BASICS OF FOREX TRADING

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INTRODUCTION

The Foreign Exchange market, also called FOREX or FX. It is the global market for currency trading. With a daily volume of more than $5.3 trillion, it is the biggest financial market in the world. Whether you sell YEN 100 to buy US dollars at the airport or a bank exchanges 100 million US dollars for EURO with another bank, both are FOREX deals. Anyone can participate in the FOREX market including huge financial organizations, managing billions, to individuals trading a few hundred dollars.

'Forex' simply stands for Foreign exchange. Forex is the largest financial market in the world, but it is not a physical market, and therefore has no central point. If you Buy one currency using another, whether in your local bank, on a online exchange or at the airport, you are participating in the Forex Market.

In Forex trading, we buy one currency using another. As with all markets, the current price of a currency is based on what the market is prepared to pay for it. In Forex, this is called the 'exchange rate' between currencies, often simply referred to as 'the rate'. The exchange rate is simply a measure of what the market thinks one unit of one currency is worth in a unit of another currency.

FOREX TRADING

Although currency trading is very much like stock market, and other markets it has some differences from them, some of the differences are going to be explained briefly. Banks and other financial institutions are known as the "market makers" because they are the ones that pour billions of dollars in the market and move it up or down. The benefit of the foreign exchange market is that is not tied to one country's economy, but it is a global market and that is why it is very difficult for these "market makers" to manipulate the price in their favor, this is one of the biggest markets in the world, having a volume of up to 4 trillion dollars a day, which offers a lot of liquidity. There are very few institutions with the buying (or selling) power to affect the market. However, there are some "big players" that are in the market, not necessarily to make money but to intervene if they feel the value of their currency is affecting the local economy.

A very important factor that differs the foreign exchange market from other markets is the risk. This is in most people's opinion the riskiest trading one can do because of several reasons. One of them is that the leverage is greater here. While in the stock market you may get 20:1 leverage, foreign exchange leverage may go up to 500:1 in some countries. This means bigger gains, however, if you do not know what you are

doing more likely than not your account will be wiped out in a single trade. The volatility in the currency market is huge and the price may swing violently, especially around news times, which is why people recommend to only investing 10-20 percent of a portfolio in the currency market.

Trading is not for the faint of heart, a trader must realize that this is not certain science and that he will lose as well, the trick is to minimize those losses, and maximize the winnings. Having said that, depending on your objectives, there are various ways one can trade. One of them is doing technical analysis, reading the charts to forecast the direction of prices through the study of past market data. Another form of trading is fundamental analysis; in currency trading is analyzing the financial, economic or political health of a particular country to determine the value of their currency.

In addition to the two different types of analysis, there are also diverse styles of trading. Day trading is one of them and this is what most people that trade for a living and as a career do. This is trading for relatively short periods of time, holding positions for several minutes to a couple of hours, in rare occasions keeping positions open for more than a day. In this type of trading is better to use technical analysis, because it can help you predict price direction more accurately than fundamental analysis. Fundamental analysis is for long term trading, companies placing probably one or two trades per year that will yield them huge amounts of points. This works because although the problems for a certain economy may be visible today, its effects may not be seen weeks or months from now.

HISTORY OF FOREX MARKET

Foreign exchange dates back to ancient times, when traders first began exchanging coins from different countries. However, the foreign exchange itself is the newest of the financial markets. In the last hundred years, the foreign exchange has undergone some dramatic transformations. The Bretton Woods Agreement, set up in 1944, remained intact until the early 1970s. Trading volume has increased rapidly over time, especially after exchange rates were allowed to float freely in 1971. In 1971, the Bretton Woods Agreement was first tested because of uncontrollable currency rate fluctuations, by 1973 the gold standard was abandoned by president Richard Nixon, currencies where finally allowed to float freely. Thereafter, the foreign exchange market quickly established itself as the financial market. Before the year 1998, the foreign exchange market was only available to larger entities trading currencies for commercial and investment purposes through banks, now online currency trading platforms and the internet allow smaller financial institutions and retail investors access a similar level of liquidity as the major foreign exchange banks, by offering a gateway to the primary

(Interbank) market. The FOREX refers to the Foreign Currency Exchange Market in which over 4,600 International Banks and millions of small and large speculators participate worldwide. Every day this worldwide market exchanges more than $1.7 trillion in dozens of different currencies. With the current growth rate the market is projected to grow to more than $1.9 trillion per day by the year 2006. With such volume, one can assume that the forex market is extremely volatile, changing at a moment's notice, depending on conditions within that country.

Why trade in FOREX?

Below are reasons to trade in FOREX over other markets.

1. The FX trading is active and is done on worldwide in different business hours. The major currencies can be trade 24 hours per day only for 5 days and not on weekends.

2. There are no set times for exchange hours in a countries.

3. There are no limitations of long or short currencies.

4. Buying and selling can be done anytime irrespective of the hours.

5. Currency market is made of low and competitive spreads.

6. It is easy to get in and come out of currency trading in the large size market.

7. Liquidity availability is deep and the leverage is high where in you can take advantage even with a small move. Not only is the forex market very liquid, it is also very efficient.

