



What is FOREX?

The Foreign Exchange market, also referred to as the "FOREX" or "Forex" or "Retail forex" or "FX" or "Spot FX" or just "Spot" is the largest financial market in the world, with a volume of over \$4 trillion a day. If you compare that to the \$25 billion a day volume that the New York Stock Exchange trades, you can easily see how enormous the Foreign Exchange really is. It actually equates to more than three times the total amount of the stocks and futures markets combined! Forex rocks!

What is traded on the Foreign Exchange market?

The simple answer is money. Forex trading is the simultaneous buying of one currency and the selling of another. Currencies are traded through a broker or dealer, and are traded in pairs; for example the euro and the US dollar (EUR/USD) or the British pound and the Japanese Yen (GBP/JPY). Because you're not buying anything physical, this kind of trading can be confusing. Think of buying a currency as buying a share in a particular country. When you buy, say, Japanese Yen, you are in effect buying a share in the Japanese economy, as the price of the currency is a direct reflection of what the market thinks about the current and future health of the Japanese economy.

In general, the exchange rate of a currency versus other currencies is a reflection of the condition of that country's economy, compared to the other countries' economies.

Unlike other financial markets like the New York Stock Exchange, the Forex spot market has neither a physical location nor a central exchange. The Forex market is considered an Over-the-Counter (OTC) or 'Interbank' market, due to the fact that the entire market is run electronically, within a network of banks, continuously over a 24-hour period.

Until the late 1990's, only the "big guys" could play this game. The initial requirement was that you could trade only if you had about ten to fifty million bucks to start with! Forex was originally intended to be used by bankers and large institutions - and not by us "little guys". However, because of the rise of the Internet, online Forex trading firms are now able to offer trading accounts to 'retail' traders like us.

All you need to get started is a computer, a high-speed Internet connection, and the information contained within this site.

What is a Spot Market?

A spot market is any market that deals in the current price of a financial instrument

Which Currencies Are Traded?

The most popular currencies along with their symbols are shown below:

| Symbol | Country | Currency | Nickname |
|---------------|----------------------|-----------------|-----------------|
| USD | United States | Dollar | Buck |
| EUR | Euro members | Euro | Fiber |
| JPY | Japan | Yen | Yen |
| GBP | Great Britain | Pound | Cable |
| CHF | Switzerland | Franc | Swissy |
| CAD | Canada | Dollar | Loonie |
| AUD | Australia | Dollar | Aussie |
| NZD | New Zealand | Dollar | Kiwi |

Forex currency symbols are always three letters, where the first two letters identify the name of the country and the third letter identifies the name of that country's currency.

When Can Currencies Be Traded?

The spot FX market is unique within the world markets. It's like a Super Wal-Mart where the market is open 24-hours a day. At any time, somewhere around the world a financial center is open for business, and banks and other institutions exchange currencies every hour of the day and night with generally only minor gaps on the weekend.

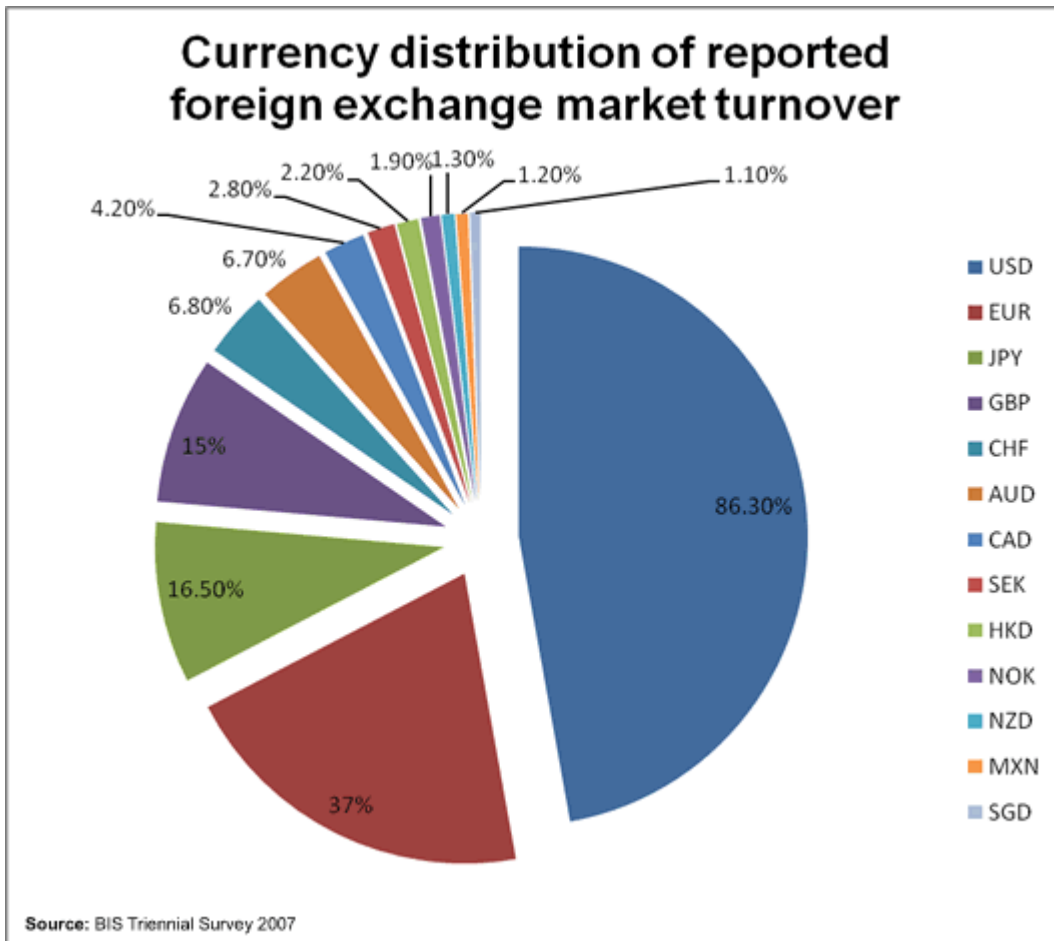
The foreign exchange markets follow the sun around the world, so you can trade late at night (if you're a vampire) or in the morning (if you're an early bird). Keep in mind though, the early bird doesn't necessarily get the worm in this market - you might get the worm but a bigger, nastier bird of prey can sneak up and eat you too...

| Time Zone | New York | GMT |
|-----------------------|-----------------|--------------|
| Tokyo Open | 7:00 pm | 0:00 |
| Tokyo Close | 4:00 am | 9:00 |
| London Open | 3:00 am | 8:00 |
| London Close | 12:00 pm | 17:00 |
| New York Open | 8:00 am | 13:00 |
| New York Close | 5:00 pm | 22:00 |

The Forex market (OTC)

The Forex OTC market is by far the biggest and most popular financial market in the world, traded globally by a large number of individuals and organizations. In the OTC market, participants determine who they want to trade with depending on trading conditions, attractiveness of prices and reputation of the trading counterpart.

The chart below shows global foreign exchange activity. The dollar is the most traded currency, being on one side of 86% of all transactions. The euro's share is second at 37%, while that of the yen is third at 16.5%.



Why Trade Foreign Currencies?

There are many benefits and advantages to trading Forex. Here are just a few reasons why so many people are choosing this market:

- **No commissions**
No clearing fees, no exchange fees, no government fees, no brokerage fees. Brokers are compensated for their services through something called the bid-ask spread.
- **No middlemen**
Spot currency trading eliminates the middlemen, and allows you to trade directly with the market responsible for the pricing on a particular currency pair.
- **No fixed lot size**
In the futures markets, lot or contract sizes are determined by the exchanges. A standard-size contract for silver futures is 5000 ounces. In spot Forex, you determine your own lot size. This allows traders to participate with accounts as small as \$250

- **A 24-hour market**
There is no waiting for the opening bell - from Sunday evening to Friday afternoon EST, the Forex market never sleeps. This is awesome for those who want to trade on a part-time basis, because you can choose when you want to trade--morning, noon or night.
- **No one can corner the market**
The foreign exchange market is so huge and has so many participants that no single entity (not even a central bank) can control the market price for an extended period of time.
- **Leverage**
In Forex trading, a small margin deposit can control a much larger total contract value. Leverage gives the trader the ability to make nice profits, and at the same time keep risk capital to a minimum. For example, Forex brokers offer 200 to 1 leverage, which means that a \$50 dollar margin deposit would enable a trader to buy or sell \$10,000 worth of currencies. Similarly, with \$500 dollars, one could trade with \$100,000 dollars and so on. But leverage is a double-edged sword. Without proper risk management, this high degree of leverage can lead to large losses as well as gains.
- **High Liquidity**
Because the Forex Market is so enormous, it is also extremely liquid. This means that under normal market conditions, with a click of a mouse you can instantaneously buy and sell at will. You are never "stuck" in a trade. You can even set your online trading platform to automatically close your position at your desired profit level (a limit order), and/or close a trade if a trade is going against you (a stop loss order).
- **Free "Demo" Accounts, News, Charts, and Analysis**
Most online Forex brokers offer 'demo' accounts to practice trading, along with breaking Forex news and charting services. All free! These are very valuable resources for "poor" and SMART traders who would like to hone their trading skills with 'play' money before opening a live trading account and risking real money.
- **"Mini" and "Micro" Trading**
You would think that getting started as a currency trader would cost a ton of money. The fact is, compared to trading stocks, options or futures, it doesn't. Online Forex brokers offer "mini" and "micro" trading accounts, some with a minimum account deposit of \$300 or less. It does makes Forex much more accessible to the average (poorer) individual who doesn't have a lot of start-up trading capital.

