EasyForex for Beginners/Pros without the Headache ~ Dead Simple, Experience Not Required..

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Table of Contents

Chapter 1: What the Stock Market is All About

In any business or moneymaking venture, preparation and foreknowledge are the keys to success. Without this sort of insight, the attempt to make a profitable financial decision can only end in disaster and failure, regardless of your level of motivation and determination or the amount of money you plan to invest.

In the stock market, this rule applies to the nth degree, as you are investing your own money in what could be considered a high risk wager, and you are playing with fire if you do not have at least a general background knowledge of how it functions. Since having a background in any area is helpful in guiding you down a path in that particular region, the more solid your basis of investment knowledge is, the more likely you are to profit from any attempt to trade on the open market.

In many ways, trading on the stock market can be compared to driving – you do not have to be an expert to get behind the wheel of a car, though you are expected to have some previous knowledge about basic traffic laws, including moving violations, safety regulations, and other legal vehicular infractions, which are learned through either specific study and coursework or even through some form of simple exposure (such as the years you have spent riding with your parents and others who have driven for years). You should be able to comprehend the basic tools used to navigate a car (where the break pedal is located versus the gas, and how to use the rearview mirror, for example), even if you have never touched a steering wheel.

The same is true in entering the world of the stock market. While you do not have to know all the terminology (you will not be short selling or determining your own long and short positions at first, so you do not have to understand these references completely, though you should be aware of them), you should certainly be versed in the basic functionality of trading stocks, bonds, securities, and other commodities. And just like someone who is behind the wheel of a car and getting ready to touch the gas pedal for the first time, you should start out with caution and work your way in slowly. A first time driver will first set the mirrors to his or her own liking, then put the car in gear, look for any interfering traffic, and ease onto the gas pedal, never flooring it and testing the engine coming out of the gate on the first attempt. Likewise, when you select your first investment, you should choose something stable with little fluctuation and not invest a large sum of money on this first venture.

When a person is learning to drive, he or she will be accompanied by another individual who is more experienced and can assist them in making better driving decisions and offering corrections that will aid in learning to handle the car more efficiently. In the stock market, there are stockbrokers and other experts who can give you input and advice to help you in building your knowledge of the commodities in which you are interested, essentially “steering” you toward better stock market buying and selling decisions.

You could spend hours and hours researching the stock market and its functionality, learning how to become involved in the trade and who to contact to get in the game, especially if your interest lies in the Foreign Exchange Market, which goes far beyond the level of complication of the domestic stock market. However, in this book, you will find all the basic information you need to get started down the path to trading success. All of the leg work and tough research has been done for you, collecting the data and knowledge into one source from which you can gain enough insight to make you a successful trader on the open market. All you have to do is read in order to gain knowledge and wisdom, step by step that will bring you to a heady level of success. In this ebook, you will find all such helpful information, all brought together in one single source for ease of reference.

How Investment Works

Any time you are going to be putting your money into a fund; it is a good idea to start by understanding what you are buying into. The stock market is a complicated entity, and doing minimal business in trading requires a fair amount of basic knowledge, as well as the understanding and acceptance of the high risk factor. The more you know in advance regarding the functionality of the system, the less likely it is that you will take a heavy hit, ending in devastating loss. First of all and probably most important in the trading business, you should understand what stocks actually are. When you buy or sell a stock on the open market, you should keep in mind that you are dealing with real objects, not pieces of paper; you are buying and selling real parts of a particular company, its product, or some other various commodity.

Owning a "share" means that you have actually bought into the company or product involved and become a partial owner of that commodity. Of course, you could be one of millions of shareholders, as most companies and products are broken into minute pieces of the whole, but you are still considered an investor in that company or product until you sell your shares.

Think of it as paying for a tank of gas in the car that your parents bought for you to drive. You may have even bought the oil filter that has been put on the car, and you may feel that this investment makes you part owner. However, when you look at the overall cost of the car, you have really contributed very little to that amount. However, as long as you continue to invest in the gas for the car and take care of the maintenance needs, you can claim part ownership of the car. Because the value of a company and its products or services can fluctuate continuously, the value of the stocks you hold will not be the same from day to day and can sometimes even change hourly. When the price per share drops and is considered low, it is an ideal time to purchase. This is the least expensive way to begin your trading venture, and working with a stock broker will allow you to gain more information as to what stocks are ripe for the purchase at any given time.