8. It is an easy way to gain exposure in foreign securities law in varied language.

9. No clearing fees, no government fees, no exchange fees.

10. Trading is direct with no middleman.

11. Low on transactions cost.

12. The participants in the single entity are huge that it doesn't allow anyone to corner the market.

13. Low barriers to entry with a mini and micro trading accounts few with a minimum of $25 only.

14. Accessible by even average individual with a minimum trading capital.

15. Demo accounts are available for free to practice trading and also to build the skills. Real time currency market news and charting service is on 24*7.

16. It has a narrow focus, unlike stock and commodities which has variety of the options to choose and trade.

17. It revolves around 8 major currencies with no room for confusion with a clear picture of what is happening.

18. The enormous volume of daily trades makes it the most liquid market in the world.

19. Even banks do not have enough pull to really control the market for a long period of time, which makes it a great place for the decent player for a smart move.

20. The trading is simple in comparison to other trading platforms.

HOW TRADERS MAKES PROFIT?

Essentially, there are two types of analysis traders can undertake while looking at markets to make profit:

Fundamental Analysis

Fundamental analysis is a method of evaluating securities by attempting to measure the intrinsic value of a stock. Fundamental analysts study everything from the overall economy and industry conditions to the financial condition and management of Companies. Earning expenses, assets and liabilities are all important characteristics to fundamental analysts.

Technical Analysis

Technical analysis differs from fundamental analysis in that the stock's price and volume are the only inputs. The core assumption is that all known fundamentals are factored into price; thus, there is no need to pay close attention to them. Technical analysts do not attempt to measure a security's intrinsic value, but instead use stock charts to identify patterns and trends that suggest what a stock will do in the future.

IDENTIFYING TRADING OPPORTUNITY

The optimal time to trade the forex (Foreign Exchange) market is when it's at its most active levels, when trading spreads (the differences between bid prices and the ask prices) tend to narrow. In these situations, less money goes towards the market makers who facilitate currency trades, leaving more money for the buying and selling investors to personally pocket.

The Four Major Forex Exchanges

The four major forex exchanges are located in New York, London, Singapore and Tokyo. When more than one exchange is simultaneously open, this not only increases trading volume, it also spikes volatility (the extent and rate at which equity or currency prices change), which likewise benefits forex traders. This may seem paradoxical. After all, investors generally fear market volatility. But in the forex game, greater volatility translates to greater payoff opportunities.

Worldwide Forex Markets Hours

The forex has fifteen independent worldwide exchanges, open weekly from Monday through Friday--each with unique trading hours. But from a trading perspective, the four most important windows are as follows (times shown represent Eastern Standard Time):

- London: 3 AM to 12 PM (noon)
- New York: 8 AM to 5 PM
- Singapore: 3 PM to 12 AM (midnight)
- Tokyo: 7 PM to 4 AM

While each exchange functions independently, they all trade the same currencies. Consequently, when two exchanges are open, the number of traders actively buying and selling a given currency dramatically increases. The bids and asks in one forex market exchange immediately impact bids and asks on all other open exchanges, reducing market spreads and increasing volatility. This is certainly the case in the following windows:

- 8 AM to 12 PM (noon) EST, with both New York and London exchanges open
- 3 PM to 5 PM, with both New York and Singapore exchanges open
- 7 PM to 12 AM (midnight) EST, with both Tokyo and Sydney exchanges open
- 3 AM to 4 AM EST, with both Tokyo and London exchanges open

The most favorable trading time is the 8 AM to noon overlap, when both New York and London exchanges are open. These two trading centers account for more than 50% of all forex trades. On the flipside, from 5 PM to 6 PM EST, the only operation open for

business is the Singapore exchange, which accounts for less than 10% of annual forex trading volume. But there an be exceptions. Political or military crises that develop during this hour, could potentially spike volatility and trading volume, making this window a favorable time to trade.

Three major trading periods define the daily FX market, namely the Tokyo Trading Session, the London Trading Session, and the New York Trading Session.

Generally, the FX market is most active when sessions overlap with a US/Europe overlap between 8 AM - 12 PM (New York Time) and a Europe/Asia overlap between 2 AM - 5 AM (New York Time).

Tokyo Trading Session: 7:00 PM - 4:00 AM (New York Time)

Tokyo is the first market to open and many large participants use the trade momentum there to develop their strategies and as a gauge for future market dynamics. Approximately 6% of the world's FX transactions are enacted in the Tokyo Trading Session.

London Trading Session: 3:00 AM - 12:00 PM (New York Time)

London is the largest and most important trading center in the world, with about a 34% market share of the daily FX volume. Most of the world's largest banks keep their dealing desks in London because of that market share. The large number of participants in the London FX market and the high value of the transactions makes the London session more volatile than the other two sessions.

New York Trading Session: 8:00 am - 5:00 pm (New York Time)

The second largest trading market, New York handles approximately 16% of the world's FX transactions. The majority of the transactions in New York occurs during the US/Europe overlap; with transactions slowing as liquidity dries up and European traders exit the market.

Since California has never really served as a bridge between the US and Asia, there is a 50% drop in activity by mid-day. As a result, market developments in the afternoon during the New York session do not garner as much attention.

