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Forex Hero

VIP ★ Edition

THE ULTIMATE HANDBOOK

FOREX TRADING BASICS & SECRETS

Volume 3.0

There's a lot of information about forex trading spread all over the web, but many of them are out of date, and lots of them contain only a fraction of what you need to know to become a successful trader. Let's fix that.

About this book

The usual way

Time: **4 years**

Our way

Time: **45 minutes**

The popularity of the "Forex Basics & Secrets in 15 Minutes" e-book has encouraged us to create the third upgraded edition. We received a lot of great feedback about the first and second e-book (thank you!)

For this new edition **we have rewritten everything from the ground up**. We are pretty sure you won't find so many distilled tips anywhere else. **We made this ebook as the ultimate learning resource for ourselves** and hope you enjoy it too!

Don't let the simplicity of this book disappoint or fool you. If someone teaches you something and it sounds really complex, they probably haven't taken the time to think through how to boil it down. **Be careful with folks like that**. There's a difference between being good at something and being good at teaching it.

That's why we have tried to distill all the methods to their bare minimum. You will not find long watery essay type paragraphs here, just actionable and easy-to-digest information.

This e-book will help you **learn Forex trading skills in the fastest time possible**! It doesn't matter so much what education and background you have. Our program has shown interesting results: **people with no previous financial market experience often delivered better performance** than those with the experience! Watch the TV series "Million-Dollar Trader" and this fact is confirmed as well.

SECTION 01
INTRODUCTION AND KEY CONCEPTS

Forex trading quick facts

How it works

You choose a reputable broker, register, open or download its terminal (platform), choose the leverage, make a deposit, and just trade the currency pairs by anticipating if these will go up or down (Buy or Sell). The currency pair price changes will generate your profits.

It is better to invest in the currency of a country that is growing faster and fund it with a currency of a country that is growing slower.

When does it work

The market is open 24 hours, 5.5 days a week for trading. Read on to uncover deeper secrets about forex timing.

What is forex & Key terms

FOREX

foreign *exchange*

Forex is an international currency market with daily deals worth $4 billion.

The trade in Forex occurs between two currencies, because one currency is being bought and another – sold at the same time.

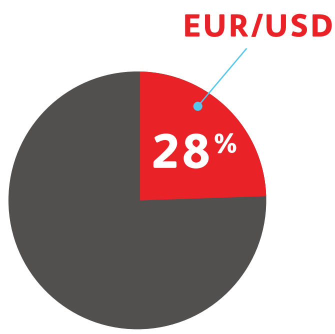
The most common currency pairs

EUR/USD	USD/CHF
GBP/USD	EUR/JPY
USD/JPY	USD/CAD

EUR/USD

Base Currency *Quote Currency*

TOP PAIR



1/3 of all deals

EUR/USD

Selling price (Bid)		Buying price (Ask)
1.3000	spread 1 point	1.3001

Point (Pip)
The fourth unit after the decimal point, which is the smallest unit of an exchange rate.

Spread
The difference between the sell quote and the buy quote (in pips).

The smaller the spread, the more liquid the currency!

5 advantages of forex

Make money even in times of crisis

While the stock market and commercial bank deposits are in deep depression during the crisis, Forex profits, because any change in currency can be used to make profit. A falling market is as profitable for Forex trading as a developing one because unlike in stock trading you can short the falling assets.

Work while lying in a hammock

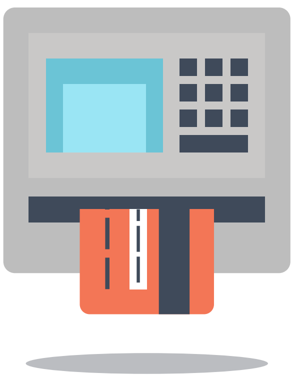
All you need to start making money is a computer or a smart phone and an Internet connection. Your work space and goals are up to you!

Start with ~~$10,000~~ $300

Until around 2002, the average investment needed to start trading was around $10,000. Today and unlike other finance markets, Forex doesn't require a huge budget for you to take part. You can start trading with just $300 - $500.

Easy rules

Unlike the stock market with tens of thousands of different shares, Forex works with 8 basic currencies, which are the center of most trades. Moreover, there are significantly less factors that influence currency exchange rates than in the stock market.



Withdraw profit whenever you want

A $50 billion market isn't just a miraculously beautiful number – it is also what ensures that you can sell or buy any amount of currency you wish at any moment.

3 main disadvantages of forex

Most of other forex learning materials will tell you that forex offers an easy way to make money. Unlike those others we will tell you that it's not true! Here are the three main things you need to consider before investing any time or money in currency trading:

99% of day traders lose money

Some just manage to make more than they lose. You'll know you're not a beginner anymore when you're spending your time thinking about where and when to best cut your losses.

Trader survival rate

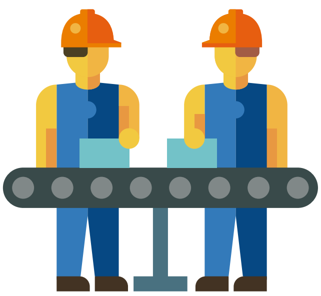
Will you be the 1% ?

High risk to lose the whole position

In stock trading, unlike forex, it is very unlikely that you will lose all the money when investing in the stock market.

It's not for everyone

If you are not disciplined and are prone to rash decisions, then perhaps currency trading is not for you. If you are too busy to find time for managing an investment portfolio, then you should consider social trading where you can copy experienced traders so that they do the "heavy lifting" for you.



Advice for the busy ones

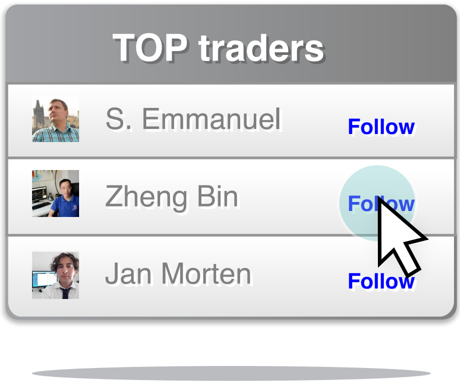
If you're like most of our readers, you're commited to winning at work and succeeding in life. But the truth is, you struggle with finding enought time to do it all. That's exactly where social trading can help - you can follow experienced traders, learn from them online and copy the trades of those who have earned your trust. Here's how it works:

1 Choose a platform

Even if you're new to Forex, there are beginner friendly platforms like eToro or Tradeo that offer you an interesting opportunity – to follow the best traders and copy their transactions.

2 Follow the leaders

Start following the best traders and watch their activities.



3 Copy their trades

After you choose a top trader whose actions you wish to copy, decide upon an amount of money to invest into copying his transactions and press "copy".

4 Learn & Profit

Now you can sit back and watch a professional make transactions for you. This is also a good way to learn Forex strategies in a real-life trading environment.

Advice from Warren Buffet

To those who dislike big risks

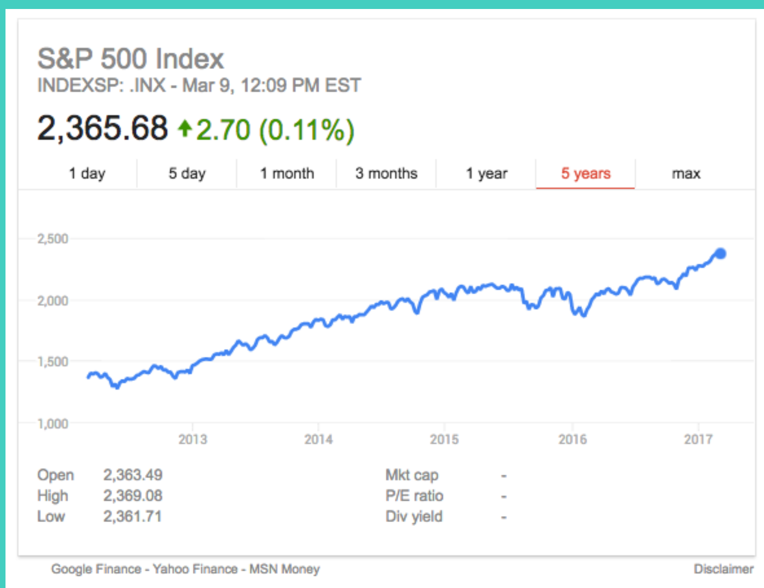
If you don't like taking big risk, then take the advice from Warren Buffet - the most successful investor. This is the advice he gave to his own testament money managers:

> "Put 10% of the cash in short-term government bonds and **90%** in a very low cost **S&P 500 index fund**. (I suggest **Vanguard's**). I believe the index's long-term results will be superior to those attained by most investors.

> ...When the dumb investor realises how dumb he is and buys an index fund, he becomes smarter than the smartest investors.

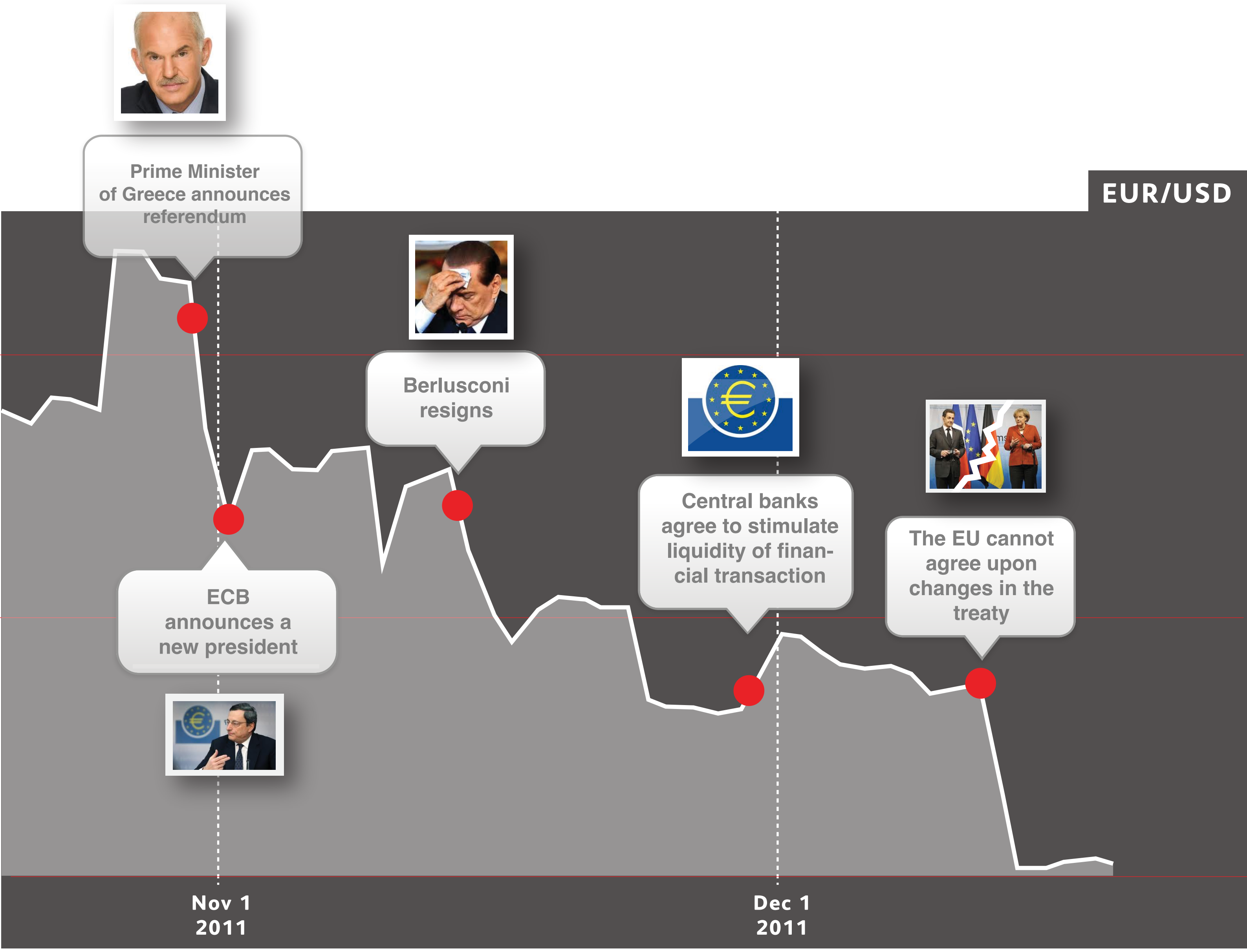
Proof

A **$100,000** investment in the S&P 500 in February 1977 would be worth about **$6 million** as of the end of 2015, included reinvested dividends.



