Trade Forex

Your guide to winning at online foreign exchange trading and networking for success

Introduction

Welcome to a world of constant opportunity. Welcome to currency trading.

This guide will help you to understand the essentials of online currency trading. You should then realise that currency trading is an opportunity you – and in fact almost anyone – can easily take advantage of, if you have the right tools.

We have kept the technical jargon to an absolute minimum, to show how truly simple currency trading can be. And we believe that once you have read this guide, you will recognise the opportunities for gain in trading currencies online.

When you trade foreign exchange with My Private Trade, you are in fact trading using software developed by Simray ASA ('Simray'). Of course we hope you'll want to try the revolutionary foreign exchange trading system, developed by Simray and brought to you by My Private Trade, using either a demo account or a live account.

We look forward to telling you all about currency trading, and to welcoming you to the excitement and potential of trading currencies online.

Enjoy your reading.

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What is foreign exchange trading?

The foreign exchange market is where foreign currencies, such as the Euro and the US Dollar, are bought and sold by individuals, companies, financial institutions and international banks - everyone in fact, who is looking to benefit from the huge potential for profit to be gained from speculation.

Foreign exchange trading has many names; some of the most popular are forex, fx and currency trading. When you buy and sell foreign currencies, you are buying one currency against another. This means that when you see EUR/USD on a trading platform, you can either buy or sell this pair.

If you choose to buy, you will be buying Euros with US Dollars. If, on the other hand, you decide to sell, you will be selling Euros with US Dollars.

The currencies explained:

EUR = Euro
USD = United States Dollar
GBP = British Pound
JPY = Japanese Yen

Why is forex the most attractive market to trade?

There is a lot of information about the foreign currency markets available on the internet today. Much of it is useful, but of little practical value to someone who just wants enough to get started.

Size is important

You will often read or hear that foreign exchange is the largest market in the world, with daily trading volumes of close to EUR 3 trillion. But what does that mean to you, the trader?

The fact that so much money is traded every day is important for one simple reason: It means that you will always find a buyer when you want to sell, and you will always find a seller when you want to buy. You never have to wait to buy or sell currencies online.

Trade with the world

The currency market is an over-the-counter (OTC) market which means that there is not one specific location where buyers and sellers can actually meet to exchange currencies. Instead, transactions are conducted online or less often nowadays, by phone.

This is important as you can trade 24 hours a day from the opening times of the Far East markets (21:00 GMT) on Sunday evening, until closing time of the New York markets (21:00 GMT) on Friday evening – no other market offers you this many hours of opportunity to trade with other investors around the world.

Volatility creates opportunity

One of the other most common statements made about the forex market is that it is highly volatile. But what does this mean? The high levels of volatility mean that the buy and sell prices of each currency pair can go up and down very quickly, creating a constant stream of trading opportunities. The high volatility of the currency market offers traders the potential to earn 5 times more money from currency trading than from trading even the most liquid shares.

The power of leverage

There are not a lot of banks or people who would lend you money to trade shares with. And if there were, it would be very hard for you to convince them to invest in you and in your belief that a certain share is going to go up or down. Therefore, most of the time, if you have EUR 10,000 in your account, you can only really afford to buy EUR 10,000 worth of shares.

When you trade currencies however, you mostly trade on ‘borrowed money'. We have explained in detail how this works in the section entitled “How to trade forex?”

Profit from the market – whatever direction it moves in

When you buy shares, you can only profit when the price of your share goes up. When you suspect that it is about to go down or that it is just going to be moving sideways, then the only thing you can do is sell your shares and accept your losses. This is the chief reason why many people are leaving stock trading and moving to online forex trading.

In the currency market, you can buy or sell a currency pair regardless of how the market moves. If you think the price is going to go up, then you buy. If you think it is going to go down, you sell. It’s as simple as that. This simplicity is why many people refer to it as the eternal bull market – it’s always a good marketplace to trade in.

Almost free to trade Forex

Most of the time, currency trading is free from commission charges and fees. Always make sure that your broker doesn't charge you anything to trade, apart from the overnight fees which everyone in the market pays.

The overnight fees are the fees you pay whenever you keep a position overnight. That means that if you buy EUR/USD today and you don't sell it until tomorrow, you will be charged a small fee to keep the trade open overnight. With My Private Trade, that fee is equivalent to the price you set for each pip.

For a forex trader, the only other possible cost is what is referred to as 'slippage'. 'Slippage' occurs when the trading platform you are trading on delays your request to buy or sell a currency pair in order to gain from the delay.

With My Private Trade, there is never any slippage. The price you see is the price you pay. It's as simple as that.

What currency pairs can you trade?

The most commonly traded currency pairs you can trade are: EUR/USD, GBP/USD, USD/JPY and EUR/JPY. The reason why most traders trade these currency pairs, or crosses as they are also called, is that there is more liquidity in these pairs and therefore more buyers and sellers, which means that prices are more volatile, which in turn means that they offer more opportunities than the majority of other currency pairs.

With My Private Trade, you can trade all the major currency pairs listed above.

What is My Private Trade?

The easiest way to trade forex

My Private Trade breaks the mould on currency trading. Using Simray's trading technology; you can learn how to take advantage of the profit potential in the currency markets in 8 minutes.

We've opened up the traditionally closed world of forex trading to everyone looking to increase their earning prospects from online speculation.

Fast

Unlike every other trading platform on the market, if you have 8 minutes to spare, you can learn how to trade currencies with My Private Trade's trading platform. This means that you can take advantage of the potential for profit from the world's most dynamic market more quickly than ever before.

Easy

One of My Private Trade's most revolutionary aspects reveals itself in the way you trade with us. Traditionally, forex is traded on "margin". This means that you trade much larger sums than you actually have in your account, which often causes traders some confusion and uncertainty - and that's what we have eliminated.

With My Private Trade, you decide how much you want to pay for each movement in the markets – in real money. This means that if you decide to trade a pip value of 10, you are trading EUR 10 per pip movement.

