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Online Forex Trading for Beginners

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About the Author

Mr Kiran Kumar is the CEO of Forexveda India Limited, a Forex trader with an experience of more than a decade in the Forex arena. A first generation businessman who has traveled to many countries, Mr Kumar has been offering advisory services online to Forex traders around the world since 1998, the year his Forex career kicked off in Bangkok. With an innate ability to attract clients even without meeting them, he possesses client bases in more than 50 countries with 99% of his clients who have never seen him.

With a mantra of 'test us before you trust us' Mr Kumar gives his clients the license to examine his fund management skills with an account of as low as \$300. Discouraging people without risk capital in investing in forex, and not promising huge returns to clients are a distinct feature of his peculiar and honest trading approach. As he always makes himself available on instant messengers like yahoo messenger and Google talk for advisory purpose, hundreds of live traders benefit from his long term experience. When it comes to repairing damaged accounts, he does it free of cost for his clients. His company also offers trade execution service where one can test other's trade signals with its help. Besides, free access to trading page for a week, once in three months is provided to subscribers.

Mr Kiran Kumar resides in Mysore with his wife, a trained Odissi dancer, and two children. He keeps himself involved in various constructive activities. He contributes his bit in social service and is associated with Human Rights organizations. He is a martial arts enthusiast, a trained hypnotist, has the reputation of being a Silva Graduate, Reiki grandmaster, and is a singer as well.

Disclaimer

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Online Forex Trading is considered as a high risk high reward business. There is no system that can guarantee profits in any speculative business. One must invest only a risk capital (a capital that one afford to lose) in online currency trading business.

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Chapter1

Why Forex Trading?

I assume that most of my readers are aware of stock market and few may be aware of commodity trading. Forex trading or Spot Fx or Online currency trading is a relatively new word for most of the investors.

The Foreign Exchange Market is the largest and the most active market in the World. Largest, because of the volume of transactions (More than 3 Trillion Dollars per day!) and active because of its 24 hours X 5.5 days market activity. Most of the trading takes place through Electronic Broking System also called as 'Robot'. At any given time, in some part of the world, foreign exchange is traded.

Few years ago foreign exchange trading was limited to banks and other large Financial Institutions. In this electronic age, any individual can do online trading with the help of computer and Internet. Almost all Banks, Hedge funds, Pensions funds, Mutual funds are involved in foreign exchange trading. Money can be made whether a currency is gaining in value or loosing it.

Currencies are always quoted in pairs. 4 major pairs traded are EUR/USD, USD/JPY, GBP/USD and CHF/USD. Cross currencies are also traded. Pairs like EUR/JPY, EUR/GBP, GBP/JPY...etc are called as Cross pairs. Other than these major and cross pairs, some minor pairs like AUD/USD, USD/CAD are also traded giving the trader or investor, a freedom to trade in whichever currency he/she chooses.

Other than Volume and Liquidity, Forex offers more to Traders and Investors.

Foreign Exchange market offers many advantages over stocks and commodity trading.

- Leverage is low in stocks trading. In forex, some brokers offer leverage up to 1:500
- One cannot easily short sell and hold a short position for more than a day. In forex, one can short a currency pair and hold the short position as long as he/she wants

- People make money in stocks only when the market is bullish. Hardly does anyone make money in a falling market. One can be rest assured the currency market will never crash. One of the currencies in a pair will get strong and both the currencies in a pair can never fall at the same time. For example if euro/usd is 1.1500 today and it becomes 1.1600 tomorrow we can say that euro has become strong. If it becomes 1.1400 we can say that USD has strengthened against euro. You have an option to buy euro against usd or usd against euro
- 24 hour trading: This gives an opportunity to a trader to choose his/her trading hours
- One has to keep a track of large number of shares in a stock trading. In currency trading, one can trade only in 1 pair or just chose 3 to 4 currency pairs and trade the same pair/pairs every day
- Easy fills due to high liquidity: Most of the time your entry and stops or targets get filled. Only during data releases your stop may get triggered few pips away from where you placed. Liquidity is so high that you can always buy or sell as much as you want without waiting for a buyer or seller. You buy from the forex broker and sell it back to him.
- No insider trading or sharks killing small investors: There's this notion that big investors kill small investors in the trading. That is not true in case of forex trading. Market may indicate big movements sometimes when there are large buy or sell orders. But forex trading volume is so high that no single investor or fund can control the market. The Bank of Japan spent trillions of dollars to keep USD/JPY above 100 but finally had to give up. Swiss national bank too intervened in the market to make Swiss Franks weak. Market moves big time when central banks intervene in the market and most of the time these movements last for few minutes or hours only. Coordinated interventions by central banks of 3 or more countries are dangerous and can move the market 1000s of pips within hours. As far as I know that happened once in the early 1980's when Bank of Japan joined hands with Bank of England and Federal Bank of USA to bring the USD/JPY down from 250+ to below 130

Chapter 2

What Moves Market?

This is a tricky question. Market is mainly moved by demand and supply. You may often read in news papers or financial journals that USD fell due to growing concern on US job losses etc. These articles are written by journalists who know very little about forex trading. I have seen so many traders who read these articles or reports and trade accordingly. In my opinion, data and reports have no serious impact in the forex market. You may notice that many times a positive US data fails to strengthen US dollar or negative data fails to make it weak. You may also notice that market moves in opposite direction of the data or news. Incidents such as the 9/11 failed to make the USD weak. On 9/11, USD fell for few hours and the next day it resumed trading in its upward trend. You will always see some market movement during major data releases. It is good to ignore the data as you will not be able to react to the news but, do not ignore the timings of the data. I have explained in chapter 11 how to trade during data.

Big movements are mainly caused by large trades done by banks on behalf of their large clients. If a corporate company from UK wants to take over an Australian company it may need to pay in Australian dollars for which it will convert a large amount of money from GBP to AUD. This transaction may make GBP weak against AUD. Some times these cross movements can affect other pairs too. AUD may strengthen not just against GBP but also against other currencies.

During data releases, one may see a large movement. Investors may sell a currency if the data is negative to that currency or buy the currency on a positive data. This movement normally doesn't last for long. Market may reverse after few minutes. Chapter ## explains how to trade during data.

Successful traders don't really bother to find out the reasons for forex movement but plan their trade before and after the movement is made.

Chapter3

From Forex Scam to Forex Millionaire

If you search 'online forex trading' or 'forex trade robot' on the internet, you may find millions of sites that promise huge profits in forex. One website may claim 600% profits a week while another one may claim 100% profits in a day. Every trader makes 10% to 100% profits in a single day, but can he/she really perform this way every day? I have come across people who expect to earn \$50 per day from an investment of \$1000. If one trades forex with such a target, I can guarantee that the account will get wiped out in few days. 1 becomes 1024 if you double it 10 times. If a trader can earn 30% profits per month, he should be able to double the money in 3 months.

Let's see how much Rs. 1 Lac turns into if doubled every 3 months or 6 months or 1 year.