Example of how EUR/USD dropped

In the chart below you can see how the euro dropped due to multiple political factors. This was a great opportunity to make money shorting (betting that it would decline) the euro.



Source: Morgan Stanley Research, Bloomberg.

Leverage, Lots & Spread

Term Leverage

Through the use of leverage, traders are able to invest a small amount of money and trade much larger deal sizes. This is useful because the movement in currency rates can be very small, and larger trades represent larger profits/losses for every pip change in the rate.
Leverage allows you to trade with more money than you have in your account, because you effectively "leverage" your free balance to open a larger trade. Leverage is shown as a ratio, for example 1:100. Note that leverage amplifies both potential
profits and losses alike.

	Stock market	Forex market
Maximum leverage	1:2	from 1:10 to 1:400
Varying lot sizes	✗	✓

Term Lot

In Forex, all transactions can be conducted via standard, mini, and micro lots. Each lot size accounts for a different measure of units of the base currency, which in turn presents a different pip value. Below is a simple chart to illustrate the differences in lot sizes, measured in units, volume for the major pairs where the base currency is USD.

	Units of base currency	Volume	Pip Value (base: USD)
Standard Lot	100,000 units	1	1 pip = $10
Mini Lot	10,000 units	0.1	1 pip = $1
Micro Lot	1,000 units	0.01	1 pip = $0.10

The smaller contract sizes have a broad appeal to beginner investors who do not want to take on a disproportional amount of risk. Those traders who are looking to get started in the forex market should consider opening a mini account because of the smaller contract sizes.

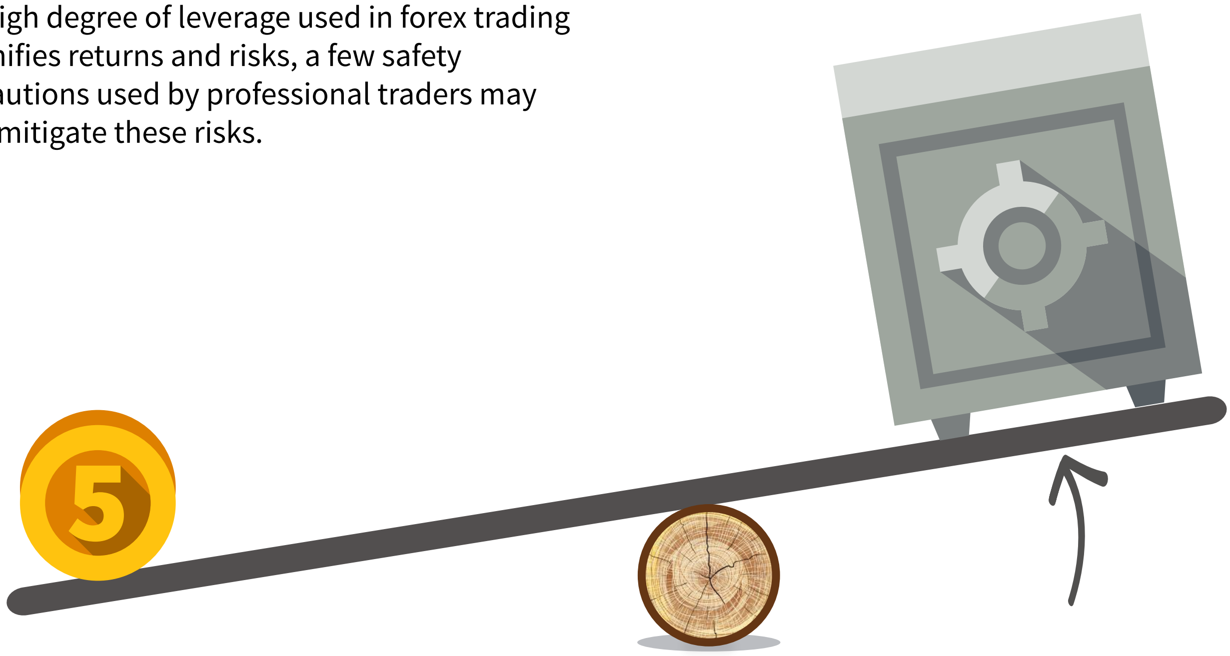
Term Spread

The difference between the bid price and the ask price is called a spread. If we were to look at the following quote: EUR/USD = 1.2500/03, the spread would be 0.0003 or 3 pips, also known as points. Although these movements may seem insignificant, even the smallest point change can result in thousands of dollars being made or lost due to leverage. Again, this is one of the reasons that speculators are so attracted to the forex market; even the tiniest price movement can result in huge profit.

How leverage works

Leverage

"Leverage" simply means borrowed funds. While the high degree of leverage used in forex trading magnifies returns and risks, a few safety precautions used by professional traders may help mitigate these risks.



Example

You decide to buy 100,000 EUR and sell USD at a rate of 1.4100. Do you need more than 100,000 US dollars to open the trade? No! With a leverage of 1:50 you will need to put down only 1/50 of the deal size as the margin, which works out to $2,820.

Calculate the margin:

Leverage 1:50
Divide 100,000 by 50=2000 EUR
2000 EUR x 1.41=$2,820
Margin=$2,820

This is the amount that will be used to cover your potential losses. In other words, the margin is the actual amount that you are risking to lose if the trade goes against you.

Tips & Warnings

→ Leverage is a very aggressive investment strategy and only those with high risk tolerance should consider using big leverage.

→ Use leverage appropriate to your comfort level: Using 1:50 leverage means that a 2% adverse move could wipe out all your equity or margin. If you are a relatively cautious investor or trader, use a lower level of leverage with perhaps 1:5 or 1:10 leverage.

→ The leverage available on positions carried over the weekend may vary.

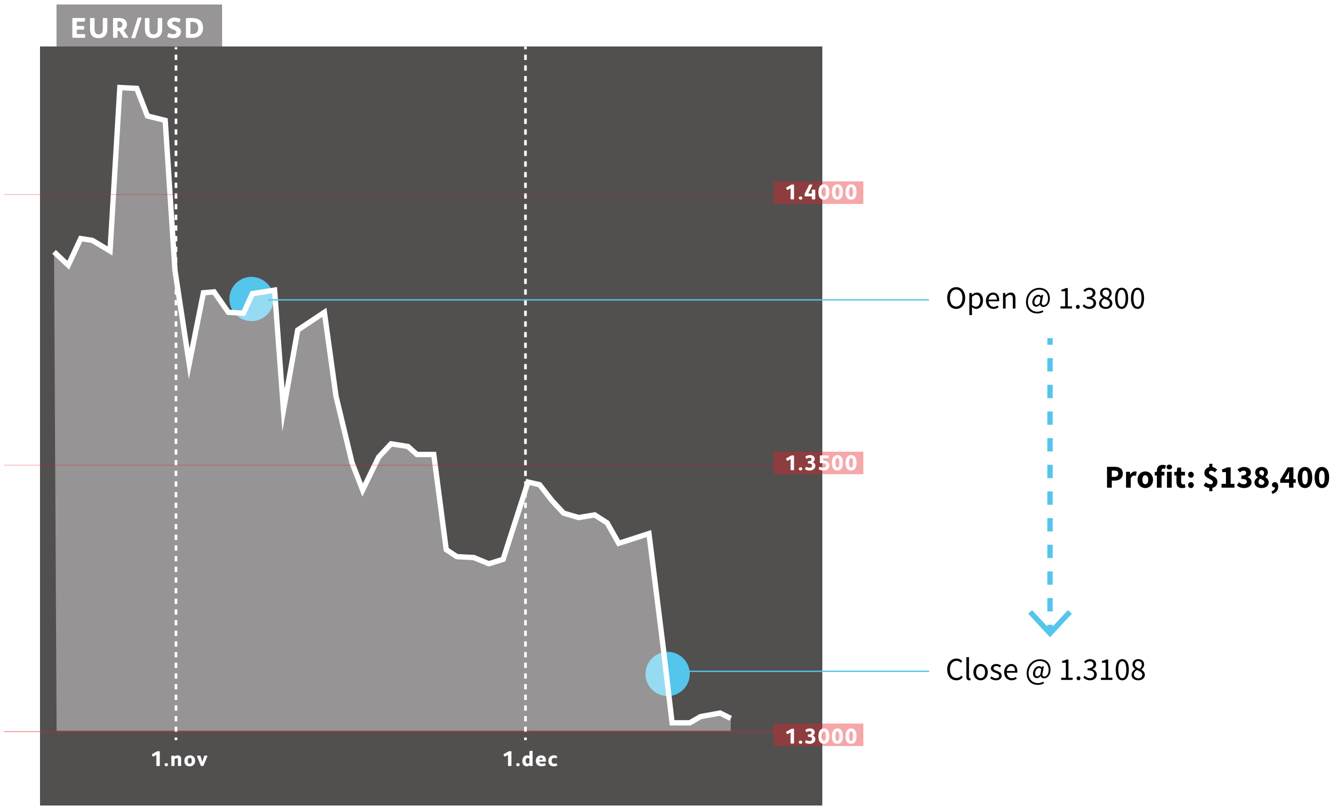
→ Maximum leverage limits vary in different countries, varying from 1:10 to 1:400.

→ Use Stop Loss orders! Stops can be used not just to ensure that losses are capped, but also to protect profits.

Example: leverage in use

Going short on euro

Europe has been hit by a crisis, so you expect the euro to fall against the US dollar.