What Tools Do I Need to Start Trading Forex?

A computer with a high-speed Internet connection and all the information on this member's site is all that is needed to *begin* trading currencies successfully .

What Does It Cost to Trade Forex?

An online currency trading (a “micro account”) may be opened with a couple hundred bucks. Do not laugh – micro accounts and its bigger cousin, the mini account, are both good ways to get your feet wet without drowning.

How You Make Money Trading Forex



In the FX market, you buy or sell currencies. Placing a trade in the foreign exchange market is simple: the mechanics of a trade are very similar to those found in other markets (like the stock market), so if you have any experience in trading, you should be able to pick it up pretty quickly.

The object of Forex trading is to exchange one currency for another in the expectation that the price will change, so that the currency you bought will increase in value compared to the one you sold.

Example of making money by buying euros

| Trader's Action | EUR | USD |
|--|---------|-----------|
| You purchase 10,000 euros at the EUR/USD exchange rate of 1.18 | +10,000 | -11,800* |
| Two weeks later, you exchange your 10,000 euros back into US dollars at the exchange rate of 1.2500. | -10,000 | +12,500** |
| You earn a profit of \$700. | 0 | +700 |

*EUR 10,000 x 1.18 = US \$11,800

** EUR 10,000 x 1.25 = US \$12,500

An exchange rate is simply the ratio of one currency valued against another currency. For example, the USD/CHF exchange rate indicates how many U.S. dollars can purchase one Swiss franc, or how many Swiss francs you need to buy one U.S. dollar.

How to Read an FX Quote

Currencies are always quoted in pairs, such as GBP/USD or USD/JPY. The reason they are quoted in pairs is because in every foreign exchange transaction you are simultaneously buying one currency and selling another. Here is an example of a foreign exchange rate for the British pound versus the U.S. dollar

GBP/USD = 1.7500

The first listed currency to the left of the slash ("/") is known as the base currency (in this example, the British pound), while the second one on the right is called the counter or quote currency (in this example, the U.S. dollar).

When buying, the exchange rate tells you how much you have to pay in units of the quote currency to buy one unit of the base currency. In the example above, you have to pay 1.7500 U.S. dollar to buy 1 British pound.

When selling, the exchange rate tells you how many units of the quote currency you get for selling one unit of the base currency. In the example above, you will receive 1.7500 U.S. dollars when you sell 1 British pound.

The base currency is the “basis” for the buy or the sell. If you buy EUR/USD this simply means that you are buying the base currency and simultaneously selling the quote currency.

You would buy the pair if you believe the base currency will appreciate (go up) relative to the quote currency. You would sell the pair if you think the base currency will depreciate (go down) relative to the quote currency.

Long/Short

First, you should determine whether you want to buy or sell.

If you want to buy (which actually means buy the base currency and sell the quote currency), you want the base currency to rise in value and then you would sell it back at a higher price. In trader's talk, this is called "going long" or taking a "long position". Just remember: long = buy.

If you want to sell (which actually means sell the base currency and buy the quote currency), you want the base currency to fall in value and then you would buy it back at a lower price. This is called "going short" or taking a "short position". Short = sell

Bid/Ask Spread

All Forex quotes include a two-way price, the bid and ask. The bid is always lower than the ask price.

The bid is the price in which the dealer is willing to buy the base currency in exchange for the quote currency. This means the bid is the price at which you (as the trader) will sell.

The ask is the price at which the dealer will sell the base currency in exchange for the quote currency. This means the ask is the price at which you will buy.

The difference between the bid and the ask price is popularly known as the spread.

Let's take a look at an example of a price quote taken from a trading platform:



| GBP/USD | |
|---------|--------|
| Bid | Ask |
| 1.7445 | 1.7449 |
| Sell | Buy |

On this GBP/USD quote, the bid price is 1.7445 and the ask price is 1.7449. Look at how this broker makes it so easy for you to trade away your money.

If you want to sell GBP, you click "Sell" and you will sell pounds at 1.7445. If you want to buy GBP, you click "Buy" and you will buy pounds at 1.7449.

In the following examples, we're going to use Technical analysis to help us decide whether to buy or sell a specific currency pair.

EUR/USD

In this example Euro is the base currency and thus the "basis" for the buy/sell.

After watching videos in the members area and applying the system, you believe that EUR/USD pair is going to go UP, which is bad for the US dollar, you would execute a BUY EUR/USD order. By doing so you have bought euros in the expectation that EURO will *rise* versus the US dollar

If you believe that the US dollar is going to be strong and the euro will weaken against the US dollar you would execute a SELL EUR/USD order. By doing so you have sold Euros in the expectation that they will *fall* versus the US dollar.

USD/JPY

In this example the US dollar is the base currency and thus the "basis" for the buy/sell.

If you think that the Japanese Yen is going to weaken, you would execute a BUY USD/JPY order. By doing so you have bought U.S dollars in the expectation that they will rise versus the Japanese yen.

If you believe that US dollar is going to go down, you would execute a SELL USD/JPY order. By doing so you have sold U.S dollars in the expectation that they will depreciate against the Japanese yen.

GBP/USD

In this example the GBP is the base currency and thus the “basis” for the buy/sell.

If you think that British pound is going to go up, you would execute a BUY GBP/USD order. By doing so you have bought pounds in the expectation that they will rise versus the US dollar.

If you believe that the British pound is going to do down, you would execute a SELL GBP/USD order. By doing so you have sold pounds in the expectation that they will depreciate against the US dollar.

USD/CHF

In this example the USD is the base currency and thus the “basis” for the buy/sell.

If you think the Swiss franc is going to go down, you would execute a BUY USD/CHF order. By doing so you have bought US dollars in the expectation that they will appreciate versus the Swiss Franc.

If you believe that the US dollar is going to fall against Swiss franc, you would execute a SELL USD/CHF order. By doing so you have sold US dollars in the expectation that they will depreciate against the Swiss franc.

I don't have enough money to buy 10,000 euros. Can I still trade?

You can with margin trading! Margin trading is simply the term used for trading with borrowed capital. This is how you're able to open \$10,000 or \$100,000 positions with as little as \$50 or \$1,000. You can conduct relatively large transactions, very quickly and cheaply, with a small amount of initial capital.

Margin trading in the foreign exchange market is quantified in “lots”. Just think of the term "lot" as the minimum amount of currency you have to buy. When you go to the grocery store and want to buy an egg, you can't just buy a single egg; they come in dozens or "lots" of 12. In Forex, it would be just as foolish to buy or sell 1 euro, so they usually come in "lots" of 1,000(Micro) or 10,000 (Mini) or 100,000 (Standard) depending on the type of account you have.

For Example:

- You believe that signals in the market are indicating that the British Pound will go up against the US dollar.
- You open one lot (100,000), buying with the British pound at 1% margin and wait for the exchange rate to climb. When you buy one lot (100,000) of GBP/USD at a price of 1.5000, you are buying 100,000 pounds, which is worth US\$150,000 (100,000 units of GBP * 1.50 (exchange rate with USD)). If the margin requirement was 1%, then US\$1500 would be set aside in your account to open up the trade (US\$150,000 * 1%). You now control 100,000 pounds with US\$1500. Your predictions come true and you decide to sell.
- You close the position at 1.5050. You earn 50 pips or about \$500. (A pip is the smallest price movement available in a currency).

| Your Actions | GBP | USD |
|---|----------|------------|
| You buy 100,000 pounds at the GBP/USD exchange rate of 1.5000 | +100,000 | -150,000 |
| You blink for two seconds and the GBP/USD exchange rate rises to 1.5050 and you sell. | -100,000 | +150,500** |
| You have earned a profit of \$500. | 0 | +500 |

When you decide to close a position, the deposit that you originally made is returned to you and a calculation of your profits or losses is done. This profit or loss is then credited to your account.