- Rs. 10 Crores in 10 years if doubled every year.
- Rs. 10,000 Crores in 10 years if doubled once in 6 months.
- Rs 1 Crore Crores in 10 years if doubled every 3 months.

When you attend a forex presentation next time, if the presenter talks about earning 5% to 50% in a day, ask him how much a forex trader can make over 1 year on an average. Most of the people who solicit forex business talk about earning 20% to 50% per month. Either they don't know how much \$1000 turns into in 10 years with 20% monthly returns or they want to misguide investors. If you speak to a forex millionaire, he may not talk about returns of more than 30% a year even if he has made more than 100% a year. If a presenter says his student or client made 200% profits in 1 month, ask how much he made in last 3 years. Every trader

I sincerely believe that it is possible to make 100% profits per year in forex trading with a safe trading strategy and using low leverage. One has to make 1000 pips profits to double the account with 1:10 leverage and each currency pair gives minimum 10 opportunities a year. That means 300 opportunities in a year to double your money. I have come across many people who made 5% to 10% per day using high leverage. They are not trading forex anymore. Nobody quits a business that is giving them profits right? Why do they quit forex trading then? I leave that to your imagination ☺

Do not trust people who promise/offer/guarantee 20% per month profits.

Is Forex Trading for me?

I have seen many ads in News papers that say ‘Not earning enough from your present job? Get an extra monthly income from forex trading’ Do not get carried away with these kinds of advertisements. Forex Trading business is not for small investors and not to earn regular monthly income by investing small amounts. If you are earning \$500 a month and planning to ‘arrange’ \$500 to invest in forex, don’t do it. You may not be able to keep your trading account alive for more than few weeks or months if you are not an expert trader. One cannot make money in forex without having a good knowledge of trading. If you are ready to lose a few hundred \$s in learning, you may try it. If you don’t have risk capital, then don’t even attempt.

If you are a beginner, trade only Micro lots with investments of \$2000 or below and trade mini lots if your investment is \$5000 or above. It is better to pay advisory fee to an expert and trade under his guidance than lose all your capital in few days. Or go for a reliable trading robot. I have explained Robots in Chapter 13

Day traders can keep a daily target of 1% which is very reasonable. Sometimes market may give you more without you asking for it. I have made 200% profits in 36 days trading with low leverage but I did not try to make so much profits. Market just gave it and I took it. If you try to make 5% to 10% per day I can guarantee that you will not last in the business for more than few weeks or months.

Forex MLMs.

These are new scams in Forex trading now. No doubt, there is excellent potential to earn referral income in forex trading business. Equity brokers may not give the kind of referral income what Forex Brokers give. But you need not invest in Forex to earn referral income. Do not make your friends or relatives who do not have risk capital, invest in forex just to earn from the MLM schemes.

If you want to know about referral income opportunities in Forex Trading, visit www.forexveda.com/referral.html

Chapter4

How does Forex Trading work?

Currencies are quoted in pairs. Example EUR/USD GBP/USD, USD/INR etc

If EURO/USD is quoted as 1.1420 it means 1 Euro = 1.1420 USD or you get 1.1420 USD for 1 Euro.

You may see the quote like this EURO/USD 1.1420(bid) – 1.1423 (Ask)

It means you need to pay 1.1423 to buy 1 EURO but if you sell 1 EURO, you get only 1.1420 USD. The difference between selling price and buying price is called 'spread' and this is the income of the forex broker.

Let's take an example of a trade to understand how one makes profit in a forex business.

Suppose the EUR/USD price was 1.1420/23 yesterday.

You had sold 1 Euro and you got 1.1420 USD

(remember, you don't need to have Euro to do this transaction)

Let's assume that today the price has changed to 1.1416/19

You sell 1.1419 USD and get 1 Euro.

You made a profit of 0.0001 US Dollar in this transaction, right?

If you had made the above transaction with 100,000 Euros you would have made a profit of $0.0001 \times 100000 = 10$ US Dollars.

Let's take another example of Japanese Yen trade

Assume that the USD/JPY price was 88.90/92 yesterday.

You had sold 1 USD and you got 88.90 Yens

(remember, you don't need to have USD to do this transaction)

Suppose that today the price has changed to 188.77/79

You sell 88.79 Yens and get 1 USD.

You made a profit of 0.01 Yen in this transaction, haven't you?

If you had made the above transaction with 100,000 US Dollars you would have made a profit of $0.01 \times 100000 = 1000$ Yens (little more than 10 US dollars)

Currencies are normally bought or sold in lots. 1 standard lot is normally 100,000 and 1 mini lot is 10,000 and 1 micro lot is 1,000

In currency pairs like EUR/USD or GBP/USD each pip is worth \$10 per standard lot (example trade 1)

Pip is the last decimal of the price. In the trade examples given above, we can say that a profit of 1 pip is made.

If we had made the Trade 1 with a mini lot profit would have been $0.0001 \times 10,000 = \$1$

In mini lot 1 pip is equal to \$1 in pairs EUR/USD, GBP/USD, AUD/USD

Some Brokers have different lot size for Euro. Instead of 10,000 they may offer 12,500 as the lot size. In that case profit will be $0.0001 \times 125000 = \$1.25$

What currency pairs to trade?

There are 4 major currency pairs. These are called majors because the trading in these 4 pairs is very huge comprising of a major chunk in the daily traded volume. These 4 pairs are

EUR/USD

GBP/USD

USD/JPY

USD/CHF

One may chose one of these 4 pairs and trade only in single pair. Day traders get opportunity to make 100s of small trades in each pair every day. Minor pairs are AUD/USD, USD/CAD and NZD/USD. You can trade in cross pairs too. Currency pairs that do not include USD are called cross pairs. Example GBP/JPY, EUR/JPY, CAD/JPY, AUD/JPY. GBP/CAD, EUR/CAD, GBP/AUD..etc. Most of the brokers offer around 30 currency pairs and one may chose 3 to 5 pairs to trade.

Chapter 5

Types of Trading Orders

Market Order

If you are opening or closing a position at current market price, it is called as market order. You just click at the live price and click on buy or sell and your trade will be executed at market price.

Limit Order

Limit order is like a standing instruction which instructs the broker to buy or sell a currency pair at a price which is away from the current price. For example if USD/JPY is trading at 88.60/63 now, you can place a limit order to buy this pair at 88.30 or keep a limit order to sell at 88.90

Stop loss order

This is a limit order placed to close the position at loss. Stop loss order need not close the position only at loss. For example if you open a buy position in EUR/USD at 1.4140, you may keep a stop loss order at 1.4090. If market falls to 1.4090 the position will get closed at 50 pips loss. If EUR/USD moves to 1.4180 you may move the stop loss to 1.4140. You can not keep the stop loss above the market price for the trade example given above. System will not accept the order and you get a message “Invalid s/l or t/p”

Target Limit

T/P or Target Price is a limit order kept to close position in profits.