Case B: Leverage 1:50

1. You open a position of 1 lot, which requires an initial deposit of **$2,760** (€100,000*1.3800/**50**).
2. You were right. Euro depreciates against the dollar to 1.3108 and you decide to close your trade and take your profits.
3. Result: The euro fell by 692 pips (1.3800 - 1.3108 x 10'000). Your profit is 692 x 1 (lot) **x 50** (Leverage) = $34,600

Investment: $2,760
Profit: $34,600

Case B: Leverage 1:200

1. You open a position of 1 lot, which requires an initial deposit of **$690** (€100,000*1.3800/**200**).
2. You were right. Euro depreciates against the dollar to 1.3108 and you decide to close your trade and take your profits.
3. Result: The euro fell by 692 pips (1.3800 - 1.3108 x 10'000). Your profit is 692 x 1 (lot) **x 200**(Leverage) = $138,400

Investment: $690
Profit: $138,400

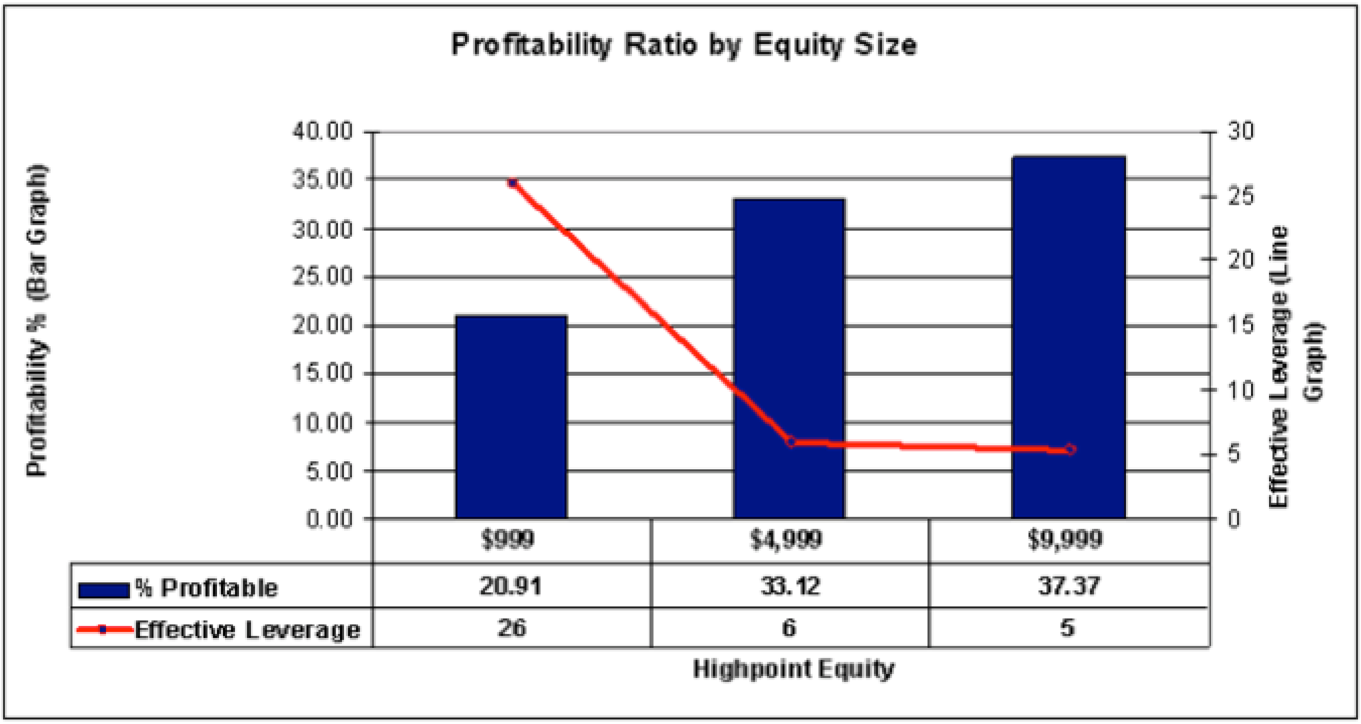
If the trend moves against the investor, leverage magnifies losses the same way it magnifies returns in the examples above.

How much should I invest?

Traders should look to use an effective leverage of 10-to1 or less.

Research shows that the amount of capital in your trading account can affect your profitability. Traders with at least $5,000 of capital tend to utilize more conservative amounts of leverage.

It is recommended to invest $1,000 - $5,000 and use a leverage of 1:10. With smaller investment you will not get enough profits as the average changes in the currency rates are small. Thus traders who invest small amounts ($50 - $100) are inclined to use big leverages to get tangible profits, which in turn is very risky.



Understand Bulls & Bears

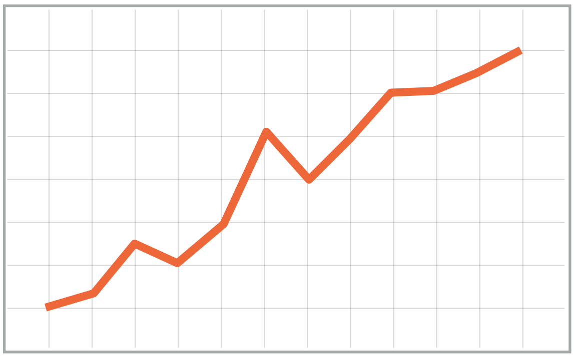
A visual trick for memorizing what is bull and what is bear

On Wall Street, the bulls and bears are in a constant struggle. If you haven't heard of these terms already, you undoubtedly will as you begin to invest. The terms bull market and bear market describe upward and downward market trends, respectively, and can be used to describe either the market as a whole or specific sectors and securities. These images will help you memorize which is which.

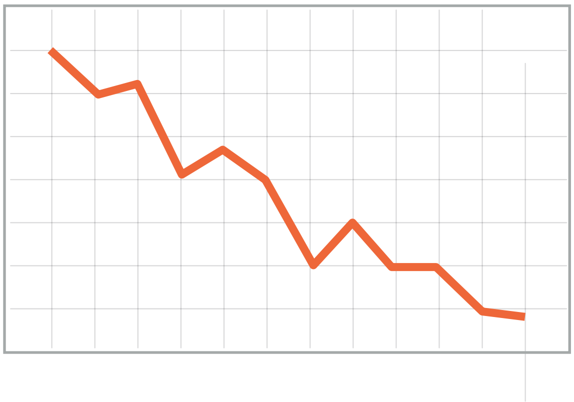
Bullish action

Bearish action

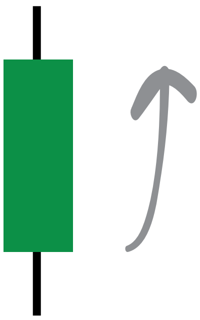
Bullish trend



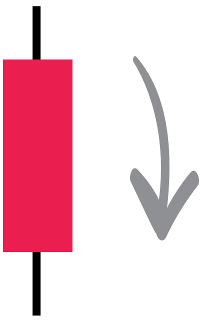
Bearish trend



Bullish candlestick

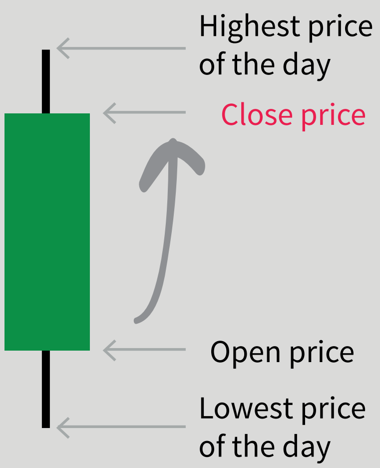


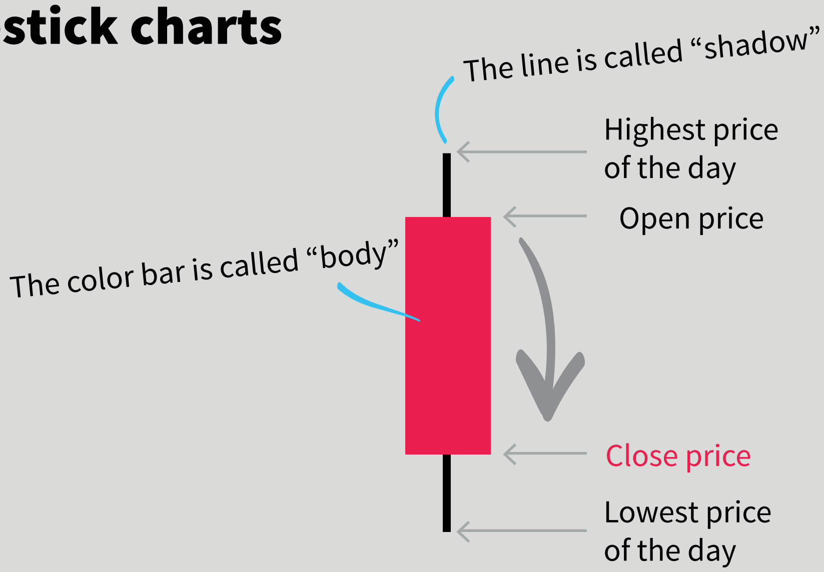
Bearish candlestick



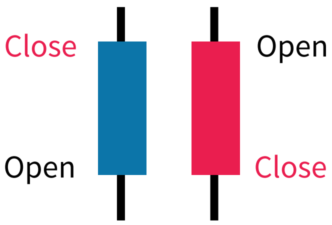
Unlock the potential of charts

How to read candlestick charts

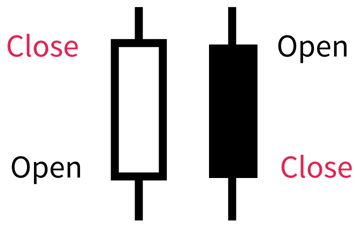


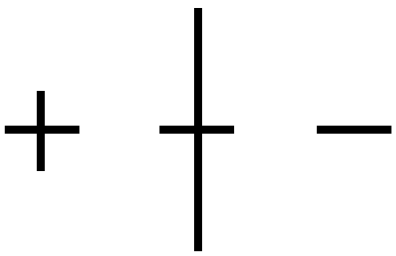


Color variation 1



Color variation 2





A. B. C.

A. Doji - when the opening and closing price are equal.
B. Long-Legged Doji - after small candlesticks, they indicate a potential trend change.
C. 4 Price Doji - where the high and low are equal. Normally only seen on thinly traded pairs.

SECTION 02
KEY DRIVERS OF CURRENCY MOVEMENTS

The key drivers of currency rates

Currencies move primarily based on supply and demand. That is, on the most fundamental level, a currency rallies because there is a demand for that currency. Regardless of whether the demand is for hedging, speculative, or conversion purposes, true movements are based on the need for the currency. Currency values decrease when there is excess supply.

Supply and demand should be the real determinants for predicting future movements. However, how to predict supply and demand is not as simple as many would think. **Two of the primary factors affecting supply and demand of currencies are interest rates and the overall strength of the economy**. There are many factors that contribute to the net supply and demand for a currency and the strength of the economy. Read on to uncover the main drivers that influence the exchange rates.

The number of economic announcements made each day from around the world can be intimidating, so we will focus just on the most important ones.

How are they divided

The drivers are divided into three major groups: Geo-political, Economic and Market Psychology.

2
Geo-political conditions

1
Economic factors

3
Market psychology

Kathy's Top 9 key drivers & indicators

In order to save your time on navigating a huge list of different economic indicators we went through different books of pro traders and compiled a list of the top indicators that have the biggest influence on currency rates. Here they are:

Kathy Lien

Chief Currency Strategist at Forex Capital Markets LLC. Former Currency trader at JPMorgan Chase.

