

# FOREX START-UP Kit For Beginners

**All You Need To Know About  
The Forex Market And  
Start Trading Profitably**



[www.forex-trading-pro-system.info](http://www.forex-trading-pro-system.info)

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## INTRODUCTION

Online forex trading or foreign currency trading as it is also called has increasingly gained popularity since the 1970s when the advent of innovative technology and the Internet revolutionized the way trading was done, and made it possible for individuals and not just government, multinational corporations, banks and large finance companies, to also participate in it from the comfort of their homes online.

The huge interest in online currency trading is based on several factors, including high returns on investment, which makes it possible for many individuals to make a fortune. Indeed, many people across the world have found forex trading exceedingly rewarding financially.

It is a business that can be done from home and at any time. This makes it very convenient for people who are holding day jobs to also participate in forex trading and open another stream of income to what they are earning from the paid job.

They can keep their jobs while trading forex part-time and gradually build the business to the point that they can comfortably resign from the employment and concentrate fully on forex trading.

Forex trading is a great way to make money when you consider the huge rate of return on investment that is possible, as well as the minimal effort put into it. However, the risk involved in the business is equally enormous.

Just as you can make lots of money trading foreign currencies, you can also lose lots of your hard-earned money in it.

In fact, most people getting into the trade newly lose their money. This is primarily because they do not take the time and patience to get the necessary information about the trade before jumping into real trading.

It is a business you don't just jump into without knowing exactly what you are doing.

As a beginner, you need to first settle down and learn whatever you can about the business. In addition to studying as much materials as you can lay your hands on, you should also find a good coach who has proven record of successful trade that you can understudy and learn from.

Even when you have taken in enough information and are ready to start trading, you shouldn't start trading live with real money. You should first test the water by trading on a demo account for some time.

The aim of this material is to properly guide you into the world of forex trading by providing the information and knowledge that you need to have a good start, and be able to achieve the desired success in your forex trading career.

This guide is made specifically for people starting out newly in forex trading. It is meant to provide detailed information to beginners about the trade so that they will know exactly what they are getting involved in and be able to make intelligent decision about investing in the currency market.

This information will not only prevent them from losing money, it would position them for a profitable and successful forex trading career.

This guide brings together some of the best tutorials on currency trading across the globe from leading investment companies and trainers in one place, making it easy and convenient for you to get the information you need to start out in the lucrative currency trading business on the profit lane.

Happy Reading!

# WHAT IS FOREX TRADING?

Before we begin to explain what forex trading is, we'd like to give you some brief historical context.

The Foreign Exchange market essentially came into life in 1875, with the birth of the Gold Standard Monetary System. This was a system through which each country fixed an amount of their currency to an ounce of gold to signal its value. The price of gold fluctuated between currencies and this soon created a currency exchange system.

World War II marked the end of the Gold Standard Monetary System and brought to life its replacement; the Bretton Woods System. This new system was implemented in 1944 and placed the US dollar as the world's reserve currency.

It was short lived however and came to an end in 1971. In 1976, the modern Foreign Exchange market sprung into life with the introduction of floating exchange rates. By the mid 1990's, forex trading starting taking place on the huge electronic market that we use today.

## **The Modern Forex Trading Market**

The forex trading market is an international decentralized financial market whereby one currency is exchanged for another. Individuals and business entities can buy an amount of one currency and pay for it with an amount of another.

So a company in London can import products from a company in Rome and pay for these products in euro, not sterling. This easy conversion of one currency to another facilitates international trade and investment.

What makes this market so amazing is the fact that it knows no geographical boundaries, it's easy to access, it's available 24 hours a day, 5 days a week and it is the most liquid market in the world.

When trading in the forex market there is one simple philosophy; when you trade one currency for another, you buy the currency that is predicted to rise in value (long position) and sell the currency that is predicted to decline in value (short position).

You can make such predictions using popular trading tools, but there is always an element of risk in trading. If the currency you bought does rise in value as you predicted, you can sell it and make a profit, but if it falls in value, you will suffer losses. You don't need to be a financial expert to be a good trader; forex trading is simple to learn if you want to give it a go.

Where do we come in? Brokers bring buyers and sellers together; we scan the market for the best bid and ask prices and offer traders the best prices available. In the forex market, we are the intermediary; we carry out the transaction for you.

## **The Three Sessions**

The forex market never sleeps and this is because activity continues at all times and in all corners of the globe. This is established through the three session system, a system which makes it possible for traders to trade whenever they want, regardless of the time or place.