Daylight Savings Times Impact Forex Markets

When it comes to trading, there are two key elements to take into consideration: price and time. Although in Forex trading, time is slightly less important as the market runs 24 hours a day from the Asian open on Sunday evening to the New York close on Friday. This is in contrast to equity and commodity markets which have live session hours each

day. However, time is still incredibly important when it comes to analyzing the market and making trading decisions.

The majority of trades are using candlestick charts which display price movement over a given time frame such as 5 minutes, 1 hour, 4 hours, one day, one week and so on. While the time frame of these candles will always be the same, changes in daylight savings time around the world can affect the times that these candles begin and end measuring a specific time frame.

- **Local Time Changes**

For example, the 4-hour candle which opens at 6 am UK time on UK MT4 platforms over the summer will change to 5 am in the winter when the clocks go back meaning instead of closing at 10 am it will close at 9 am. This is important when it comes to analyzing the charts and making trading decisions. If a trader is used to checking the charts at specific times each day and trading at the open or close of certain candles, they will have to make sure they adjust these times to still gain an effective view of the market and place their trades at the correct times.

- **Global Time Changes**

However, given the global nature of Forex trading, it isn't just local time changes which can impact the charts. The difference in daylight savings time around the world can also affect. For example, a broker based in Cyprus runs on GMT time. So, when the clocks move back at the end of October, the time at which the candles on its MT4 platform begin and end measuring each session will also move back by one hour.

To give a practical example of this. If you are in New York, looking at the MT4 platform of a European broker, the times will be seven hours ahead of you meaning that the 8 am candle on the platform open will be at 1 am local time. However, once the clocks go back in Cyprus, on October 28th, the time difference will be one hour less meaning that the open will now be 2 am in New York. However, on November 4th, the clocks go back in New York, the open of the four-hour candle will go back to being 1 am.

- **Key Dates**

The next key dates to keep an eye on around the world for daylight savings changes are:

- **UK 28th October 2018**
- **EU 28th October 2018**
- **US 4th November 2018**
- **Australia 7th April 2019**

Remember always to check the time-zone that your MT4 broker is using as this will not still be the same as your local time-zone and make sure to set reminders for when the clocks change.

REVEWING CURRENCY PAIR

Forex markets refer to trading currencies by pairs, with names that combine the two different currencies being traded against each other, or exchanged for one another. Additionally, forex markets have given most currency pairs nicknames or abbreviations, which reference the pair and not necessarily the individual currencies involved.

The bulk of spot currency trading, about 75 percent by volume, takes place in the so-called major currencies. Trading in the major currencies is largely free from government regulation and takes place outside the authority of any national or international body.

Trading in the currencies of smaller, less-developed economies, such as Thailand or Chile, is often referred to as emerging-market or exotic currency trading, and may involve currencies with local restrictions on convertibility or limited liquidity, both of which limit access and inhibit the development of an active market.

MAJOR CURRENCY PAIRS

The major currency pairs all involve the U.S. dollar on one side of the deal. The designations of the major currencies are expressed using International Standardization Organization (ISO) codes for each currency.

The following table lists the most frequently traded currency pairs, what they're called in conventional terms, and what nicknames the market has given them.

The Major U.S. Dollar Currency Pairs

ISO Currency Pair	*Countries*	*Long Name*	*Nickname*
EUR/USD	Eurozone*/United States	Euro-dollar	N/A
USD/JPY	United States/Japan	Dollar-yen	N/A
GBP/USD	United Kingdom/United States	Sterling-dollar	Sterling or Cable
USD/CHF	United States/Switzerland	Dollar-Swiss	Swissy

USD/CAD	United States/Canada	Dollar-Canada	Loonie
AUD/USD	Australia/United States	Australian-dollar	Aussie or Oz
NZD/USD	New Zealand/United States	New Zealand-dollar	Kiwi

* The Eurozone is made up of all the countries in the European Union that have adopted the euro as their currency. Presently, the Eurozone countries are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Slovenia, and Spain.

- If a bank or a brokerage is putting out research suggesting that the Swiss franc will weaken in the future, the comment refers to the individual currency, in this case CHF, suggesting that USD/CHF will move higher (USD stronger/CHF weaker).
- If the comment suggests that Swissy is likely to weaken going forward, it's referring to the currency pair and amounts to a forecast that USD/CHF will move lower (USD weaker/CHF stronger).

CROSS-CURRENCY PAIRS MAJOR

A cross-currency pair (cross or crosses for short) is any currency pair that does not include the U.S. dollar. Cross rates are derived from the respective USD pairs but are quoted independently and usually with a narrower spread than you could get by trading in the dollar pairs directly. (The spread refers to the difference between the bid and offer, or the price at which you can sell and buy. Spreads are applied in most financial markets.)

The most actively traded crosses focus on the three major non-USD currencies (EUR, JPY, and GBP) and are referred to as euro crosses, yen crosses, and sterling crosses. The remaining currencies (CHF, AUD, CAD, and NZD) are also traded in cross pairs.