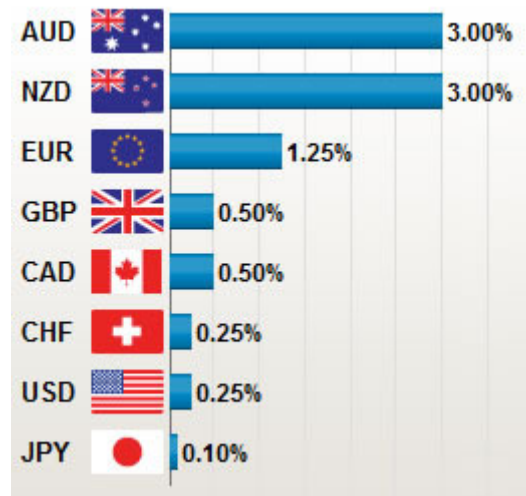
Rollover

No, this is not the same as rollover minutes from your cell phone carrier! For positions open at your broker's "cut-off time" usually 5pm EST, there is a daily rollover interest rate that a trader either pays or earns, depending on your established margin and position in the market. If you do not want to earn or pay interest on your positions, simply make sure they are all closed before 5pm EST, the established end of the market day.

Since every currency trade involves borrowing one currency to buy another, interest rollover charges are part of forex trading. Interest is paid on the currency that is borrowed, and earned on the one that is bought. If a client is buying a currency with a higher interest rate than the one he/she is borrowing, the net differential will be positive (i.e. USD/JPY) - and the client will earn funds as a result. Ask your broker or dealer about specific details regarding rollover.

Also note that many retail brokers do adjust their rollover rates based on different factors (e.g., account leverage, interbank lending rates). Please check with your broker for more information on rollover rates and crediting/debiting procedures.

Don't know what the interest rates are for each currency? Here is a chart to help you out. Accurate as of 04/19/09.



Demo Trading

You can open a demo account for free with most Forex brokers. This account has the full capabilities of a "real" account. Why is it free? It's because the broker wants you to learn the ins and outs of their trading platform, and have a good time trading without risk, so you'll fall in love with them and deposit real money. The demo account allows you to learn about the Forex markets and test your trading skills with ZERO risk.

YOU SHOULD DEMO TRADE FOR AT LEAST 2 MONTHS BEFORE YOU EVEN THINK ABOUT PUTTING REAL MONEY ON THE LINE.

I REPEAT - YOU SHOULD DEMO TRADE FOR AT LEAST 2 MONTHS BEFORE YOU EVEN THINK ABOUT PUTTING REAL MONEY ON THE LINE.

Important Information

Here is where we're going to do a little math. You've probably heard of the terms "pips" and "lots" thrown around, and here I am going to explain what they are and show you how they are calculated.

Take your time with this information, as it is required knowledge for all Forex traders. Don't even think about trading until you are comfortable with pip values and calculating profit and loss.

What is a Pip?

The most common increment of currencies is the Pip. If the EUR/USD moves from 1.2250 to 1.2251, that is ONE PIP. A pip is the last decimal place of a quotation. The Pip is how you measure your profit or loss.

As each currency has its own value, it is necessary to calculate the value of a pip for that particular currency. In currencies where the US Dollar is quoted first, the calculation would be as follows.

Let's take USD/JPY rate at 119.80 (notice this currency pair only goes to two decimal places, most of the other currencies have four decimal places)

In the case of USD/JPY, 1 pip would be .01

Therefore,

USD/JPY:

119.80

.01 divided by exchange rate = pip value

$.01 / 119.80 = 0.0000834$

This looks like a very long number but later we will discuss lot size.

USD/CHF:

1.5250

.0001 divided by exchange rate = pip value

$.0001 / 1.5250 = 0.0000655$

USD/CAD:

1.4890

.0001 divided by exchange rate = pip value

$.0001 / 1.4890 = 0.00006715$

In the case where the US Dollar is not quoted first and we want to get the US Dollar value, we have to add one more step.

EUR/USD:

1.2200

.0001 divided by exchange rate = pip value so

$$.0001 / 1.2200 = \text{EUR } 0.00008196$$

but we need to get back to US dollars so we add another calculation which is

EUR x Exchange rate So

$$0.00008196 \times 1.2200 = 0.00009999 \text{ When rounded up it would be } 0.0001$$

GBP/USD:

1.7975

.0001 divided by exchange rate = pip value So

$$.0001 / 1.7975 = \text{GBP } 0.0000556$$

But we need to get back to US dollars so we add another calculation which is

GBP x Exchange rate

So

$$0.0000556 \times 1.7975 = 0.0000998$$

When rounded up it would be 0.0001

You're probably rolling your eyes back and thinking do I really need to work all this out and the answer is NO. Nearly all forex brokers will work all this out for you automatically. It's always good for you to know how they work it out.

In the next section, we will discuss how these seemingly insignificant amounts can add up.

What is a Lot?

Spot Forex is traded in lots. The standard size for a lot is \$100,000. There is also a mini lot size and that is \$10,000 and also there is a micro lot size that is \$1,000. As you already know, currencies are measured in pips, which is the smallest increment of that currency. To take advantage of these tiny increments, you need to trade large amounts of a particular currency in order to see any significant profit or loss.

Let's assume we will be using a \$100,000 lot size. We will now recalculate some examples to see how it affects the pip value.

USD/JPY at an exchange rate of 119.90
 $(.01 / 119.80) \times \$100,000 = \8.34 per pip

USD/CHF at an exchange rate of 1.4555
 $(.0001 / 1.4555) \times \$100,000 = \$6.87$ per pip

In cases where the US Dollar is not quoted first, the formula is slightly different.

EUR/USD at an exchange rate of 1.1930
 $(.0001 / 1.1930) \times \text{EUR } 100,000 = \text{EUR } 8.38 \times 1.1930 = \9.99734 rounded up will be **\$10** per pip

GBP/USD at an exchange rate or 1.8040
 $(.0001 / 1.8040) \times \text{GBP } 100,000 = 5.54 \times 1.8040 = 9.99416$ rounded up will be **\$10** per pip.

Your broker may have a different convention for calculating pip value relative to lot size but whichever way they do it, they'll be able to tell you what the pip value is for the currency you are trading is at the particular time. As the market moves, so will the pip value depending on what currency you are currently trading.

How do I calculate profit and loss?

So now that you know how to calculate pip value, let's look at how you calculate your profit or loss.

Let's buy US dollars and Sell Swiss Francs.

The rate you are quoted is 1.4525 / 1.4530. Because you are buying US you will be working on the 1.4530, the rate at which traders are prepared to sell.

So you buy 1 lot of \$100,000 at 1.4530.

A few hours later, the price moves to 1.4550 and you decide to close your trade.

The new quote for USD/CHF is 1.4550 / 1.4555. Since you're closing your trade and you initially bought to enter the trade, you now sell in order to close the trade so you must take the 1.4550 price. The price traders are prepared to buy at.

The difference between 1.4530 and 1.4550 is .0020 or 20 pips.

Using our formula from before, we now have $(.0001/1.4550) \times \$100,000 = \6.87 per pip $\times 20$ pips = \$137.40

Remember, when you enter or exit a trade, you are subject to the spread in the bid/offer quote.

When you buy a currency you will use the offer price and when you sell you will use the bid price.

So when you buy a currency, you pay the spread as you enter the trade but not as you exit. And when you sell a currency you don't pay the spread when you enter but only when you exit.

What the heck is Leverage?

You are probably wondering how a small investor like yourself can trade such large amounts of money. Think of your broker as a bank who basically fronts you \$100,000 to buy currencies and all he asks from you is that you give him \$1,000 as a good faith deposit, which he will hold you for but not necessarily keep. Sounds too good to be true? Well this is how forex trading using leverage works.



The amount of leverage you use will depend on your broker and what you feel comfortable with.

Typically the broker will require a minimum account size, also known as account margin or initial margin. Once you have deposited your money you will then be able to trade. The broker will also specify how much they require per position (lot) traded.