A pip movement is the smallest figure change in any currency pair. In EURUSD, a movement from 1.3581 to 1.3582 is one pip, so a pip is .0001. In the example above, you decide to pay EUR 10 for each pip movement.

New

Simray wanted to create a trading system that was completely unique to the tired world of forex. This new approach is central to the success of Simray's technologies and is one of the key reasons why people who are serious about making money through trading are turning to My Private Trade and its trading platform instead of traditional forex and spread betting.

How to trade Forex

Simray's trading technology presents the simplest way to trade foreign exchange, as it provides you with unmatched transparency in all your trading activities. This means that you can clearly see how much you are up or down at any time on any and all currency pairs you are trading, in real money and in real time.

No other system offers this degree of simplicity and transparency for newcomers to the forex markets. Below is an example of how easy it is to buy and sell foreign currencies on My Private Trade's trading platform:

EURUSD	
1.5592	1.5597
92	97
SELL	BUY

EUR/USD looks like it will go up in value, so you decide to buy it at 1.5597 by clicking the Buy button.

Later, EUR/USD goes up to 1.5627, so you decide to take your profit and sell by clicking the Close button.

But how much have you paid for this trade?

Nothing, as long as you haven't kept the trade open overnight. If you have, you will be charged an overnight fee equivalent to your pip value.

Understanding the pip value

Unlike most online trading systems, Simray's platform makes trading simple. Here's another example of a trade, this time with precise explanations of the pip value:

EURUSD	
1.5592	1.5597
92	97
SELL	BUY

EUR/USD looks like it will go up in value, so you decide to buy it at 1.5597 by clicking the Buy button.

The Pip value you select for this trade fixes the amount you want to trade for every Pip movement. In this example, you choose a Pip value of EUR 100. Later, the sell price for EUR/USD goes up to 1.5627, so you decide to take your profit and sell by clicking the Close button.

Your profit: as your trade has gone up by 30 pips (1.5597 to 1.5627), you have made EUR 100 x 30 pips = EUR 3,000. Of course, if your trade had gone down by 30 pips, you would have lost EUR 3,000.

As you can see from this example, trading with Simray's trading platform gives you more transparency and therefore more control over your trading activities. It doesn't however mean that trading forex is risk free. It isn't, and you should only trade with the money you can afford to lose.

What are the benefits of trading with My Private Trade?

Simray put many years of work into analysing the online trading marketplace, and one thing was very clear: all other brokers have one thing in common - they make trading unnecessarily complicated.

What is unique about trading on My Private Trade's trading platform is its simplicity. Of course, it also has all the real-time prices and stability you would expect, but without the mass of complex tools which most platforms include and few traders even use. When you trade with My Private Trade, you can buy and sell, manage your risk, view your account, top up or remove your funds, monitor market charts and get help - all from one screen!

Here are the facts:

1. You can focus on making money instead of learning a complex system
2. You can learn all you need to trade in 8 minutes
3. You don't have to waste time on tools you don't need in order to make money
4. You can top up your account online in seconds
5. You can withdraw all or some of your funds whenever you like
6. You don't need to study multiple currency pairs – just become an expert in the few that matter.

If you've struggled to understand how other forex platforms work, you'll love the simplicity and originality of My Private Trade's system from Simray.

How much should you trade?

If you have traded forex before, you'll know that you trade on margin. If you haven't, you may not know what margin trading is. Margin trading can be complicated for newcomers to online trading. How, for example, can you calculate your real risk levels when you trade EUR 100,000 a time when you only have EUR 13,000 in your account?

When you trade with My Private Trade, you can easily see how much you are paying each time you trade by selecting your pip value for every trade. Have a look at the example below:

EURUSD	
1.5594	1.5599
94	99
SELL	BUY

EUR/USD looks like it will go down in value, so you decide to sell it at 1.5594. However, how much do you want to pay for each pip movement?

Just select the pip value. In this example, you choose a pip value of EUR 100 and click the Sell button to make the trade. Later, EUR/USD goes down to 1.5564, so you decide to take your profit and buy by clicking the Close button.

Your profit: as your trade has gone down by 30 pips (1.5594 to 1.5564), you have made EUR 100 x 30 pips = EUR 3,000. Of course, if your trade had gone up by 30 pips, you would have lost EUR 3,000.

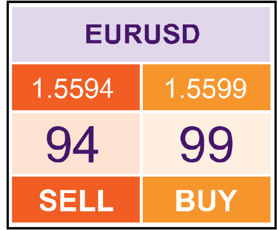
What are the risks involved?

Even though trading with My Private Trade is the simplest way to trade the global forex markets, before you start we want you to be aware of the minimum and maximum losses you can make.

How much can I lose?

You open your trading account and deposit EUR 5,000 to start trading.

Your first trade is on EUR/USD. You're confident that this currency pair is going to go up in value (i.e. the value of the Euro will increase compared to the US Dollar), but you want the minimum risk on this trade so you can just try trading with My Private Trade for the first time. You choose a pip value of just 1 and then click BUY.



PIP VALUE

€1

EUR/USD looks like it will go up in value, so you decide to buy it at 1.5599. Now you just have to select the pip value for this trade. You choose a pip value of EUR 1 and click the Buy button to make the trade.

Because the BUY price is 5 pips more than the SELL price, if you were to close this position immediately, you would lose 5 pips. At EUR 1 per pip, that would have you down 5 euros with an account balance of EUR 4,995.

You get cold feet, withdraw your funds and close your account. Your loss is EUR 5.

Can I lose more?

The first thing to remember is that you can only lose as much as you put in. We always close all your open positions before your account goes negative, so you're protected from losing more money than you have deposited in your account.

However, we want to make sure you understand all the risks involved in trading currencies. So, let's take the example above and see what happens to your trading funds if you set your pip value much higher than EUR 1.

EURUSD

1.5594 1.5599

94 99

SELL BUY

You buy EURUSD at 1.5599, but the market begins to go against you and the sell price drops to 1.5584.

