DAY TRADE TORONTO
Trading one pip at a time

Day Trading The Financial Markets

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Introduction

Welcome to **Day Trading The Financial Markets** – Strategies & Secrets Revealed! I hope that you are excited to discover the secrets that the successful traders are using every day to build portfolios that even the most seasoned trader would be proud to own. After finishing this book, you will be armed with the information that you need to build your own successful portfolio. I have laid it out in a simple to understand format that is easy to follow.

In the following chapters you will learn the difference between the traditional Stock Market and the Forex Market. You will begin the process of understanding the market trends and statistics. I say begin to understand them because it will be constantly changing and something that you will be continuously learning and developing as you become more experienced in the process. You will discover why technical analysis is so important and how to use it to make the best trading decisions that you possibly can.

This eBook will show you the best ways to determine your strategy and allow you to manage your risks by showing you ways to manage your money. I am also going to show you why 90% of traders lose their shirts, and how the other 10% **WIN** consistently. This information **alone** is worth triple the price of what could have been charged for this eBook! I highly recommend that you grab your favorite drink, sit back and read this book thoroughly. Then read it again and take notes. You may even want to print it out for future reference it is that good and well worth the ink and paper.

Let's get down to business!

The Stock Market vs. The Forex Market

The differences between the stock market and the forex market are significant. In this chapter, I will discuss the general definitions of the two as well as the pros and cons of each.

What is the Stock Market?

The definition of the stock market is simply the business of buying and selling stock for the financial aspect. Stock refers to a supply of money that a company has raised. Investors (or stock holders) give the company this supply of money in order to help that company grow, therefore increasing the value of their stock and in turn making a profit. The stock market is one of the more traditional ways to create a profit from an Investment even without having much knowledge about it. A person with little or no experience can make a few bucks without much research with traditional investments, such as stocks, bonds and blue chips. With thousands of companies to choose from it can be quite overwhelming and you never know when a company will go bankrupt or fold altogether. There can be a lot of risk and uncertainty when going after large gains in short amounts of time. It can be difficult to develop a system that can provide a consistent 10 to 15% profit on a yearly basis. The stock market is country specific, and deals only in business and currencies within that region. There are set business hours that typically follow the more traditional business day, and is closed on Holidays and weekends.

The Definition of the Forex Market

The forex market, also known as the foreign exchange or the (FX) market, is the place where currencies are traded. It is the largest, most liquid market in the world with an average traded value of over $5.3 trillion per day and includes all of the currencies in the World. Compare that to the $25 billion per day that the New York Stock Exchange trades and you can easily see how enormous the forex market really is. It actually equates to more than 3 times the total amount of stocks and futures markets combined. Forex is awesome! What exactly is traded on the forex market you ask? The simple answer is money. It is the simultaneous buying of one currency and the selling of another. Currencies are traded through a broker and are always traded in pairs.

EXAMPLE: The euro and the US dollar (EUR/USD)

-OR-

The British Pound and the Japanese Yen (GBP/JPY) Confused?

Think of it as buying a traditional 'share' in a particular country. Let's say you buy British Pound; you are essentially buying a share in the British economy as the price of the GBP is a direct reflection of what the market thinks about not only the current, but future health of the British economy.

Market Hours

Unlike the traditional stock market, the forex market is open 24 hours a day. At any time, somewhere around the world, a financial center is open for business and is exchanging currencies every hour of the day and night. It follows the sun around the world, so you can trade late at night or early in the morning.