22:00 GMT - 09:00 GMT

### The Asian Session

Following the weekend, activity is first recorded in the Asian markets. The Australia market goes live at 22:00 GMT and ends at 09:00 GMT. Some of the other countries which are active during this period are China, Russia, New Zealand and Japan.

08:00 GMT - 17:00 GMT

### The European Session

As the Asian session draws to an end, activity begins in the European session and the two sessions overlap. The primary market here is the London market but other significant markets present are European markets such as Germany and France. Activity begins at 08:00 GMT and ends at 17:00 GMT.

13:00 GMT - 22:00 GMT

### The US Session

Halfway through the European session, at 13:00 GMT, the US session commences until 22:00 GMT. New York City is the greatest participant of this session. Once it ends there is a brief period of stillness until the Asian session begins again.

Article source: [forextime.com](http://forextime.com)

## UNDERSTANDING FOREX TRADING BETTER

Entering the world of forex for the first time can be confusing. New concepts, new theories, new words; it can leave one slightly bewildered. We're here to tell you a story; a story that will show you that the fundamentals of the industry are actually not so complicated to grasp.

This is the story of one trader's experience...

Disclaimer: Please note that the story and characters are fictional and none of the events of the story should be taken or misunderstood as investment advice.

Meet Michael.

Michael is a chemistry professor from New York City who has spent the past month teaching in Europe through a professor exchange programme. He has 750 euros in savings and he wants to open a bank account in US dollars. His 750 euros are equivalent to 1000 dollars at the time that he opens his bank account.

A couple of weeks later, Michael is reading up on financial news on his laptop and he sees that the euro has risen in value against the dollar. This means that his savings have increased and Michael sees this as a good opportunity to withdraw them.

It's midnight however and the banks are shut, so Michael decides to stop by the bank the following day after work to withdraw his money. Come daytime, the euro plummets in value and it is now pointless for Michael to withdraw his money. He has missed a chance to take advantage of this trading opportunity.

That evening, Michael goes out for a meal with some of his colleagues and the topic of conversation is forex. One of the other professors, Isabelle, is telling everyone about her experience in forex trading. Michael finds what she has to say very interesting and the notion of trading online sounds very appealing to him, so he decides to look into it some more.

Michael looks online and finds a forex broker. After examining what this broker has to offer, he decides to open an account with them. Through this account he discovers incredible possibilities.

Through the use of LEVERAGE, Michael can deposit his 1000 dollars and be given the potential to trade with up to 500,000 dollars. Leverage is used to increase the buying power and the potential risk of losses of a trader, even if they can only provide a small deposit.



The next time the value of the dollar rises, all Michael has to do is log in to his trading account and sell his dollars. He is extremely pleased with the profit he has made and is grateful that the market moved in the direction he wanted it to, otherwise he could have suffered losses that could have resulted to the loss of his invested capital.

Michael learns the ropes of forex trading; he understands the risks involved in forex trading and begins to use TECHNICAL ANALYSIS and FUNDAMENTAL ANALYSIS to follow the market and predict which direction it is moving in.

Technical analysis includes studying charts to follow market trends, whereas fundamental analysis involves keeping up to date with economic and political indicators which may affect price movement. All of this information is available on his broker's website.

Depending on the state of the market, sometimes Michael has a BEARISH OUTLOOK and other times he has a BULLISH OUTLOOK. When he is feeling bearish, he predicts that the value of an asset will fall and he takes a SHORT POSITION, which means he sells this asset. When he is feeling bullish, he takes a LONG POSITION, which means that he predicts that the value of an asset will rise and so he buys it.

Michael is lucky that his broker offers low SPREADS. A spread is the difference between the BID PRICE (the maximum price that a buyer is prepared to pay for an asset) and the ASK PRICE (the price that a seller is prepared to accept for an asset). The lower the spreads, the less money a broker is charging for their services.

Michael continues to trade forex online for many years to come. He experiences both profits and losses over the years; sometimes he makes mistakes and miscalculations, other times he hits the nail on the head and gains high profits to show for it.

## **Definitions:**

### **Leverage**

In the forex market, a broker is able to provide a client with leverage; this allows investors to take greater advantage of fluctuations in exchange rates than they could have on their own. If a broker offers leverage up to 1:1000 for example, a trader's buying power is magnified 1000 times. Leveraged products do carry risk since there is a possibility for losses greater than the amount invested.