Because the BUY price is 5 pips more than the SELL price, if you were to close this position immediately, you would lose 5 pips. At 100 euros per pip, that would have you down 500 euros with an account balance of EUR 4,500.

You decide to limit your losses and close the trade at 1.5584. This means that you have a loss of 15 pips and at EUR 100 per pip, your total losses amount to EUR 1,500 for this trade.

Take your profits

Once you have made a trade with My Private Trade, we have made it so easy for you to take your profits if the market moves in your direction.

In the example below, we have assumed that you have already bought EURUSD and want to place an order to automatically take your profit if the market rises to a level you specify. Now that you have traded on a pip value of EUR 10 and bought EURUSD at 1.5581, you want to make sure you sell EURUSD when the price goes up.

Open Trades | Closed Trades | History | Chart | Agent

Close	CCY	BS	Open	Current	Min Exit	Max Exit
Close	EURUSD	B	1.5581	1.5586		
Close	GBPUSD	S	1.9522	1.9512		

You decide to sell EURUSD at 1.5601. So, you click in the Max Exit field type in 1.5601 and press Enter. Over the next 30 minutes, the market goes down to 1.5601. Your trade order is activated at 1.5601 – you've made a 20-pip profit. At EUR 10 per pip, your cash profit is EUR 200!

However, knowing how to automatically take your profit with My Private Trade is not enough. On the next page we explain exactly how you can limit your losses if the market moves against you.

Max Exit

In the example above, Max Exit is the price you want to sell EURUSD to take your profit. If the EUR/USD price goes up as you expect, and you sell EURUSD with the order you placed at a Sell price of 1.5601, you will make 20 pips profit at EUR 10 per pip, that's EUR 200.

Min Exit

In the example above, Min Exit is the price that you want to sell your EURUSD to limit your risk. In this case you have put the price 10 pips below the price you paid to buy EURUSD. If the EURUSD sell price goes down to 1.5571, you will limit your losses on this trade to your pip value x 10 pips, which is just EUR 100.

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Limiting your losses

Once you have made a trade with My Private Trade, we have made it so easy for you to limit your potential losses if the market moves against you.

In the example below, we have assumed that you have already bought EURUSD and want to place an order to automatically limit your losses if the market drops to a level you specify.

Now that you have traded on a pip value of EUR 10 and bought EURUSD at 1.5581, you'll want to protect yourself against the EURUSD falling in price too much.

Open Trades | Closed Trades | History | Chart | Agent

Close	CCY	BS	Open	Current	Min Exit	Max Exit
Close	EURUSD	B	1.5581	1.5586		
Close	GBPUSD	S	1.9522	1.9512		

You decide to sell EURUSD at 1.5561 and limit your risk. So, you click in the Min Exit field and Enter 15561. Over the next few hours, the market buy price goes down to 15561. Your trade order is automatically closed and you have limited your loss to 20 pips. At EUR 10 per pip, your loss is limited to EUR 200.

Max Exit

In the example above, Max Exit is the price you want to sell EURUSD to take your profit. If the EUR/USD price goes up as you expect, and you sell EURUSD through the order you placed at a Sell price of 1.5601, you will make 20 pips profit. At EUR 10 per pip, that's EUR 200.

Min Exit

In the example above, Min Exit is the price you want to sell EURUSD to limit your risk. In this case you have put the price 20 pips below the price you paid to buy EURUSD. If the EURUSD falls to 1.5561, you will limit your losses on this trade to your pip value x 20 pips = EUR 200.

Trading Strategies

There are two major methods of analysing the forex market in order to decide when to trade and what to trade. These are technical analysis and fundamental analysis. Technical analysis and fundamental analysis are very different methods, but both have the same objective - to predict opportunities for gain in the market. Technical analysis studies the effects of price movements in the market whereas fundamental analysis studies the causes.

Technical Analysis

Technical analysis aims to predict price movements and market trends by studying historical market action. So, technical analysis is concerned with what actually took place in the market. Using technical analysis, traders consider the prices of the instruments being traded – currencies - and trading volume, and then they analyse charts using this data to predict movement.

Technical analysis is based on three assumptions:

1. Market fundamentals are depicted in the actual market data and the markets discount everything except information generated by actions taken by the market. This means that all you need is the data generated by market action in order to make a trading decision.

2. History repeats itself, which is why the markets move in fairly predictable, or at least quantifiable, patterns. These patterns which are generated by movements in the price of currency pairs are called signals. What technical analysis tries to do is to identify new signals by examining the characteristics of past market signals.

3. Prices move in trends. Traders who use technical analysis do not usually believe that price movements are arbitrary and unpredictable. Prices can only move up, down or sideways. Once a trend in any of these directions is recognised, it usually will continue for a period.

The basics of technical analysis

Technical analysis includes using price charts, volume charts, and other representations of market patterns and behaviour. However, rather than simply relying on price charts to forecast future market values, technicians also use a range of other tools before they enter a trade.

As in all other aspects of trading, it is advisable to be much disciplined in your use of technical analysis to determine your trading strategy. Traders can fail to sell or buy in a market even after it has reached a price identified as an entry or exit point by technical analysis. This is because it is hard to ignore the fundamental realities that led to price movements in the first place, such as increases in central banks' interest rates.

Now that we have introduced the main elements of technical analysis, it's time to look at the tools used to predict market movements and how to spot the opportunities for profit.