TOP 9

1. **Unemployment (NFP or Non Farm Payroll)**
   Will US employment continue to grow?
2. **Interest rates (FOMC rate decisions)**
3. **Inflation (CPI) Consumer Price Index**
4. **Trade balance (deficit or surplus)**
6. **Retail sales**
7. **Manufacturing Purchasing Managers' Index (PMI)**
8. **GDP growth**
9. **Stock market Condition**

Key indicators

A closer look at some economical indicators

Central bank Policy divergence

The greenback for example is being driven higher by policy divergence between a Fed that is still likely to tighten policy (increase interest rates) in 2017 and central banks in the U.K., euro zone and Japan that will expand the money supply.

“The consequence of the ongoing uncertainty in markets, where we see two of the big three global central banks still biased toward additional monetary easing, and ongoing uncertainty for the U.K., with potential easing there, is that the dollar is going to be a beneficiary,” said Jeremy Stretch, London-based head of foreign-exchange strategy at CIBC.

After three straight years of gains, strategists are forecasting the U.S. currency will be a world beater again in 2017, strengthening against seven of 10 developed-world peers by the end of the year, according to the median estimate in a Bloomberg survey. That outlook is backed by the Federal Reserve’s stated intent to continue raising interest rates while peers in the rest of the world keep them flat or lower.

"This is the third big dollar rally we’ve had," said Marc Chandler, global head of currency strategy in New York at Brown Brothers Harriman & Co. "The Obama dollar rally, I think, was being fueled by the divergence in monetary policy."

Trade deficits or surpluses

When a country imports more than it exports, the trade balance will show a deficit, which is generally considered unfavorable. For example, if the U.S. trade figures show greater imports than exports, more dollars flow out of the U.S. and the value of the U.S. currency depreciates.

Similarly, if trade figures show an increase in exports, dollars will flow into the United States and appreciate the value of the dollar. From the standpoint of a national economy, a deficit in and of itself is not necessarily a bad thing. If the deficit is greater than market expectations however, it can trigger a negative price movement.

All traderswill find it valuable to know when important economic data are scheduled for release, particularly those that will affect the U.S. dollar. This is because 90% of all currency trades are against the greenback, making currencies naturally sensitive to U.S. economic releases.

Key indicators

A closer look at some indicators

Stock market conditions

Stock markets have a significant impact on exchange rate movements because they are a major place for high-volume currency movements.

There are times where sentiment in the equity markets will be the precursor to major moves in the forex market. If the stock (equity) market is rising, investment dollars generally come in to seize the opportunity. Alternatively, falling equity markets could prompt domestic investors to sell their shares of local publicly traded firms to take advantage of investment opportunities abroad.

To understand this further, let's imagine that the UK economy is booming, and its stock market is performing well. Meanwhile, in the United States, a lackluster economy is creating a shortage of investment opportunities.

In this type of environment U.S. investors will feel more inclined to sell their U.S. dollars and buy British pounds to participate in the outperformance of the UK economy. When they elect to do so, it results in the outflow of capital from the United States and the inflow of capital into the United Kingdom.

From an exchange rate perspective, this would induce a fall in the USD coupled with a rise in the GBP, as demand for USD declines and the demand for GBP increases, translating into strength for the GBP/USD currency pair.

Even day and swing traders will find it valuable to keep up with incoming economic reports from the major economies.

When foreign investors move their money to a particular stock (equity) market, they convert their capital in a domestic currency and push the demand for it higher, making the currency appreciate.

When the equity markets are experiencing recessions, however, foreign investors tend to flee, thus converting back to their home currency and pushing the domestic currency down.

Key indicators

The most overrated indicator

GDP is no longer a big deal

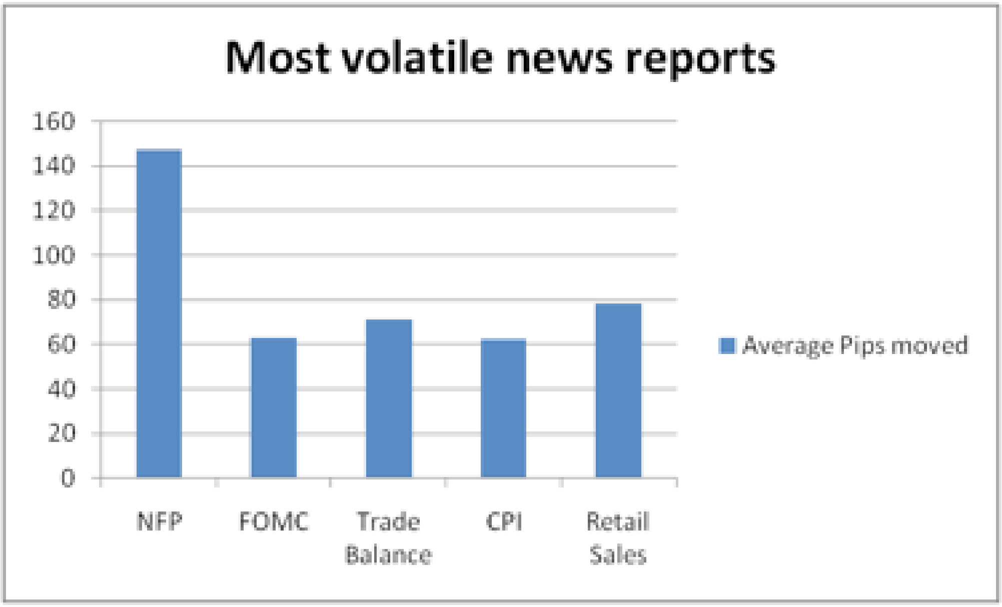
GDP report has also become one of least important economic indicators on the U.S. calendar, as it has led to some of the smallest relative movements in the EURUSD. One possible explanation is that GDP is released less frequently than other data in our study (it comes out quarterly versus monthly), but in general, the GDP report is more prone to ambiguity and misinterpretation.

For example, surging GDP brought about by rising exports will be positive for the home currency; however, if GDP growth is a result of inventory buildup, the effect on the currency may actually be negative. Also, a large number of the components that comprise the GDP report are known in advance of the release.

Most volatile news reports

That traders should follow closely

Volatility and profits in forex are measured in pips. The bigger the volatility the more pips and money a trader can make from a certain trade. Keep this chart by your side and make sure to mark these reports in your calendar!



- **NFP** - Non Farm Payroll. Unemployment indicator, showing if U.S. employment is growing or not.

- **FOMC** - decision on the U.S. interest rates.

- **Trade Balance** - deficit or surplus.

- **CPI** - Consumer Price Index. Inflation indicator.

- **Retail Sales** - An estimate of the total sales of goods by all retail establishments in the U.S. for month prior to the release of the report.

Economic indicators

What you need to know about them **Part 1**

What are Economic Indicators?

Economic indicators are snippets of financial and economic data published regularly by governmental agencies and the private sector. These statistics help market observers monitor the economy's pulse - so it's no surprise that they're followed by almost everyone in the financial markets.

With so many people poised to react to the same information, economic indicators have tremendous potential to generate volume and move prices. It might seem like you need an advanced economics degree to parse all this data accurately - but in fact traders need only keep a few simple guidelines in mind when making trading decisions based on this data.

Mark Your Economic Calendars

Watching the economic calendar not only helps you consider trades around these events, it helps explain otherwise unanticipated price actions during those periods. Consider this scenario: it's Monday morning and the USD has been falling for 3 weeks, with many traders short USD positions as a result. On Friday, however, U.S. employment data is scheduled to be released. If that report looks promising, traders may start unwinding their short positions before Friday, leading to a short-term rally in USD through the week.

Know exactly when each economic indicator will be released. You can find these calendars at the New York Federal Reserve Bank's site.

What does This Data Mean for the Economy?

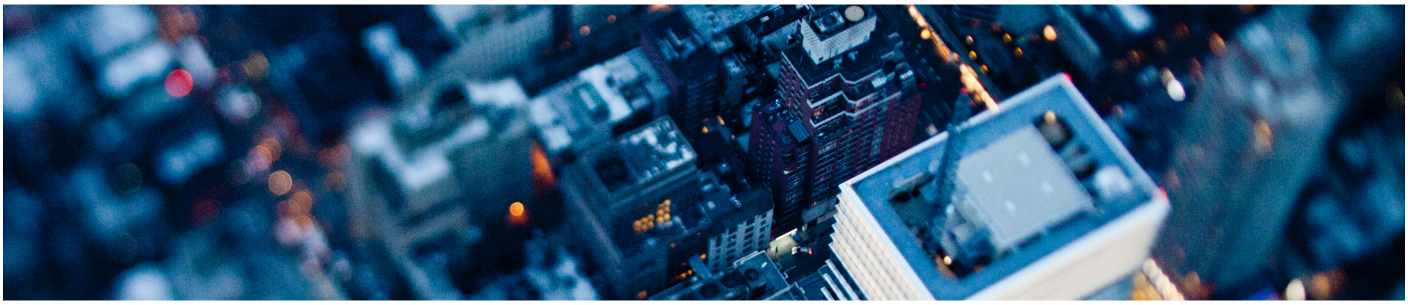
You need not understand every nuance of each data release, but you should try to grasp key, large-scale relationships between reports and what they measure in the economy. For example, you should know which indicators measure the economy's growth (gross domestic product, or GDP) versus those that measure inflation (PPI, CPI) or employment strength (non-farm payrolls).

Not All Economic Indicators can Move Markets

The market may pay attention to different indicators under different conditions. That focus can change over time and from one currency to another. For example, if prices (inflation) are not a crucial issue for a given country, but its economic growth is problematic, traders may pay less attention to inflation data and focus on employment data or GDP reports.

Economic indicators

What you need to know about them **Part 2**



Watch for the Unexpected

Often the data itself may not be as important as whether or not it falls within market expectations. If a given report differs widely and unexpectedly from what economists and market pundits were anticipating, market volatility and potential trading opportunities may result.

At the same time, be careful of pulling the trigger too quickly when an indicator falls outside expectations. Each new economic indicator release contains revisions to previously released data. Read more about this in the next section “Consensus Vs Actual numbers”.

Don't Get Caught Up in Details

While your macroeconomics professor may appreciate all the nuances of an economic report, traders need to filter data to focus on the numbers that can inform their trading decisions.

For example, many new traders watch the headlines of the employment report, for example, assuming that new jobs are key to economic growth. That may be true generally, but **in trading terms non-farm payroll is the figure traders watch most closely and therefore has the biggest impact on markets.**

Similarly, PPI measures changes in producer prices generally - but **traders tend to watch PPI excluding food and energy as a market driver. Food and energy data tend to be much too volatile and subject to revisions to provide an accurate reading on producer price changes.**

There are Two Sides to Every Trade

Just remember that no trader's knowledge can be complete all the time. You might have a great handle on economic data published in Europe - but there are times when data published in the U.S. or Australia might have a surprising impact on your currency market. Doing your homework before trading any currency can help you make better decisions.

Economic indicators

Concensus Vs Actual numbers

Buy the rumors, sell on the news

This is a common phrase used in the forex market because often times it seems that when a news report is released, the movement doesn't match what the report would lead you to believe.