I) FOREX QUOTE

A forex quote always consists of two currencies, a currency pair consisting of a base currency and a quote currency (sometimes called the "counter currency." The base currencies most often used are EUR (Euros), GBP (British pounds) AUD (Australian Dollars) and USD (US Dollars) The quote currency may be any currency, including another of the common base currencies, as in this example:

EUR/USD 1.3600

Here, EUR is the base currency and USD is the quote currency. The meaning of the quote is that one Euro is worth 1.36 US Dollars.

No matter which currency is the base currency -- whether USD, EUR or any base currency -- the base currency always equals 1. The quoted amount, 1.3600 is the amount of the quote currency, USD, it takes to equal 1 unit of the base currency, EUR.

The forex convention is that when these two currencies are compared, EUR is always the base. If instead, USD were the base currency, the quote would look like this

USD/EUR .7352

The meaning of this hypothetical quote is that 1 USD equals .7352 EUR. If you divide 1 by .7352 the result is 1.36 -- the two results look different, but the relationship between the two currencies remains the same.

II) Bid and Ask

The term bid and asks refers to the best potential price that buyers and sellers in the marketplace are willing to transact at. In other words, bid and ask refers to the best price at which a security can be sold and/or bought at the current time.

A) The Bid Price

The bid price is the price that an investor is willing to pay for the security.

For example, if an investor wanted to sell a stock, he or she would need to determine how much someone is willing to pay for it. It can be done by looking at the bid price – the highest that someone is willing to pay for the stock.

B) The Ask Price

The ask price is the price that an investor is willing to sell the security for.

For example, if an investor wanted to buy a stock, he or she would need to determine how much someone is willing to sell it for. It can be done by looking at the ask price – the highest that someone is willing to sell the stock for.

- **Understanding Bid and Ask**

Bid and ask is a very important concept that many retail investors overlook when transacting. It is important to note that the current stock price is the price of the last trade – a historical price. On the other hand, the bid and ask are the prices that buyers and sellers are willing to trade securities at. In essence, bid represents the demand while spread represents the supply of the security.

For example, if the current stock quotation includes a bid of $13 and an ask of $13.20, an investor looking to purchase the stock would pay $13.20 while an investor looking to sell the stock would sell it at $13.

- **Example of Bid and Ask**

John is a retail investor looking to purchase stocks of Security A. He notices the current stock price of Security A is at $173 and decides to log onto his brokerage account and purchase 10 shares (total cost = $1,730). To his confusion, when he executed the buy order, he noticed that the total cost came out to $1,731.

John assumed that it must've been an error, as the stock price of Security A is $173. He later realizes that the current stock price of $173 is the price of the last traded stock of

Security A and that he would’ve to pay the asking price of $173.10 per stock of Security A.

III) Bid-Ask Spread

The difference between the bid and ask prices is referred to as the bid-ask spread. The bid-ask spread benefits the market maker and represents the market-maker’s profit. It is an important factor to take into consideration when trading securities, as it is essentially a hidden cost that is incurred during trading.

For example, if a security received a bid of $10 and an ask of $11, an investor would expect to lose $1 or 9% of their investment if they bought at the asking price of $11 and then immediately changed their mind and sold at the bid price of $10.

When the security is highly traded (liquid), the spread will be low. On the other hand, when the security is seldom traded (illiquid), they spread will be larger. For example, the bid-ask spread of Facebook Inc., a highly traded stock with a 50-day average daily volume of 25 million, is one (1) cent.

FOREX MARKET SENIMENT INDICATORS

The Forex market has millions of traders, and they will all have their own personal strategies and thought processes. Market sentiment is the dominating emotional condition of market participants towards market directions. Forex market sentiment is frequently used as a way of measuring crowd behaviour. The human instinct to follow the crowd causes traders to develop collective ideas and goals. For instance, when the crowd is buying the majority will also buy and the same if the crowd is selling. What the crowd anticipates is actually an unsurpassed example of Forex market sentiment indicators. The question is, what indicator represents this? This is either a graphical or numerical identifier which is developed to present the overall feelings of FX market participants about the Forex market. Those who utilise sentiment FX indicators aim to work out how future behaviour is influenced by diverse aspects i.e macroeconomic conditions, inflation, politics and unemployment. Hence, those Forex sentiment indicators help to define whether traders are bullish or bearish to the current conditions of the FX market.

Sentiment Indicators

Every price movement of any security has a reference to market sentiment. In case there is little or even no news about a security, Forex market sentiment may be the greatest and decisive short term factor in all price movements. Even when we observe the publication of significant news about a security or company, the ultimate price movements are frequently amplified or reduced. This is all down to the question of whether the FX market is bearish or bullish at that time.