FOREX MARKET HOURS

EST	Markets			Economic Data Released
1AM	ASIA			ASIA Data to 2am
2AM	ASIA	EUROPE		EUROPE Data
3AM	ASIA	EUROPE		(1:45am - 6:00am)
4AM		EUROPE		Most during 4 to 5 am
5AM		EUROPE		
6AM		EUROPE		
7AM		EUROPE		UK Bank Data (7:45am)
8AM		EUROPE	USA	USA Data
9AM		EUROPE	USA	(8:30am-10:00am)
10AM		EUROPE	USA	
11AM		EUROPE	USA	
12PM			USA	
1PM			USA	
2PM			USA	
3PM			USA	
4PM			USA	
5PM				
6PM				
7PM	ASIA			ASIA Data Released
8PM	ASIA			(7:30pm - 2:00am)
9PM	ASIA			
10PM	ASIA			
11PM	ASIA			
12AM	ASIA			

30-50% of total activity

58% of total activity

= Most active times

EUROPE*	39% of total turnover
USA	19% of total turnover
ASIA*	20% of total turnover
OTHER	22% of total turnover

*EUROPE = UK + Germany + Switzerland

*ASIA = Japan + Singapore + Hong Kong + Australia

Keep in mind that these additional hours also add additional risk for us since we aren't able to monitor our investments 24 hours every day. There are several safety options, such as stop loss orders or limit orders that we will discuss later.

Forex Trading In Multiple Currencies

One of the most critical things that you must understand in forex trading is how to correctly determine the value of multiple currencies. Obviously not everyone will trade in US dollars but with so many variables, how can you tell a good buy or sell without complete understanding of the value of foreign currencies? Your first step is to figure out the current exchange rate between the currencies in question.

I highly recommend using this free currency table – FX Street.com. They are very reliable and have tons of information to help you as well. Aside from the information that I am giving you here, I highly recommend you study the materials available on their website as well. Keep in mind that these currency tables will not be consistently accurate down to the cent or fraction of a particular currency at all times throughout any day, but it will give you a solid starting point. Currency conversion is usually expressed in a ratio known as the cross rate. Normally you will see them listed in pairs in a xxx/yyy manner, with the xxx referred to as the '**base**' currency (or home currency). The base currency is usually always listed as a whole number, while the converted currency will be expressed with a decimal that is as close as possible to the base rate.

EXAMPLE: 1 US dollar = 0.61484 British Pound

-OR-

1.000 USD/0.61484 GBP

You'll notice that the base currency is almost always in single units (such as one dollar instead of ten) and since the whole number (often referred to as the 'big' figure) of the secondary currency almost never changes, it is usually only referred to at the decimal point.

Also with the consolidation of most of the European market using the Euro, many currencies such as Franc or the Lira have been eliminated, making trading currencies much less complicated. It will take a bit of time, but once you get used to the base values of each currency, the changes will become more obvious to you, therefore making it easier and less confusing to monitor and you'll be making profitable trading decisions right along with the pros.

Trading Terms You Must Know

Now you most likely won't be standing amidst a few hundred other screaming stockbrokers on Wall Street, but it is important that you understand some of the terms that you would be hearing if you were. You want to be sure to understand what these terms mean in your trading. These are some of the most common trading terms:

- ***Bid/ask spread*** *- also known as the bid/offer spread, is the quote of the price at which the parties involved are willing to buy or sell. The bid price is the price that a party is willing to purchase, while the ask or offer price is the price at which the party is willing to sell the same. The difference between the two prices is considered the spread. If the spread cannot be closed, then no deal can be made. The forward price (or agreed upon price) and all details involved in the transaction are written in a contract and referred to as forward points.*

- ***Currency Pair*** *- since the value of one currency is only relevant when put in terms of another, forex traders will always deal in currency pairs. As I mentioned before, the first currency in the pair is considered the 'base' currency. The second currency in the pair is the 'counter' currency.*

- ***Leverage & Margin*** *- Margin is a good faith deposit that a trader puts up as collateral to hold a position. The amount of margin that a trader puts up determines his leverage. In other words, when a trader opens a position larger than the amount of funds required to open it, the trader has put down margin to receive leverage. While margin refers to the amount of funds a trader has put down as collateral, leverage refers to the amount of money he controls relative to the margin.*

- ***Pip - (Percentage in Point)*** *refers to the very last digit of a currency price. Just for illustrative purposes let's take the Euro/USD at 1.2635. If the sell price was 1.2638 then we have a 3 pip increase. Should the Euro/USD sell at 1.3635 then we have a 100 pip increase.*