For example, let's say that the U.S. unemployment rate is expected to increase. Imagine that last month the unemployment rate was at 8.8% and the consensus for this upcoming report is 9.0%.

With a consensus at 9.0%, it means that all the big market players are anticipating a weaker U.S. economy, and as a result, a weaker dollar.

So with this anticipation, big market players aren't going to wait until the report is actually released to start acting on taking a position. They will go ahead and start selling off their dollars for other currencies before the actual number is released.

Now let's say that the actual unemployment rate is released and as expected, it reports 9.0%.

As a retail trader, you see this and think "Okay, this is bad news for the U.S. It's time to short the dollar!"

However, when you go to your trading platform to start selling the dollar, you see that the markets aren't exactly moving in the direction you thought it would. It's actually moving up! What the heck! Whyyyyyy??

This is because the big players have already adjusted their positions way before the news report even came out and may now be taking profits after the run up to the news event.

Now let's revisit this example, but this time, imagine that the actual report released an unemployment rate of 8.0%. The market players thought the unemployment rate would rise to 9.0% because of the consensus, but instead the report showed that the rate actually decreased, showing strength for the dollar.

What you would see on your charts would be a huge dollar rally across the board because the big market players didn't expect this to happen. Now that the report is released and it says something totally different from what they had anticipated, they are all trying to adjust their positions as fast as possible.

This would also happen if the actual report released an unemployment rate of 10.0%. The only difference would be that instead of the dollar rallying, it would drop like a rock!

Since the market consensus was 9.0% but the actual report showed a bigger 10.0% unemployment rate, the big players would sell off more of their dollars because the U.S. looks a lot weaker now than when the forecasts were first released.

It's important to keep track of the market consensus and the actual numbers, you can better gauge which news reports will actually cause the market to move and in what direction.

Reference: babybips

How Geo-politics affect currency rates

Wars

Natural disasters

Political unrest

Elections

About elections and continuity

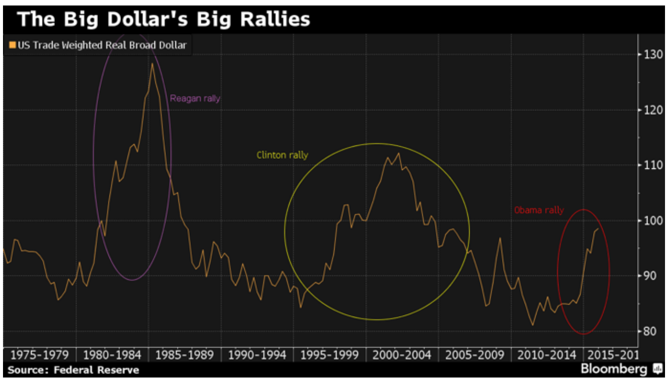
A surprise, strong showing for Sanders "would have upset markets" by reducing the likelihood of Clinton becoming the next president, Lim Say Boon, chief investment officer at DBS Bank Ltd. in Singapore, wrote in a report. The Super Tuesday results are being seen as "an outcome for continuity over the disruption threatened by Trump and Sanders," he said. You must remember that investors hate uncertainty!

Armed conflicts lead to depreciation

An impending war tends to negatively affect major currencies. Instability in the world market prods investors to pull out of their financial positions, leading to currency depreciation.

Dollar gains as new Presidents get elected

Dollar gains as Reagan cuts taxes & Fed raises interest rates. Similar effects have occured with Clinton and Obama. For Trump the upward trend was also there due to his promise to lower taxes and increase government spending on infrastrucure.



Market psychology

The golden rule of economic indicators

The currency rates often start moving even before the actual data comes out due to forecasts and market sentiment!

Sentiment analysis is a kind of FX analysis that concentrates on indicating and consequently measuring the overall psychological and emotional state of all participants of the foreign exchange market. This kind of Forex analysis strives to quantify what percentage of FX market participants are bullish or bearish, in other words being optimistic or pessimistic.

As already mentioned in the previous section"Concensus Vs Actual numbers" - Markets start moving from expectations and forecasts that are also available in the economic calendars. If the forecast promised a positive growth and the actual data comes out even better than forecasted, it amplifies the rise of the currency even more.

If the actual data comes out worse than expected, it creates a strong downward pressure on the currency. Here is the rule to remember with financial reports:

SECTION 03
FOREX TIMING

The importance of timing

Top 3 events when maximum volatility happens:

Why timing is important

The Foreign Exchange market operates 24 hours a day, making it **nearly impossible for a single trader to track every market movement and respond immediately at all times.**

Timing is everything in currency trading. In order to devise an effective and time-efficient investment strategy, **it is important to understand how much liquidity there is around the clock to maximize the number of trading opportunities during a trader's own market hours.**

Besides liquidity, a currency pair's trading range is also heavily dependent on geographical location and macroeconomic factors.

Knowing what time of day a currency pair has the highest or narrowest trading volatility will undoubtedly help traders improve their investment utility due to better capital allocation.

High volatility offers lucrative profit potentials to short-term traders. Lower volatility (under 80 pips per day) is better for risk-averse traders, because there are less iregular market movements caused by aggressive intraday speculation.

1. Overlap between two sessions

Generally, whenever there is an overlap in the market e.g Japan/London and London/Newyork Session, there is always an amount of volatility that accompanies such period. For instance, every morning during London Open session. Euro pairs are active and if you have a good strategy, you could get 20-30 pips.

2. News Release

Fundamentals drive the market. During News Release, volatility is experienced and some pairs could move over 100 pips depending on the type of news. For example Non-Farm Payroll is the most volatile news release and dollar based currency pairs could move hundreds of pips in seconds. However, trading news is risky if you are not knowledgeable about it.

3. Central Bank Govenor's Speech

Speeches from these guys could make pairs go hundred's of pips and even change market sentiment with effects lasting into months. However, its risky to trade these speeches except you are subscribed to some feed/signal service and get the news before others.

What Are the Best Times to Trade Forex

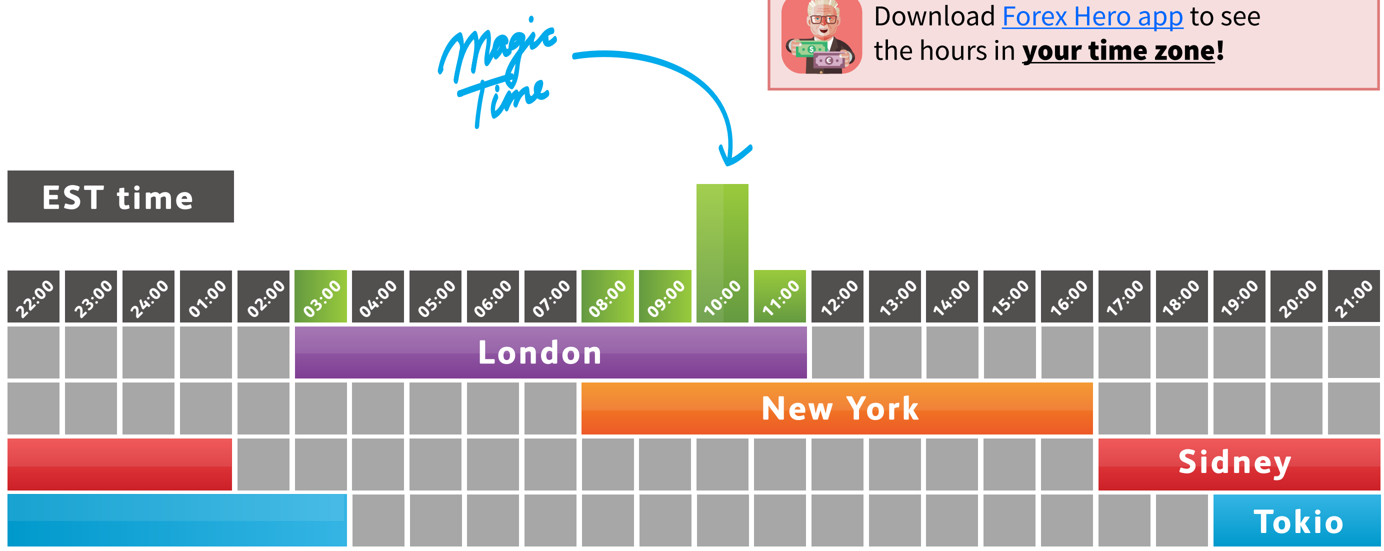
We strongly advice you to avoid all resources that tell you Forex market is a fairy-tale place where you can trade 24/7! The timing in forex trading is crucial!

The Forex market is open 24 hours a day, but it is not active all this time! In Forex trading money is made when the market is active (when traders are bidding on the prices) so it is crucial for you to learn about the most productive hours of the day and of the week for trading the forex!

There are three major trading sessions of the Forex market: London, US and Tokyo session. The busiest times are when the sessions overlap as traders can then purchase currencies from different continents. The Forex market of London is usually the most active as it involves many countries of the European Union. The US market comes next, so the time when the London session intersects with the US session usually provides the biggest returns. Expert traders consider 10 AM to be the best time as this is the period when the London market is preparing to close the trades and traders are getting ready to move to US market. This creates big swings in currency prices thus opening great opportunities for profit.

The best time of the day to trade forex

Download Forex Hero app to see the hours in **your time zone!**



The best time of the week to trade forex

According to research, the biggest movement in the four major currency pairs (EUR/USD, GBP/USD, USD/JPY, USD/CHF) is observed on Tuesdays and Wednesdays. Fridays are busy as well, but only until 12:00 PM and during the second half of the day the movements can be very unpredictable.

When NOT to trade forex

Save your money and keep your nerves by not trading at the wrong time. While it is crucial to understand when is the best time to analyze the charts and make the bids, it is equally important to know when NOT to open positions.

An inactive (often called “thin”) market offers smaller movements of rates, thus smaller potential profits. A thin market also comes with higher commissions (spreads) for each trade due to the decreased liquidity. In simple words: if you want to sell a currency, it is harder to find potential buyers, so the broker or bank must increase the commission as it takes a risk of not finding a buyer so quickly.

A good example of chaotic trading is shortly before, during and shortly after important news events. In these times of uncertainty, the currency rates can swing wildly and unpredictably, thus messing up trading by creating execution lags, triggering stop-loss orders, etc.

So here are some examples of when you should at least be careful when trading:

1. **Friday afternoon & weekends**
2. **Trading session closing time**
3. **Important news events**
4. **Bank holidays**
5. **End of December**
6. **Primetime TV events**
7. **Asian sessions**
8. **When angry or frustrated**
9. **Overnight**

If you want to know the WHY behind these points - download the forex hero app **here**.

When & why do spreads tighten

Why do spreads widen/tighten?

In a well-functioning financial market, where prices are dictated by various market participants (and not by a single entity/market maker), instruments do not have fixed bid/ask spreads. Usually, the higher the liquidity, the lower the volatility, and therefore the tighter the spread (Spread is like a commission that you pay for the trade).

So highly liquid currency majors such as EUR/USD and USD/JPY have tighter spreads than exotic pairs such as USD/RUB or USD/ZAR.