There are a lot of efforts to gauge market sentiment with great accuracy, so there are a lot of various types of sentiment indicators. Some sentiment indicators, like volume ones, can be utilised for personal securities. The majority of sentiment FX indicators are based on using broad market data. There are a certain number of market indicators which are based on the principle, whether right or not, that uninformed Forex traders sometimes make the wrong decision, purchasing at market tops and accordingly selling at market bottoms. For instance, one of the old Forex market sentiment indicators is formed on odd-lot trading statistics that gauges a number of stock shares being purchased or sold in odd lots, which are in fact less than the 100 shares constituting a round lot. Being based on the odd-lot theory, most of those buyers are assumed to have a small amount of money to trade and thus are expected to be the least advanced players on the FX market. For this reason, it's expected that they purchase during the period of optimism peak and sell during the pessimism period, and when the market bottomed out. If we take a look at informed traders, they see odd-lot purchasing as a sell signal and conversely odd-lot selling as a purchase sign. Eventually, they do precisely the opposite of the uninformed Forex traders' actions. Most of these Forex sentiment indicators are additionally known as contrarian indicators. The odd-lot isn't the strongest indicator, perhaps due to the fact that the vast majority of odd-lot buyers aren't actually traders. They are purchasing for the long term and exclusively when they possess a certain amount of money, which suggests that they are not good sentiment FX indicators. What can be more reliable, if we consider that short sellers are Forex traders, is the odd-lot short sale ratio. That is the number of odd-lot short sales divided by the number odd-lot sales. It works on the idea that a higher odd-lot short sale ratio identifies a Forex market bottom.

Another representative of sentiment indicators which is considered even more reliable than the previous one is the put/call volume ratio. This is the ratio of the entire number of pits to the whole number of calls traded in one day. A put is an option that increases in value when the underlying security diminishes in value. This implies that you would purchase a put if you anticipated that the price of the underlying security was going to dwindle in the near future. A call is a concrete option that increases in value as the underlying security increases in value. This means, that you would purchase a call when you anticipate the price of the underlying to go up soon. The put /call volume ratio is one of the most contrarian market sentiment indicators, because it is mainly at a

maximum at Forex market bottoms. For this reason it would seem that uninformed traders purchase puts when the the market has already declined.

Market volatility is another common measure of market sentiment. To clarify this term, it is the total amount that the price of a concrete index or security at a certain time diverges from the mean price as gauged over a particular period of time. Higher levels of volatility means more uncertainty for Forex traders. Traders are likely to feel more anxious at times when the Forex market is declining or at the bottom. Low rates of volatility suggests that uninformed FX traders feel comfortable and thus is a sell signal. High rates of volatility are more regular at FX market bottoms when uninformed traders are the most pessimistic about the market.

It is important to exemplify the most popular volatility market sentiment indicators:

- CBOE Volatility Index (VIX)
- NASDAQ Composite Index (VXN)
- S&P 100 Index (VXO)

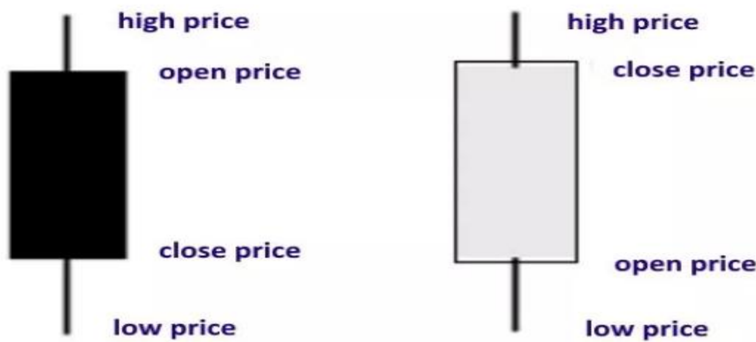
CANDLESTICK CHART

Candlestick charts originated in Japan over 100 years before the West developed the bar and point-and-figure charts. In the 1700s, a Japanese man named Homma discovered that, while there was a link between price and the supply and demand of rice, the markets were strongly influenced by the emotions of traders. Candlesticks show that emotion by visually representing the size of price moves with different colors. Traders use the candlesticks to make trading decisions based on regularly occurring patterns that help forecast the short-term direction of the price.

Here are the basics of candlesticks, along with some patterns to look for.

Candlestick Components

Just like a bar chart, a daily candlestick shows the market's open, high, low and close price for the day. The candlestick has a wide part, which is called the "real body." This real body represents the price range between the open and close of that day's trading. When the real body is filled in or black, it means the close was lower than the open. If the real body is empty, it means the close was higher than the open



Traders can alter these colors in their trading platform. For example, a down candle is often shaded red instead of black, and up candles are often shaded green instead of white.

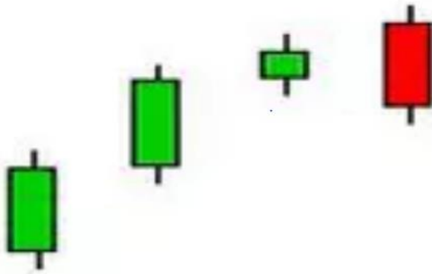
Basic Candlestick Patterns

Candlesticks are created by up and down movements in the price. While these price movements sometimes appear random, at other times they form patterns that traders use for analysis or trading purposes. There are many candlestick patterns. Here a sampling to get you started.

Patterns are separated into bullish and bearish. Bullish patterns indicate that the price is likely to rise, while bearish patterns indicate that the price is likely to fall. No pattern works all the time, as candlestick patterns represent tendencies in price movement, not guarantees.

