ThinkMarkets®

BEGINNER TRADING GUIDE

HOW TO TRADE FOREX

LEARN WHAT FOREX IS, WHO PARTICIPATES & HOW YOU CAN TRADE IT

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The Forex Market Community

Global business requires payment transactions in a variety of currencies. As manufactures purchase parts and resources from locations around the world and pools of investment capital move into external markets, foreign exchange transactions (Forex) are required to support this movement of global currencies. The daily turnover in foreign exchange transactions exceeds $4 trillion dollars. These daily transactions are executed by banks, central banks, investment managers, hedge funds, corporations and individual traders. With so many active participants in the Forex markets and the fact that the market trades 24 hours a day 6 days a week the Forex market has become the largest most liquid financial market in the world.

Each market participant enters the Forex market with different intensions. Banks complete Forex conversions on behalf of their account holders and charge transactions fees to earn profits for the bank. Investment managers utilize Forex markets to diversify client holdings and gain exposure to global markets. Hedge funds use Forex markets as part of their trading strategies to capitalize on shifts in global trends. Corporations use the Forex market to facilitate foreign purchases of goods and services as well as using Forex to reduce exposure to holding foreign currencies that support their external business requirements. Finally there are individual traders from around the world that trade the Forex market in an effort to achieve personal gain.

Major Currencies in the Forex Market

Currency markets are extremely diverse with over 100 different official global currencies. However, in the Forex market there are major and minor currencies. The different classifications of Forex pairs are a reflection of the preferences of global business participants. Most business transactions are completed in the US. Dollar, the Euro, and the Yen followed by the British Pound, Australian dollar, Canadian Dollar and Swiss Franc. These currencies are combined together to form different Forex contracts known as the Majors. The Euro (EUR) vs. the US Dollar (USD), the British Pound (GBP) vs. the US Dollar (USD), the US Dollar (USD) vs. the Swiss Franc (CHF), and US Dollar (USD) vs. the Japanese Yen (JPY) are the most heavily traded pairs in the Forex market.

Along with the Majors, the Forex market provides hundreds of combinations of Forex pairs, known as the minors, offering unlimited trading combinations. The diversity of the Forex market is one of the primary reasons the market attract so many participants.

Trading Platform Overview – Desktop, Web, and Mobile

As a 100% electronic market, Forex trading is completed on Trading platforms offering feature rich options including tablet and mobile platforms providing traders with a wide variety of devices to execute their trades. While naming conventions may be different from platform provider to platform provider, trading platforms have basic essential features that all traders need to become familiar with.

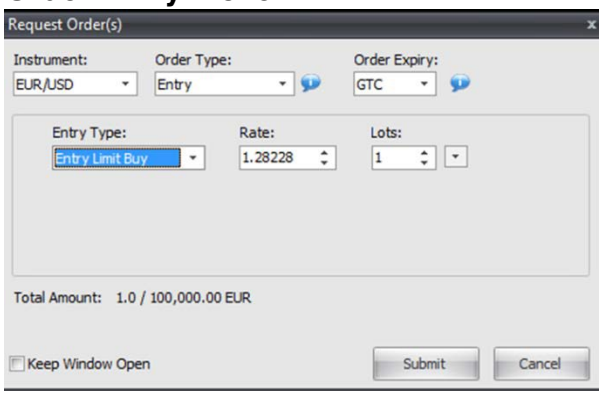
Market Data

Every platform will have a panel that provides streaming market data. On some platforms it may be called “Market View”, “MarketWatch”, “Current Rates” or some other variation. Regardless of the panel name this platform feature provides real-time pricing of Forex pairs as well as other products such as CFDs (Contract for Difference), Spot Metals, or any other trading products available through your broker. In many cases you can easily access many of the other platform features by simply right-clicking on your preferred trading product listed in your Market Data window then selecting your desired action such as initiating a new trade, opening a new chart, or adding that product to a watch list.

Charts

The second most common feature of trading platforms is charts. Platform charting packages can range from very simple to highly complex with a large number of features and customizable options. Most if not all platform charting packages provide user friendly features such as a choice of chart type normally Line, Bar, and Candlestick. On most popular trading platforms traders will have the ability to set the color scheme of their charts, select and add a wide variety of technical indicators, move between different time frames, and view multiple charts at the same time. Finally on some platforms you can also create and save full templates to allow the easy transition between one chart grouping and arrangement of indicators to a completely different template to meet the needs of trading a different Forex pair or trading other products.