Major technical analysis tools include:

- **Trends**
- **Support and Resistance**
- **Moving Averages**
- **Exponential Moving Averages**
- **Fibonacci**

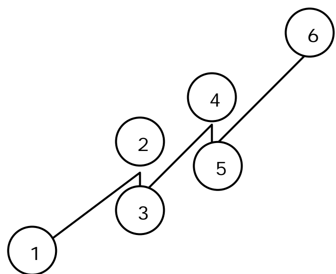
Trends

One of the most important components in technical analysis is that of the trend. What this means in trading currencies is pretty much the same as the term's usual definition – an identifiable pattern - a trend is really nothing more than the general direction in which a currency pair is headed. Take a look at the chart below:

It is fairly easy to see that the trend in the chart above is upwards. However, it's not always this easy to spot a trend in the market:

Defining Trends

In any chart, you will notice that prices do not often move in a straight line in any direction. Instead, they tend to move in a series of highs and lows. In technical analysis, it is this movement of the highs and lows that constitutes a trend. For example, an upwards trend is a series of higher highs and higher lows, while a downwards trend is one of lower lows and lower highs:



This diagram shows an upwards trend. Point 2 in the chart is the first high, which is established after the price falls from this point down to Point 3. Point 3 is the low that is determined as the price falls from the high of Point 2. For this to remain an upward trend, each successive low point must not fall below the previous lowest point, or the trend is considered a reversal.

Types of Trend

There are three types of trend:

- Upwards trends
- Downwards trends
- Sideways/Horizontal Trends.

When the trend reveals each successive peak and trough as higher than their preceding peaks and troughs, it's referred to as an upward trend. If the peaks and troughs get progressively lower, it's called a downward trend. When there is little movement up or down in the peaks and troughs, it's referred to as a sideways or horizontal trend.

If you want to get really technical, you could even claim that a sideways trend is actually not a trend on its own, but rather a lack of a well-defined trend in either direction. In any case, the market can only trend in these three ways: up, down or nowhere.

Trendlines

A trendline is a simple technique that adds a line to a chart to highlight the trend in a currency pair. These lines are used to clearly reveal the trend and to identify trend reversals.

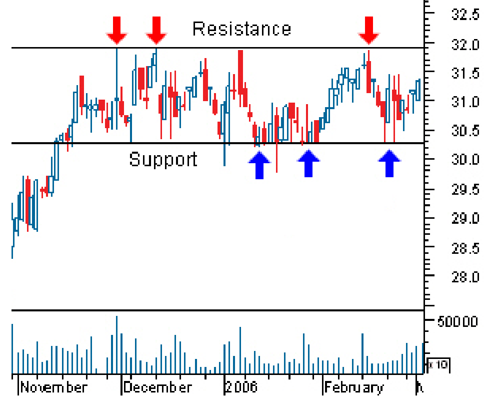
As you can see in the chart below, an upward trendline has been drawn at the low points of an upwards trend. This line shows the support the currency pair has every time it moves from a high to a low point. This trendline helps traders predict the point at which a currency pair's price will move upwards again. Likewise, a downward trendline is drawn at the highs of the downward trend. This line shows the resistance level that a pair faces every time the price moves from a low point to a high point.

The Importance of Trend

If you can understand and identify trends so that you can trade with them rather than against them, you will often see your trading improve. Two of the most important lessons in technical analysis are "the trend is your friend" and "don't buck the trend," each illustrating how important trend analysis is for technical traders.

Support and Resistance

Once you understand the basics of a trend, the next concept is that of support and resistance. Technical analysts often refer to the ongoing battle between the bulls and the bears, or the struggle between buyers (demand) and sellers (supply). This is most clearly demonstrated by the prices which a currency pair rarely moves above (resistance) or below (support).



As can be seen from this chart, support is the price level which a currency pair seldom falls below (the blue arrows). Resistance, on the contrary, is the price level that a currency pair rarely surpasses (the red arrows).

Why does it happen?

These support and resistance levels are important in terms of market psychology and supply and demand. Support and resistance levels reveal the levels at which traders are often willing to buy the currency pair (in the case of support) or sell it (resistance). When these trendlines are broken, supply and demand of the currency pair's movements is believed to have moved, in which case new levels of support and resistance will normally be established.

Round Numbers and Support and Resistance

Round numbers like 10, 20, 35, 50, 100 and 1,000 are important in support and resistance levels because they typically represent significant turning points at which many traders make their buy or sell decisions.

Role Reversal

Once a resistance or support level is broken, its character is reversed. If the price falls below a support level, that level will become the resistance level. If the price rises above a resistance level, it will often become the support level. As prices move past support or resistance levels, supply and demand shifts causing the level that was broken to reverse its role. For a true reversal however it is important that the price makes a strong move through either the support or resistance line.

The importance of Support and Resistance

Support and resistance analysis is an important part of trends work as it can be employed to assist in making trading decisions and identifying when a trend is reversing. For example, if traders discover a significant level of resistance which has been tested several times but never breached, they might decide to take profits as the currency pair moves toward this point because they believe it is unlikely that the pair will move past this level.

Support and resistance levels test and confirm trends and should be regularly monitored. As long as a currency pair's price remains between these levels of support and resistance, the trend will probably continue. However, when the price breaks a level of support or resistance, it does not always signify a reversal. For example, if a price moves above the resistance levels of an upwards trend, the trend is likely to be accelerating, not reversing. This means that the price appreciation is likely to be faster than it was previously.

You should avoid placing orders at these major points as the area around them is usually marked by a lot of volatility, and thus uncertainty. However, if you choose to make a trade near a support or resistance level, make sure that you follow this simple rule: don't place orders directly at the support or resistance level.

Moving Averages

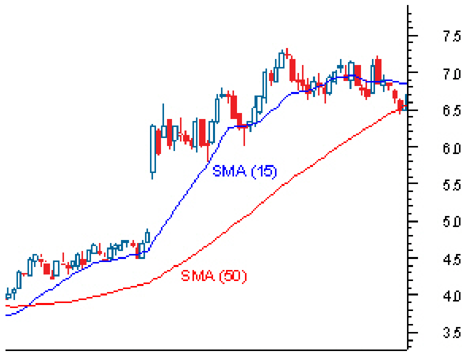
Many charts show a great deal of variation in price movements. This can cause traders difficulty in getting an idea of a currency pair's general trend. One way to combat this is through moving averages. A moving average is a currency pair's average price over a period of time. It is by plotting a pair's average price that the price movement can be smoothed out. Once these daily movements are removed, it is easier to identify the trend and increase the likelihood of making the trend work in your favour.