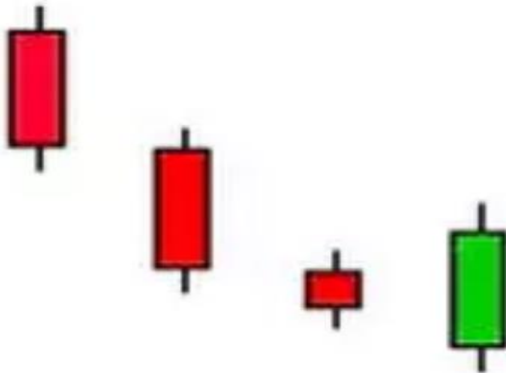
Bearish Engulfing Pattern

A bearish engulfing pattern develops in an uptrend when sellers out number buyers. This action is reflected by a long red real body engulfing a small green real body. The pattern indicates that sellers are back in control and that the price could continue to decline.



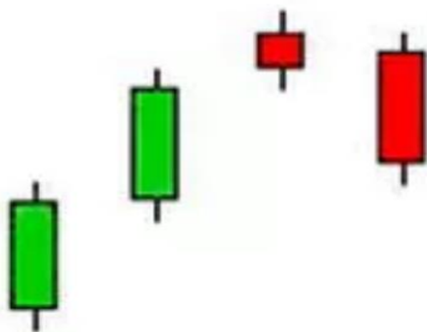
Bullish Engulfing Pattern

An engulfing pattern on the bullish side of the market takes place when buyers outpace sellers. This is reflected in the chart by a long green real body engulfing a small red real body. With bulls having established some control, the price could head higher.



Bearish Evening Star

An evening star is a topping pattern. It is identified by the last candle in the pattern opening below the previous day's small real body. The small real body can be either red or green. The last candle closes deep into the real body of the candle two days prior. The pattern shows a stalling of the buyers and then the sellers taking control. More selling could develop.

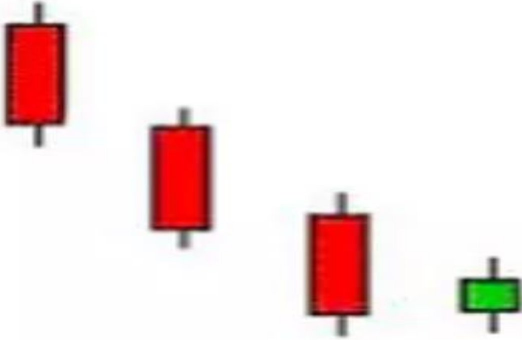


Bearish Harami

A bearish harami is a small real body (red) completely inside the previous day's real body. This is not so much a pattern to act on, but it could be one to watch. The pattern shows indecision on the part of the buyers. If the price continues higher afterward, all may still be well with the uptrend, but a down candle following this pattern indicates a further slide.

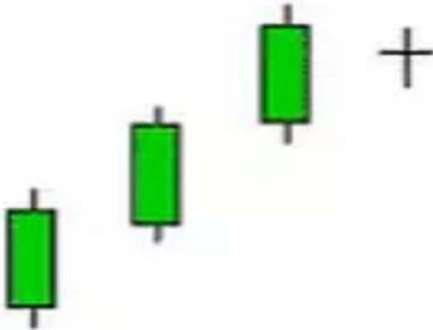
Bullish Harami

The bullish harami is an upside down bearish harami. A downtrend is in play, and a small real body (green) occurs inside the large real body (red) of the previous day. This tells the technician that the trend is pausing. If it is followed by another up day, more upside could be forthcoming.



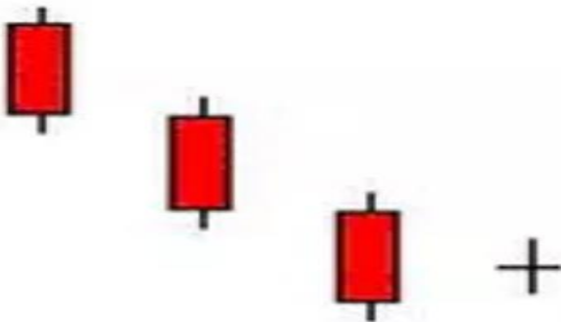
Bearish Harami Cross

A bearish harami cross occurs in an uptrend, where an up candle is followed by a doji.The doji is within the real body of the prior session. The implications are the same as the bearish harami.



Bullish Harami Cross

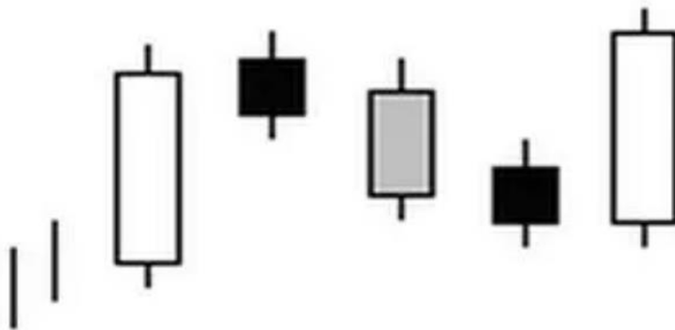
A bullish harami cross occurs in a downtrend, where a down candle is followed by a doji.The doji is within the real body of the prior session. The implications are the same as the bullish harami.



Let's look at a few more patterns in black and white, which are also common colors for candlestick charts

Bullish Rising Three

This pattern starts out with what is called a "long white day." Then, on the second, third and fourth trading sessions, small real bodies move the price lower, but they still stay within the price range of the long white day (day one in the pattern). The fifth and last day of the pattern is another long white day.