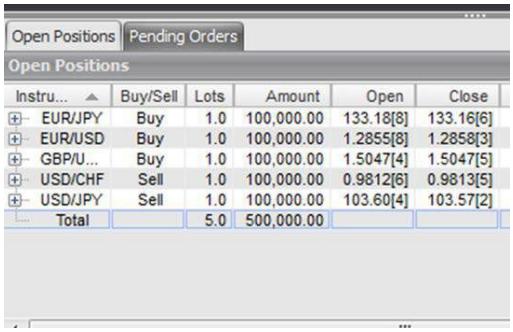
Order Entry Ticket



The third and most critical common element of a trading platform is the Order Entry Ticket. This feature is the trader's gateway to the market. Every trade will have an associated order ticket. When submitting a trade the trader specifies on the order ticket the product to trade, the volume of the trade (total order size) the order type (Buy or Sell), the price of the order (market or pending) and in many the desired stop-loss and take profit levels.

Trade Panel

The trade panel on most platforms serves as a central location that shows all active trades as well as any pending orders or other critical data for your orders such as price, order volume, profit or loss for active trades, margin requirements or other trading data. Some platforms provide additional tabs in the same panel for your account details that include balance as well as your overall profit or loss along with your completed order history.



Instru...	Buy/Sell	Lots	Amount	Open	Close
EUR/JPY	Buy	1.0	100,000.00	133.18[8]	133.16[6]
EUR/USD	Buy	1.0	100,000.00	1.2855[8]	1.2858[3]
GBP/U...	Buy	1.0	100,000.00	1.5047[4]	1.5047[5]
USD/CHF	Sell	1.0	100,000.00	0.9812[6]	0.9813[5]
USD/JPY	Sell	1.0	100,000.00	103.60[4]	103.57[2]
Total		5.0	500,000.00		

Desktop, Web, and Mobile

With the expansion of wireless internet and the reduction of costs in mobile devices most if not all brokers now provide desktop, tablet, and mobile trading platforms. As your trading platform reduces in screen size there will also be a reduction of features available. In most cases the options that are not available on a mobile device are generally the more advanced platform features that are best used on larger screens. All mobile devices will allow you access to some form of market data, charts, and order entry providing the mobile trader with easy access and full control over their trading.

Entering and Exiting a Trade

Before a new trade can be submitted a trader must have adequate margin available in his or her trading account. Margin requirements and the role of Leverage are important trading concepts to understand. Margin and leverage together determine your capital requirements to trade as well as your exposure to higher risk.

Margin and Leverage

With the opening of any trade a small amount of trading account funds will be set aside for each order. This is known as margin. Margin is the amount required to open a new Forex position. It is not a fee or a charge to your account. It is the amount set aside, from your free equity, for your new trade. Your required margin for each trade is determined by the leverage settings of your account. The leverage of your account is the multiplier of your purchasing power.

Example - For the below example we will assume that:

- Your account deposit currency is USD.
- A Standard lot equals 1.0 (100,000 units of currency)
- The volume of your trade is 0.10 a Mini Lot (10,000 units of currency).
- Leverage is 200 (i.e. 200:1)

If trading a USD/JPY pair:

Margin = Standard Lot x Lot Size / Leverage
Example (trading 0.1 lots of USD/JPY)
Margin Requirement = 100,000 x 0.1 / 200 = 50 USD

Following the above example 50 USD would be set aside in your account to open your 0.10 Lot USD/JPY trade. If you do not have sufficient funds in your account to support the size of your trading you will not have enough available margin to open new trades. With higher leverage comes lower margin requirements and increases your exposure to higher levels of risk and reward as you are now able to trade a larger volume. It is important to select a leverage level appropriate for your individual risk level tolerance.

The Order Ticket

Regardless of the market you are trading each and every order will be placed using a trade order ticket. As indicated before, the Order Entry Ticket is the most critical feature of your trading and it is important to understand the different features and options of your trade order.

