

# FOREX

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## A quick guide to trading Forex

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**EASYFOREX™** Trading Platform



# The Forex quick guide

## *for beginners and private traders*

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## Introduction: how to use this book

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This book has been developed to help the Forex beginner, though experienced and professional traders may find it a handy reference.

Beginners and novice traders are likely to benefit from reading the entire text, starting with Chapter 1, which provides a basic overview of what currency trading is, and how to get started.

The chapters are set out in a logical flow, but do not need to be read in order to make sense, as each works as a discrete unit unto itself. You may prefer to focus first on those chapters that you feel will complement your particular knowledge base best. Chapter 11 is a glossary of terms (listed alphabetically) used in the Forex business, that will prove helpful as you read this book, and may serve as a valuable reference as you become an experienced currency trader.

With the help of this guide, you will soon be ready to start trading Forex - in fact, with the assistance of the online [Easy-Forex™](#) team, you can start today. We wish you success in your trading, and hope you find this book interesting, helpful and enjoyable.

Before you start, please remember:

- **Forex trading (OTC Trading) involves substantial risk of loss, and may not be suitable for everyone.** Before deciding to undertake such transactions, a user should carefully evaluate whether his/her financial situation is appropriate for such transactions. Read more in the "[RISK WARNING](#)" section on [Easy-Forex site / Risk Disclaimer](#).
- Always ask your Forex dealer (the TRADING PLATFORM you wish to trade with) the questions we prepared for you in this book (chapter 9). Selecting the appropriate Forex TRADING PLATFORM is essential for success in handling your trading and monitoring your activity, as well as maximizing profits, while minimizing losses and costs.

Your comments and suggestions are highly appreciated (and may well be incorporated in our next edition)! Be our guest and write us:

[ForexBooks@Forex.info](mailto:ForexBooks@Forex.info)

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## [1] Forex? What is it, anyway?

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### The market

The currency trading (foreign exchange, Forex, FX) market is the biggest and fastest growing market on earth. Its daily turnover is more than 2.5 trillion dollars. The participants in this market are central and commercial banks, corporations, institutional investors, hedge funds, and private individuals like you.

### What happens in the market?

Markets are places where goods are traded, and the same goes with Forex. In Forex markets, the “goods” are the currencies of various countries (as well as gold and silver). For example, you might buy euro with US dollars, or you might sell Japanese Yen for Canadian dollars. It’s as basic as trading one currency for another.

Of course, you don’t have to purchase or sell actual, physical currency: you trade and work with your own base currency, and deal with any currency pair you wish to.

### “Leverage” is the Forex advantage

The ratio of investment to actual value is called “leverage”. Using a \$1,000 to buy a Forex contract with a \$100,000 value is “leveraging” at a 1:100 ratio. The \$1,000 is all you invest and all you risk, but the gains you can make may be many times greater.

### How does one profit in the Forex market?

Obviously, buy low and sell high! The profit potential comes from the fluctuations (changes) in the currency exchange market. Unlike the stock market, where share are purchased, Forex trading does not require physical purchase of the currencies, but rather involves contracts for amount and exchange rate of currency pairs.

The advantageous thing about the Forex market is that regular daily fluctuations - in the regular currency exchange markets, often around 1% - are multiplied by 100! ([Easy-Forex™](#) generally offers trading ratios from 1:50 to 1:200).

### How risky is Forex trading?

You cannot lose more than your initial investment (also called your “margin”). The profit you may make is unlimited, but you can never lose more than the margin. You are strongly advised to never risk more than you can afford to lose.

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### How do I start trading?

If you wish to trade using the [Easy-Forex™ Trading Platform](#), or any other, you must first **register** and then **deposit** the amount you wish to have in your margin account to invest. Registering is easy with Easy-Forex™ and it accepts payment via most major credit cards, PayPal, Western Union. Once your deposit has been received, you are ready to **start trading**.

### How do I monitor my Forex trading?

Online, anywhere, anytime. You have full control to monitor your trading status, check scenarios, change some terms in your Forex deals, close deals, or withdraw profits.



[Easy-Forex™](#) wishes you enjoyable and successful Forex trading!

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## [2] What is Forex trading? What is a Forex deal?

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The investor's goal in Forex trading is to profit from foreign currency movements.