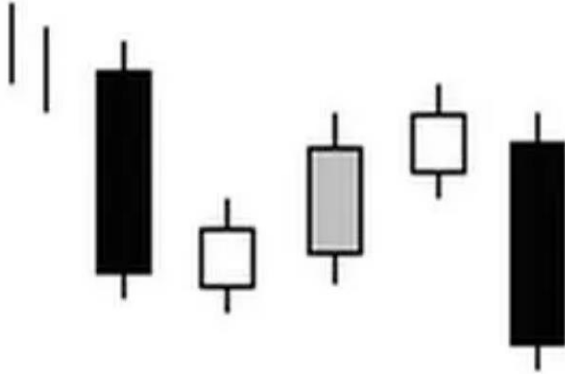


Even though the pattern shows us that the price is falling for three straight days, a new low is not seen, and the bulls prepare for the next move up.

A slight variation of this pattern is when the second day gaps up slightly following the first long up day. Everything else about the pattern is the same; it just looks a little different. When that variation occurs, it's called a "bullish mat hold."

Bearish Falling Three

The patterns start out with a strong down day. This is followed by three three small real bodies that make upward progress but stay within the range of the first big down day. The pattern completes when the fifth day makes another large downward move. It shows that sellers are back in control and that the price could head lower.



THREE MOVING AVERAGE

Moving averages are one of the most popular tools used by active traders to measure momentum. The primary difference between a simple moving average, weighted moving average and exponential moving average is the formula used to create them.

Simple Moving Average

The simple moving average (SMA) was prevalent before the rise of computers due to the ease in calculating. The increase in processing power has made other types of moving averages and technical indicators easier to use. A moving average is calculated from the average of the closing prices for the time period being examined. A moving average most often uses daily closing prices, but it can also be calculated for other timeframes. Other price data such as the opening price or the median price may also be used. At the end of the new price period, that data is added to the calculation, while the oldest price data in the series is eliminated.
For a simple moving average, the formula is the sum of the data points over a given period divided by the number of periods. For example, the closing prices of Apple Inc (AAPL) from June 20-26, 2014 were as follows:

Date	Closing Price of AAPL
26-Jun	$90.90
25-Jun	$90.36
24-Jun	$90.28
23-Jun	$90.83

20-Jun	$90.91

A five-period moving average, based on the prices above, would be calculated using the following formula:

(P1+P2+P3+P4+P5)/5

P = Period

($90.90+$90.36+$90.28+$90.83+$90.91)/5 = $90.656

Based on the equation above, the average price over the period listed above was $90.66. Using moving averages is an effective method for eliminating strong price fluctuations. The key limitation is that data points from older data are not weighted any differently than data points near the beginning of the data set. This is where weighted moving averages come into play.

Weighted Moving Average

Weighted moving averages assign a heavier weighting to more current data points since they are more relevant than data points in the distant past. The sum of the weighting should add up to 1 (or 100%). In the case of the simple moving average, the weightings are equally distributed, which is why they are not shown in the table above.

For example:

Date	Closing Price of AAPL	Weighting
26-Jun	$90.90	15-May
25-Jun	$90.36	15-Apr
24-Jun	$90.28	15-Mar
23-Jun	$90.83	15-Feb
20-Jun	$90.91	15-Jan

The weighted average is calculated by multiplying the given price by its associated weighting and totaling the values. The denominator of the WMA is the sum of the number of price periods as a triangular number. In the example above, the weighted 5-day moving average would be $90.62.

((90.9*(5/15))+(90.36*(4/15))+(90.28*(3/15))+(90.83*(2/15))+(90.91*(1/15)))

In this example, the recent data point was given the highest weighting out of an arbitrary 15 points. You can weigh the values out of any value you see fit. The lower value from the weighted average above relative to the simple average suggests the recent selling pressure could be more significant than some traders anticipate. For most traders, the most popular choice when using weighted moving averages is to use a higher weighting for recent values.

Exponential Moving Averages

Exponential moving averages (EMAs), are also weighted toward the most recent prices, but the rate of decrease between the one price and its preceding price is not consistent. The difference in decrease is exponential. Rather than every preceding weight being 1.0 smaller than the weight in front of it, you might have a difference between the first two period weights of 1.0, a difference of 1.2 for the two periods after those, and so on.

Calculating an EMA involves a couple of steps. The first step is to determine the SMA for the time period, which is the first data point in the EMA formula. Then, a multiplier is calculated by taking 2 divided by the number of time periods plus 1. The final step is to take the closing price minus the prior day EMA, times the multiplier plus the prior day EMA.

RISK MANAGEMENT

Despite the fact, that FOREX is not risk-free, there are tools that can minimize a traders risk, and with caution, the FOREX trader can learn how to trade profitably while minimizing losses.

STOP LOSS

One of the trickiest concepts in forex trading is the management of stop-loss orders, which effectively close out your trading positions when losses hit predetermined levels. Stop losses are most effective at halting trades when severe markets dips make returns to profitability unlikely. And although some investors may find it psychologically difficult to acknowledge wrong decisions, swallowing your pride can go a long way towards stemming losses.