For example, for every \$1,000 you have, you can trade 1 lot of \$100,000. So if you have \$5,000 they may allow you to trade up to \$500,000 of Forex.

The minimum security (margin) for each lot will vary from broker to broker. In the example above, the broker required a one percent margin. This means that for every \$100,000 traded, the broker wants \$1,000 as a deposit on the position.

What is a Margin Call?

In the event that money in your account falls below margin requirements (usable margin), your broker will close some or all open positions. This prevents your account from falling into a negative balance, even in a highly volatile, fast moving market.

Example #1

Let's say you open a regular Forex account with \$2,000. You open 1 lot of the EUR/USD, with a margin requirement of \$1000. Usable Margin is the money available to open new positions or sustain trading losses. Since you started with \$2,000, your usable margin is \$2,000. But when you opened 1 lot, which requires a margin requirement of \$1,000, your usable margin is now \$1,000.

If your losses exceed your usable margin of \$1,000 you will get a margin call.

Example #2

Let's say you open a regular Forex account with \$10,000. You open 1 lot of the EUR/USD, with a margin requirement is \$1000. Remember, usable margin is the money you have available to open new positions or sustain trading losses. So prior to opening 1 lot, you have a usable margin of \$10,000. After you open the trade, you now have \$9,000 usable margin and \$1,000 of used margin.

If your losses exceed your usable margin of \$9,000, you will get a margin call.

Make sure you know the difference between usable margin and used margin.

If the equity (the value of your account) falls below your usable margin due to trading losses, you will either have to deposit more money or your broker will close your position to limit your risk and his risk. As a result, you can never lose more than you deposit.

If you are going to trade on a margin account, it's vital that you know what your broker's policies are on margin accounts.

You should also know that most brokers require a higher margin during the weekends. This may take the form of 1% margin during the week and if you intend to hold the position over the weekend it may rise to 2% or higher.

The topic of margin is a touchy subject and some argue that too much margin is dangerous. It all depends on the individual. The important thing to remember is

that you thoroughly understand your broker's policies regarding margin and that you understand and are comfortable with the risks involved.

Some brokers describe their leveraging in terms of a leverage ratio and other in terms of a margin percentage. The simple relationship between the two terms is:

$$\text{Leverage} = 100 / \text{Margin Percent}$$

$$\text{Margin Percent} = 100 / \text{Leverage}$$

Leverage is conventionally displayed as a ratio, such 100:1 or 200:1.

Types of Forex Charts

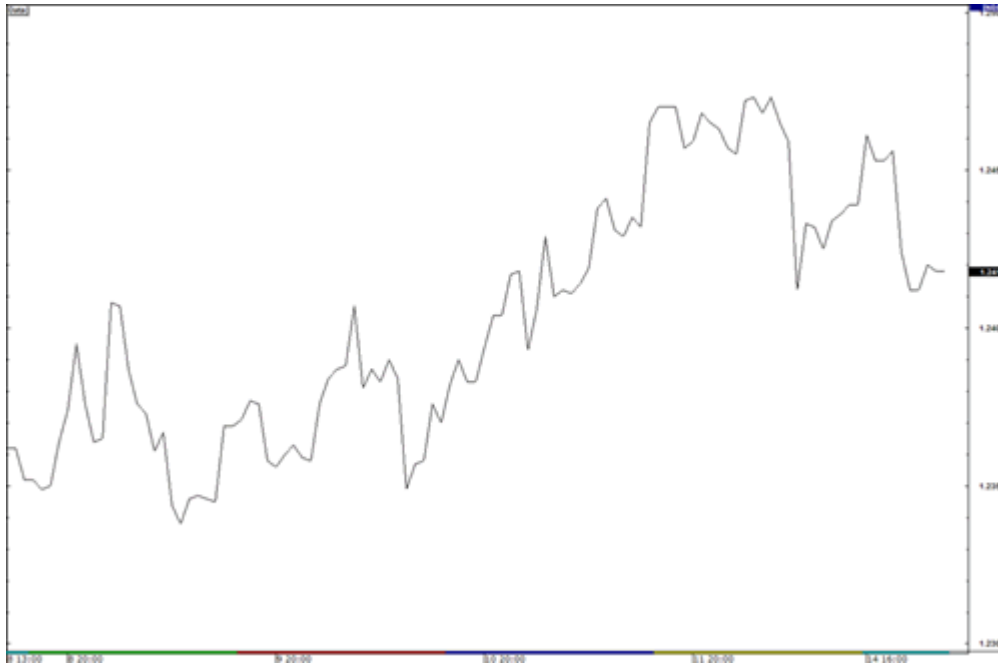
Let's take a look at the three most popular types of charts:

1. Line chart
2. Bar chart
3. Candlestick chart

Line Charts

A simple line chart draws a line from one closing price to the next closing price. When strung together with a line, we can see the general price movement of a currency pair over a period of time.

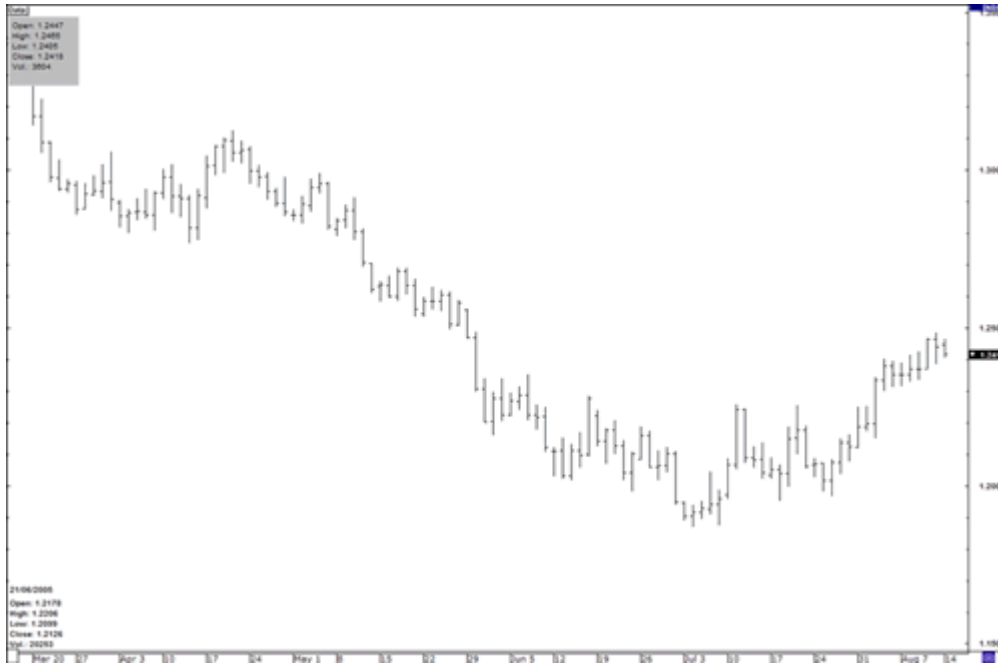
Here is an example of a line chart for EUR/USD:



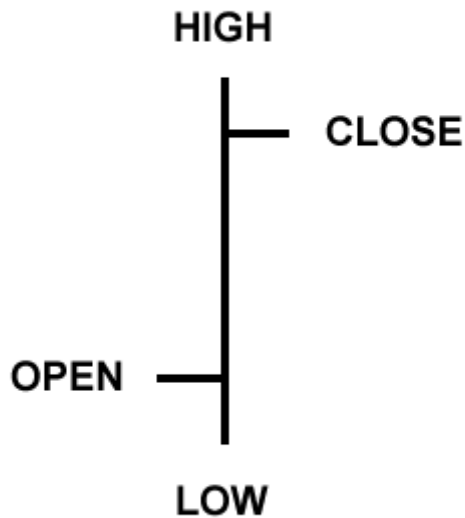
Bar Charts

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

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



Bar charts are also called “OHLC” charts, because they indicate the Open, the High, the Low, and the Close for that particular currency. Here’s an example of a price bar:



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

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

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

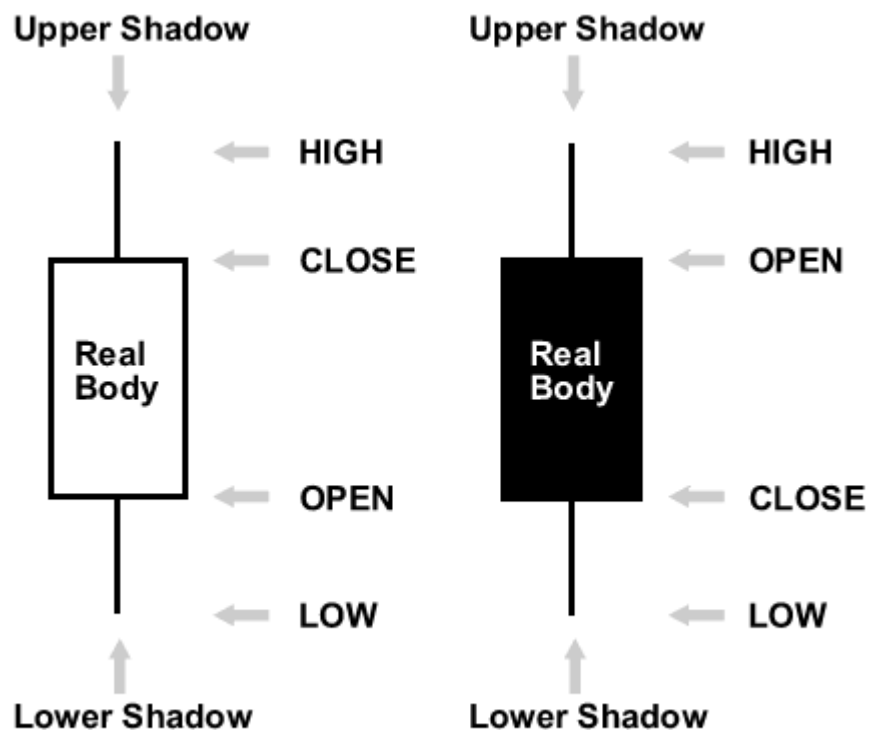
Close: The little horizontal line on the right is the closing price

Candlestick Charts

Candlestick charts show the same information as a bar chart, but in a prettier, graphic format.

Candlestick bars still indicate the high-to-low range with a vertical line. However, in candlestick charting, the larger block in the middle indicates the range between the opening and closing prices. Traditionally, if the block in the middle is filled or colored in, then the currency closed lower than it opened.

In the following example, the 'filled color' is black. For our 'filled' blocks, the top of the block is the opening price, and the bottom of the block is the closing price. If the closing price is higher than the opening price, then the block in the middle will be "white" or hollow or unfilled.



Candlesticks are formed using the open, high, low and close.

- If the close is above the open, then a hollow candlestick (usually displayed as white) is drawn.
- If the close is below the open, then a filled candlestick (usually displayed as black) is drawn.

- The hollow or filled section of the candlestick is called the “real body” or body.
- The thin lines poking above and below the body display the high/low range and are called shadows.
- The top of the upper shadow is the “high”.
- The bottom of the lower shadow is the “low”.

I don't like to use the traditional black and white candlesticks. We feel it's easier to look at a chart that's colored. A color television is much better than a black and white television, so why not in candlestick charts?

We simply substituted Blue instead of white, and red instead of black. This means that if the price closed higher than it opened, the candlestick would be Blue. If the price closed lower than it opened, the candlestick would be red.

For now, just remember that we will use in our Videos red and Blue candlesticks instead of black and white and we will be using these colors from now on.



The purpose of candlestick charting is strictly to serve as a visual aid, since the exact same information appears on an OHLC bar chart.

Types of Trading

There are 2 types of analysis you can take when approaching the forex: Fundamental analysis and Technical analysis. There has always been a constant debate as to which analysis is better, but to tell you the truth, you need to know a little bit of both. So let's break each one down and then come back and put them together.

Fundamental Analysis

Fundamental analysis is a way of looking at the market through economic, social and political forces that affect supply and demand. (Yada yada yada.) In other words, you look at whose economy is doing well, and whose economy sucks. The idea behind this type of analysis is that whoever's economy is doing well; their currency will also be doing well. This is because the better a country's economy is, the more trust other countries have in that currency.

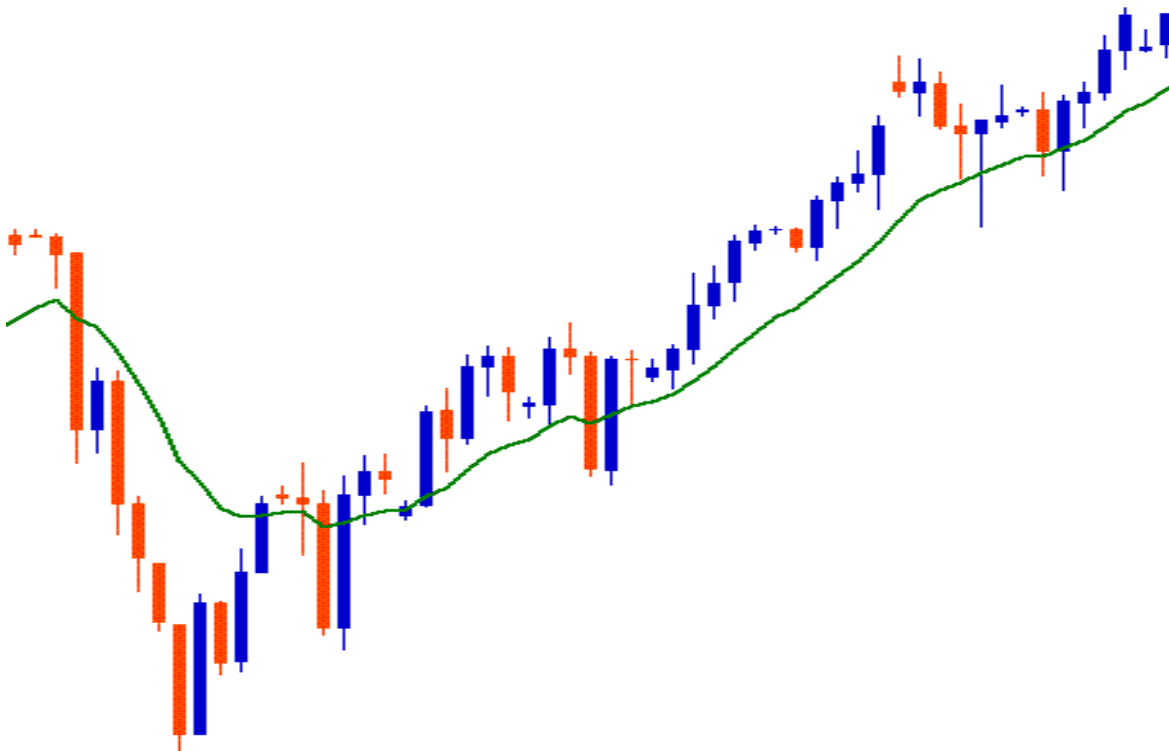
For example, the U.S. dollar has been gaining strength because the U.S. economy is gaining strength. As the U.S. interest rates keep increasing, the value of the dollar continues to increase. And that is what we call fundamental analysis. fundamental analysis of the forex is a way of analyzing a currency through the strength of that country's economy

Technical Analysis

Technical analysis is the study of price movement. In one word, technical analysis=charts. The idea is that a person can look at historical price movements, and based on the price action, can determine on some level where the price will go. By looking at charts, you can identify trends and patterns which can help you find good trading opportunities. The most IMPORTANT thing you will ever learn in technical analysis is the trend! Many many many many many many people have a saying that goes, "The trend is your friend". The reason is that you are much more likely to make money when you can find a trend and trade in the same direction. Our Fx Child's Play System is purely based on trend following.

Moving Averages

A moving average is simply a way to smooth out price action over time. By "moving average", I mean that you are taking the average closing price of a currency for the last 'X' number of periods.



Like every indicator, a moving average indicator is used to help us forecast future prices. By looking at the slope of the moving average, you can make general predictions as to where the price will go.

As we said, moving averages smooth out price action. There are different types of moving averages, and each of them has their own level of “smoothness”. Generally, the smoother the moving average, the slower it is to react to the price movement. The choppier the moving average, the quicker it is to react to the price movement.

let’s look at the different types of moving averages and how they are calculated.

