

Free!

Improve Your Current Financial  
Situation Through Trading Foreign  
Currencies.

An Introduction.

By

Henry W.

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## 1. Introduction to a new possibility

Before jumping into the introduction of the Foreign Exchange market, let me point out why I decided to write this book. The main reason is that I have been working so hard for long hours and for a pay that is not worth mentioning. I found that with that job that I had, I had neglected my loved ones, and even worked myself sick! I found myself not enjoying my work days, as I dragged myself out of bed to go to work and hoping the nightmare would end. Health problems started coming, and we all know that the costs just to visit a doctor and getting your medicines can be costly.

I started questioning my worth. I talked to my superiors and did get my increments, but I knew I was still underpaid. I knew I can get more. I knew that I am worth more than what they gave me. I can make more in less time than working from others for long hours and getting the same paycheck. In my line of work, I was already exposed to the foreign exchange market but did not utilize it until I was sick and tired of my work.

Severely overworked and underpaid, with theories in hand, I opened my currency trading account, and experimented with trading techniques and styles, and learning through experiences and external sources on how to trade better, while working full time.

There were losses incurred at first, but the frequency of losses made reduced, and the gains started coming. I know I can make more. I know I am worth more, and I feel better day by day.

Trading this flexible market does help in bringing in more cash, and I can even trade this market during working hours or after that when I am at home. And, I know that I can trade this market full time if I wanted to.

Why did I write this book? Maybe I want to let more people, who are like me, know about another option of making money and not to be stuck in a situation that they are not happy at day by day. So, let me start with the introduction of this flexible and rewarding market.

## II. What is the Forex market?

The foreign exchange market, or usually called the forex or FX market, is the largest and most traded financial market in the world. Foreign exchange is the simultaneous buying of one currency and selling another, and will be present when a Japanese father is looking to buy some Kiwi dollar for his children studying in New Zealand, a Malaysian company looking to invest in China and having to hedge the Malaysian Ringgit to the Chinese Yuan, a U.S. company buying parts from Canada having to pay in Canadian dollars, to an Australian traveler planning to travel to Bangkok having to buy some Thai Baht to use for his or her stay there.

There will be more examples to the above listed, but the 2 main reasons to buy and sell currencies are that about 5% of daily trades come from companies and governments that buy or sell products, or services, investments, and other interests in a foreign country or must convert profits made from foreign countries in foreign currencies to be converted into their own domestic currency. The other remaining daily trades come from speculation.

A most commonly traded market, and most liquid, will be the best market for any traders, as it will be faster and easier to buy and sell the stock or commodity. Also, liquidity is very important as it determines how quickly prices move between trades. Thus it will be easier to buy and sell at your target prices in a liquid market.

The above holds true for the foreign exchange market, and there are even more trading opportunities with the most commonly traded and most liquid currencies, which are the major currencies. It has been estimated that more than 85% of all daily transactions are taking place in the major currencies like US Dollar, Japanese Yen, Euro, British Pound, Swiss Franc, Canadian Dollar, and Australian Dollar.

### III. Trading hours

The currency market opens for 24 hours for six days a week, normally from Sunday 5:00 PM ET to Friday 5:00 PM ET, and trading normally begins in Wellington, New Zealand and moves around the international financial centers to like Sydney, Tokyo, London, and New York, enabling traders to react to news and events as they happen.

Currency trading does not stop for holidays and will be open even if the other financial markets, like stocks or futures exchanges, are closed. The only holiday for the currency market is New Year's Day, where the rest of the world stops to celebrate the arrival of a new year.

It is also the place where a hundred million dollar trade can take place in a matter of seconds and a click of a button. That will be the domain of the banks and the hedge funds. But, we do not have to worry about that, as with a daily average turnover of US\$2 trillion, the hundred million dollar trade looks small in comparison. It has been stated that to understand how big the average daily turnover is, it is about 10 to 15 times the size of daily trading volume on all the world's stock markets combined.

