY Entry for this trade will be just below S1, or on the retouch of a retracement to S1 as the asset now finds Resistance there.	TARGET / STOP Target will be S2 or S3 depending on the move of the asset.

SPECIALIZED STRATEGIES

FIBONACCI

First discovered by Leonardo Fibonacci, an Italian mathematician, the Fibonacci Ratio is a series of numbers that begin with the number 1 and continues on indefinitely.

It is calculated by adding a number to the previous number to create a third and thus continues on sequence. On its own this information doesn't seem particularly ground breaking until you realize that the various calculations that can be undertaken regarding the relationships between the numbers fractions that are repeated enumerable amount of times in the natural world. From things as varied as the spiral of a shell to the skin of a pineapple. All the natural formations adhere to the Fibonacci ratio.

Further than this, the ratios have been arranged to create what's known as "golden mean", which is used throughout the material world, particularly in design art and architecture. In addition, now it is used to analyse the movement of financial assets.

Take a look at the following numbers: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144...

Excluding the first few numbers in the sequence, when you divide any number in the sequence to its subsequent number, you consistently get an answer of 0.618.

Similarly calculate the ratio between alternative numbers - you consistently get an answer of 0.382.

Regarding the financial markets specifically the Fibonacci ratios are used in particular forms of calculation the Fibonacci retracement and the Fibonacci extension.

SPECIALIZED STRATEGIES

A retracement is a short-term price “correction” during a trend of an asset, either upwards or downwards, also known as “pull-back”. It is important to note this is not a “reversal” strategy, it is a continuation strategy.

The Fibonacci Retracement Levels are: 0.236, 0.382, 0.500, 0.618, 0.746.

The Fibonacci Extension Levels are: 0.0382, 0.618, 1.000, 1.382, 1.618.

Luckily you don’t need to know how any of these numbers are calculated, because the trading software on the trading platform you will use, will calculate it for you.

The Fibonacci Extension Levels are used by traders to identify potential Support and Resistance levels. As with many other technical indicators, because they are so widely used by so many traders, they seem to become self-fulfilling prophecies.

SPECIALIZED STRATEGIES

SWING POINT HIGHS



SWING POINT LOWS



TRADE

BOUNCE

CONDITIONS

The market is trending upwards.

ENTRY

Buy on a retracement that hits a Fibonacci support level. Bounces off it, and continues in the direction of the dominant, overall trend.

TARGET / STOP

Looking for Fibonacci extension levels further along the dominant trend direction than the 0 point of the Fibonacci Retracement level. **Note:** If the retracement passes the preceding swing high, then it is safe to infer that a trend reversal has taken place and to change the trading strategy.

TRADE

BOUNCE

CONDITIONS

The market is trending downwards.

ENTRY

Sell on retracement at a Fibonacci resistance level. As the resistance holds, and the asset bounces off that level, resuming the direction of the dominant trend.

TARGET / STOP

Looking for Fibonacci extension levels further along the dominant trend direction than the 0 point of the Fibonacci Retracement level. **Note:** If the retracement passes the preceding swing low, then it is safe to infer that a trend reversal has taken place and to change the trading strategy.

SPECIALIZED STRATEGIES

Fibonacci Levels are incredibly useful and have universal appeal, however, they are more reliable when they are used in conjunction with other forms of Technical Analysis such as already established strong historical Support and Resistance Levels, Trendlines, Candlestick and Chart Patterns.

ELLIOTT WAVE THEORY

The Elliott Wave Theory was established by Ralph Nelson Elliott after he studied almost 75 years' worth of stock market data during the 1920s-1930s. What he discovered in this period of analysis was that markets tended to adopt repetitive cycles, attributed by Elliott to be the manifestation of the emotions of the various investors in the market due to outside causes. Bear in mind that this was a time of prominence of the psychoanalytic works by figures such as Sigmund Freud and Carl Jung whose theories were founded in the: collective consciousness". Irrespective of the influences the theory that was ultimately published by Elliott identified that in terms of the financial markets, movements of the markets could be clearly categorized into various upwards and downwards waves that always appeared in the same repetitive patterns. Elliott called these swinging motions, waves.