- ***Stop - Limit Order -*** *An order to buy or sell a certain quantity of a certain security at a specified price or better, but only after a specified price has been reached. A stop limit order is essentially a combination of a stop order and a limit order.*

- ***Rollover/ Carry Trade*** *- A popular trading strategy used in the forex market. It guarantees traders at least some return on their medium and longer term positions. In the carry trade, speculators buy high interest currencies and sell currencies with low interest rates. These positions ensure that each trading day rollover- interest will be posted to the traders account. It has the potential to significantly enhance a return. Rollover is also sometimes referred to reinvesting any earnings in additional stock or currencies.*

- ***Bear Market*** *- Refers to a strong trend of downward movement in several areas of the market.*

- ***Bull Market*** *- Refers to a strong upward trend in several areas of the market.*

- ***Open Order*** *- Your order remains pending until it is either executed or cancelled.*

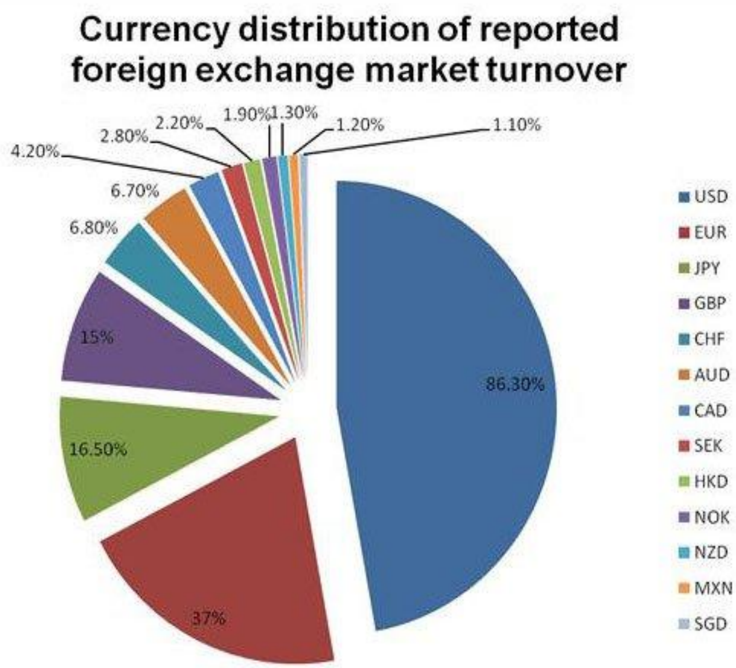
- ***Stop Order*** *- Cancels any pending orders that are placed with the broker.*

- ***Market Makers/Jobbers*** *- Brokers who hold or purchase securities at low prices for the purpose of selling them to traders in a higher priced market so that the trader can turn around and resell them for a profit essentially creating a separate market are called market makers (also known as jobbers in Britain).*

- ***Whipsaw*** *- A term for what happens when the market trends point toward a specific direction, causing a buy or sell and then the opposite effect occurs. These will happen occasionally and you realistically cannot expect to win with every purchase. My best advice when it happens is to wait it out. The market will rebound and you can still make a profit or at least break even, if you are patient. Those are just some of the most commonly used terms that I wanted you to be familiar with. It should help you to understand a bit about the market lingo before we get into the meat of the course, where you will learn the details of many of the terms above.*

General Concept

The forex market is by far the biggest and most popular financial market in the world. It is traded globally by individuals as well as banks and large organizations. The chart below shows the global foreign exchange activity, with the United States dollar (USD) being the most traded currency, with the Euro share at 2nd and the Japanese yen at 3rd.



The Nature of the Forex Market

The forex market is an over the counter market, which simply means that there is no central exchange or clearing house where orders are matched and transactions occur. Large commercial banks trade with each other through what's known as the Electronic Brokerage System (EBS). Such banks will only make their quotes available to other banks with which they trade. This market is not accessible to individual or retail traders. Then there are the online market makers. This is where individual traders can access the forex market through online market makers that primarily trade out of the US and the UK.