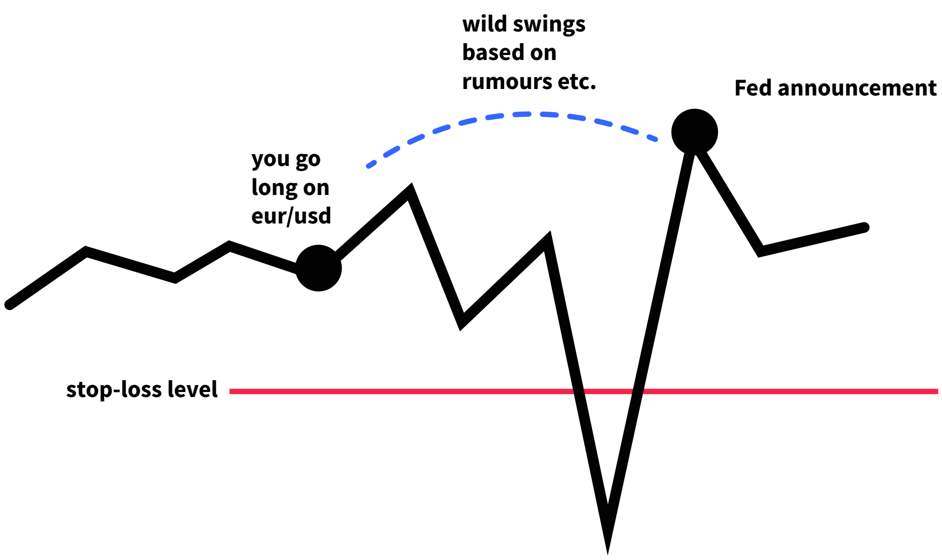
However, even major pairs can experience wider than normal spreads during volatile periods, such as interest rates announcements, GDP reports, unemployment figures, to name a few examples. There will also be wider spreads during off market hours, when there is only a fraction of the participants in the market, so the liquidity is lower. This can be seen when the markets open for the Asian session, at 21:00 GMT Sunday, for example.

This widening occurs typically around news announcements or off-market hours. Most forex brokers allow you to trade all weekend, but spreads will be significantly wider during weekends when liquidity is almost non-existent.

Dealing desk or market making brokers are going to widen their spreads coming into economic announcements to offset the risk they take on by filling orders. Unfortunately, banks do the same thing, so an average forex broker could be better, but only marginally.

What happens before or during important announcements.

The volatility jumps before important anouncements and the drastic movements can hit the stop-losses, resulting in a lost trade and investment.



How to trade during the news events

A pro trader about hitting stop loss when spreads widen

This is not so much of a problem for me as I don't use stops for exits, just emergency measure that generally never gets hit. So I generally close the position or wait out the increased spread (unless it is really pumping).

If you do use stops for exits, just be aware of your stop size as **you will have to widen it just before news announcement if you don't want to get taken out** at the exact place you had predicted would serve as S/R (hence your stop placement just below this level).

This should not be a problem if you are trading the higher time frames as your stop will probably be quite large and so increasing it by 5 or 10 pips probably won't be too significant risk increase (better yet - factor in the widened spread when you calculate your position size as you know that if the trade works out you will be holding for a few days or more, in which time there will be anouncements) . **If you can't be at your computer when the news anuncement hits, I would suggest leaving your stop wider for the periods that you can't manage the trade (unless there are no announcements over that period).**

If you are trading lower time frames however, your stops will inevitably be smaller and the increase in stop size may substantially increase your risk. In this case, **you may have to decide to close the position before the anouncment or close enough of the position so that the increased stop will equal the same loss as the originally intended loss**. But make no mistake - you will have to widen your stop. The spread will get you. **Even if the announcement is in your favour, price generally whips up and down at least a few pips before taking direction**. If your stop is anywhere near price just prior to news, chances are you will be taken out not matter what the result. **Just be aware of the anouncement times and factor this in when deciding wether or not to take a trade**.

Real-life example of a killed stop-loss order due to the volatilty of a news event

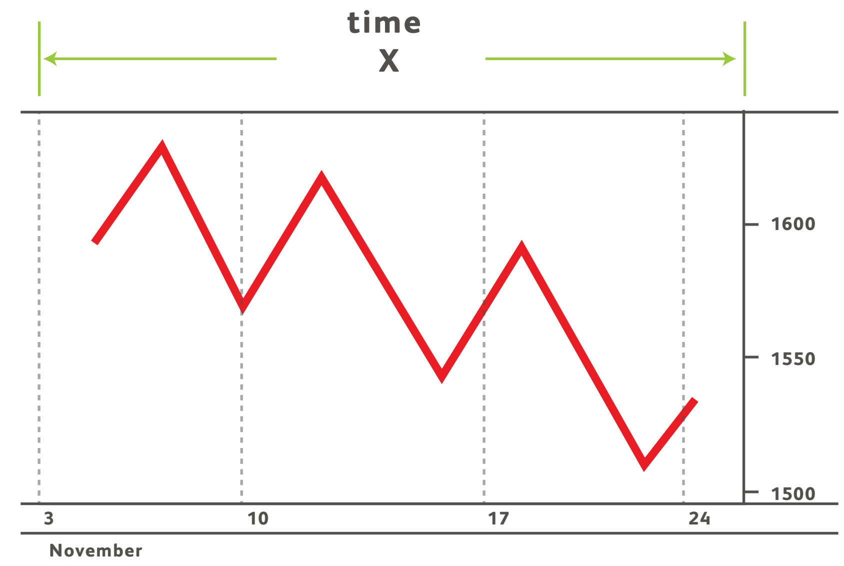
SECTION 04
TIME FRAMES

Multiple time frame analysis

The market can be analysed in several time frames: 10 minutes, hours, days, weeks. It may often seem that these indicators are contradictory. However, they aren't, you just need to combine their readings. Analyses of longer time periods show tendencies, ignoring accidental changes, whereas daily, hourly ir minute graphs help in choosing the moment to open and close positions.

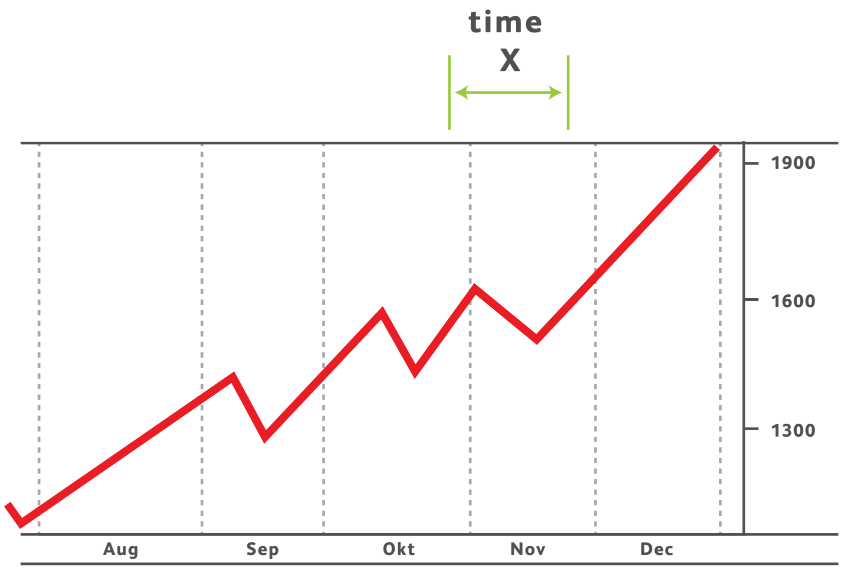
Example Multiple time frame analysis

Let us look at a daily graph. What do most traders do when they see such a curve? They assume that it's the beginning of a downward trend and bid on the drop of the currency exchange rate. And they're wrong!



Now let's look at the same currency over a longer period of time.

We see that the daily shift was inconsequential to the long-term tendency as it is upward and not the other way around.



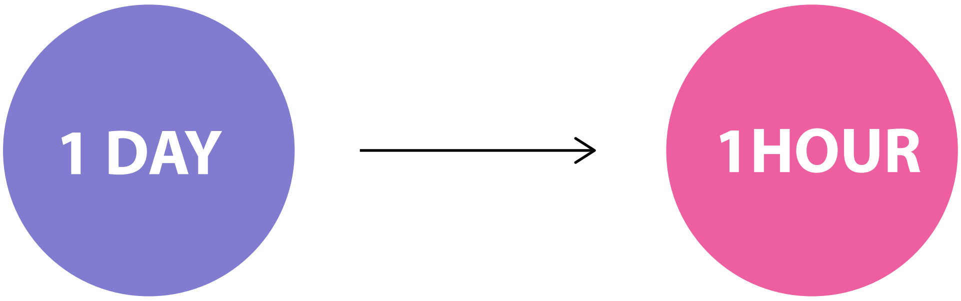
Conclusion

For successful and precise market analysis, you must use at least 2-3 time frames!

Time frame choice of pros

The shortest time frame that traders should start looking at when their trading day starts are daily charts, even if you are trading on a 5-minute time frame!

The most common form of multiple time frame analysis is to use daily charts to identify the overall trend and then use the hourly charts to determine specific entry levels.



Is it possible to analyze and trade forex using a single time frame?

It's possible, but it requires a very good amount of skill and practice.
As a matter of principle, all good traders I know use 2–3 time frames (3 being the best) spaced enough so that each timeframe above encompasses 4–8 bars from the lower time frame. In example: Month => Week => Day, Day => 6h => 1h or Day => 4h => 1h / 30m and so on.

Those who can perform an analysis on one time frame are those who have got a lot of "screen time" and became trained at understanding the long term price motions by looking at a lower time frame chart. It's plenty possible but personally it took me 2 years to learn that. Even then, I prefer to switch to the other time frames to be really sure about what to do.

SECTION 05
FUNDAMENTAL & TECHNICAL ANALYSIS

Fundamental & Tecnhical analysis

What is Fundamental Analysis

Fundamental analysis studies the core underlying elements that influence the economy of a particular entity, like a stock or currency. It attempts to predict price action and trends by analyzing economic indicators, government policy, societal and other factors within a business cycle framework.

If you think of the markets as a big clock, fundamentals are the gears and springs that move the hands around the face. Anyone can tell you what time it is now, but the fundamentalist knows about the inner workings that move the clock's hands towards times (or prices) in the future.

What is Technical Analysis

Unlike fundamental analysis, technical analysis focuses on the study of price movements. Technical analysts use historical currency data to forecast the direction of future prices. The underlying belief behind technical analysis is that all current market information is already reflected in the price of that currency; therefore, studying price action is all that is required to make informed trading decisions. In a nutshell, technical analysis assumes that history will repeat itself.

Beware of "Analysis Paralysis"

Forecasting models are both art and science, with so many different approaches that traders can get overloaded. **It can be tough to decide when you know enough to pull the trigger on a trade with confidence.** Many traders switch to technical analysis at this point to test their hunches and see when price patterns suggest an entry.

Look for Fundamental Drivers First

The fundamentals include everything that makes a country and its currency tick. From interest rates and central bank policy to natural disasters, the fundamentals are a dynamic mix of distinct plans, erratic behaviors and unforeseen events.

Which analysis is better?

No one will ever win the age-long battle between technical and fundamental analysis.

Prior to the mid-1980s, fundamental traders dominated the FX market. However, with the advent of new technologies, the influence of technical trading on the FX market has increased significantly.