Types of Moving Averages

Moving averages are calculated in different ways depending on which one is being used, but they are all interpreted in the same way. The only difference in the calculations is in the weighting that is placed on the price data, moving from equal weighting of each price point to more weight being placed on more recent data. The three most common types of moving averages are simple, linear and exponential.

Simple Moving Average (SMA)

This is the most common method used to calculate the moving average of prices. The SMA takes the sum of all the past closing prices over the time period specified and divides the result by the number of prices. For example, in a 30-day moving average, the last 30 closing prices are added together and then divided by 30. As you can see below, you can make the average less responsive to changing prices by increasing the number of periods used in the calculation. Increasing the number of time periods in the calculation is one of the best ways to measure the strength of the long-term trend and the probability that it will reverse.



Traders differ as to the usefulness of this type of average because each point in the data series has the same impact on the final result regardless of where it occurs in the sequence. It can also be argued that the most recent data is more important and should therefore receive more weighting. This argument has played its role in the invention of other forms of moving averages.

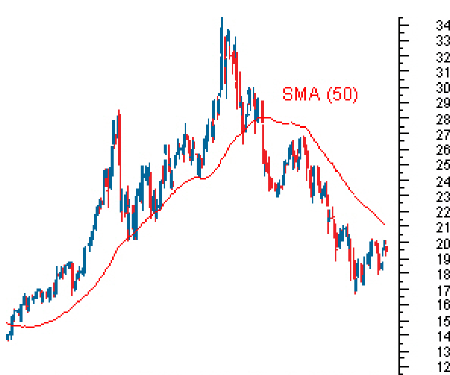
Linear Weighted Average

This moving average indicator is the least common and is used to address the problem of equal weighting. The linear weighted moving average is calculated by taking the sum of all the closing prices over a specified time period and multiplying them by the position of the data point and then dividing by the sum of the number of periods. For example, in a five-day linear weighted average, today's closing price is multiplied by five; yesterday's by four and so on until the first day in the period range is reached. These numbers are then added together and divided by the sum of the multipliers.

Using Moving Averages

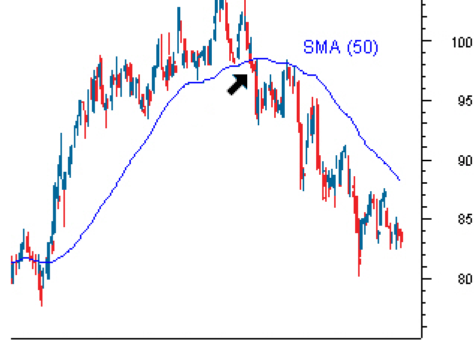
Moving averages are used to identify trends and trend reversals and to define support and resistance levels.

Moving averages can be used to identify whether a currency pair is moving in an uptrend or a downtrend which is established by the direction of the moving average. When a moving average is moving upwards and the price is above it, the pair is in an uptrend. Conversely, a downward moving average where the price is below can signal a downtrend.

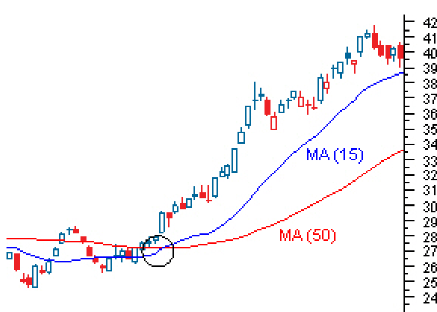


Another method of identifying trends is to look at the sequence of a pair of moving averages. When a short-term average lies above a longer-term average, the trend is upward. On the other hand, a long-term average above a shorter-term average signals a downward movement in the trend.

Moving average trend reversals occur in two main ways: when the price moves through a moving average and when it moves through moving average crossovers. The first common signal to look for is when a price moves through an important moving average. For example, when the price of a currency pair that was in an uptrend falls below a 50-period moving average, as shown below, it is a sign that the uptrend may be reversing.

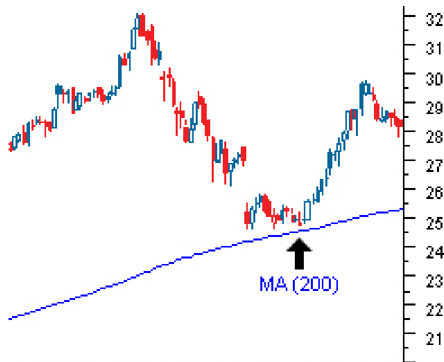


The other signal of a trend reversal is when one moving average crosses through another. For example, as you can see below, if the 15-day moving average crosses above the 50-day moving average, it is a positive sign that the price will start to increase.



If the periods you use in your calculations are quite short, for example 10 and 30, this could signal a short-term trend reversal. On the other hand, when two averages with relatively long time-frames cross over (60 and 120), a long-term shift in trend is likely.

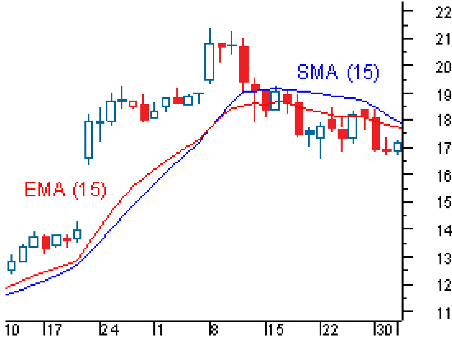
Moving averages are also used to determine support and resistance levels. You will often see a currency pair that has been falling stop its decline and reverse direction once it hits the support of a big moving average. A move through such a moving average is often a signal that the trend is reversing. If the price breaks through the 120-day moving average in a downward direction, it can be a signal that the uptrend is reversing.



Moving averages can be powerful tools to help you analyse the trend in a currency pair. These averages can provide useful support and resistance points and are very easy to use, even for beginners. The most typical time frames used to create moving averages are the 120-day, 60-day, 30-day and 10-day. Moving averages will help you to smooth out some of the noise that is found in day-to-day price movements, providing a clearer view of the price trend.