GFD order

Good for the day order. This is a day trade order and if the price doesn't reach by midnight, the order will be cancelled automatically. Some brokers offer GFD orders.

OCO order or One cancels the other

These kinds of trades are found in platforms which do not allow the trader to keep stop loss or target limit order. If you have bought euro at 1.4140 you may have to keep 2 orders to sell at 1.4090 and 1.4240. If one price reaches, the 2nd order gets deleted automatically.

GTC Order or Good Till Cancelled.

This is a limit order which will remain with the broker till you cancel it.

Buy Stop order.

This is an entry order to buy a currency pair at a price higher than market price. You may ask why would one do it? Imagine that Euro has a strong resistance at 1.4170 and you feel or your technical analysis says that if euro breaks 1.4170 it might go to 1.4400. So you may not feel safe buying euro at current market price but may feel safe to buy at 1.4180. You can keep a buy stop order at 1.4180.

Sell stop order.

It is an order to sell a currency pair at a rate below the market price. Above example should be sufficient to understand why anyone would like to sell at lower price than the market price.

Trailing Stops

Trailing stops move the stop loss along with the market price. Let's take an example of Euro trade. You bought EUR/USD at 1.4300 with a stop at 1.4260 and target at 1.4600. There is a possibility that Euro moved to 1.4450 and takes a U turn and falls to 1.4260. You get stopped out from a trade which had moved 150 pips in your favor. If you had used a trailing stop of 40 pips, you would have got stopped out at profits. Stop remains at 1.4260 in the beginning and when Euro moves to 1.4340 stop will automatically move to 1.4300. When market goes up again to 1.4380 stop will automatically move to 1.4340 and when market reaches 1.4420 stop will move to 1.4380. If the market reverses from 1.4450, you will get stopped out at 1.4380.

Chapter 6

Using the Trading Platform and doing demo trading

Different Brokers offer different trading platforms. Meta Trader is the most common and user friendly platform offered by many FX brokers. If you learn one platform, you can easily understand other platforms too. Following are the guidelines to use MT4 platform. (Meta Trader version4)

You can download the trade station from here free of cost
www.forexveda.com/mt4.exe

Register for a demo account by clicking on File→new account→
You can chose any deposit amount, currency and leverage.

Your Trade Platform should look like the image below.



You can see 4 windows in the trade platform.

1st window is called **Market Watch**.

Right click on this window and select View all .It will show all currency pairs and CFDs the platform offers.

Right click again and select High/Low. You will see the day high and day low.

If the numbers are not clear, click and drag and increase the width of the market watch window.

You can move the currency pairs up or down by clicking and dragging. You can delete the currency pairs which you may not like to trade just by selecting and pressing delete key.

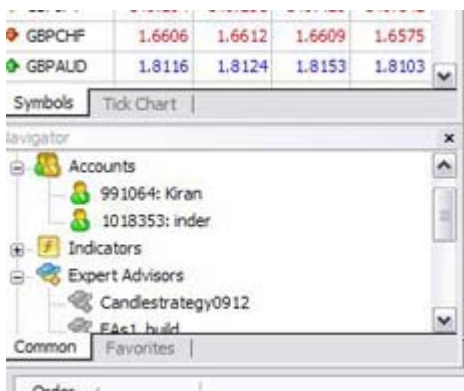
Next window is **Chart window**. You can minimize or maximize chart window by clicking on this.



You can click on the 2nd ikon and change the chart to candle sticks. You can zoom in or zoom out by clicking on + or -



Navigator window appears below market watch. Incase you don't see navigator, just click on View on top and select Navigator.



You can click on Indicators and select any indicator for the chart

You can click on Expert Advisor and attach EA (Trade Robot) to the chart. I have explained more about Trade Robots in Chapter 13

You can trade multiple accounts in the same platform and switch over from 1 account to the other by clicking on the account number

The lowest window is called **Terminal Window**. You see Trade / Account History / News / Alerts / Mailbox / Journal



If you click on **Trade**, you can see your open Positions, Equity, Margin / Free Margin etc. It shows how much margin is available for usage. Equity is balance minus floating loss or balance plus floating profit.

Account History shows history of your closed trades. By right clicking, you can view the history for current date, last week or entire history or for any particular period. This history can be saved too as an HTML file just by right clicking and selecting 'save as'

'**News**' gives lot of news from around the world and economic data releases.

Alert is for people who want to get sound alerts. If you are not in front of the computer or doing some other work on the computer, you may wish to get an alert when the price reaches a certain level. For example if you have an open position in euro at 1.4140 you would want the system to give sound alert when euro reaches 1.4190. you can right click and select create and create an alert for Euro. Similarly, you can create as many alerts as you wish to.

Mail box is for your Broker to send emails to you.

Journal records every activity of yours. If you had changed a stop loss or kept a new entry, journal will show the same with time.

Making a Trade

Double Click on the currency pair in the market watch window. A Window appears like this.



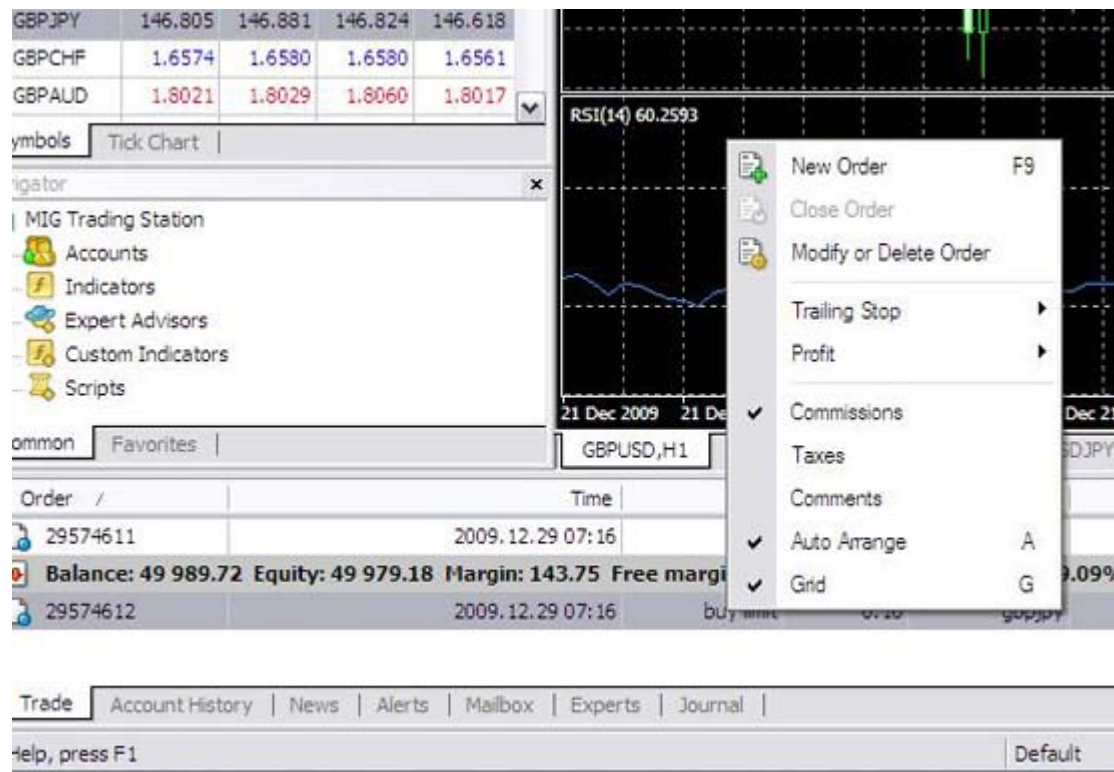
Select the qty. If you want to trade 1 mini lot, select the quantity as 0.10 If you want to trade 1 Standard lot select the quantity as 1.0

You can keep stop loss and profit while opening the trade or **even** after opening the positions.