While there aren't any rigid rules when it comes to placing stop orders, there are some generally-accepted guidelines. For example, forex day traders might set up stops just

outside the daily price range of the currency pairs traded. This way, if the market direction that initially prompted the trade suddenly reverses, the stop loss protects the position. In another example, those who favor a swing trading style, might set stop losses further into loss territory--perhaps two to three times greater than the average daily trading range.

More Stop Loss Strategies

Harvesting Stops and Multiple Stops

Among some forex traders, there is a false belief that if you set a stop-loss, market-makers will manipulate the market in order to "harvest" your stop and claim profits from it. To protect against this, some traders put in multiple stops—some closer to the current trade price than others, so there's no single currency value that will harvest your entire trade. But realistically, few traderks make large enough trades to justify this practice. But there are other reasons to set up multiple stops. Namely: if a sudden move away from your trade position takes out your first stop--or even your second, if the market then reverses, at least some portion of your trade will still remain in play.

Stop and Reverse

The stop and reverse stop loss strategy includes a stop at a certain loss point, but simultaneously enters a new trade--with a stop in the opposite direction. This strategy requires more market expertise than most beginning traders possess. Also, not all brokers accept this particular trade structure as a single order. In those cases, once the first stop is executed, you'll need to execute a new order that reverses the original order, by entering the new stop in this new direction.

Trailing Stops

This old trading adage: "Let your profits run; cut your losses short" is achievable with the "trailing stop". As the name suggests, these trades trail behind market prices by fixed amounts. If your trade is tilting towards profit, the trailing stop moves upward with the rising market price. This way, the percentage of loss you're willing to tolerate remains the same, as markets swing in your favor. If the market eventually moves against you, the trailing stop--having risen as you profit, protects the obliteration of those recent gains.

RISK REWARD RATIO

Risk is a part of trading. Every trade carries a certain level of risk. Every trader must know the amount of risk that is being assumed on each trade. Knowing the amount of risk on each trade is one way to limit it and to protect your trading account. The best

way to know your risk is to determine the risk-reward ratio. It is one of the most effective risk management tools used in trading.

Risk:Reward is the ratio between how much you risk and how much you gain in any trade. It is calculated by dividing the take profit size in the stop loss size. We will require that in each trade we gain at least twice the amount we risk, so the Risk:Reward ratio should be at least 2. The higher the ratio, the better the trade is and the higher your trading performance will be.

The risk-reward ratio is a parameter that helps a trader to determine the level of risk in a trade. It shows how much a trader is risking versus the potential reward (or profit) on a trade. While this may seem simplistic, many traders neglect taking this step and often find that their losses are very large.

Risk:Reward is the best way to ensure your survival in FOREX trading, so we advise you to demand a Risk:Reward of at least 1.5-2 in all your trading strategies and robots. Note that most robots are immediately filtered as losing, once you employ this filter on them.

TRADING TERMS

For a better understanding of the Forex market a brief explanation on the most commonly used terms in this market will be given.

Base/Quote Currency This is the first currency written in a pair. For example, if the currency pair is EUR/USD, the Euro would be the base currency and the US dollar would be the quote currency.

Pip A pip or basis point is the smallest measure of change in a currency. For example, in the US based pairs it represents one hundredth (1/100) of a cent.

Spread The spread is the difference between the bid and ask. When you bid, you are buying and when you ask you are selling. The bid price is always greater than the ask price.

Hedging Ability to hold both long and short positions at the same time

Lot Standard unit of a transaction. Usually, this is equal to 100,000 units of the base currency. There is also a mini-lot = 10,000 units and a micro-lot = 1,000 units.

Rollover/Swap If you keep a position open for more than one trading day, you would have to pay/receive interest, depending on the currency pair you are trading. The rollover price represents the interest rate difference for the two currencies involved.

Leverage The used of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.

Long The buying of a security such as stock, commodity or currency, with the expectation that the asset will rise in value.

Short The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value.

Margin Call A broker's demand on an investor using margin to deposit additional money or securities so that the margin account is brought up to the minimum maintenance margin. Margin calls occur when your account value depresses to a value calculated by the broker's particular formula. It is sometimes called "fed call" or "maintenance call."

Support & Resistance

This is basically a horizontal line showing support and resistance lines for a time frame.

Support line shows the bottom line which the trade is unable to break in a particular time frame.
Eg: If the trade reaches the support line trader can go for long

Resistance line shows the top line which the trade is unable to cross.
Eg: If the trade reaches the resistance line trader can go for short.

Fundamental analysis and Gap Trading

Fundamental analysis is completely independent of charts and relates how external factors will affect the price. Fundamental analysis is a way of looking at the forex market by analyzing economic, social, and political forces that may affect the supply and demand of an asset.

Equity traders examine data through below:

- Balance sheet
- Price to Earnings ratio
- Share price vs Net Assets
- Debt to Equity Ratio
- Free Cash Flow

However, for Forex this data is available in different forms. The central bank of each country generate this data to balance inflation, interest rate, exchange rate etc

Gap trading is like something dramatic has happen over a weekend like opinion polls, central bank changing policies, Geo-political event. This will result in gap trading depending upon the news.