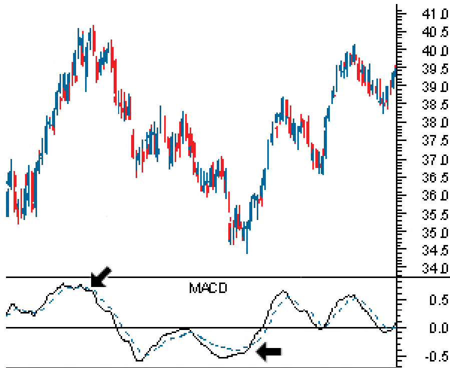
Exponential Moving Average (EMA)

The EMA calculation smoothes trendlines to place a higher weight on recent data points and is commonly considered much more efficient than the linear weighted average. It is not essential to have a firm understanding of the calculation because most charting packages will perform the calculations for you. The most important thing about the exponential moving average is that it is more responsive to new information than the simple moving average. This is one of the main reasons why the EMA is the moving average of choice for many technical traders. As you can see below, a 15-period EMA rises and falls faster than a 15-period SMA. This slight difference doesn't seem like much, but it is an important factor to be aware of since it can affect returns.



Moving Average Convergence Divergence - MACD

MACD is a trend-following momentum indicator that displays the relationship between two moving averages of currency prices. The MACD is calculated by subtracting the 26-day exponential moving average (EMA) from the 12-day EMA. A nine-day EMA of the MACD, called the "signal line", is then plotted on top of the MACD, functioning as a trigger for buy and sell signals.



There are three common methods used to interpret the MACD:

Crossovers

As you can see in the chart above, when the MACD falls below the signal line, it is a bearish signal (meaning that the price is likely to fall and therefore it may be time to sell). Conversely, when the MACD rises above the signal line, the indicator gives a bullish signal (meaning that the price is likely to rise and therefore it may be time to buy). Many traders wait for a confirmed cross above the signal line before entering into a position (buying or selling) to avoid getting "faked out" or entering into a position too early.

Divergence

When the currency pair's price diverges from the MACD, it often signals the end of the current trend.

Dramatic rise

When the MACD rises sharply – when the shorter moving average pulls away from the longer-term moving average - it is often a signal that the currency pair is overbought and will soon return to normal levels.

You should also watch for a move above or below the zero line because this can signal the position of the short-term average relative to the long-term average. When the MACD is above zero, the short-term average is above the long-term average, which signals an upward movement. The opposite is also true when the MACD is below zero.

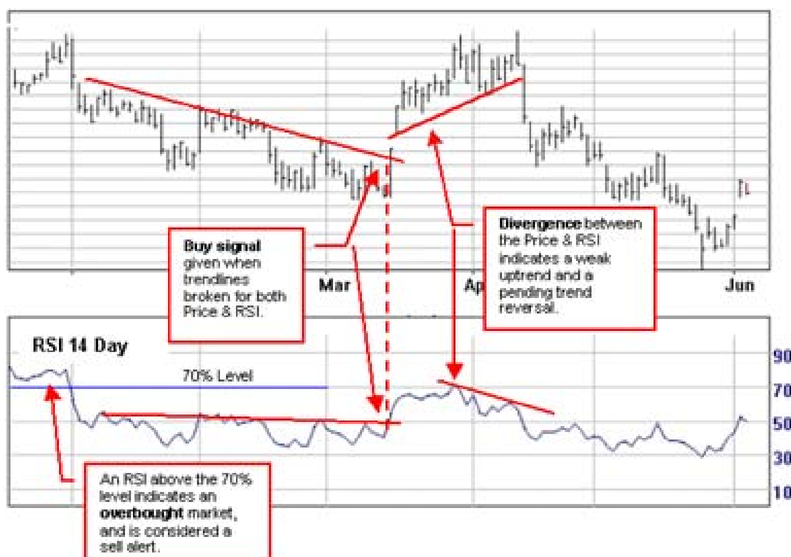
Relative Strength Index (RSI)

The Relative Strength Index is a momentum indicator which compares the upward price movement to downward price movement over a given timeframe, and displays the result as a momentum line oscillating between 0 and 100.

- **Description:** The RSI is the ratio of exponential moving averages of the upward (U) and downward (D) price movements, normalised into a value between 0 and 100.
- Calculation:
  RSI = 100 – 100 / 1 + RS
- RS = Average of X days' up closes / Average of X days' down closes

Using RSI

The Relative Strength Index is often used to determine an overbought level when it is above 70 and an oversold level when it is below 30. The RSI can also be used to indicate divergence, with entries based upon divergence between the RSI and the price bars.



Interpretation

The RSI is plotted on a vertical scale of 0 to 100, where the 70% and 30% levels are most often considered the key warning signals.

When using RSI, you should be aware that major rises and drops in the price of a currency pair will affect the RSI by creating false buy or sell signals. The RSI is best used as a valuable complement to other tools.

Fibonacci

The Fibonacci studies are popular trading tools, and understanding how they are used and how much you can trust them is important if you who want to benefit from the ancient mathematician's scientific legacy. Some traders unquestionably rely on Fibonacci tools to make major trading decisions, others view the Fibonacci studies as exotic scientific methodologies employed by so many traders that they can even influence the way market behaves. But, let's examine how the Fibonacci studies may influence the market by its appeal to forex traders.

Fibonacci Numbers

The Fibonacci sequence is as follows:
1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, …

This sequence moves toward a constant, irrational ratio. To put it another way, Fibonacci represents a number with an unending and unpredictable sequence of decimal numbers, which cannot be expressed with any great degree of precision. But to keep things simple, we will use the number 1.618. In algebra, it is commonly indicated by the Greek letter Phi (Phi = 1.618).

Fibonacci Trading Tools

There are five types of trading tools based on Fibonacci's finding: arcs, fans, retracements, extensions and time zones. The lines created by these Fibonacci studies are considered by traders to signal changes in trends as the prices draw closer to them.