Nowadays the best strategies tend to be the ones that combine both fundamental and technical analysis.

Textbook perfect technical formations have failed too often because of major fundamental news and events like U.S. nonfarm payrolls.

But trading on fundamentals alone can also be risky. There will oftentimes be sharp gyrations in the price of currency on a day when there are no news or economic reports.

This suggests that the price action is driven by nothing more than flows, sentiment, and pattern formations.

Therefore, it is very important for technical traders to be aware of the key economic data or events that are scheduled for release, and, in turn, for fundamental traders to be aware of important technical levels that the general market may be focusing on.

Most individual traders will start trading with technical analysis because for some it is easier to understand and does not require hours of news and fact checking.

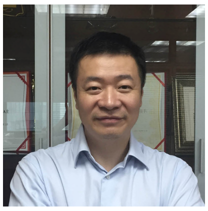
Technical analysts can also follow many currencies and markets at one time, whereas fundamental analysts tend to focus on a few pairs due to the overwhelming amount of data in the market.

Nonetheless, technical analysis works well because the currency market tends to develop strong trends. Once technical analysis is mastered, it can be applied with equal ease to any time frame or currency traded.

However, as we already noted - it is important to take both strategies into consideration, as fundamental analysis can trigger technical movements such as breakouts or reversal in trends. Technical analysis, on the other hand, can also explain moves that fundamentals cannot, especially in quiet markets, causing resistance in trends or unexplainable movements.

How pros evaluate the market

Commodity trader Wang relies on simple supply & demand



Wang Bing's Guli Trend Aggressive Strategy fund has made a 2,100% profit from smart commodity trading.

While many of Wang's peers have embraced computer-driven strategies in an attempt to gain an edge, the former iron-ore importer says **his trades are dictated by old-fashioned analysis of supply and demand**. Wang, who started trading futures in 2008, said he supplements his fundamental analysis of commodities supply and demand with simple forms of technical analysis. One of **his favorite measures is the 30-day moving average**. When prices move above that level, he's more inclined to bet on gains.

Example

Responds to speculation

Wang had recently been betting on higher commodity prices, encouraged by signs that President Xi Jinping's government would take measures to tackle oversupply. But he closed out the last of those positions on Wednesday, **responding to local speculation** that producers of coke and coking coal will be allowed to ramp up production.

SECTION 06
CURRENCIES

Currency nicknames

Greenback or Buck - U.S. Dollar

Sterling - British Pound

Cable - British Pound / U.S. Dollar pair

Single currency or Fiber - Euro

Swissy - Swiss Franc

Loonie - Canadian Dollar

Aussie or Ozzie - Australian Dollar

Kiwi - New Zealand Dollar

Barnie - U.S. Dollar / British Pound pair

Betty - Euro / Russian Rubble

Guppy or Gopher - British Pound / Japanese Yen pair

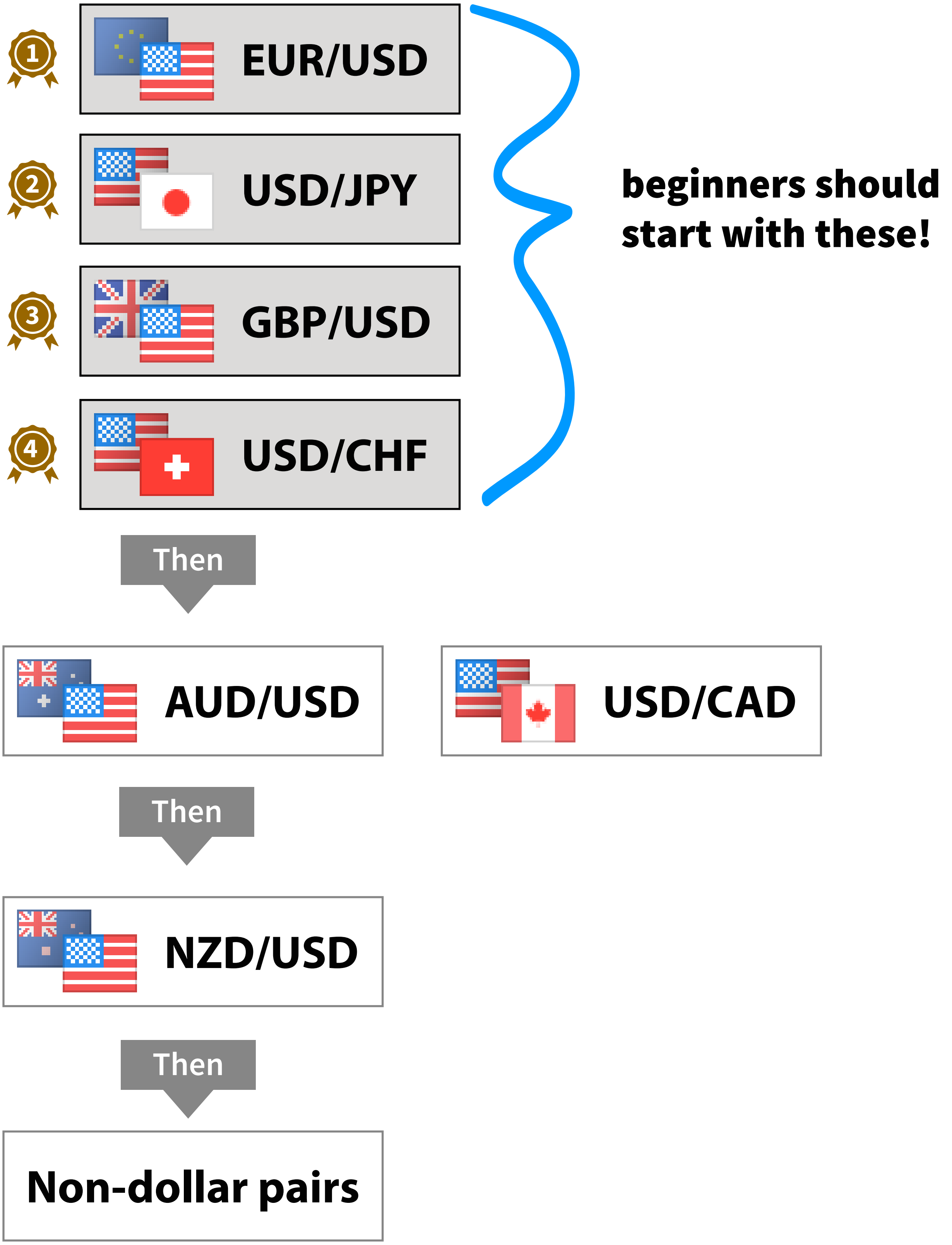
Euppy (pronounced Yuppy) - Euro / Japanese Yen pair

Ninja - U.S. Dollar / Japanese Yen pair

Chunnel - Euro / British Pound pair

Which currencies should I trade?

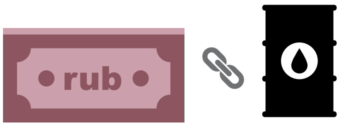
Newer traders should start with following only the four major currency pairs, which are the EUR/USD, USD/JPY, USD/CHF and the GBP/USD, and then gradually add the AUD/USD, USD/CAD and NZD/USD, followed by the non-dollar pairs.



Commodity currencies

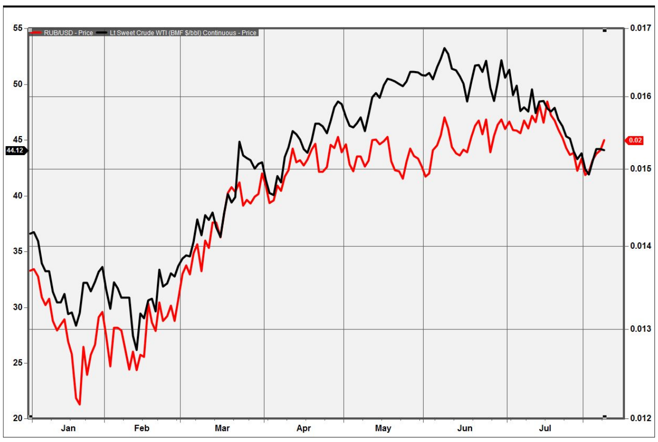
The commodity currencies are currencies from countries that possess large quantities of commodities or other natural resources.

Natural resources often constitute the majority of the countries' exports, and the strength of the economy (its currency) can be highly dependent on the prices of these natural resources. **These correlations makes them easier to trade.**



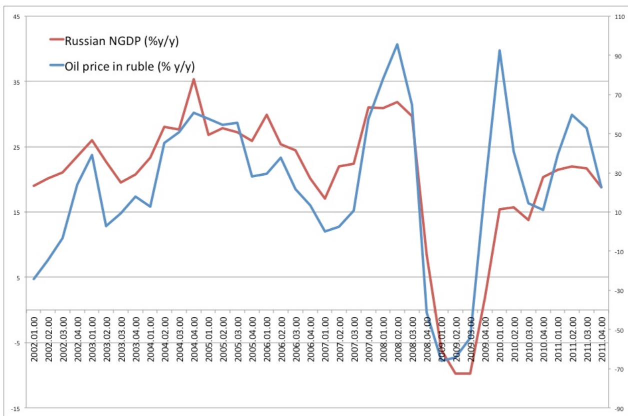
Ruble <> Brent crude oil

The free-floating ruble follows the Brent price in almost-perfect lockstep.



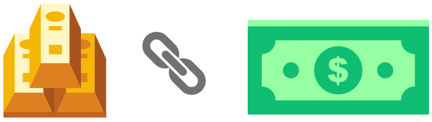
RUB/USD ■ Brent (oil) price

Here is why there is such a dependancy: Russian GDP Vs Oil price in ruble



Russian nGDP ■ Oil price in ruble

Commodity currencies



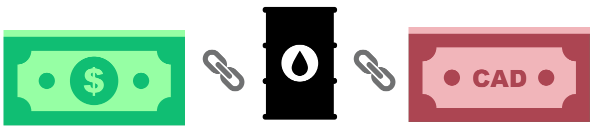
When Gold Goes Up, the USD Often Goes Down (and Vice Versa)

Historically, gold is a "safe haven" - a country-neutral investment and an alternative to the world's other reserve currency, the U.S. dollar. That means gold prices tend to have an inverse relationship to the USD, offering several ways for currency traders to take advantage of that relationship.

For example, if gold breaks an important price level, you'd expect gold to move higher. With this in mind, you might sell dollars and buy Euros, for example, as a proxy for higher gold prices.

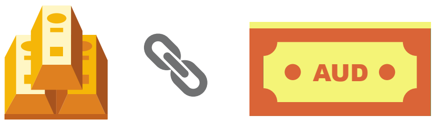
Dollar gains 5% > Oil falls 10-25%

Oil is particularly leveraged to the dollar and may fall 10 percent to 25 percent if the currency gains 5 percent, Morgan Stanley analysts including Adam Longson said in a research note dated Jan. 11, 2016.



USD/CAD <> Oil prices

Canada is considered the 2nd largest exporter of oil in the world, second only to Saudi Arabia, hence its currency is reliant on this commodity. It also supplies the world's biggest oil consumer – the United States. Because the US is largely dependent on oil, the rise and fall of the commodity will have an effect not only on the Canadian Dollar but also on the US Dollar – the higher the price of oil, the higher benefits Canada gets, and the more disadvantaged the US becomes. In currency exchange, the higher the oil prices are, the lower the USD/CAD value will be.