Simple Moving Average (SMA)

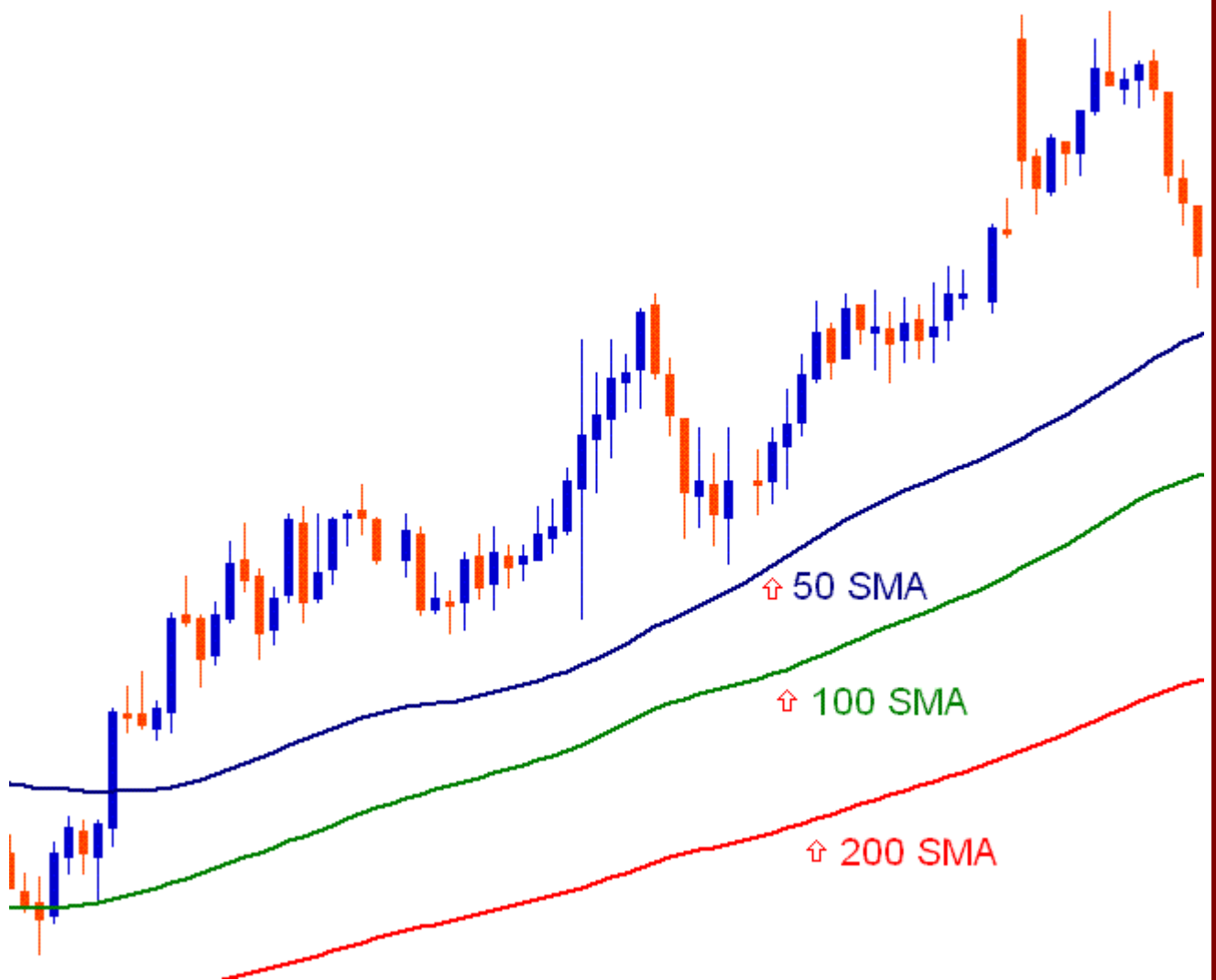
A simple moving average is the simplest type of moving average (DUH!). Basically, a simple moving average is calculated by adding up the last “X” period’s closing prices and then dividing that number by X. Confused???

Allow me to clarify. If you plotted a 5 period simple moving average on a 1 hour chart, you would add up the closing prices for the last 5 hours, and then divide that number by 5. Voila! You have your simple moving average.

If you were to plot a 5 period simple moving average on a 10 minute chart,

you would add up the closing prices of the last 50 minutes and then divide that number by 5. If you were to plot a 5 period simple moving average on a 30 minute chart, you would add up the closing prices of the last 150 minutes and then divide that number by 5.

If you were to plot the 5 period simple moving average on the a 4 hr. chart.....OK OK, I think you get the picture! Let's move on. Most charting packages will do all the calculations for you. The reason we just bored you (yawn!) with how to calculate a simple moving average is because it is important that you understand how the moving averages are calculated. If you understand how each moving average is calculated, you can make your own decision as to which type is better for you. Just like any indicator out there, moving averages operate with a delay. Because you are taking the averages of the price, you are really only seeing a "forecast" of the future price and not a concrete view of the future. Disclaimer: Moving averages will not turn you into Ms. Cleo the psychic!



Here is an example of how moving averages smooth out the price action.

On the previous chart, you can see 3 different SMAs. As you can see, the longer the SMA period is, the more it lags behind the price. Notice how the 200 SMA is farther away from the current price than the 100 and 50 SMA. This is because with the 200 SMA, you are adding up the closing prices of the last 200 periods and dividing it by 200. The higher the number period you use, the slower it is to react to the price movement.

The SMA's in this chart show you the overall sentiment of the market at this point in time. Instead of just looking at the current price of the market, the moving averages give us a broader view, and we can now make a general prediction of its future price.

Please note: We don't trade with these 3 moving averages in our system. This is just for Understanding purpose.

Exponential Moving Average

Although the simple moving average is a great tool, there is one major flaw associated with it. Simple moving averages are very susceptible to spikes. Let me show you an example of what I mean:

Let's say we plot a 5 period SMA on the daily chart of the EUR/USD and the closing prices for the last 5 days are as follows:

Day 1: 1.2345

Day 2: 1.2350

Day 3: 1.2360

Day 4: 1.2365

Day 5: 1.2370

The simple moving average would be calculated as
 $(1.2345+1.2350+1.2360+1.2365+1.2370)/5= 1.2358$

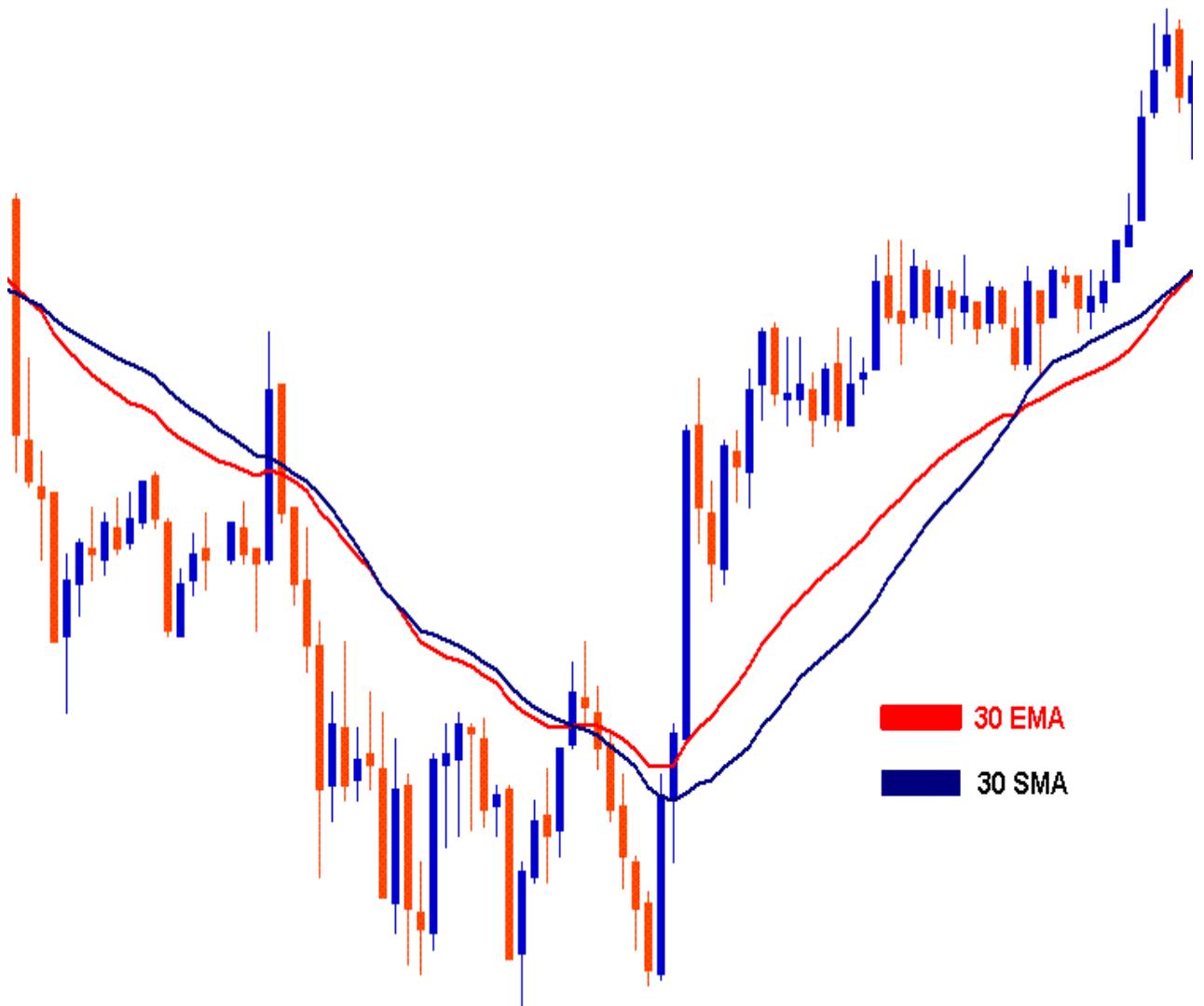
Simple enough right?