How to use Fibonacci

Popular opinion has it that when correctly applied, Fibonacci can successfully predict market behaviour 70% of the time, especially when a specific price is predicted. However, other traders maintain that the calculations for multiple retracements are too time-intensive and difficult to use accurately. Perhaps the greatest disadvantage of the Fibonacci method is the complexity of the results. This means that new traders especially should not rely on the Fibonacci levels as compulsory support and resistance levels. The Fibonacci levels are a sort of a frame through which traders look at their charts. This frame doesn't predict or contribute anything, but it does influence a large number of traders' decisions.

The Fibonacci studies were created to dispel uncertainty with varying levels of success. Therefore, they shouldn't serve as the only basis for one's trading decisions. Fibonacci studies most often work when no real market-driving forces are present in the market. Obviously, the levels of psychological comfort and the frame which they create and through which the majority of traders look at their charts, are not the only determining factors in those situations, when other, more significant reasons for the increases or decreases in a currency's prices.

Identify Support and Resistance

A charting technique of three diagonal lines uses Fibonacci ratios to help identify key levels of support and resistance as shown below.

Fibonacci Retracement Levels
0.236, 0.382, 0.500, 0.618, 0.764

Many forex traders view the Fibonacci retracement levels as support and resistance levels. As there are so many traders who watch these levels and buy and sell on the basis of them, the support and resistance levels themselves become self-fulfilling.

Fibonacci Extension Levels
0, 0.382, 0.618, 1.000, 1.382, 1.618

Fibonacci extension levels on the other hand are used by traders as profit-taking levels. With so many traders watching these levels and placing buy and sell orders to take profits, this tool also usually becomes self-fulfilling.

Most charting software includes Fibonacci retracement levels and extension level tools. But in order to use these Fibonacci levels on your charts, you'll need to be able to identify Swing High and Swing Low points.

A Swing High is a candlestick with at least two lower highs on both the left and right of itself.

A Swing Low is a candlestick with at least two higher lows on both the left and right of itself.

The market is a complex system and realising that the Fibonacci studies are often a self-fulfilling prophecy will assist you in using the tools more efficiently by helping you avoid dangerous over-reliance on them.

Conclusion

The Fibonacci method should only be used in a combination with other methods, and the results you gain from these tools should be considered just another argument in favour of a trading decision as long as they coincide with the results produced by other methods you employ to understand the market and make profitable trading decisions.

Trading Tips

Hundreds of thousands online traders and investors trade the forex market every day, but how do they make money doing it?

We have compiled these trading tips which clearly and simply explain how you can avoid typical pitfalls and start making more money when you trade with us. Even though you can open a trading account with just EUR 150, we recommend larger deposits to enable you to ride adverse market movements. Also, if you're relatively new to forex, you should consider taking your time to learn how one currency cross behaves. Focus on that, and then try the other crosses when you feel comfortable doing so.

Trade pairs, not currencies

Like any relationship, you have to know both sides. Success or failure in forex trading depends upon being right about both currencies and how they impact one another.

Knowledge is Power

When starting out trading forex online, it is essential that you understand the basics of this market if you want to make the most of your investments. The main forex influencer is global news and events. For example, say a European Central Bank statement is released on European interest rates; this typically will cause a flurry of activity in the market. Most newcomers react violently to news like this and close their positions and subsequently miss out on some of the best trading opportunities by waiting until the market calms down. The potential in the forex market is in the volatility, not in its tranquillity.

Unambitious trading

Many new traders will place very tight orders in order to take very small profits. This is not a sustainable approach because although you may be profitable in the short run (if you are lucky), you risk losing in the longer term as you have to recover the difference between the bid and the ask price before you can make any profit and this is much more difficult when you make small trades than when you make larger ones.

Over-cautious trading

Like the trader who tries to take small incremental profits all the time, the trader who places tight stop losses with a retail forex broker is doomed. As we stated above, you have to give your position a fair chance to demonstrate its ability to produce. If you don't place reasonable stop losses that allow your trade to do so, you will end up undercutting yourself and losing a small piece of your deposit with every trade.

Independence

If you are new to forex, you will either decide to trade your own money or to have a broker trade it for you: so far, so good. But your risk of losing increases exponentially if you seek advice from too many sources – multiple inputs only result in multiple losses. Take a position, ride with it and then analyse the outcome – by yourself, for yourself.

Tiny margins

Margin trading is one of the biggest advantages in forex as it allows you to trade amounts far larger than the total of your deposits. However, it can also be dangerous to new traders as it appeals to the greed factor that destroys many traders. The best guideline is to increase your leverage in line with your experience and success.

No strategy

The aim of making money is not a trading strategy. A strategy is your map for how you plan to make money. Your strategy details the approach you are going to take, which currencies you are going to trade and how you will manage your risk.

Trading Off-Peak Hours

Professional FX traders, option traders, and hedge funds possess a huge advantage over small retail traders during off-peak hours (between 21:00 GMT and 09:00 GMT) as they can hedge their positions and move them around when there is far smaller trade volume (meaning their risk is smaller). The best advice for trading during off peak hours is simple – don't.

The only way is up/down

When the market is on its way up, the market is on its way up. When the market is going down, the market is going down. That's it. There are many systems which analyse past trends, but none that can accurately predict the future. But if you acknowledge to yourself that all that is happening at any time is that the market is simply moving, you'll be amazed how hard it is to blame anyone else.

Trade on the news

Most of the really big market moves occur around news time. Trading volume is high and the moves are significant; this means there is no better time to trade than when news is released. This is when the big players adjust their positions and prices change resulting in a serious currency flow.

Exiting Trades

If you place a trade and it's not working out for you, get out. Don't compound your mistake by staying in and hoping for a reversal. If you're in a winning trade, don't talk yourself out of the position because you're bored or want to relieve stress; stress is a natural part of trading; get used to it.

Don't trade too short-term

If you are aiming to make less than 20 points profit, don't make the trade. The spread you are trading on will make the odds against you far too high.