To make a trade at market rate select instant execution. If you want to leave a limit order select pending order and accordingly leave a buy limit or sell limit. You Can leave buy stop or sell stop orders too.

Changing Entry Orders, stop Loss or T/P or deleting Orders

You can leave stop loss or profit limit after opening a trade. You can change the stop loss or profit limit too. Just right click on the trade and select Modify or Delete Order as shown in the image below.



You can leave trailing stops by selecting Trailing Stops.
You can close an open position by selecting Close Order.

Deviation from quoted price.

You find this option in the order window. You may get new quotes when market is moving very fast. For example you clicked on Euro buy at 1.4300 but by the time order reaches broker, the price might have changed to 1.4301 and you will get a new quote. If you had chosen maximum deviation from quoted price as 1 pip, the broker would have bought it at 1.4301 without giving you a new quote. During data releases you can keep deviation as 3 to 5 pips to avoid getting new quotes.

Chapter 7

Risk Management

One must decide how much risk to take in a trade before opening a trade. People who open the trade without an escape plan are sure to lose in the forex trading. I have been approached by many forex traders who were holding bad positions. One should not make a trade without having an escape plan. One common mistake committed by most losers in forex trading is to take a higher risk for lower profits. Their statements show lot of trades with small profits and very few trades with very big loss. But $\text{Loss} > \text{Profits}$. These traders lose profits of 10 trades in a single loss making trade.

One must follow buy low and sell high strategy. If you are buying close to day low, you may have to keep a big stop loss and small profit target. RRR (Risk to Reward Ratio) doesn't hold well for these trades. If you are buying close to day low or selling close to day high, you can keep a 40 pip stop loss for a target of 50 pips.

Making too many trades in a pair is risky. Buying USD against many pairs can increase your risk. In case of USD fall, you may lose in all trades. The same applies for cross trades. Buying USD/JPY, CAD/JPY, AUD/JPY, EUR/JPY at the same time is not advisable. In case USD/JPY falls you may lose in all your open positions because USD/JPY movement affects all Yen crosses.

Risking a big percentage of your account in a single trade or in a single day also must be avoided. People who understand money management and risk management will never get into call margin.

You can take risks based on the strength of the signals too. If signal is weak you can trade with small quantity and when you get strong signals you can go for high leverage trades. You need not depend on charts or indicators to measure the strength of the signal, but can listen to your gut feeling too. In cricket we say "Sixers win matches. In forex too, few good trades will make you a winner. A good trade is the one that can recover losses of 20 trades.

Chapter 8

Money Management

Money Management in forex is mainly limited to using leverage. If your broker is offering 1:100 leverage that means you can open a standard lot with a \$1000 account. With a standard lot one cannot even hold a position for 100 pip loss. If a trader is expecting to double the money once a year, he/she needs to make just 1 trade with 1:10 leverage and make 1000 pips profits. People who trade with standard lots in accounts smaller than \$10,000 don't stay in the business for more than a week or month. Trading mini lots is also not safe unless the trader is very experienced. For a day trader a recommended leverage is 1:5 to 1:20. That means with a \$1000 account you may trade 5 micro lots to maximum 2 mini lots. One can use different quantity depending on the strength of the signals or risk to reward ratio.

Let's take a trade in GBP/CHF. This pair has a large spread and keeping a stop loss less than 60 pips is not advisable. You may use a leverage of 1:5 for this trade. Let us take an example of a Euro trade which is bought very close to a strong support level. If the risk is 20 pips and reward is 50 pips or higher you may go for 1:20 leverage and open 2 mini lots. Rarely do we get opportunities where signal is too strong. I recommend 'Sell your farm and buy the currency' and high leverage for those trades with leverage as high as 1:50. When you are using high leverage you must make sure you don't risk more than 2% to 3% of your account balance.

People who do averaging business (averaging is dangerous if you don't know how to handle an adverse move) may run out of margin money when market gives better entries. I knew a Trader who started buying USD/JPY at 120 he had no money left when the pair reached 101 and he started selling at that level. Market bounced back to 110 in few days but this Trader could not take benefit of this move as he had already hedged or closed his positions.

Chapter 9

Emotional Management

This is the toughest job in forex trading. Most of the traders fail in this. Failure to manage emotions is the main reason for loss of capital. My 'Theory of Fear and Hope' explains this better.

When the market is in his favor, trader has a fear that market may bounce back and he may lose the profits. Because of this fear he tends to take profits quickly. When the market is moving against, he will have a hope that market will bounce back to cost. Therefore, he will hold on to his position. Because of this fear and hope you will notice that most of the traders take fewer profits and incur large losses.

Frustrations too cause lot of losses. When market touches stop loss first and then bounces back to target, one gets frustrated and tries to recover the money quickly with a quick trade. Most of the time, these trades are not well planned. It comes from a frustrated mind. The more he trades the more he loses. Even a trader with very high experience may get in to these kinds of problems and lose money in forex trading.

One of the biggest mistakes the traders do is trying to recover big losses quickly. They tend to over trade when the account is under heavy loss. The account will collapse much faster due to over trading, thereby increasing the stress of the trader.

Make it a habit not to trade when you are under stress. If you can't stop trading, reduce the quantity. Trying to recover the losses quickly will result in account getting wiped out. If a \$10,000 account becomes \$5000 trader will try to bring it back to \$10,000 doing same quantity of trades. No, you must trade this account like how you would have traded a new \$5,000 account.

Every trader loses due to emotion related problems. Try to follow these guidelines which could reduce your losses

* Take a break from trading. If you are losing in many consecutive trades, stop trading for a week and stop looking at the market too.