Essentially, this means that if you can correctly identify the section of the pattern, then you would be able to predict where the price of the asset will go. In order to fully understand and trade with the Elliott Wave Theory, you first need to understand what "Fractals" are.

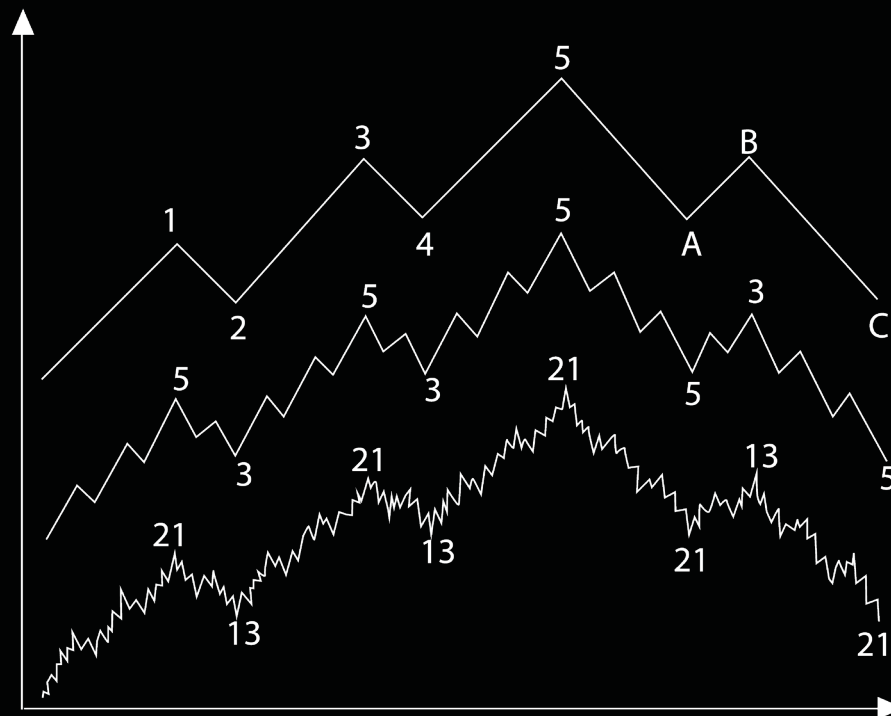
Fractals: a fractal is a curve or geometrical figure, each part of which has the same statistical character as the whole. They are useful in modelling structures (such as snowflakes) in which similar patterns recur at progressively smaller scales, and in describing partly random or chaotic phenomena such as crystal growth and galaxy formation. Fractals are said to possess a quality known as self-similarity.

SPECIALIZED STRATEGIES

The reason why this is important to know as trader is that in actual fact, Elliott Waves can be further broken down into more Elliott Waves, and they also fit into larger Elliott Wave.

As you can see in the accompanying image of the Elliott Wave is made up of various phases known as the 5-3 wave pattern. They are made up of the first 5 groups of waves (the impulsive waves), followed by the subsequent 3 waves, known as the corrective waves.

The first phase can be further broken down into motive and corrective movements. Moves 1, 3 and 5 are motive movements, and movements 2 and 4 are corrective movements.



SPECIALIZED STRATEGIES

The idea behind this is that each step in this process can be explained by various phases of mass-mentality psychology. Once this is understood, it can be used to the trader's advantage.

Let's imagine a bull market:

Wave 1: This movement is created by a small number of people who in a short period of time, enter the market having decided that, for some reason or another (fundamental or technical), it is a good time to buy. This increase in demand causes the price of the asset to rise.

Wave 2: In this phase, a portion of the buyers who originally entered the market decide to take profit, considering the price to be overvalued. This drop in demand causes a drop in price, though not back to the original starting price at the beginning of Wave 1 because the price is still considered by many to be attractive.

Wave 3: This wave is usually the strongest and longest wave. The previous price movements have caught the attention of the masses. This increase in demand causes the price to surge higher, past the highs achieved during Wave 1.