More than 95% of all Forex trading performed today is for speculative purposes (e.g. to profit from currency movements). The rest belongs to hedging (managing business exposures to various currencies) and other activities.

Forex trades (trading onboard internet platforms) are **non-delivery** trades: currencies are not physically traded, but rather there are currency contracts which are agreed upon and performed. Both parties to such contracts (the trader and the trading platform) undertake to fulfill their obligations: one side undertakes to sell the amount specified, and the other undertakes to buy it. As mentioned, over 95% of the market activity is for speculative purposes, so there is no intention on either side to actually perform the contract (the physical delivery of the currencies). Thus, the contract ends by offsetting it against an opposite position, resulting in the profit and loss of the parties involved.

### Components of a Forex deal

A Forex deal is a contract agreed upon between the trader and the market-maker (i.e. the Trading Platform). The contract is comprised of the following components:

- The currency pairs (which currency to buy; which currency to sell)
- The principal amount (or "face", or "nominal": the amount of currency involved in the deal)
- The rate (the agreed exchange rate between the two currencies).

Time frame is also a factor in some deals, but this chapter focuses on Day-Trading (similar to "Spot" or "Current Time" trading), in which deals have a lifespan of no more than a single full day. Thus, time frame does not play into the equation. Note, however, that deals can be renewed ("rolled-over") to the next day for a limited period of time.

The Forex deal, in this context, is therefore an obligation to buy and sell a specified amount of a particular pair of currencies at a pre-determined exchange rate.

Forex trading is always done in currency pairs. For example, imagine that the exchange rate of EUR/USD (euros to US dollars) on a certain day is 1.1999 (this number is also referred to as a "spot rate", or just "rate", for short). If

an investor had bought 1,000 euros on that date, he would have paid 1,199.00 US dollars. If one year later, the Forex rate was 1.2222, the value of the euro has increased in relation to the US dollar. The investor could now sell the 1,000 euros in order to receive 1222.00 US dollars. The investor would then have USD 23.00 more than when he started a year earlier.

*However, to know if the investor made a good investment, one needs to compare this investment option to alternative investments. At the very minimum, the return on investment (ROI) should be compared to the return on a "risk-free" investment. Long-term US government bonds are considered to be a risk-free investment since there is virtually no chance of default - i.e. the US government is not likely to go bankrupt, or be unable or unwilling to pay its debts.*

Trade only when you expect the currency you are buying to increase in value relative to the currency you are selling. If the currency you are buying does increase in value, you must sell back that currency in order to lock in the profit. An open trade (also called an "open position") is one in which a trader has bought or sold a particular currency pair, and has not yet sold or bought back the equivalent amount to complete the deal.

It is estimated that around 95% of the FX market is speculative. In other words, the person or institution that bought or sold the currency has no plan to actually take delivery of the currency in the end; rather, they were solely speculating on the movement of that particular currency.

## Exchange rate

Because currencies are traded in pairs and exchanged one against the other when traded, the rate at which they are exchanged is called the exchange rate. The majority of currencies are traded against the US dollar (USD), which is traded more than any other currency. The four currencies traded most frequently after the US dollar are the euro (EUR), the Japanese yen (JPY), the British pound sterling (GBP) and the Swiss franc (CHF). These five currencies make up the majority of the market and are called the major currencies or "the Majors". Some sources also include the Australian dollar (AUD) within the group of major currencies.

The first currency in the exchange pair is referred to as the base currency. The second currency is the counter currency or quote currency. The counter or quote currency is thus the numerator in the ratio, and the base currency is the denominator.

The exchange rate tells a buyer how much of the counter or quote currency must be paid to obtain one unit of the base currency. The exchange rate also tells a seller how much is received in the counter or quote currency when

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selling one unit of the base currency. For example, an exchange rate for EUR/USD of 1.2083 specifies to the buyer of euros that 1.2083 USD must be paid to obtain 1 euro.

## Spreads

It is the difference between BUY and SELL, or BID and ASK. In other words, this is the difference between the market maker's "selling" price (to its clients) and the price the market maker "buys" it from its clients.