- * Do not sit and stare at the market all the time. Keep alerts and watch market only when it is necessary. Watching market when you have no open position is harmless. When your positions are in profits, you may feel like taking profits quickly if you sit and watch your profit making positions.
- * Do not trade when you have stress due to non trading related problems. A personal problem could affect your account badly
- * Do not trade if you had a lack of sleep or if you are drunk. One bad night resulted in a bad trading day because of which I lost a mega championship in forex trading. I would have won the contest for the 2nd time if I had not lost money that day when I traveled and traded with a drowsy mind.
- * Do not panic when you are in loss. Be prepared for the market to take out your stop loss. Do not keep moving the stop loss away from the market. Never change stop loss. You can move the stop loss closer to your entry but never away from it.
- * Do not have strong beliefs. Be flexible. Do not be stubborn. If you are bullish Euro today, you can become bearish tomorrow. Change as market changes trend. Listen to your gut feelings, but don't have too much trust on them either.
- * Best way to repair your damaged account is to hand it over to an expert to trade. I can repair other's damaged accounts more easily than accounts damaged by myself. When an account goes under loss, it puts lot of pressure on the trader and unless he repairs his mind, he cannot repair the account.
- * Never sit and pray in front of the trade station to move the currency pair in your pocket.
- * God is too busy to help you in forex trading. Do not disturb him.

Chapter 10

Why do people lose in forex trading?

In my humble opinion, no one loses in forex trading because of the market moving against them. I cannot think of any other reason for people losing money in forex trading but for the reasons stated below:

- Over Trading. Opening too many positions or opening large quantity is considered as over trading. Do not open more than 3 currency pairs at a time.
- Trading with high leverage. If you trade with leverage of 1:50 or more chances are very high that you make big profits and lose everything in no time
- Buy High Sell Low. Traders take too much time to decide on the trade and when the currency pair reaches day high, all indicators may point northwards giving a buy signal. Never buy close to day high and never sell close to day low. I have heard many traders saying “I am very unlucky. The moment I buy the currency starts falling and the moment I sell it starts going up’. They experience this because they buy high and sell low, not because they are unlucky.
- Taking high risk for small profits. This is a very common mistake made by most of the forex traders. They keep taking small profits and when the market moves against them they hold on to the positions. They lose profits of 10 trades in 1 loss making trade
- Getting married to a position. Holding a loss making position for long time is called getting married to a position. Most of the people do this in equity market too. They may buy something at Rs. 100 and may hold on to it when it falls through 90,80,70,60...3,2,1 They will never cut loss.
- Scalping. Scalpers make too many trades and go for very small profits. They get in and out very quickly. I have never come across any scalper making money consistently in forex trading.

If you don't commit the above mistakes, you can be a sure winner in forex trading.

Chapter 11

Fundamental Analysis & Trading during data releases

Can one make money in forex trading using fundamental analysis? In my opinion, “No”. Fundamentals don’t really work in forex trading. I can give 100s of examples. Fundamentally speaking a currency should strengthen when the interest rate of a country rises. But we normally see market moving in opposite direction. How many times have we seen market moving in opposite direction after the data? How many times have we seen a positive US data making US dollar weak or negative US data making US dollar strong? We normally read in the financial journals “US Dollar strengthened due to...” or “US dollar weakened due to growing concern over Job market” I agree that if a job less rate is going up it signifies that the economic condition of a country is deteriorating. But why does currency get stronger next day after the data? Does economy stop shrinking in a day? We read in news wire that Euro and GBP fell due to Dubai crisis. But next day both started moving upwards. Is the crisis over in 1 day? USD fell after 9/11 attack. But after few hours the uptrend continued. I can give 1000s of examples for market moving in opposite direction of the data. This clearly shows how dangerous it is to trade based on fundamentals.

I did not mean that one must ignore data releases. We always see good movement after data releases. I have listed some of the data that can move market well. One may ignore the data but not the timings. Use the data effect for taking a position or closing the positions. Move stop loss closer to market and secure your profits. We hardly see any data changing the mid term trend of the market. We can only see data and news changing the short term trend. In forex short term means few minutes to 1 or 2 days.

I do many ‘low risk high reward’ trades during data. If there is an important data from UK, I may sell GBP seconds before the data with 20 pips stop loss and 100 pips target. That is if mid term trend of GBP is down. If data is good, my stop may get stopped and I may lose 20 pips and if data is bad, I may make 100 pips or more.

Be prepared for a sudden big move during data releases. Either move the stop close to market to avoid a big loss or remove profit limit and go for big profits.

Speeches and Interventions

Market moves during Central bank Governors or Finance Ministers of a country give speeches. This movement depends on how optimistic or how pessimistic they are about their economy. A positive talk may result in strengthening of the currency and negative tone may bring the currency down. Sakakibara, former finance minister of Japan was better known as Mr. Yen because his words could move Yen hundreds of pips.

Sometimes the finance ministry officials or ministers issue statements saying strong currency is not in the interest of the country. These statements are termed as verbal interventions and market may react quickly. When usd/yen moves close to 80 we normally see these kind of verbal intervention. Switzerland Finance Ministry intervened when EUR/CHF fell and also when USD/CHF fell below parity. Traders who hold positions in the opposite direction must be careful and keep tight stop losses. For example if you are holding USD/JPY short at 81 there is a high possibility of stops touching quickly when some one from the ministry comments on the currency.

Interventions by Central banks can move a currency pair 1000s of pips. Bank of Japan conducted currency interventions many times when the USD/JPY was trading around 120. They kept intervening around 100 too. But then they let the market decide the currency value and let it fall below 100. One must never trust a central bank and bet heavily on a currency pair. I have seen people who believed Bank of Japan would not let USD/JPY fall, bought this pair heavily, and lost money.

I recommend joining forex forums like global-view and read the postings every day to know what is happening in the forex market. Most of the traders who post their trades there are newbies. So, do not copy them. But you will get lot of information in the forum which will help you understand forex market better

Important data releases which are big market movers

Interest Rate Announcement: Fundamentally speaking if a country raises interest rate, it's currency should become strong. Currency may move up before the announcement if forecast is rate rise and after the announcement currency may fall.

Jobless Rate: Jobs data is a very important data that can move market 100 to 500 pips. If the data is worse than or better than expected, market may easily move over 100 pips. If data is as expected we may see movements in both the directions and later continue in it's original trend.

Non Farm Payrolls (NFP) : US data which is released at 8 30 am NY time on the 1st Friday of the month is a big market mover. This data is about the jobs added or lost in the non farm sector.

GDP: Gross Domestic product data indicates the growth in a country. If a GDP figure comes negative for two consecutive quarters, then technically that country is in recession.

Inflation or CPI : Consumer Price index indicates the inflation in the country and hints at future rate change in the country. Higher inflation data indicates tightening of interest rates and that is currency positive. CPI is also known as the cost of living index.

PPI – Producer Price Index. This is linked to CPI and gives an indication if the CPI is going up or down

Beige Book : Banks collect information on current economic conditions by interviewing Bankers, businessmen, economists and other sources. FED uses this report along with other indicators to determine their monetary policy. Beige Book is normally released 2 weeks before FOMC meeting

Chicago Purchasing manager's Index (PMI) : This index is based on the survey of Purchasing managers of manufacturing industry in Chicago area. This data helps to forecast the results of much more closely watched ISM index.