Wave 4: Similarly to Wave 2, traders again take profit as the stock is again considered overpriced. This correction tends to be less pronounced as there are still a large portion of the trading population who consider the asset a buy and not a sell. in the weakness of the change
in price. Most people are still looking for a good entry point and are trading thinking that they are buying at a good price on a pull back.

Wave 5: This is the final Wave of the initial section of the theory. This is the leg that most of people get into the trade. This is also the point at which the asset is genuinely overpriced and is the beginning of the end of the upward move.

SPECIALIZED STRATEGIES

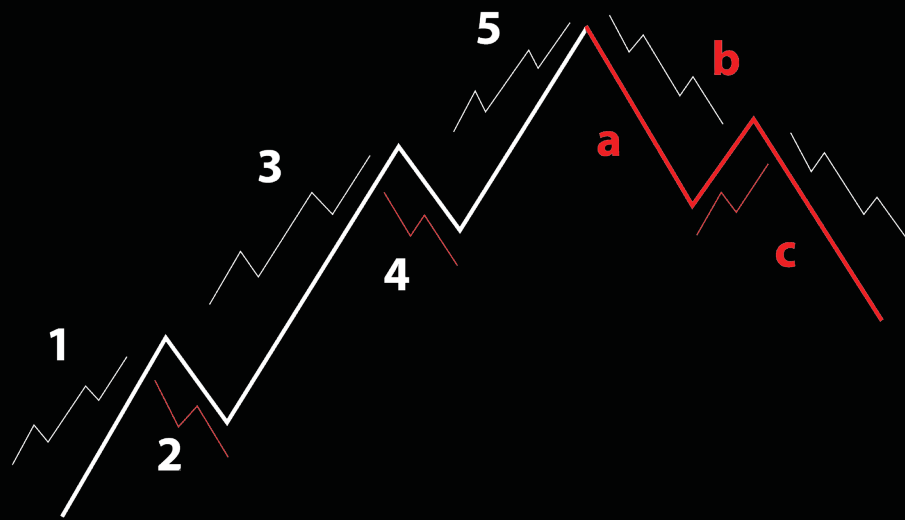
ABC Corrective Waves: after the peak of the 5th Wave, the formation changed direction with the ABC Waves. These generally fall into one of three categories of ABC Corrective Waves.

Zig-Zag: The Zig-Zag formation is a sharp change of direction characterized by the B Wave being the shortest wave, in comparison with the A and C Waves. It will be moving in the opposite direction to the preceding dominant direction. This formation can actually take place two or three times in a row, however, as with all Elliott Wave formations, the waves can be broken up into smaller wave formations.

Flat: This formation is characterized by the three waves having generally equal length. With Wave B, retracing the move of Wave A, and Wave C undoing that of Wave B.

Triangle: As with the Triangle formations discussed in the previous chapter, this is made up of either converging or diverging triangles that can be symmetrical, descending, ascending or expanding. This wave formation is actually made up of 5 waves (A, B, C, D, E) as opposed to the aforementioned 3 (A, B, C).

As you can see from the image the Elliott Wave formation is actually made up of smaller Elliott Waves. They can be categorized by various : Grand Supercycle, Supercycle, Cycle, Primary, Intermediate, Minor, Minute, Minuette and Sub-Minuette.



SPECIALIZED STRATEGIES

There are also some rules to remember when looking for Elliott Wave Formations in the charts:

Rule 1: Wave 3 can never be the shortest wave

Rule 2: Wave 2 can never go beyond the start of Wave 1

Rule 3: Wave 4 can never cross into the same price area as Wave 1

BILL WILLIAMS

Bill Williams was a proponent of self-education in investment who combined ideas from areas as wide reaching as engineering, physics, psychology and integration of mind and body. His background in these areas, lead to a unique approach to trading the markets whereby he concluded that the reason that people were unsuccessful in investing was because they developed a high level of dependence on various forms of analysis and the rules upon which they were based.