Rising Gold Prices boost AUD and CAD

Australia is the world's third largest exporter of gold, and Canada is the third largest producer worldwide. These two major currencies tend to strengthen as gold prices rise. You might consider going long these currencies when gold is increasing in value, or trade your GBP or JPY for these currencies when gold is on the rise.

SECTION 07
HOW FOREX INFLUENCES BUSINESS

Why one should monitor the EURUSD

1% move in the EURUSD rate reduces profits by EUR$7 million!

Monitoring exchange rates is essential to predicting earnings and corporate profitability.

Throughout 2003 and 2004, European manufacturers complained extensively about the rapid rise in the euro and the weakness in the U.S. dollar.

The main reason for the dollar's selloff at the time was the country's rapidly growing trade and budget deficits. This caused the EURUSD exchange rate to surge, which took a significant toll on the profitability of European corporations because a higher exchange rate makes the goods of European exporters more expensive to U.S. consumers.

In 2003, inadequate hedging shaved approximately EUR$1 billion euros from Volkswagen's profits, while DSM, a Dutch chemicals group, warned that a 1% move in the EURUSD rate would reduce profits by EUR$7 million to EUR$11 million.

Unfortunately, inadequate hedging is still a reality in Europe, which makes monitoring the EURUSD exchange rate even more important in forecasting the earnings and profitability of European exporters.*

*Day Trading and Swing Trading the Currency Market: Technical and Fundamental Strategies to Profit from Market Moves (Wiley Trading) by Kathy Lien.

Real-world business stories

to help you understand how forex market works

As ruble loses half its value, russians make quick money by re-exporting cars

Thanks to the ruble's depreciation, prices of cars sold in Russia turned out to be cheaper than on foreign markets.

The price difference in Russia and abroad made the re-export of cars from Russia lucrative.

Seizing on currency disparities, Russians made quick money by re-exporting the vehicles, which got so cheap in ruble terms that selling them back - sometimes to the same country that manufactured them in the first place - became a way to make a good profit.

How Australians lost their farms in the forex

In the early 1980s, Australian farmers desperate for finance plunged into the forex market, snapping up low-interest loans denominated in Swiss francs.

But the loans, essentially a bet on the Aussie dollar remaining strong against the franc, went horribly wrong when **the dollar plunged in 1985 and 1986, costing some borrowers their farms.**

Real-world business stories

to help you understand how forex market works

When yuan is weakening chinese citizens are buying properties abroad

Motivated by a weakening yuan, surging domestic housing costs and the desire to secure offshore footholds, Chinese citizens are snapping up overseas homes at an accelerating pace.

They're also venturing further afield than ever before, spreading beyond the likes of Sydney and Vancouver to lower-priced markets including Houston, Thailand's Pattaya Beach and Malaysia's Johor Bahru.

They are hoping to buy before the yuan weakens any further. Expectations are mounting for a higher Fed rate target, boosting the appeal of holding dollars.

Russian gem polisher benefits from weak rubble

Maxim Shkadov, who runs Kristall, Russia's biggest gem polisher and a major exporter, says the weak ruble - it's lost half of its value since oil began to slide in 2014 - slashed his local costs in dollar terms.

"We don't have any problems getting loans, because banks have plenty of cash and can't find anywhere to put it," he says.

But demand for his diamonds is weak, so he's paying down debt, not adding to it, Shkadov says.

Real-world stories

to help you understand how forex market works

How China became the biggest investor in the U.S.

Chinese Yuan Renminbi (RMB) was pegged to the U.S. dollar. In the 1980s, the RMB was devalued to promote growth in China's economy, and between 1997 and 2005 the People's Bank of China artificially maintained a USDRMB rate of 8.27.

At the time, it received significant criticism because keeping the peg meant that the Chinese government would artificially weaken its currency to make Chinese goods more competitive.

To maintain the band, the Chinese government had to sell the yuan and buy U.S. dollars each time their currency appreciated above the band's upper limit.

These dollars were then used to purchase U.S. Treasuries, and this practice turned China into the world's largest holder of U.S. Treasuries.

SECTION 08
RISK MANAGEMENT

Why traders lose money

Most traders lose money simply because they have no understanding or place no importance in risk management. Risk management involves essentially knowing how much you are willing to risk and how much you are looking to gain. Without a sense of risk management, most traders simply hold on to losing positions for an extremely long amount of time, but take profits on winning positions prematurely. There are a few key guidelines that every trader, regardless of their strategy or what they are trading, should keep in mind.

Risk-reward ratio

Traders should look to establish a risk-reward ratio for every trade they place. In other words, they should have an idea of how much they are willing to lose, and how much they are looking to gain. Generally, the risk-reward ratio should be at least 1:2, if not more. Having a solid risk-reward ratio can prevent traders from entering positions that ultimately are not worth the risk.

Pros recommend 1:2 risk-reward ratio, and not risking more than 2% of your equity on any single trade.

Stop-loss orders

Traders should also employ stop-loss orders as a way of specifying the maximum loss they are willing to accept. By using stop-loss orders, traders can avoid the common predicament of being in a scenario where they have many winning trades but a single loss large enough to eliminate any trace of profitability in the account.

Trailing stops to lock in profits are particularly useful. A good habit of more successful traders is to employ the rule of moving your stop to break even as soon as your position has profited by the same amount that you initially risked through the stop order. At the same time, some traders may also choose to close a portion of their position.

10 tips from the pros

1 Start gradually

Don't open many positions at the same time. It's better to choose fewer positions, but weigh each of them carefully.

2 Stop-Loss order

People often forget to limit their loss and therefore have to step out of the game very soon. With the Stop-Loss Order, you will be able to control the situation even if the rates change unexpectedly.

3 Rule of 1/6

Specialists advise against risking more than 1/6 of your free capital when you aren't completely confident.

4 Stick to the plan

Each good trader has their own plan, and the best traders make an effort to hold onto it. Those who have the time, make daily transactions, others choose long-term strategies. Keep it steady!

5 Multiple time frames

Differentiate the time frames of analysis. Weekly graphs are used to observe trends while daily and hourly graphs are best used to observe the best time to open and close positions.

6 Don't stop the profit

An essential mistake beginners make is closing the transaction too soon and thus not taking advantage of the full profit potential. Trends last longer than they might seem at first!

7 Don't play against the trend

Transactions against a trend usually result in loss. Wait for a beneficial tendency and then make your move!

8 If in doubt, follow the leader

If you still aren't confident about your decisions, choose a platform that lets you follow leaders and copy their transactions.

9 Trends have momentum

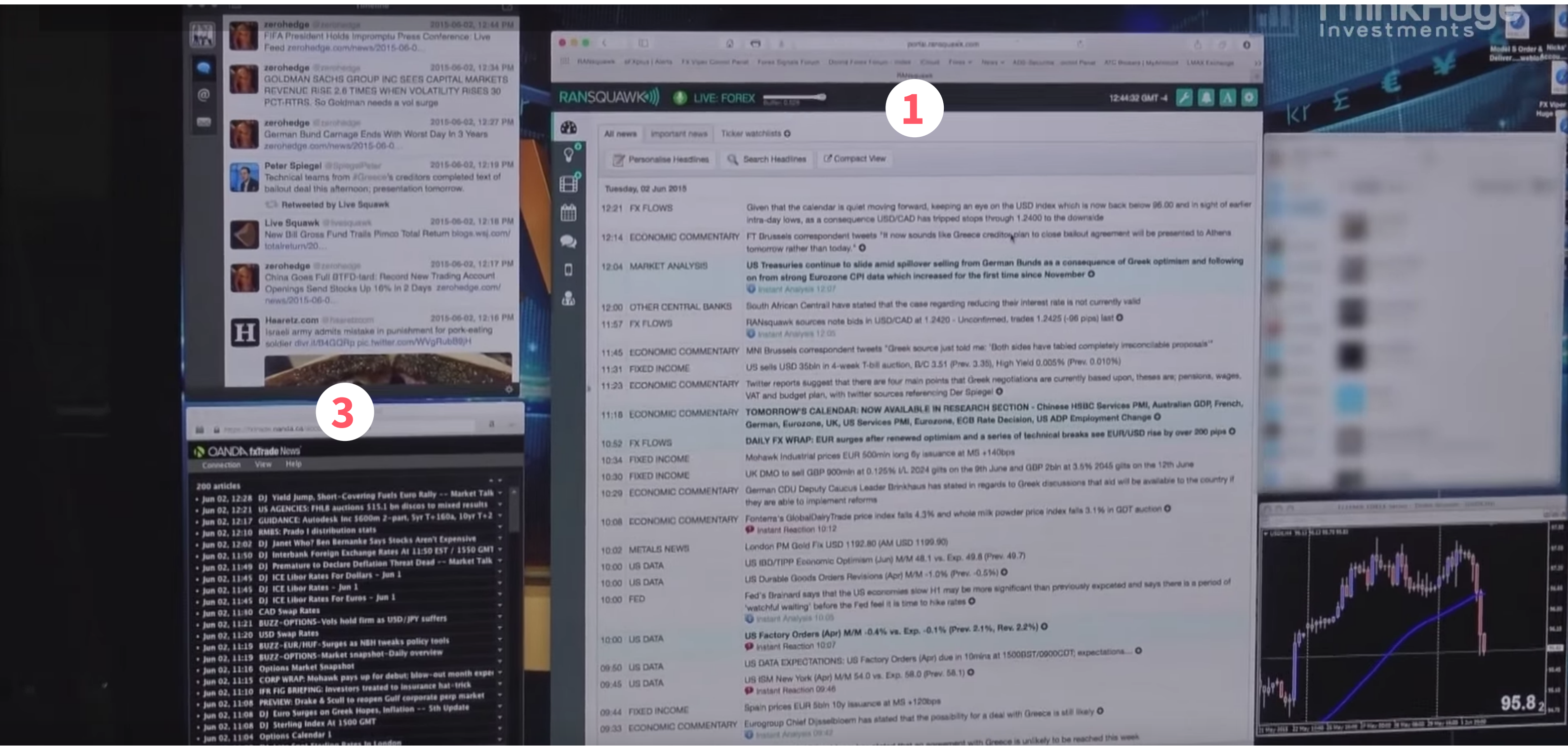
Beginners often don't know that when trends start, they develop quickly because they are increased by the number of traders following them. Use trends in your favour!

10 Close the unsuccessful

Don't hold unsuccessful positions open for a long time. Experience shows that it's best to close them early and move on to others.

SECTION 08
TOOLS USED BY PRO TRADERS

Tools for analysis and trading



You are serious about becoming a forex trader. Do you know which tools to use? Here are the three most popular tools:

1. Ransquawk

£20/month - £150/month

Live 24/7 news (text & audio) covering all major pairs and crosses.

https://ransquawk.com/

2. eSignal

$47/month - $309/month

Stock Charting Software, Best Day Trading Platform.

http://www.esignal.com/

3. Oanda news

Free

Forex market commentary and analysis, statistics and more.

https://fxtrade.oanda.com/analysis/news/

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