Consumer Confidence Index : A survey of consumers about their opinion of market conditions and economy with respect to spending and affordability.

Employment Cost Index (ECI) : This index measures change in the cost of labor including wages, salaries and benefits.

International Trade: This report measures the difference between exports and imports of a country

Durable Good Orders : This index measures the dollar volume of orders, shipments and unfilled orders of durable goods. This report gives an information on demand for US manufactured durable goods from both domestic and foreign sources.

Existing Home Sales: This report measures the selling of pre owned houses. This is an indicator of activity in the housing sector.

New Home Sales: This measures the number of newly constructed homes.

Housing Starts and Building Permits : A measure of number of residential buildings on which construction has begun each month.

Industrial Production and Capacity Utilization : Industrial production index is a measure of physical output of nation's factories, mines and other utilities. The Capacity utilization rate measures the proportion of plant and equipment capacity used in production by these industries.

Initial Claims : An index that tracks the number of people filing first time claims for state unemployment benefits.

ISM Manufacturing Index: This index is based on survey of 300 purchasing managers nationwide representing various industries regarding manufacturing activity.

ISM Services Index: This index is based on survey of purchasing executives in services sector. This is also called Non manufacturing ISM.

Personal Income and consumption : Income that households receives from all sources.

Philadelphia Fed : Manufacturing index of Pennsylvania, New Jersey and Delaware.

Retail Sales: This index measures the total sale of goods by all retail establishments.

Chapter 12

Technical Analysis

In my humble Opinion, one can make money in Forex trading only with Technical Analysis combined with Money Management and Risk Management techniques. In my 12 years of Forex Trading experience, I haven't come across any forex trader who has made money with Fundamental Analysis.

I have also come across people who are very much addicted to indicators and ignore Risk Management. Remember, charts follow prices but price doesn't follow Charts. Elliot waves theory has millions of fans worldwide and I read somewhere on net that the inventor Mr Elliot died in a mental asylum and he was totally broke at the time of his death. I am not trying to discourage traders from using Eliot waves or any other indicators but just like to warn that too much dependency on the charts is not good.

Instead of focusing too much on different indicators and different charting patterns, it is better to analyze the market based on candle stick charts and one or 2 indicators. In my Technical Analysis chapter, I will be covering few candle stick charting techniques and some indicators.

I will be e-mailing the 2nd issue of this eBook to traders who subscribe for this book. There is no subscription fee. You may request for a free copy here www.forexveda.com/ebook.html

Chapter 13

Trading using Expert Advisors or Robots

Emotional Management is the toughest job in forex trading and failure is the reason for most of the losses. Panic and frustrations cause more losses than the market moving against one's trades. Expert Advisor or Trade robot is a solution for those who wish to automate the trading. Meta Trader platform allows trades to automate trades using Expert Advisors. Many programmers have developed their own Expert Advisors to trade automatically. If you search online for Expert advisors you may find 100s of Expert Advisors and many of them claim huge profits in short duration. If a robot can make quick profits, they can make quick losses too. One should choose a robot carefully and should not become a victim of scams.

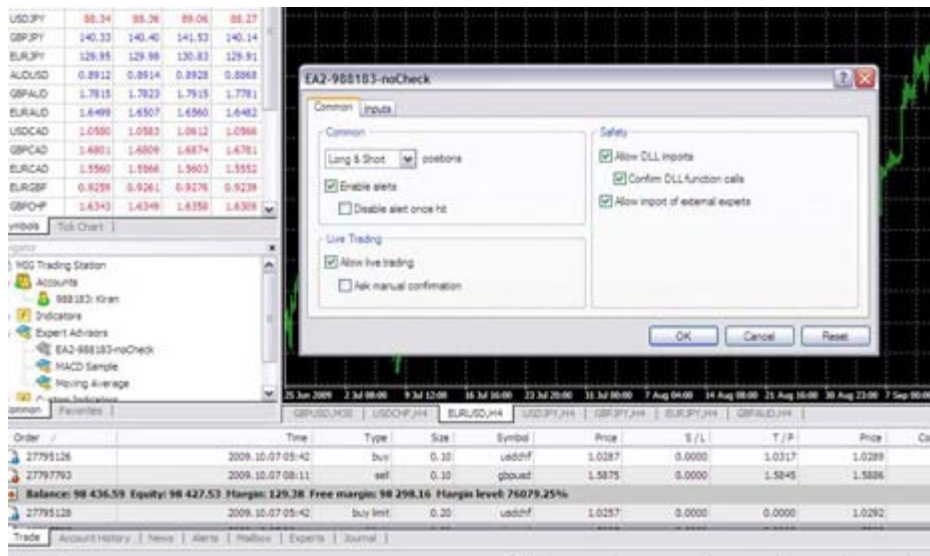
EA (as expert advisor is known) is normally a small file that is copied into the expert folder inside the MT4 folder. This runs at the background and opens and closes trades automatically.

I have designed my own EA. I will be explaining how my robot works and the method to use the EA. This will be helpful to use other EAs in the market too. EA is a small EX4 file. This is not an executable file. You can not install it. You just need to copy paste the file into the experts folder inside the meta trader folder. Normally MT4 gets installed inside program files in the C drive. So you need to click on my computer first and select C drive and then click on Program Files. You will find the platform folder there. Click on that and you will see a folder by name 'Experts' click on that and paste the .ex4 file into this folder. Restart the Trade Station.

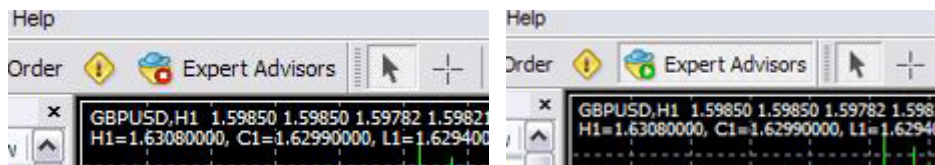
You will see the ex4 file you copied under experts in the navigator window. If you don't see the ex4 file, click on the + sign next to Expert Advisor.

You can attach the EA to all the currency pairs. Creator of the EA tells you to which currency pair the EA should be attached and which time frame the chart should be in. My EA can be attached to all the currency pairs and timeframe I recommend is 4 hours.

To attach the EA to a currency pair, right click on the currency pair in market watch window and select Chart window. A chart will be opened. If chart is already there in the chart window you may skip this step. Change the time frame by clicking on H4. Right click on the EA and select attach to a chart. Do the selection as seen in the image and click on OK.



To run the EA make sure your Expert Advisor is turned on. If it is in Green, it means EA is running. If it is in red, it means EA is turned off.



To have a free demo EA, create a demo account in MT4 platform and fill this online form <http://www.forexveda.com/robot.html>. I will send you the EA by email.

My EA can give a profit of 5% to 8% profits per month. You can increase the profits to 20% to 50% by manipulating the EA but it will increase the risk too.