Bill Williams considered that as the market changed all the time, one could not rely on theories or patterns that have been used in the past. Instead he created a way of trading that relied on psychology instead of any Technical or Fundamental Analysis. In order to achieve this, Williams categorized the correct analysis of the markets to fall into five areas:

Fractal (phase space): This is the only dimension that generated a signal. All of the other signals generated by the other dimensions should be ignored.

The driving force (energy phase)

Acceleration (deceleration or power phase)

Zone (combination of strength/power phase)

Balance line

SPECIALIZED STRATEGIES

Once the trader has opened the position it can be added to each time that a signal from one of the other dimensions is generated. Based on this methodology a 30% market movement gives the trader an opportunity to make a profit of 90% to 120%.

How it works?

Acceleration/Deceleration (AC) Oscillator: a technical indicator which displays the acceleration or deceleration of the market driving force at any given moment. It fluctuates around the median (0.00) level, where a positive value indicated a growing (bullish) market, and a negative value signals a shrinking (bearish) market trend development. The main feature of this indicator is that it serves as a forewarning for a potential reversal as prior to the reversal, the indicator changes direction.

Alligator Indicator: Literally modelled on the observed behaviours of the alligator. Their activity can be crudely broken down into phases of sleeping/low activity followed by aggressive hunting; followed again by a dormant period of low activity. As the analogy goes, the longer the alligator sleeps, the hungrier it becomes and therefore the stronger the subsequent "price-hunting" activity is. This indicator is designed to highlight a trend absence, formation and direction.

Awesome Indicator (AO): The AO is a momentum indicator which reflects previous changes in the market driving force. It is made of three signals:

Saucer: The saucer represents three successive columns above the nought line. The first two must be colored red, where the second one is lower than the first one, and the third is colored green and stands higher than the second one. This formation serves as a signal as to where to buy. Conversely, an inverted formation would be a signal to sell.

Nought Line Crossing: This takes place where the histogram crosses the nought line in an upward direction, into the positive values from the negative values. This movement serves as a buy signal, and the inverse of that would indicate a sell signal.

SPECIALIZED STRATEGIES

Two Peaks: This formation consists of two consecutive peaks which are below the nought line, and the second peak stands closer to the nought line than the previous one. This would serve as a buy signal, and the inverse would serve as a sell signal.

Fractals Indicator: displays the local highs and lows of the chart. It highlights the point at which the price has stopped and reversed. They are made up of 5 consecutive bars, the first successfully reach higher, while the last descent lower. The middle bar forms the highest of the group. This can also be inverted so that the middle bar is the lowest of the group.

Gator Oscillator (GO): the indicator is a supplementary aid to the aforementioned Alligator Indicator and is used in unison with it. It is made up to two histograms which are built either side of the nought line. It helps to break down the Alligator's behaviour into four specific categories: Awakening, Waiting, Filling Out and Sleeping. Depending on which side of the nought line the histogram forms, its signals the absolute difference between the Alligator's Jaw and Teeth (positive reading), or Teeth and Lips (negative reading). If the histogram's bar extends past the preceding bar, it is colored green, otherwise it is colored red.

Market Facilitation Index (MFI) Indicator: the MFI indicates the extend of the willingness of the market to move the price in the market. The histogram bars show the absolute values of the index : Green, Blue, Pink and Brown, indicating the various levels of volume and MFI.

GOOD LUCK!

Congratulations, Trading Champion!

You've reached the final chapter of our trading e-book, and we couldn't be prouder of your commitment to mastering the markets.

Remember, success isn't just about what you know—it's about how you apply it. So, as you close this book, take a moment to reflect on your journey and the exciting opportunities that lie ahead. With dedication, resilience, and a sprinkle of passion, there's no limit to what you can achieve.

As you embark on the next chapter of your trading adventure, keep your spirits high, your goals in sight, and your curiosity thriving. The road may have its twists and turns, but with each step forward, you're one step closer to your dreams.

So, here's to your continued growth, your unwavering determination, and the countless victories that await you. May your trading journey be filled with joy, prosperity, and endless possibilities.

With warmest wishes,



THE END