Well what if Day 2's price was 1.2300? The result of the simple moving average would be a lot lower and it would give you the notion that the price was actually going down, when in reality, Day 2 could have just been a one time event (maybe interest rates decreasing).

The point I'm trying to make is that sometimes the simple moving average might be *too* simple. If only there was a way that you could filter out these spikes so that you wouldn't get the wrong idea. Hmmmm...I wonder....Wait a minute.....Yep, there is a way!

It's called the Exponential Moving Average!

Exponential moving averages (EMA) give more weight to the most recent periods. In our example above, the EMA would put more weight on Days 3-5, which means that the spike on Day 2 would be of lesser value and wouldn't affect the moving average as much. What this does is it puts more emphasis on what traders are doing NOW.



When trading, it is far more important to see what traders are doing now rather than what they did last week or last month.

We use Exponential Moving Average's in our System

Opening a Demo Account with Interbankfx

For years I have used the free and highly acclaimed Meta Trader 4 charting software, in my opinion it is as good, if not better than most forex charting packages that charge over \$100 a month. We are about to setup and install Meta Trader 4 platform on your computer with a free demo account for you to start trading with. There are hundreds of forex brokers who use Meta Trader, but I have found one who meets all my requirements and has always been honest and professional being interbankfx. Open your web browser and head over to <http://www.interbankfx.com/>

<http://www.fxchildsplay.com>

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+ Prof
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Go to accounts and then click on the "Open Demo Account" in the drop down menu.


A new page will open asking you to fill in your details to request a demo account. Fill in the form and make sure you select Meta Trader 4 from the Platform Version drop down menu then click Submit Request.

Request a Demo Account

(*required field)

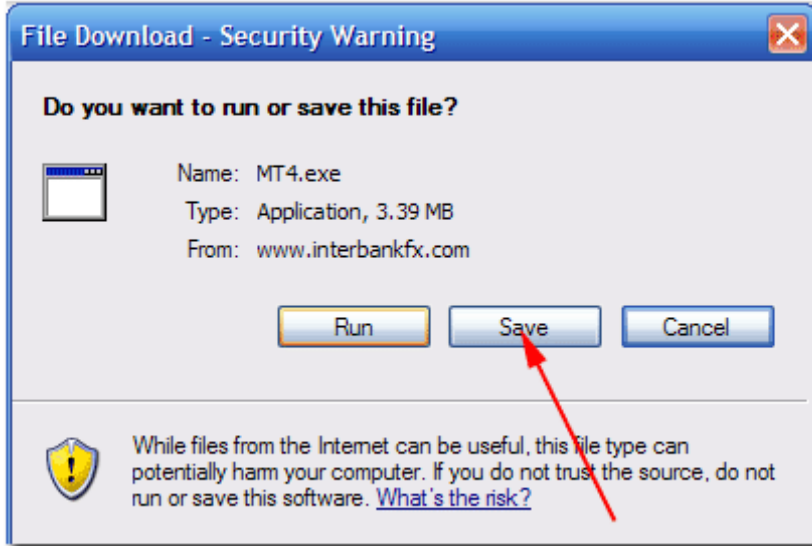
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| <p>*First Name <input type="text"/></p> <p>*Country Select Country ▼</p> <p>*State / Region <input type="text"/></p> <p>*Platform Version Select Platform ▼</p> <p>Trading Experience Select Option ▼</p> | <p>*Last Name <input type="text"/></p> <p>*City/Town <input type="text"/></p> <p>*Phone <input type="text"/></p> <p>*Email Address <input type="text"/></p> <p>How did you hear about us? Select Option ▼</p> |
|--|--|

Please provide a valid email address.
Platform download links will be emailed to the address you provide.



After you click submit you will be directed to another page where you will be asked if you wish to download MT4 Platform, click on the "Download" button and select Save as you can see in the examples below.

Save the file to your desktop or another location that you can easily recall it from.



Once the file has downloaded locate the MT4.exe file in the location you saved it and double click on it.



A menu will appear for you to select your desired language.



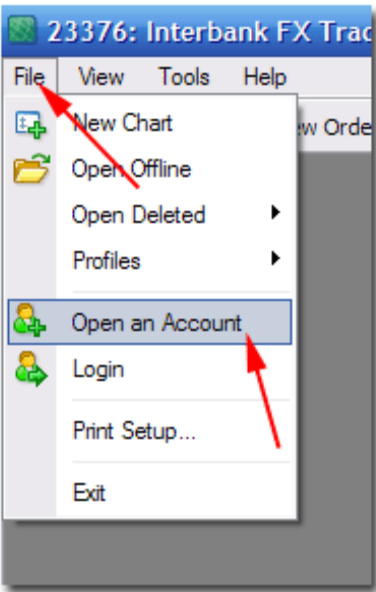
Once you have selected the language click next and follow the on screen instructions to install Meta Trader 4.

Once the program is installed on your computer you will have a desktop icon looking like the one below.

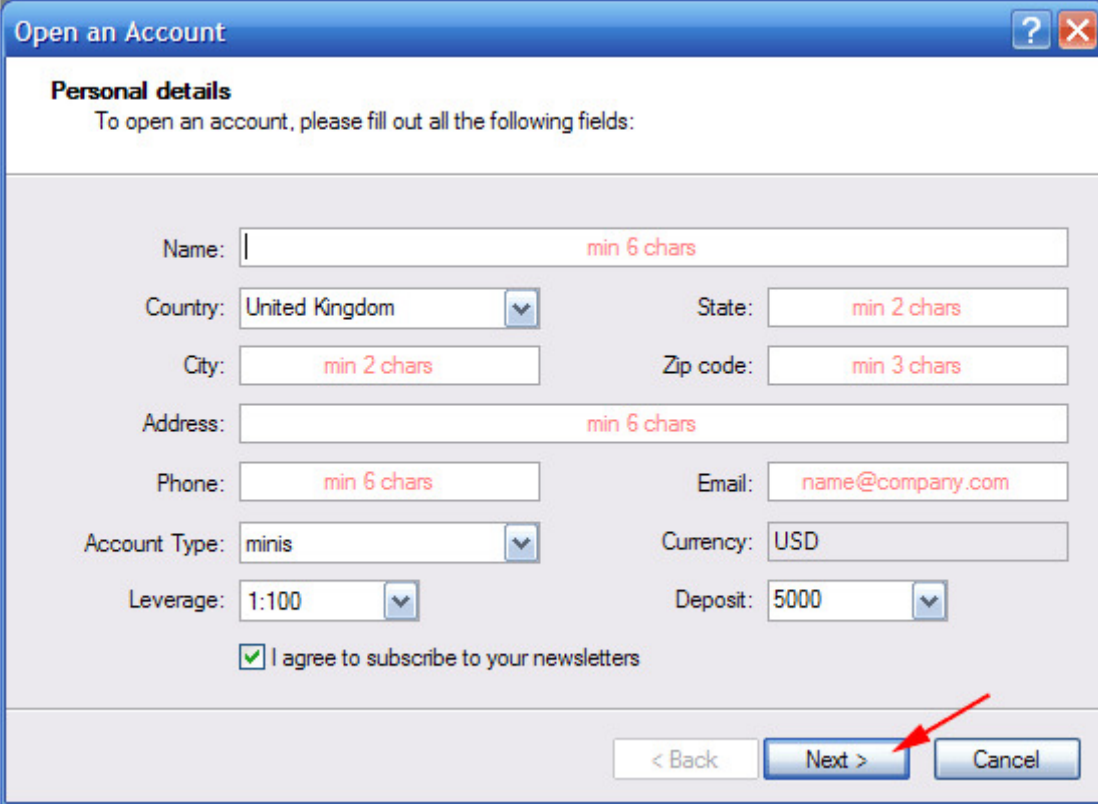


Double click on this icon to open the trading platform.