Chapter 14

How to chose a Broker

Forex brokers are regulated by some government/non government bodies in their respective countries like SEBI regulating stock Brokers in India. NFA (National Futures Association) and CFTC (Commodity Futures Trading Commission) regulate equity, forex and commodity brokers in USA. SFA (Securities And Futures Authority) is the regulating body in Europe and UK brokers come under FSA (Financial Services Authority). In Hongkong HKMA (Hongkong Monetary Authority) regulates brokers while MAS (monetary Authority of Singapore) regulates Singapore brokers.

One should open account under reputed forex brokers only. They must study the background of the Forex broker before opening a trading account with them. Some of the checks to be made before choosing the broker are

1) Is the Broker regulated?

I know companies which are regulated brokers in equity but they run forex business illegally. If you check their website, it may show that they are regulated by the monetary authority in their country. But they may not have mentioned if they are regulated forex broker. All the regulatory bodies may not be very strict. So, I recommend that investors should open account with brokers from USA, UK, Europe or Singapore only.

2) Is the trading platform user friendly?

Most of the brokers offer Meta Trader platform which is very good. Take a demo account and test the platform before deciding on the broker. Some brokers make changes in the meta trader platform too and make it hard for traders. They may not allow you to keep limit orders or stop loss orders near the market price. If euro is quoted at 1.4100 / 1.4103 most of the platforms will not allow you to keep a buy limit at 1.4102. But they should allow you to keep a buy limit at 1.4100. Some platforms don't even allow buy limit at 1.4095.

- 3) Withdrawals : Most of the brokers don't charge any withdrawal fee. They may take only the bank wire transfer fee which is around \$25. Even if their website says withdrawal will be given within 2 working days, most of the brokers give withdrawal within 24 hours. If you don't get withdrawal in time, change the broker. If you don't get withdrawal in time, check with the broker when the money is sent. There is a possibility that your bank has not credited the money to your account when your broker has actually sent withdrawal in time.
- 4) Office in your city. This is not important at all. It won't take much time for a company to close the office. So do not choose a broker just because they have an office in your city. Since the business is totally internet based, offices will not make much difference to the investor. Most of the companies have marketing offices in many countries and it is easy to open offices in different countries.
- 5) Check since when the company is in existence and what its capital base is. Most of the companies have capital base of millions of dollars. Make sure the company is active from the last 3 years at least.
- 6) If you search online, you may read many bad remarks of big forex brokers. Do not make assumptions based on those remarks. Many traders blame the brokers for their losses instead of blaming themselves for the bad trading.
- 7) Regulated companies follow strict rules in account opening and funding formalities. If a company accepts cash payments, be rest assured that the company is illegal. Regulated companies don't even accept third party payments. That means you can't even fund your wife's or son's trading account. If the account name doesn't match the name in the bank account from where the fund goes, the company doesn't accept the payment. For example if the trading account name is Pravin Kumar and fund goes from Praveen Kumar's account, they will not accept the funds. Same rule applies to withdrawals too.
- 8) Check the spreads offered by the broker. Broker must offer low spreads to make day trading easy. Maximum spread offered normally are 3 pips in EUR/USD and USD/JPY and 4 pips in USD/CHF and GBP/USD pairs
- 9) Demo trade in different platforms and see which broker offers faster execution.
- 10) Leverage need not be a criterion for choosing the broker. Most of the brokers offer 1:100 to 1:500 leverage. I don't recommend using high leverage. If the Broker is offering minimum 1:100 leverage, that is good enough

11) Those who open accounts of \$3000 or less must choose a Broker who allows micro lot trading too. There are many Brokers who offer only standard accounts where one can trade mini lots, but not micro lots. In case of loss, it is better to switch over to a micro account and try to bring the account up slowly instead of losing the remaining capital quickly by trading mini or standard lots.

Bucket Shops Vs Licensed Forex Brokers

Illegal Forex broking firms are called Bucket shops. There are many multi national bucket shops operating in many countries. Loss is almost guaranteed if you trade with these companies. Investor will never understand how and why he lost the money because bucket shops have their own way of making a client lose. They offer huge commissions who work in their company. These employees make their clients do over trading for the sake of earning commissions for themselves and make clients lose money. People who trade with these brokers normally trade with high leverage and make some big money initially but lose all the profits and capital much faster. No trading takes place in these companies.

Bucket Shops will normally have posh offices. Do not judge the company looking at their office ambience or listening to the sales talks. These companies may not run away with your money but they may be forced to close the company by Police due to their involvement in illegal money laundering.

Chapter 15

Making a career in Online Forex Trading

Online forex trading is a new business in India and offers a great scope for people to take up this as a part time or full time profession. Whether an investor makes money or not, a forex professional will surely make money. Not just few thousands, one can make millions by taking forex trading as a career. Housewives and retired people can even take up forex trading as a home based job.

If I can have clients worldwide without even meeting anyone in person, one can have client base in their own city by offering demo in forex trading. If people from South America and African continents approach me for my trade signals, it is because they trust my knowledge and experience. To be a successful forex professional one must develop a good knowledge in this business. By spending few hours a day in reading and going through various websites one can gain lot of knowledge in forex trading. Visit forex forums and participate in discussions or just read other's comments.

Forex trading as a profession is ideal for people who work in the field of investments like Insurance, Mutual Funds and the like. They can become independent traders or be Forexveda associates. I don't recommend one to be an independent trader without gaining minimum of 3 years of experience in the trading under expert guidance. Getting clients will not be difficult. All you have to do is learn the business and teach the same to potential investors.

Housewives can offer their services to baby sit client's accounts. There are many investors who are ready to invest but have no time to trade or run the trade robots. Forexveda can hire the services of housewives who spend most of the time at home for the trading job. All they need is a good computer system, good power back up and unlimited internet connection. If they can give demo of forex trading at their place for their friends and relatives they can make extra money through referral commissions. Beauty of this business is one can make commissions every month as long as the client trades. A Mutual Fund advisor may earn 0.5% per year on his client's investments but a forex professional may earn 5% to 10% per month on client's investments.

Some Forex Terms / Slangs Explained

Call Margin

If a trader knows money management and risk management he will not have this 'call margin' word in his dictionary. Traders who hold loss making positions for long time or traders who use high leverage get into a situation called 'call margin'

Let's take an example of a trading account of \$1000 which has an open position of 1 standard lot (\$100,000) of USD/JPY. If the broker is offering a leverage of 1:200 he may take \$500 as margin money.

Your account may look like this:

Balance \$1000 Equity \$998.67 Margin required \$500 Available Margin \$498.67

When floating loss becomes \$500 Equity will become \$500 and available margin becomes 0 and technically you are on margin call.

There is no system of calling for margins in spot fx and most of the platforms close your position automatically when your available margin becomes zero. Some brokers may allow your account to become zero and then close your position.