In doing so, you become a stockholder, and the value of your holdings will fluctuate from day to day. Your gamble (and hope!) is that the value of the company or product in which you have invested will increase or rebound from the low price at which you made your purchase. This is the goal of all traders and means that your stock will become more valuable.

As the value of your securities increases, so does your net worth. When the price of the stock in your possession reaches a high point, it is time to sell, making a profit on your original investment. Ideally, you will always sell your holdings for a reasonably higher price than the purchase amount and should never sell when the current value of the stock is below your initial purchase price. It is important to make sure that you do not purposely take a net loss because there are plenty of occasions when you could be forced to take a loss.

For example, if you purchase shares of a company at twenty dollars each, you should never sell them for eighteen dollars apiece. If possible, you want to hold off until they are each worth perhaps forty dollars, in essence doubling your money. Of course, this is just an example, and not all stocks will ever double in value, but the illustration is meaningful.

There are other, more complex ways to invest in the stock market. However, much like learning to ride a bicycle, you do not want to make your first attempt without training wheels.

Making Decisions In The Beginning

Let us return to driving as a reference. When you first start driving, you will not enter the highway and take the car at speeds of sixty and seventy miles per hour. Instead, you will stay in residential areas or at least on the access road, where there is less pressure to maintain such a high speed. In the stock market, you will also want to stay away from any expensive stocks or extremely volatile investments until you have become extremely comfortable with the process of trading.

There are small investment opportunities referred to as “penny stocks”, which will help you try out your sea legs and get a feel for how the stock market works prior to investing large sums of money and risking a big financial loss. These particular stocks cost literally pennies or small dollar amounts and typically only fluctuate fractions of a cent on any given day, making them extremely safe for those just starting out.

Once you get the hang of it and can better judge the market trends, you can comfortably move on to more complicated and adventurous areas of the market. It is like removing the training wheels from your bicycle or entering the freeway the first time at an hour of the day when there is no traffic to contend with.

Be aware that, just like you may fall off your bike once or twice and end up with some scrapes and bruises, you may lose money in an investment here and there. This is very typical, and investing in the stock market is a lot like gambling. In poker, you cannot expect to win every hand, and the same is true in the world of investments. Learning to watch the market trends, though, is similar to watching other cars as you join traffic and determining the correct speed and proximity to other cars for optimal safety. Such diligent study can help you improve your statistics drastically in a short time.

Chapter 2: Stock Market Trends

Understanding stock market trends can make your job of earning money in the market much simpler. In contrast, if you know little or nothing about these trends can cause serious loss.

Bulls And Bears

As you dig deeper into the market and learn more about the way it functions, you will begin to hear certain terms about marketing trends that seem to be repeated over and over again. Market trends are variable and volatile, both on a daily basis and over extended periods of time. In the past, for example, the United States has had devastating stock market crashes, but due to the freedom of a capitalist society, the American economy has always eventually rebound.

What does it mean for the market or a particular stock to rebound? Assuming that the value of a company or its stock has plummeted to a level that seem unrecoverable, leaving it practically worthless, it may feel as though that company is in danger of bankruptcy and falling off the scope of the free trade markets altogether. All of a sudden, however, the founder of that company may introduce a new

product over which consumers go wild. Everyone wants one, and this product may be in short supply upon its introduction, causing a race to the department store shelves.

When such a move occurs, the law of supply and demand will take over, making the company valuable once again. The stock price for that company's shares will recover, and the resulting gain in value would be considered a rebound – a return to the original status (or better) prior to the devastating loss.

The market trends either up or down, and there are specific references to strong changes in the market values that you may frequently hear. If several different areas of the market are in a steep downward slide, with values dropping rapidly (perhaps even ten or twenty percent in a few days), it is referred to as a bear market. You can remember this reference as though you are in the extremely dangerous position of being chased by a bear – if you are in possession of several stocks or other commodities worth a goodly sum, you have a serious chance of losing a great deal of value that could translate to a loss of net worth should you choose to sell, and it can be a similar, very dangerous situation.

Your best bet in these cases is to either sell before prices drop below your original purchase price or to hold onto the shares until the market rebounds. However, when the bear market reaches a low point, it can be an ideal time to get into the game, as it is rare for prices to drop below this point. Then, if you patiently await the recovery or rebound of the market, you can make a great deal of money from a bear market. These options will be discussed in more depth in later chapters.