Instrument – Use this feature to select and confirm the product you wish to trade. On some trading platforms you can change the market you are trading directly on the Trade Order Ticket so it is important to confirm that you are trading the product you intend to trade.

Volume – In this field of the Order Ticket you indicate the size of your trade. On some platforms it will be referred to as Lots on others it will be Volume, or Contracts, or other terms that are unique to your selected trading product. Depending on the product you are trading and the offerings of your broker you can often set your volume size in whole numbers as well as increments allowing for very precise trade size selection.

Order Types – Orders are available in 1 of 3 types – buy, sell, or close and one of 3 categories – market ,pending entry, and risk/reward orders also commonly known as stop loss or take profit orders. It is also important to understand the difference of order options available for new orders vs. closing orders.

Buy, Sell, and Close Orders – An order to buy is placed if the trader believes the market will go up in price. An order to sell is placed if the trader believes the market will go down in price. A close order is simply an order that will completely close the order you indicate. If your original order was a Buy order then the close order will enter a Sell order to close your buy position. Alternatively if your original order was a sell order then the close order will initiate a buy order to close you previous sell position.

Market or Pending Entry– A market order is a buy or sell order that will be completed (filled) at the best available market price. A pending entry order is an order to be completed once the market hits a specific price. Once set, this order will wait on the sideline until the market reaches a desired price. If the market never reaches the pending order price then the order will remain unfilled.

Stop Loss and Take Profit – Once your new buy or sell order is active in the market you can initiate additional orders to control your risk (stop loss order) or indicate where you wish to exit a trade with a profit (take profit order). Stop loss and take profit orders are a different type of pending order. They will remain on the sideline until the market reaches your stop loss or take profit price, only then will the order be executed to close your position. Some trading platforms will allow you to set your stop loss and take profit levels at the same time you submit your market or pending entry order. Other platforms will require these orders to be entered separately as well as manually canceling them if the associated order is later closed. When using multiple order types it is important to understand and keep track of all of your orders.

Easily Accessible Opportunities in Up and Down Markets

The Forex market is ideal for active traders because of its wide daily ranges providing a regular flow of volatility and many daily trading opportunities. Easily tradable in either direction, the Forex market delivers opportunities in both up or down markets. The major Forex pairs which include the Euro vs. the US dollar (EUR/USD), the British Pound vs. the US Dollar (GBP/USD), the US Dollar vs. the Japanese Yen (USD/JPY) and the US Dollar vs. the Swiss Franc (USD/CHF) have an average daily range of 112 PiPs. Individually these pairs can easily exceed their respective average ranges especially on days when important financial data is released. These wide daily ranges are one of the key factors that make Forex trading so popular.

The combination of expanding technologies and the world's largest financial market has reduced the barriers to entry in Forex trading. Competition amongst Forex brokers has lowered the cost of trading fees and access to trading platforms. As a 100% electronic market the Forex market is easily accessible via any internet enabled device and is very convenient as it operates 24 hours a day, 6 days a week offering trading opportunities to fit the schedule of any trader.

Trading Around the World

The Forex market consists of 24 hour trading days that move across the world covering three major trading sessions that at times overlap. Beginning in Asia, moving to Europe, and then on to the US and finally back to Asia again the Forex market provides a continuous flow of trading. There is no daily close where trading stops, only a rollover from one daily time cycle to the next and trading seamlessly continues.

The majority of market activity happens during the overlap between the ongoing European session and the US open at 8am EST (11 GMT). The overlap is significant because you have a large combination of trading volume and the added factor that a large number of important, and impactful new releases related to US economic data are released between the hour of 7:30am and 10am EST. The combination of large trading volume and new information results in potentially large market movement and many trading opportunities. It is for this reason that most professional traders operate during the Europe US overlap.

The Future of the Forex Market

The Forex market remains the largest financial market in the world and will continue to offer a wide variety of trading opportunities. As trends shift around the world and the East and West compete for global economic market share, the Forex market will provide unlimited trading opportunities with easier and easier methods of access as new technologies evolve. Today there are a wide variety of traditional trading platforms but new developments are gaining speed. Automated trading programs, connections to trade signal providers and the growing trend of social trading represents the beginning of the evolution of the Forex market. Those who take the opportunity to act now, and learn about Forex trading will have a distinct advantage in the Forex markets of tomorrow.