Take your profits and run

This is a popular saying in Forex trading and all forex traders must follow this. I have seen many forex traders trying to grow their capital and later lose all the profits and initial capital. It is advisable to withdraw profits till you withdraw you get back your initial investment. It is not at all advisable to keep your profits in the account. One can even open a sub account and keep transferring the profits to the sub account too.

Getting married to a position

Holding a loss making position for a long time is called getting married to a position. In equity trading most of the traders do it. But in forex trading if someone develops this habit of getting married to a position he is sure to lose and quit forex.

You can never say where the high or low for a currency pair is. The equity market for instance. When the index is at 20,000 nobody can imagine the market falling to 5000. But 18000 may look possible. At 18,000, 16000 may look possible. At 16,000, 14000 may look likely...and so on. Everything is possible in speculative business. USD/JPY is trading around 89.00 now. We can never say that this pair can never go to 150 or 50. Both the numbers may look impossible now but after few years we may see yen at those levels. So if you are buying equity when index is at 20000, you should be prepared to see the market at 10,000 or lower and must have an escape plan. Most of the traders sit and cry after market moves to a level which they never expected.

Sell Rumor Buy Fact

You always see market moving during data. Many times market moves in opposite direction of the data. This is because the rumor makes the market move before the news and once the news comes out market moves in opposite direction. If a central bank is scheduled to meet to take a decision in interest rate rise, market may move the currency of that country up before the announcement comes. After the announcement, you may see the currency falling. This happens in the market very often. Do not sit and wonder why the market moved in the opposite direction for the data.

Plan your trade and Trade your plan

This is very important for a trader to succeed in any speculative business. One can achieve this with a strict discipline. It is ok to lose money by sticking to your original trading plan then make money by changing the trade. People who lose in forex either don't plan their trades properly or they don't stick to their original plan. My 'Hope and fear theory explains the reasons behind this mistake.

I wish to end my book with this key note. No one loses in forex trading because of market moving against them. They lose only because of few trading mistakes they do which are explained in my book. It is not important how many trades you get right and how many wrong trades you do. It is important how much you make when you are right and how much do you lose when you are wrong.

Glossary

A

Appreciation: A currency is said to appreciate when it strengthens in value

Ask : Asking Price. Buying price for a trader . Selling price of Forex Broker

Asset Allocation: Investment practice that allocates funds among different markets in order to diversify thus reducing risk.

B

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

Base Currency: The currency which is the base for quotes. Example: in EUR/USD Euro is the base currency.

Bear Market: A falling market where prices decline. If one is bearish US dollar it means he/she expects USD to lose its value against other currencies.

Bid: Offer Price. Selling price for a trader (non market maker). Buying price of forex Broker

Bid/Ask Spread: The difference between the bid and the ask or Selling price minus Buying price

BOC : Bank of Canada, Central Bank of Canada

BOE : Bank of England, Central Bank of UK

BOJ : Bank of Japan, Central Bank of Japan

Broker: Financial Institutions that offers to buy or sell currencies.

Bull Market: A rising market where prices go up. If one is bullish US dollar it means he/she expects the USD to strengthen its value against other currencies.

C

Cable: Slang for GBP/USD

Call Rate: The overnight inter bank interest rate.

Cash Market: The market for the purchase and sale of currencies in physical form.

Central Bank: The Government institution that manages a country's monetary policy. For example Reserve Bank of India or Federal reserve

Commission: A transaction fee charged by a broker.

Convertible Currency: Currency which can be freely exchanged for other currencies or gold without special authorization from the appropriate central bank.

Counter party: The customer or bank with whom a foreign exchange deal is made. The term is also used in interest and currency swaps markets to refer to a participant in a swap exchange.

Cross Rate: An exchange rate between two currencies excluding USD. Example: GBP/JPY.

Currency Risk: The risk of incurring losses resulting from an adverse change in exchange rate.

Currency Swap: a foreign exchange agreement between two parties to exchange principal and fixed rate interest.

Currency Option: Option contract which gives the option or right to buy or sell a currency with another currency at a specified exchange rate within a specified period.

D

Day Trading: Opening and closing the trades on a same day. .

Deficit: A negative balance of trade or payments. Example if $\text{Import} > \text{exports}$, it creates trade deficit.

Deflation: An economic condition whereby prices for consumer goods fall.

E

Economic Indicator: A government issued statistic that indicates current economic condition. Example – Unemployment data, Gross Domestic Product (GDP), Consumer Price Index (inflation), Consumer sentiment etc

European Central Bank (ECB): The Central Bank of the European Monetary Union

F

Fed – Short form for Federal Reserve, The Central Bank of the United States.

Flat / Square: Holding no buy or sell position.

Foreign Exchange Swap: Simultaneous purchase and sale of identical amounts of one currency for another with two different value dates (spot and forward)

Forward Contract: An agreement between two parties to buy or sell an asset **on** a future date for a certain price agreed on the date of contract

Fundamental analysis: Analyzing the economy of a country based on Economic indicators with the objective of determining future movements in a financial market.

Futures Contract: An obligation to exchange a good or an instrument at a set price on a future date.

H

Hedge: A position established in one market in an attempt to offset exposure to the price risk of an equal but opposite obligation or position in another market

I

Inflation: An economic condition whereby prices for consumer goods rise

L

Limit order: An order (standing instruction to the broker) to buy at a specific price or to sell at a specific price.

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

Long position: Buy Position. If a trader has bought Euro/USD we can say he is long EUR/USD

Loonie : Slang for Canadian Dollar

M

Margin : Customer's deposit with the Broker as a collateral to cover any potential losses from adverse movements in prices.

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

Market Maker: A dealer who quotes both a buy and a sell price in a financial instrument or commodity and always prepared to buy or sell at those stated bid and ask prices.

O

Offer: The price or rate at which a trader is prepared to sell.

Open position: A deal that has not been settled by physical payment or reversed by an equal and opposite deal of the same value.

Over the Counter (OTC): Any transaction that is not conducted over an exchange

P

Pip – Price interest Point : This is the smallest price change in a currency. Pip is also known as tick or point in the market.

Pip Value : Pip value varies according to the lot size. In GBP/USD 1 pip is \$10 per standard lot or \$1 per mini lot and \$0.10 for a micro lot. In USD/JPY pip value is 1000 Yens for a standard lot, 100 yens for a mini lot and 10 yens for a micro lot

Pip spread : Difference in Bid and ask (buy and sell price) is called spread. If the broker is quoting GBP/USD as 1.6105-1.6109, spread is 4 pips.

R

Resistance : A price level at which lot of selling is taking place.

Risk Capital : An amount you can afford to lose.

S

Short: Sell Position. If a trader has a sell position in EUR/USD we can say he is short EUR/USD

Spread: The difference between the bid and offer (ask) price.

Support: price level at which lot of buying is taking place.

U

US Prime Rate : The rate at which US banks will lend to their prime corporate customers.

V

Value Date : Settlement date of a spot or forward deal



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