Don't be smart

The most successful traders keep their trading simple. They don't analyse all day or research historical trends - and their results are often excellent.

Tops and Bottoms

There are no real "bargains" in trading foreign exchange. Trade in the direction the price is going in and your results will be almost guaranteed to improve.

Ignoring the technicals

Understanding whether the market is due to change direction is a key indicator of price action. Spikes occur in the market when it is moving in one direction.

Emotional Trading

Without that all-important strategy, your trades essentially are thoughts only, and thoughts are emotions - a very poor foundation for trading. When most of us are upset and emotional, we don't tend to make the wisest decisions. Don't let your emotions sway you.

Confidence

Confidence comes from successful trading. If you lose money early in your trading career it's very difficult to regain it; the trick is not to go off half-cocked; learn the business before you trade. Remember, knowledge is power.

Take it on the chin

If you decide to ride a loss, you are simply displaying stupidity and cowardice. It takes guts to accept your loss and wait for tomorrow to try again. Sticking to a bad position ruins lots of traders - permanently. Try to remember that the market often behaves illogically, so don't get committed to any one trade; it's just a trade. One good trade will not make you a trading success; it's ongoing regular performance over months and years that makes a good trader.

Focus

Fantasising about possible profits and then "spending" them before you have realised them is no good. Focus on your current position(s) and place reasonable stop losses at the time you do the trade. Then sit back and enjoy the ride - you have no real control from now on, the market will do what it wants to do.

Don't trust demos

Demo trading often causes new traders to learn bad habits. These bad habits, which can be very dangerous in the long run, come about because you are playing with virtual money. Once you know how your broker's system works, start trading small amounts and only take the risk you can afford to win or lose.

Stick to the strategy

When you make money on a well thought-out strategic trade, don't go and lose half of it next time on a fancy; stick to your strategy and invest profits on the next trade that matches your long-term goals.

Trade today

Most successful day traders are highly focused on what's happening in the short-term, not what may happen over the next month. If you're trading with 40 to 60-point stops, focus on what's happening today as the market will probably move too quickly to consider the long-term future. However, the long-term trends are not unimportant; they will not always help you though if you're trading intraday.

The clues are in the details

The bottom line on your account balance doesn't tell the whole story. Consider individual trade details; analyse your losses and the telling losing streaks. Generally, traders that make money without suffering significant daily losses have the best chance of sustaining positive performance in the long term.

Simulated Results

Be very careful and wary about infamous "black box" systems. These so-called trading signal systems often do not fully explain how the trade signals they generate are produced. Typically, they show a track record of extraordinary results – historical results.

Successfully predicting future trade scenarios is altogether more complex. The high-speed algorithmic capabilities of these systems provide significant retrospective trading systems, not ones which will help you trade effectively in the future.

Get to know one cross at a time

Each currency pair is unique, and has a unique way of moving in the marketplace. The forces which cause the pair to move up and down are individual to each cross, so study them and learn from your experience and apply your learning to one cross at a time.

Risk Reward

If you put a 20-point stop and a 50-point profit your chances of winning are probably about 1-3 against you. In fact, given the spread you're trading on, it's more likely to be 1-4. Play the odds the market gives you.

Trading for Wrong Reasons

Don't trade if you are bored, unsure or reacting on a whim. The reason that you are bored in the first place is probably because there is no trade to make. If you are unsure, it's probably because you can't see the trade to make, so don't make one.

Zen Trading

Even when you have taken a position in the markets, you should try and think as you would if you hadn't taken one. This level of detachment is essential if you want to retain your clarity of mind, avoiding succumbing to emotional impulses which could increase your likelihood of incurring losses. To achieve this, you need to cultivate a calm and relaxed outlook. Trade in brief periods of no more than a few hours at a time and accept that once the trade has been made, it's out of your hands.

Determination

Once you have decided to place a trade, stick to it and let it run its course. This means that if your stop loss is close to being triggered, let it trigger. If you move your stop midway through a trade's life, you are more than likely to suffer worse moves against you. Your determination must show itself when you acknowledge that you got it wrong, so get out.

Short-term Moving Average Crossovers

This is one of the most dangerous trade scenarios for non professional traders. When the short-term moving average crosses the longer-term moving average it only means that the average price in the short run is equal to the average price in the longer run. This is neither a bullish nor bearish indication, so don't fall into the trap of believing it is one.

One cross is all that counts

EURUSD seems to be trading higher, so you buy GBPUSD because it appears not to have moved yet. This is dangerous. Focus on one cross at a time – if EURUSD looks good to you, then just buy EURUSD.

Wrong Broker

A lot of forex brokers are in business only to make money from you. Read forums, blogs and chats on the net to get an unbiased opinion before you choose your broker.

Too bullish

Trading statistics show that 90% of most traders will fail at some point. Being too bullish about your trading aptitude can be fatal to your long-term success. You can always learn more about trading the markets, even if you are currently successful in your trades. Stay modest, and keep your eyes open for new ideas and bad habits you might be falling in to.

Interpret forex news yourself

Learn to read the source documents of forex news and events - don't rely on the interpretations of news media or others.

Open your My Private Trade trading account

Now that you have read this introduction to trading, we hope you can see the potential for gain and are ready to get started. If you are ready to start trading, you can open your account online in minutes. Visit www.MyPrivateTrade.com and click on Become an Agent!

I have a question
If you would like to talk to someone from My Private Trade in your own language, use the following details between 09:00 and 17:00 CET.

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Resources

The sites listed below contain useful information for anyone starting out in forex trading. We hope that they will help you gain a further understanding of the most exciting trading arena in the world.

Forex Market Links
http://www.bloomberg.com/
http://today.reuters.com/news/home.aspx
http://www.marketwatch.com
http://www.ratesfx.com/predictions/pred-eur.html
http://fx.sauder.ubc.ca/currency_table.html

World News
http://www.bbcnews.com
http://www.cnn.com
http://www.cnbc.com