Financial Markets

Here is a simple comparison table of various financial markets and some of their basic features:

	Equities	Futures	Forex
Market Structure	Over the Counter (OTC) or Exchanged Traded, with Electronic Communication Network (ECN) routing available for both.	Exchanged Traded through open outcry in trading pits; some contracts are traded by ECN after hours.	Over the Counter (OTC) market with access to price determined by the market maker.
Spreads	Spreads fluctuate according to demand and supply.	Spreads fluctuate according to demand and supply.	Spreads fluctuates on Inter-bank market, many online market makers have fix spread.
Execution	Orders on listed stocks are placed with a specialist, who matches buyers and sellers, providing liquidity from his own account as well. OTC orders can be sent to market makers who take the opposite side of the trade at their quoted side.	Orders are executed via open outcry at the exchange pit for each future contract. Orders entered electronically are routed to the pits to be executed.	Orders on the Inter-bank market are sent directly to the counter party via Reuters or EBS. Orders executed with online market makers are executed at the market maker with the market maker as the counter party.
Order Types	Market, Limit, Stop, Fill or Kill, All or None, Opening Price Guaranteed, Market on Close, Stop-limit, Market if Touched, Good Until Cancelled,	Market, Limit, Stop, Fill or Kill, All or None, Market on Open, Market on Close, Stop-limit, Market if Touched, Good Until Cancelled, Day Order	Market, Stop, Stop-limit, Limit
Trading Hours	Typically 9:30am to 4:00pm local time. Off-hours trading can occur through ECN's but it is illiquid.	Vary by product, usually starts from 9:00am to 3:00pm local time. Off-hours trading is possible but illiquid.	24 hours during weekdays.
Volume	Available	Available	Not Available
Market Size	100-200 billion USD daily volume in the US.	300-500 billion USD daily volume in the US.	1.5 trillition daily volume worldwide.
Transaction Cost	Spread and commission/service charge.	Spread and commission/service	

Forex: Past & Present

Until the late 1990's the forex market was really only available to the 'BIG Players'. You could basically only trade if you had a least $10 million to start with! It was originally intended to be used by bankers and large institutions- not by us 'little' guys. Because of the rise of the internet, online forex trading firms are now able to offer trading account to normal folks like us. Now all you need to trade in the forex market is a computer, a high speed internet connection and education.

What is a 'Spread"?

We've already defined the spread to mean the difference between the bid price and the ask price, which constitutes the cost of the trade. In fact, all trades have spread stocks, futures, commodities, etc. Be aware that many online trading firms like to promote margin forex trading as virtually cost free - commission free, no service charge, no hidden cost, etc. The spread **IS** the cost of trading AND is also the main source of revenue for the trading firms. The spread may seem to be a small expense, but once you add up all the costs of all the trades, it can eat up your share of the profits pretty darn fast! On the other hand, while you want to find the tightest spread possible, anything that is far lower than typical is skeptical. Since the spread is the main source of revenue for the trading firm, if the firm doesn't earn enough from it there maybe some other hidden costs involved in the transaction.

Different Types of Orders

The following are some of the different types of orders available that can help you to protect yourself in your trading ventures. This isn't all that are available, but just some of the basic orders for you to make the most out of. Use them wisely!

- **Market Orders** - a buy or sell order in which the forex firm is to execute the order at the best available current price.

- **GTC - (Good Until Cancelled)** An order will be valid until it is cancelled, regardless of the trading session.
  (Generally, the entry orders, stop loss orders and take profit orders are all GTC orders in online forex trading).

- **Entry Orders** - A request from a trader to a forex firm to buy or sell a specified amount of a particular currency pair at a specific price. The order will be filled once the requested price is met. Take Profit Orders - An order placed to close a position when it reaches a specified price. It is designed to limit a trader's loss on a given position. This is how it works if the position is opened with buying a currency pair, the stop loss order would be a request to sell the position when the price fell to a specified level and vice versa. Traders are strongly recommended to use stop loss orders to limit their losses. It is also important to use stop loss orders when investors may enter a situation where they are unable to monitor their portfolios for an extended period of time.