At the same time, a bull market is a strong general upward trend for many stocks. You might compare this to the running of the bulls in Pamplona, Spain, every year. You are safer if you are indoors when the running occurs, and by the same token, if you own stock during a bull market, you are in a prime position to increase your net worth

and sell your shares, making a great deal of money. This is another idea will be further explored in greater detail further on in this ebook.

The Market Outlook

By taking note of various changes in the status of different available stock options, you will learn how to spot early market trends, giving you a clue to the future of a particular commodity, and this can only add to your chances for profitability. Prediction is a big part of the game when working in the stock market, since you can never be completely certain in what direction the market will swing at any given time.

However, you can make an educated guess, much the same way a meteorologist forecasts the weather. While he or she is not right 100% of the time, the forecast is usually quite close to the actual outcome of the weather because the meteorologist is a scientist who has studied weather trends and can pick out details that assist in making that educated guess. With a little time and seasoning, you can attain the same level of experience and intuition within the stock market.

Once you have become more comfortable functioning in the same world as the stockbrokers and day traders, and you feel confident (or at least less nervous or awkward) making such important financial decisions, you may decide to make your move toward the Foreign Exchange Market (more commonly known as Forex), and the goal of this book is to prepare you to operate within the boundaries of this more complex entity. Next, we will discuss some of the properties of Forex and how much more complex this stock market entity can be than a standard domestic market.

The Foreign Exchange Market is incredibly volatile, and there are a lot

more factors to consider when placing an order on this market than on a domestic market. The following chapter is an introduction to the exciting and somewhat scary world of the Foreign Exchange Market, or Forex.

Chapter 3: An Introduction to Forex

Forex is the nickname for the Foreign Exchange Market. In the United States, there are several branches of the stock market, each with their own name. For instance, some stocks trade on the Dow Jones, others on Nasdaq. Of course, all stock market transactions in the United States take place on the New York Stock Exchange (NYSE). In other countries the same is true. There may be one or more distinct markets.

However, international trade takes place on the market termed the Foreign Exchange Market, or Forex. Several countries across the world in almost every time zone participate in trade on Forex, with multiple currencies being utilized and stocks and commodities from all participating countries being offered for trade. Because there are so many nations and time zones involved, Forex does not function as a "business day" entity like most domestic stock markets. It remains open for trade 24 hours a day, 5 days a week.

Of course, these additional hours increase the risk factor intensely for those of us who are human and obviously cannot monitor our investments 24 hours a day. This means that the value of your holdings could potentially plummet overnight, while you sleep, because other countries are still trading while you are in a dream world. Again, it is like a car – there are many moving pieces under the hood, and just because you cannot see them does not mean they are

not functioning.

This is one reason for several safety options, like limit orders, which we will discuss later. This is also why it is strongly recommended that your first attempts to make money on the stock market are not transactions that take place within the Foreign Exchange Market but on a standard nine-to-five domestic trading market. In our car analogy, this would be comparable to having asked someone who has never driven or even changed the oil in a car to rebuild the engine.

Forex Functionality

While the functionality of Forex is the same as a domestic stock exchange, the commodities and prices are more volatile, and there are additional factors to take into considerations besides the typical risks associated with a domestic market. You will have to contend with not only the value of your stocks and your currency, but also the foreign currencies involved in any trades or exchanges on Forex, as well as the inconsistencies of values of particular goods and services across international borders. It is like driving a car with a standard transmission as opposed to an automatic.

On the domestic front, the work is mostly done for you, and all you have to do is navigate, much like an automatic transmission. However, shifting gears is quite similar to having to constantly take part in the currency conversion. It can be distracting, and it certainly complicates the act of driving.

Because the financial situation of many countries is not as secure as that of the United States, this can pose a formidable problem in determining where to invest your money and what to expect next in the international market. Knowing what countries and currencies are involved in Forex can assist you by allowing you to more closely monitor the financial situation in the nations with which you will be interacting.

The History Of Forex

When foreign trade began, it was not an international trade market. It was borne out of the Bretton Woods agreement in 1944, which set forth that foreign currencies would be fixed against the dollar, which was valued at $35 per ounce of gold. This precedent was first put into practice in 1967, when a bank in Chicago refused to fund a loan to a professor in sterling pound. Of course, his intention was to sell the currency, which he felt was priced too high against the dollar, then buy it back later when the value had declined, turning a quick profit.