Currency trading can be divided into 3 sessions. As the market starts in Wellington, the currency markets begin in the Asia-Pacific session. The principal financial trading centers are Wellington, Sydney, Tokyo, Hong Kong, and Singapore. That means news and data reports from New Zealand, Australia, and Japan will have an impact on the market during this session.

As we move across the globe, the European financial centers begin to open, giving us the European/London session. News and data reports from the Eurozone (countries like Germany), Switzerland, and London will have an impact on the market during this session. As a result, European currencies like the British Pound, the Euro, and the Swiss Franc will likely be the biggest movers here.

Continuing our move across the globe, we will come to the North American session, where the key U.S. economic data will make an impact on the U.S.

Dollar. Reports are usually released at around 8.30 to 10.00 AM ET and the Canadian data coming out at around 7.00 to 9.00 AM ET.

With the overlapping of the European session with the Asian trading hours and the North American hours, this is the session where you can find the most market interest and liquidity.

Thus, after knowing the trading hours, you can plan your trading time.

#### iv. Differences of FX to other markets

Due to the large volume of participants in the market, the risk of insider information is greatly reduced. The market usually moves in anticipation to news that is released in the market. News like whether the Bank of Japan will increase lending rate etc. Thus, the news will be made known to everyone.

Also, the volatility of the major currencies rarely exceeds 1% per day, in contrast to the volatility of stocks, which may fluctuate by up to 10% over one trading session.

Trading is not centralized on an exchange and can be conducted between two counterparts over the telephone, or via an electronic network, as the currency market is considered an Over-The-Counter (OTC) or interdealer market. Thus you do not go to the New York Stock Exchange to place your currency orders, but you will have to go through a brokerage firm to place your orders. Placing your orders can mainly be done through the trading platform that your broker will provide to you, or through telephone calls to your broker.

Of course, the biggest advantage that you will get from trading the Forex market is that this market is open 24 hours for 6 days in a week instead of the standard a few hours of trading hours per day for some other financial and commodity futures and equities markets. With the continuous trading hours, you can easily enter into a trade at your preferred time, and correct your positions at any point in time. So, you can trade when you are in the office before your lunch, during your teatime if you have that privilege, before your boring meetings, before dinner, after dinner, during supper, while watching your late night movies... You decide.

Also, with the large number of players in the market, with the narrow spreads provided, you can easily meet your target profit level faster.

Remember, the best difference that the Forex market can provide you is to trade on your schedule, day or night, instead of you having to follow a certain trading hour for the day. You are the master of your trading time. This is useful for people who are burdened with a 9 to 5 work, or other

professions with long working hours. This opens the game to many individuals who might not have the time available to trade normally. You can also be traveling in another country and still be trading on your currency account.

v. How Currency Trading Works.

As you know from above, currency trading is the simultaneous buying of one currency and selling another. In a stock market, when a participant buys a share, he or she will own that share. When the participant wants to exit from the position, he or she will have to sell that share.

In currency trading, the purchase of a currency will have to involve the simultaneous sale of another currency. To put it simply, remember the example of the Australian traveler? For the traveler to be able to pay for food and expenses while he or she is staying in Bangkok, the traveler will have to buy some Thai Baht, and sell the Australian dollar, the domestic currency. Thus, when the traveler is at the money changer in the airport in Australia, he or she will have to sell the Australian dollar carried in the pocket, and buy the Thai Baht.

The logic of buying and selling simultaneously is easy if you see that you are looking to buy or sell the desired currency against another currency.

So if a trader is looking for the U.S. Dollar to strengthen, the trader will have to think that the dollar will have to go stronger against another currency. Thus currency trading comes in pairs, and traded or exchanged against one another.

For the major currencies that we have discussed above, the following will be the codes for the most frequently traded currency pairs:

Major U.S. Dollar Currency Pair:

- EUR/USD, or Euro-Dollar
- USD/JPY, or Dollar-Yen
- GBP/USD, or Sterling-Dollar
- USD/CHF, or Dollar-Swiss
- USD/CAD, or Dollar-Canadian
- AUD/USD, or Aussie-Dollar

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