How To Use Margins

A margin account allows customers to open positions with a higher value than the amount of funds they have deposited in their account. Also known as trading on a leveraged basis, most online firms offer up to 200 times leverage on a mini contract account. The forex market offers the highest leverage among other trading instruments with a margin requirement of 0.5% for open positions. The equity in excess of the margin requirement acts as a cushion for the trader. If a trader loses on a position to the point that the cushion runs out, then a margin call will result. The trader must then deposit more funds before the margin call or the position will be closed. The account will be 'margined out', meaning that all positions will be closed, once the equity falls below the margin requirement.

Most trading firms offer customizable leverage; traders can choose the leverage ratio that they feel most comfortable with. Be aware of how to guard against over trading an account and managing overall risk - we will cover that later on in this book.

Technical Analysis is the Name of the Game

Fundamental analysis and technical analysis are the two major approaches to analyzing and studying the currency market, the first focusing on the underlying causes of the price movements such as economic, social and political forces that drive supply and demand. Technical analysis focuses on the studies of the price movements themselves. I believe that the premise of technical analysis is that all current market information is already reflected in the price movement which is why we will focus on the latter. In the following chapter I will explain briefly the primary tools used for technical analysis, arming you with the knowledge of the professionals. Use this to compare notes and ideas, suggestions and advice with your trading firm.

Using Charts

Charts are the most important tool in your understanding of the total sum of what is happening in the market. It is simply a visualized representation of the price movements a reflection of the psychology of the market and a visualization of the interaction between buyers and sellers, and shows how the market values a particular asset based on the information available. Because of this, it is considered to be an indispensible tool in the arsenal of any trader. There are 3 major charts: bar charts, candlestick charts and line charts. We will get into a bit more detail with the Candlestick charts a bit later, since they are the most commonly used charts amongst active traders.

1. **Bar Charts** - *Bar charts provide traders with 4 key pieces of information for a given time frame:*

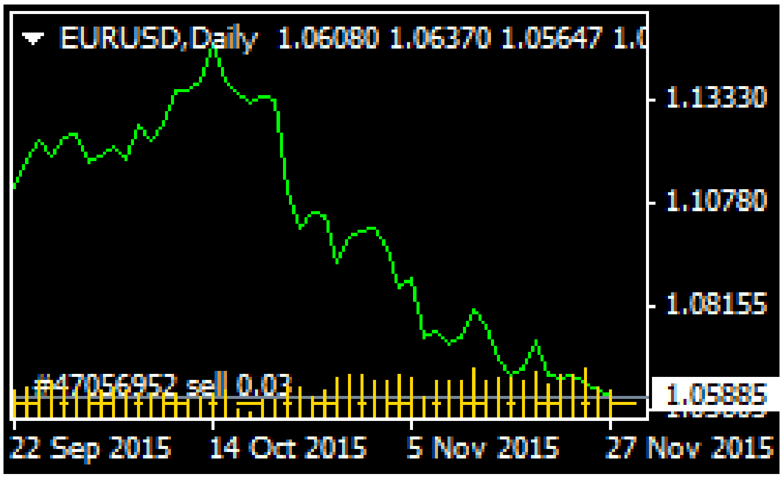
- *The opening price during that time frame*
- *The closing price*
- *The high price*
- *The low price*

Bar charts can be applied to all time frames and therefore, a single bar can summarize price activity over the past minute or the past month. A good rule of thumb is that the longer the time frame, the more significant it is since it will account for more data and will be a better reflection of the markets psychology.

2. **Candlestick Charts** –

Just like the bar chart, a candlestick chart contains the markets open, closing, low and high price points of a specific time frame. The main difference being that the candlesticks body will show the range between the opening price and the closing price during that particular time frame. Candlestick charts are more popular than the bar charts or line charts since they are more visually appealing and helps to identify more information. (see [intro to candlestick]() for more information).

3. **Line Charts** –



These present much less information than the previous types of charts. They only show the closing price for a series of periods, therefore serve best to measure the overall direction of long-term trends. Line charts are of limited use for most traders but will show simply and clearly the direction of the trend which can be extremely useful.