If an investor buys a currency and immediately sells it (and thus there is no change in the rate of exchange), the investor will lose money. The reason for this is "the spread". At any given moment, the amount that will be received in the counter currency when selling a unit of base currency will be lower than the amount of counter currency which is required to purchase a unit of base currency. For instance, the EUR/USD bid/ask currency rates at your bank may be 1.2015/1.3015, representing a spread of 1,000 pips (percentage in points; one pip = 0.0001). Such a rate is much higher than the bid/ask currency rates that online Forex investors commonly encounter, such as 1.2015/1.2020, with a spread of 5 pips. In general, smaller spreads are better for Forex investors since they require a smaller movement in exchange rates in order to profit from a trade.

## Prices, Quotes and Indications

The price of a currency (in terms of the counter currency), is called "Quote". There are two kinds of quotes in the Forex market:

Direct Quote: the price for 1 US dollar in terms of the other currency, e.g. - Japanese Yen, Canadian dollar, etc.

Indirect Quote: the price of 1 unit of a currency in terms of US dollars, e.g. - British pound, euro.

The market maker provides the investor with a quote. The quote is the price the market maker will honor when the deal is executed. This is unlike an "indication" by the market maker, which informs the trader about the market price level, but is not the final rate for a deal.

Cross rates - any quote which is not against the US dollar is called "cross". For example, GBP/JPY is a cross rate, since it is calculated via the US dollar. Here is how the GBP/JPY rate is calculated:



GBP/USD = 1.7464;

USD/JPY = 112.29;

Therefore: GBP/JPY = 112.29 x 1.7464 = 196.10.

## Margin

Banks and/or online trading providers need collateral to ensure that the investor can pay in the event of a loss. The collateral is called the “margin” and is also known as minimum security in Forex markets. In practice, it is a deposit to the trader's account that is intended to cover any currency trading losses in the future.

Margin enables private investors to trade in markets that have high minimum units of trading, by allowing traders to hold a much larger position than their account value. Margin trading also enhances the rate of profit, but similarly enhances the rate of loss, beyond that taken without leveraging.

## Maintenance Margin

Most trading platforms require a “maintenance margin” be deposited by the trader parallel to the margins deposited for actual trades. The main reason for this is to ensure the necessary amount is available in the event of a “gap” or “slippage” in rates. Maintenance margins are also used to cover administrative costs.

When a trader sets a Stop-Loss rate, most market makers cannot guarantee that the stop-loss will actually be used. For example, if the market for a particular counter currency had a vertical fall from 1.1850 to 1.1900 between the close and opening of the market, and the trader had a stop-loss of 1.1875, at which rate would the deal be closed? No matter how the rate slippage is accounted for, the trader would probably be required to add-up on his initial margin to finalize the automatically closed transaction. The funds from the maintenance margin might be used for this purpose.

Important note: [Easy-Forex™](#) does NOT require that traders deposit a maintenance margin. Easy-Forex™ guarantees the exact rate (Stop-Loss or other) as pre-defined by the trader.

If you don't wish to deposit “maintenance margin”, in addition to the margin required for trading, join [Easy-Forex™](#): no “maintenance margin”, trade from as little as \$50!

## Leverage

Leveraged financing is a common practice in Forex trading, and allows traders to use credit, such as a trade purchased on margin, to maximize returns. Collateral for the loan/leverage in the margined account is provided by the initial deposit. This can create the opportunity to control USD 100,000 for as little as USD 1,000.

There are five ways private investors can trade in Forex, directly or indirectly:

- The spot market
- Forwards and futures
- Options
- Contracts for difference
- Spread betting

Please note that this book focuses on the most common way of trading in the Forex market, "Day-Trading" (related to "Spot"). Please refer to the glossary for explanations of each of the five ways investors can trade in Forex.

## A spot transaction

A spot transaction is a straightforward exchange of one currency for another. The spot rate is the current market price, which is also called the "benchmark price". Spot transactions do not require immediate settlement, or payment "on the spot". The settlement date, or "value date" is the second business day after the "deal date" (or "trade date") on which the transaction is agreed by the trader and market maker. The two-day period provides time to confirm the agreement and to arrange the clearing and necessary debiting and crediting of bank accounts in various international locations.

## Risks

Although Forex trading can lead to very profitable results, there are substantial risks involved: exchange rate risks, interest rate risks, credit risks and event risks.

Approximately 80% of all currency transactions last a period of seven days or less, with more than 40% lasting fewer than two days. Given the extremely

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