### **Technical Analysis**

Technical analysis is used by traders in an attempt to predict the direction that the market is bound to take. Common components of technical analysis are charts which record market activity.

## **Fundamental Analysis**

Fundamental analysis refers to the way political and economic events affect the health of the market and influence the direction it takes.

### **Bearish Outlook**

The definition of a bearish outlook is when a trader adopts a negative outlook about the economy, predicting that the market will decrease and that the prices of certain assets will fall.

### **Bullish Outlook**

The definition of a bullish outlook is when a trader adopts a positive outlook about the economy, predicting that the market will rise and that the prices of certain assets will increase.

### **Short Position**

This defines the position traders take when they predict that the value of an asset will decrease. They sell this asset in the hope that they will buy it later on at a lower price.

### **Long Position**

This defines the position traders take when they predict that the value of an asset will increase. They buy this asset in the hope that they will sell it at a higher price later on.

### **Spread**

Spread is the difference between the bid price and the ask price of an asset.

### **Bid Price**

This is the price an investor is prepared to sell an asset for.

### **Ask Price**

This is the price an investor is prepared to buy an asset for.

Article source: forextime

## FOREX TRADING TERMINOLOGY

The Forex market comes with its very own set of terms and jargon. So, before you go any deeper into learning how to trade the Fx market, it's important you understand some of the basic Forex terminology that you will encounter on your trading journey...

- **Basic Forex terms:**

**Cross rate** - The currency exchange rate between two currencies, both of which are not the official currencies of the country in which the exchange rate quote is given in. This phrase is also sometimes used to refer to currency quotes which do not involve the U.S. dollar, regardless of which country the quote is provided in.

For example, if an exchange rate between the British pound and the Japanese yen was quoted in an American newspaper, this would be considered a cross rate in this context, because neither the pound or the yen is the standard currency of the U.S. However, if the exchange rate between the pound and the U.S. dollar were quoted in that same newspaper, it would not be considered a cross rate because the quote involves the U.S. official currency.

**Exchange Rate** - The value of one currency expressed in terms of another. For example, if EUR/USD is 1.3200, 1 Euro is worth US\$1.3200.

**Pip** – The smallest increment of price movement a currency can make. Also called point or points. For example, 1 pip for the EUR/USD = 0.0001 and 1 pip for the USD/JPY = 0.01.

**Leverage** - Leverage is the ability to gear your account into a position greater than your total account margin. For instance, if a trader has \$1,000 of margin in his account and he opens a \$100,000 position, he leverages his account by 100 times, or 100:1. If he opens a \$200,000 position with \$1,000 of margin in his account, his leverage is 200 times, or 200:1. Increasing your leverage magnifies both gains and losses.

To calculate the leverage used, divide the total value of your open positions by the total margin balance in your account. For example, if you have \$10,000 of margin in your account and you open one standard lot of USD/JPY (100,000 units of the base currency) for \$100,000, your leverage ratio is 10:1 ( $\$100,000 / \$10,000$ ). If you open one standard lot of EUR/USD for \$150,000 (100,000 x EURUSD 1.5000) your leverage ratio is 15:1 ( $\$150,000 / \$10,000$ ).

**Margin** - The deposit required to open or maintain a position. Margin can be either "free" or "used". Used margin is that amount which is being used to maintain an open position, whereas free margin is the amount available to open new positions.

With a \$1,000 margin balance in your account and a 1% margin requirement to open a position, you can buy or sell a position worth up to a notional \$100,000. This allows a trader to leverage his account by up to 100 times or a leverage ratio of 100:1.

If a trader's account falls below the minimum amount required to maintain an open position, he will receive a "margin call" requiring him to either add more money into his or her account or to close the open position.

Most brokers will automatically close a trade when the margin balance falls below the amount required to keep it open. The amount required to maintain an open position is dependent on the broker and could be 50% of the original margin required to open the trade.