When you open the platform there will more than likely be several charts open, close each chart down by clicking on the little cross in the top right hand corner, then go to File and select "Open Account"



A box will open asking you to fill in your details once again. Fill in every box and select the minis account type with a realistic deposit of your choice. Remember even though this is play money you should only deposit an amount of money that reflects the amount you will be trading with in your first trading account. If you would prefer not to use your real details then use a false address and phone number. Once you are finished click next.



Open an Account

Personal details
To open an account, please fill out all the following fields:

Name: min 6 chars

Country: State: min 2 chars

City: min 2 chars Zip code: min 3 chars

Address: min 6 chars

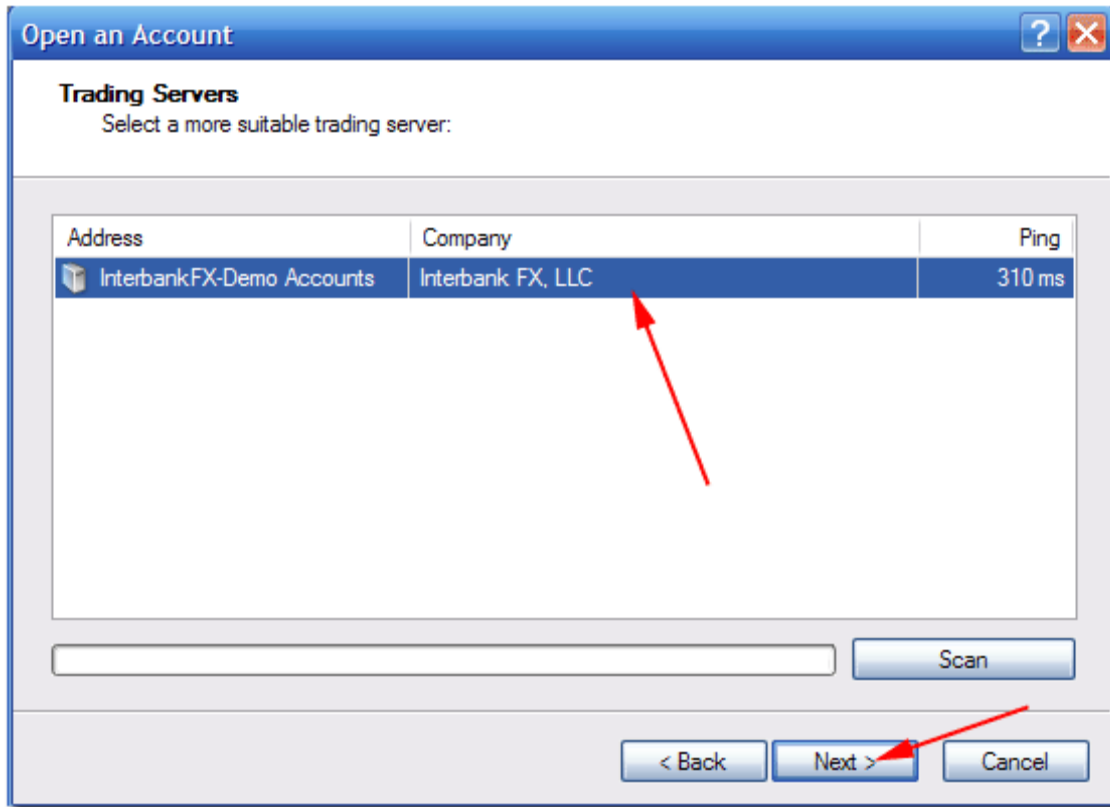
Phone: min 6 chars Email:

Account Type: Currency:

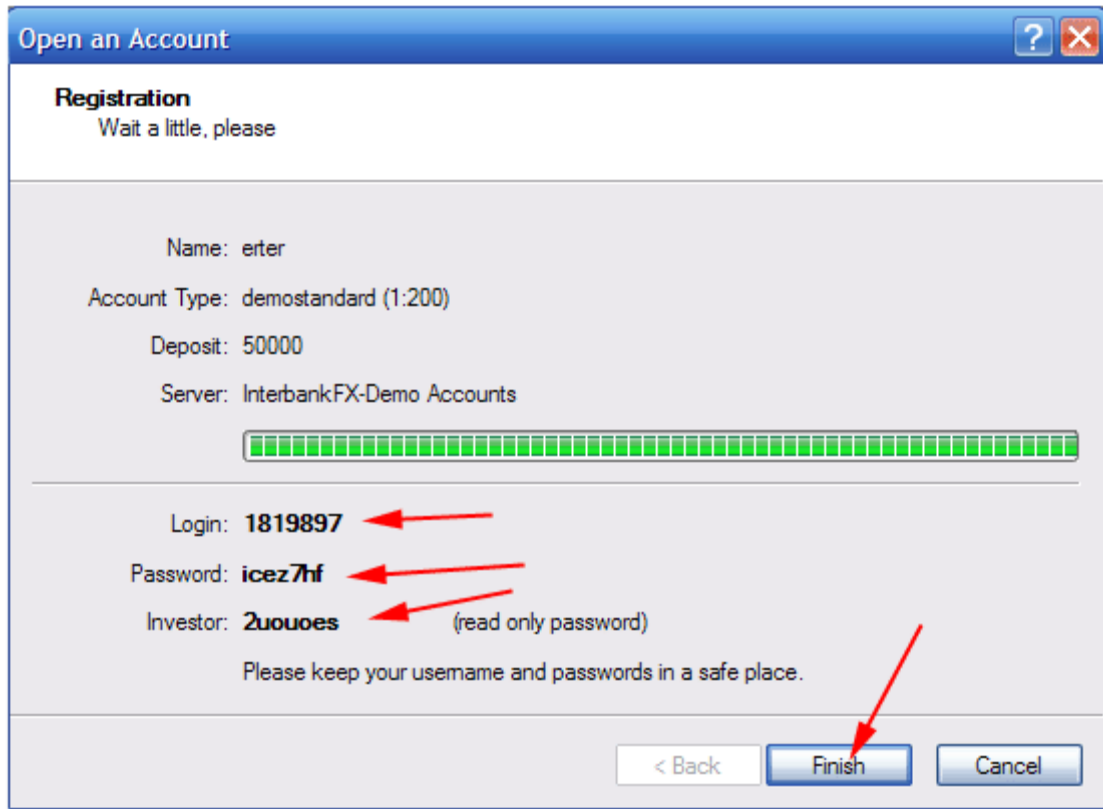
Leverage: Deposit:

I agree to subscribe to your newsletters

< Back **Next >** Cancel



Once you click finish you will be prompted to select a server, just highlight the one on the list and click next.



Ok you're finished. Now simply go to file on the menu of the Meta Trader platform and click Login. Make sure you select demo accounts from the servers list and then insert your login number and password. Once you are logged on, in the bottom right hand corner you should see a green and red bar similar to the one below showing your connection status.



How To Install Fx Child's Play Indicator In MT4 Platform

- 1) Download/Copy/Save the EX4 file into your C:\Program Files\MetaTrader 4\experts\indicators folder) Close your MetaTrader application (assuming it's currently open ... Ignore this if the application hasn't been launched)
- 3) Launch your MetaTrader application
- 4) On the left hand side, look for the "Navigator" window
- 5) Under the "Common" tab, look into the "Custom Indicators" directory
- 6) Locate the indicator which you have just downloaded into the folder stated in Step 1
- 7) Drag (Click and drag) the indicator onto the chart

How To Install Fx Child's Play Template In MT4 Platform

Download/Copy/Save the Fxchildsplay.tpl file into your C:\Program Files\MetaTrader 4\templates folder) Close your MetaTrader application (assuming it's currently open ... Ignore this if the application hasn't been launched)

**I Wish you Best OF Luck,
To your upcoming Forex success,**

Farhan

Professional Forex Trader