After 1971, when the dollar was no longer convertible to gold and the domestic market was stronger, the Bretton Woods agreement was abandoned, and the currency conversion process became more variable. This allowed for a stronger backing in the foreign markets, and the United States and Europe began a strong trade relationship. In the 1980s, the market hours and usage was extended through the use of computers and technology to include the Asian time zones as well. At this time, foreign exchange equaled about $70 billion a day. Today, about twenty years later, the trade level has skyrocketed, with trade equaling close to $1.5 trillion daily.

Originally, trading across international lines was more difficult, with several different currencies involved across Europe. Though the major players in the European market were deeply involved in and veterans of international trade by the time other markets joined in, there were more currencies to keep track of – the franc, the pound,

the lira, and many more – than was reasonable. With the birth of the European Union in 1992, the wheels were set in motion to create a single currency that would be used across most of Europe, and the Euro was finally established and put into circulation in 1999.

Forex Today

While some countries have still not accepted the currency as their own (such as Britain, who still uses the sterling pound), the process of currency conversion has been simplified without the large number of various currencies that were previously dealt with. Instead of dozens of currencies, the main countries trade in five – U.S. dollars, Australian dollars, British pounds sterling, the Euro, and the Japanese Yen.

Today, the Foreign Exchange Market is international and worldwide. The market is open 24 hours a day, 5 days a week, to accommodate all of the time zones for all of the major players. These now include most of Europe, the United States, and Asian markets, especially Japan. Even Australia has joined the international trading markets, and since such nations are halfway around the world from some of the other top players, time zones obviously must be taken into consideration.

Another completely separate but perhaps more important concern with trading in Forex is understanding how trade works in multiple currencies. How can you compare the value of a stock across international lines if the values are expressed in two separate, non-equivalent currencies? And how do you measure gains and losses when conversion rate is constantly changing?

Chapter 4: Understanding Currency Conversion

When you begin trading on Forex, you have to learn how to convert currencies and note the difference in values, as well as how currencies are exchanged between international lines. This means studying not only domestic market trends and currency values, but also those of foreign markets.

Working With Multiple Currencies

Since Forex is the Foreign Exchange Market, you obviously cannot expect everyone within the market to trade in U.S. dollars (and why not, you might ask? – but remember that not everyone covets the U.S. dollar). With so many variables and volatile currencies being exchanged, how can you know a good buy or sell when you see one without complete awareness of the value of foreign currency?

The first step is to find a source that will give you a basic idea of the current exchange rate between your domestic currency and the foreign currency in question. You should do this as a base listing for any currency that with which you might become involved. Of course, this will not be consistent down to the cent or fraction of a particular currency throughout an entire business day, but at least you will have your starting point from which to begin, almost like North on a compass. Such sources can be found all over the Internet, as well as through many brokers, both on line and in person.

Currency Expression

It is also good to understand the means be which the currency conversion is expressed. The comparison is usually made in a ratio known as the cross-rate. In this configuration, the two currencies are listed in an XXX/YYY ratio, with the XXX position referred to as the base currency. The base currency is usually expressed as a whole number, while the YYY position is expressed as the decimal that most closely matches the based currency rate. It is sort of like making reference to miles per gallon or rotations per minute on a car – a direct comparison of one to the other in the form of a ratio.

The smallest fraction, or decimal, in which a currency can be traded, is called a pip and this is usually the degree to which a cross-rate is expressed. For example, if the British pound sterling can be traded in thousandths, the currency will be expressed to the third decimal place. The U.S. dollar is often expressed to the hundredth of a cent (the fourth decimal place).

In one cross-rate expression example, one U.S. dollar may be equivalent to 117.456 Japanese yen. This ratio would be expressed as 1.000/117.456. The base currency is almost always expressed as a single unit (as in one dollar as opposed to ten dollars), and frequently that unit of measurement is the U.S. dollar. Since the whole number value (or big figure, as it is referred to) of the secondary currency, or the currency in the YYY position in terms of conversion changes so infrequently, often only the decimal portion of the number is mentioned in the Foreign Exchange Market.

Therefore, in the ratio above, you may hear that the yen is trading at .456, with no mention at all of the 117 whole yen that is shown in the ratio. This is because the exchange rate may vary from 117.456 to 117.423, but not to 119.024. Experiencing a change in the big figure – the whole number ahead of the decimal – unless it was only because the number was already within a few thousandths, would represent much too large a shift in value for a single trading period and would