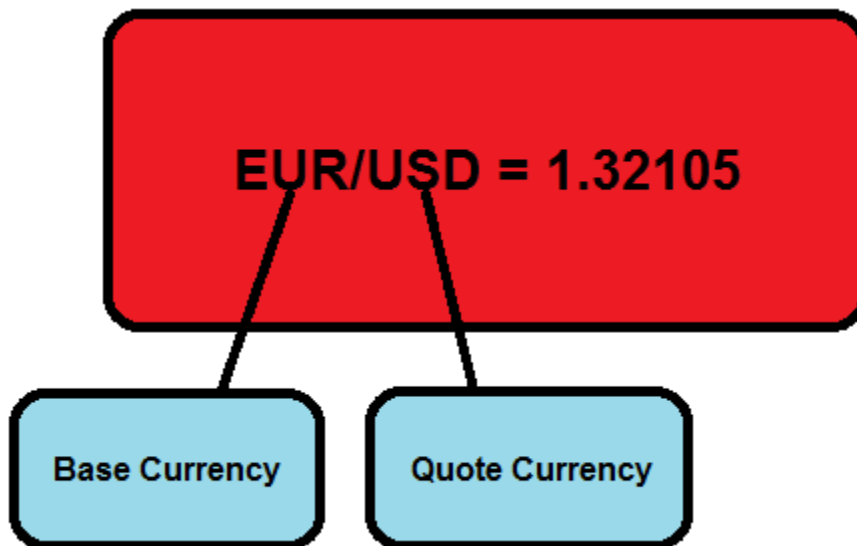
**Spread** - The difference between the sell quote and the buy quote or the bid and offer price. For example, if EUR/USD quotes read 1.3200/03, the spread is the difference between 1.3200 and 1.3203, or 3 pips. In order to break even on a trade, a position must move in the direction of the trade by an amount equal to the spread.

- **The major Forex pairs and their nicknames:**

USD = US Dollar
EUR = Euro
JPY = Japanese Yen
GBP = British Pound
CHF = Swiss Franc
CAD = Canadian Dollar
AUD = Australian Dollar
NZD = New Zealand Dollar

EUR/USD = "Euro"
USD/JPY = "Dollar Yen"
GBP/USD = "Cable" or "Sterling"
USD/CHF = "Swissy"
USD/CAD = "Dollar Canada" (CAD referred to as the "Loonie")
AUD/USD = "Aussie Dollar"
NZD/USD = "Kiwi"

- **Understanding Forex currency pair quotes:**



You will need to understand how to properly read a currency pair quote before you start trading them. So, let's get started with this:

The exchange rate of two currencies is quoted in a pair, such as the EURUSD or the USDJPY. The reason for this is because in any foreign exchange transaction you are simultaneously buying one currency and selling another.

If you were to buy the EURUSD and the euro strengthened against the dollar, you would then be in a profitable trade. Here's an example of a Forex quote for the euro vs. the U.S. dollar:

The first currency in the pair that is located to the left of the slash mark is called the base currency, and the second currency of the pair that's located to the right of the slash market is called the counter or quote currency.

If you buy the EUR/USD (or any other currency pair), the exchange rate tells you how much you need to pay in terms of the quote currency to buy one unit of the base currency. In other words, in the example above, you have to pay 1.32105 U.S. dollars to buy 1 euro.

If you sell the EUR/USD (or any other currency pair), the exchange rate tells you how much of the quote currency you receive for selling one unit of the base currency. In other words, in the example above, you will receive 1.32105 U.S. dollars if you sell 1 euro.

An easy way to think about it is like this: the BASE currency is the BASIS for the trade. So, if you buy the EURUSD you are buying euro's (base currency) and selling dollars (quote currency), if you sell the EURUSD you are selling euro's (base currency) and buying dollars

(quote currency). So, whether you buy or sell a currency pair, it is always based upon the first currency in the pair; the base currency.

The basic point of Forex trading is to buy a currency pair if you think its base currency will appreciate (increase in value) relative to the quote currency. If you think the base currency will depreciate (lose value) relative to the quote currency you would sell the pair.

- **Bid and Ask price**



$$1.36428 - 1.36407 = 0.00021$$

Arrows point from the labels "Ask", "Bid", and "Spread (2.1 pips)" to the corresponding terms in the equation above.

**Bid Price** – The bid is the price at which the market (or your broker) will buy a specific currency pair from you. Thus, at the bid price, a trader can sell the base currency to their broker.

**Ask Price** – The ask price is the price at which the market (or your broker) will sell a specific currency pair to you. Thus, at the ask price you can buy the base currency from your broker.

**Bid/Ask Spread** – The spread of a currency pair varies between brokers and it is the difference between the bid and ask the price.

Article by Nial Fuller and sourced from [learntotradethemarket.com](http://learntotradethemarket.com)

## FOREX BASICS: SETTING UP AN ACCOUNT

There are three main types of trading accounts - standard, mini and managed - and each has its own pros and cons. Which type of account is right for you depends on your tolerance for risk, the size of your initial investment and the amount of time you have to trade the market on a daily basis.

### Standard Trading Accounts

The standard trading account is the most common account. Its name derives from the fact that you have access to standard lots of currency, each of which is worth \$100,000.

This doesn't mean that you have to put down \$100,000 of capital in order to trade. The rules of margin and leverage (typically 100:1 in forex) mean that only \$1,000 needs to be in the margin account for one standard lot to be traded.

#### Pros

##### Service

Because the standard account requires adequate up-front capital to trade full lots, most brokers provide more services and better perks for individual investors who have this type of account.

##### Gain Potential

With each pip being worth \$10, if a position moves with you by 100 pips in one day, the gain will be \$1,000. This type of gain is not possible with any other account type unless more than one standard lot is traded.

#### Cons

##### Capital Requirement

Most brokers require standard accounts to have a starting minimum balance of at least \$2,000 and sometimes \$5,000 to \$10,000.

##### Loss Potential

Just as you have the opportunity to gain \$1,000 if a position moves with you, you could lose \$1,000 in a 100-pip move against you. This loss could be devastating to an inexperienced trader with just the minimum in his account.

This type of account is recommended for experienced, well-funded traders.

## **Mini Trading Accounts**

A mini trading account is simply a trading account that allows traders to make transactions using mini lots. In most brokerage accounts, a mini lot is equal to \$10,000, or one-tenth of a standard account. Most brokers that offer standard accounts will also offer mini accounts as a way to bring in new clients who are hesitant to trade full lots because of the investment required.

### **Pros**

#### **Low Risk**

By trading in \$10,000 increments, inexperienced traders can trade without blowing through an account, and experienced traders can test new strategies without a lot of money on the line.

#### **Low Capital Requirement**

Most mini accounts can be opened with \$250 to \$500, and they come with leverage of up to 400:1.

#### **Flexibility**

The key to successful trading is having a risk-management plan and sticking to it. With mini lots, it is a lot easier to do this, because if one standard lot is too risky, you can buy five or six mini lots and minimize your risk.

### **Con**

#### **Low Reward**

With low risk comes low reward. Mini accounts that trade \$10,000 lots can only produce \$1 per pip of movement, as opposed to \$10 in a standard account. This type of account is recommended for beginning forex traders or those looking to dabble with new strategies.

Note: Micro accounts, the sister account to the mini, are also available through some online brokers. These accounts trade in \$1,000 lots and have pip movements worth 10 cents per point. These accounts are typically used for investors with limited foreign-exchange knowledge and can be opened for as little as \$25.

## **Managed Trading Account**

Managed trading accounts are forex accounts in which the capital is yours but the decisions to buy and sell are not. Account managers handle the account just as stockbrokers handle a managed stock account, where you set the objectives (profit goals, risk management and so on) and they work to meet them.



There are two types of managed accounts:

- **Pooled Funds:** Your money is put into a mutual fund with that of other investors and the profits are shared. These accounts are categorized according to risk tolerance. A trader looking for higher returns will put his or her money into a pooled account that has a higher risk/reward ratio, while a trader looking for steady income would do the opposite. Read the fund's prospectus before investing.
- **Individual Accounts:** A broker will handle each account individually, making decisions for each investor instead of the combined pool.

## **Pro**

### **Professional Guidance**

Having a professional forex broker handle an account is an advantage that cannot be overstated. Also, if you want to diversify your portfolio without spending all day watching the market, this is a great choice.

## **Cons**

### **Price**

Be aware that most managed accounts will require a minimum \$2,000 investment for pooled accounts and \$10,000 for individual accounts. On top of this, account managers will keep a commission, called an "account maintenance fee", which is calculated per month or per year.

### **Flexibility**

If you see the market moving, you won't have the flexibility to place a position. Instead, you'll have to rely on the account manager to make the right choice. This type of account is recommended for investors with high capital and no time or interest to follow the market.

### **The Bottom Line**

No matter what account type is chosen, it is wise to take a test drive first. Most brokers offer demo accounts, which give investors an opportunity to not only use an account risk-free, but also to try out different platforms and services.

As a basic rule of thumb, never put money into an account unless you are completely satisfied with the investment being made. With the different options available for forex trading accounts, the difference between being profitable and ending up in the red may be as simple as choosing the right account type.

Article by David Hunt and sourced from investopedia.com

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