

Forex Flight Centre

Navigating your way through any of the financial markets can be overwhelming. The trepidation experienced from the extremities of high altitude dropping down to low, can cause even the most steadfast person to feel queasy.

Many investors have tried and tried, but find it difficult to trade the financial markets due to their hectic high-flying lifestyles, especially when trading is limited to specific days and timeframes within each week. In a society where we want everything NOW, we have no desire to be kept waiting - there is 'on demand' TV viewing – so why not with trading?

Well, actually there is!

This is exactly what the spot Forex offers - 24 hour trading for 6 days each and every week. And it's rarely even closed on public holidays.

This feature, plus the many other benefits like these;

- massive leverage,
- huge volatility (large price movement),
- profit from both directions,
- small spreads,
- no brokerage,
- 24 hour trading,
- High liquidity,

... are attracting millions of speculators to this 'jumbo jet' of the financial market place. It transacts over a staggering \$2.5 TRILLION dollars every single day. And is fast becoming the trading 'vehicle' of choice - this baby is made up of over 95% of speculators and dwarfs many of the stock exchanges combined together.

Central Trading Centres

The Forex today is a modernised platform, dealing currencies through central trading centres out of most major cities.

The Forex Flight Zone

It could be compared to a large international airport and its flight paths ...

- the pilots are the traders, all with varying degrees of knowledge and experience;
- the passengers and their connecting flights are like the exchange of contracts or shares between traders;
- the plane is like the Trading Plan, it provides the blueprint that facilitates the technologies, systems and faculties bringing them together to form a successful and seamless flight through the market, a flight that can be turbulent one minute then gentle next.

Currency Pairs

Everyone is aware that each country has a different currency, but generally does not give the exchange rates much thought during their day to day lives unless they fly from one country to another on holidays, or are purchasing goods internationally.

Currency trading is simply the simultaneous buying and selling of one currency against another. These two currencies together are known as a 'currency pair'. (This can be a little strange at first as share or derivative traders are used to buying shares within a company, or contracts over a price derived from an underlying market.)

As an example, the most popular pair is the Euro and the US Dollar, which is quoted in their codes as - EUR/USD. This means, if the Euro is rising, then the US Dollar is falling in comparison. The first quoted is the 'base' currency, and the second is the 'counter' currency. The profit/loss is quoted in the 'counter' currency – so if you were trading the EUR/USD, the profit/loss is quoted in US Dollars.

Majors & Crosses

The main currencies traded with the highest volumes are known as the 'Majors', (around 85% of market participants trade these), and are certainly the best place to trade to ensure good liquidity, (the ease of entering and exiting the market at a price closest to what you want).

The Forex Flight Zone

The Majors are as follows;

EUR/USD	Euro / US Dollar
AUD/USD	Australian Dollar (Aussie) / US Dollar
GBP/USD	UK Sterling (Cable) / US Dollar
USD/JPY	US Dollar / Japanese Yen
NZD/USD	New Zealand Dollar (Kiwi) / US Dollar
USD/CAD	US Dollar / Canada (Loonie)
USD/CHF	US Dollar / Swiss Franc (Swizzy)

The other, not so liquid pairs, are known as the 'crosses';

NZD/JPY, AUD/JPY, GBP/JPY EUR/JPY, EUR/GBP, EUR/CHF.

Time Zones

Although this powerful beast is a 24 hour market, a trader still needs to be mindful that the time frames when the major countries time zones overlap bring higher activity and more chance for profit. The major centres are New York, Tokyo and London.

The best trading hours are between 7:30pm EST and 9:00am EST. Not to say that there isn't opportunity available outside of these times, it is just that the market generally has less movement as the main volume of traders are asleep.

New York trades from 7.30am – 5.00pm EST; then Auckland, Sydney and Wellington trade from 3.00pm to 11.00pm EST; and finally Hong Kong & Singapore trade from 7.00pm to 3.00am.

Check out this site to see what is open according to your local time zone.

<http://forex.timezoneconverter.com/>

PIPs

The Forex jargon is slightly different to trading other markets. Price movement is quoted in PIPs, which is short for 'Price in Points' and are only a fraction of a cent, so are quite tiny, and the very reason for such large leverage in Forex trading to make the profits on these small price movements worthy.

Prices are displayed like this;

1.2020

The PIP is read as the last digit on the right, so if the market increased by 4 pips the price would now be quoted as;

1.2024

If the market increased by 1,000 pips the markets new price would be displayed instead as;

1.3020

The only differently quoted currency is the Japanese Yen which looks like this:

108.53

Leverage & Limited Risk

A great feature of the foreign exchange is the phenomenal leverage. And what I like is that every Forex flight passenger is given a parachute so worst case scenario they fall safely to the ground, (not 6 foot below).

What I am referring to is, the risk is 'limited' - as a maximum you can only lose the balance of your trading account.

The Forex Flight Zone

I know of many 'horror' stories of traders within other markets (like Futures and Derivatives) who were stupidly trading without a Stop Loss, (a predetermined level where their position is automatically closed out should the market go against their favour), who logged into their account to find that the market had plummeted and they were in the red far below the amount they initially had within their account.

One guy had to sell his home to fund the loss. Now that is absolutely crazy! When I trade, I want to sleep well at night.

If you have ever been up and down all night peaking at your trades because you are worried that the market might go against you, you will understand the anxiety that can go with this. And this is absolutely absurd behaviour, and really something that isn't required. It is simply causing you unnecessary worry.

Leverage means you put down a 'margin' also known as a 'deposit' and then borrow the rest. The leverage can be as small as 50:1 (even less), right up to as much as 400:1 – putting this into figures would mean if you had \$10,000 you could have a total exposure of \$500,000 (50:1) up to \$4,000,000 (400:1) to trade with.

And remember, be smart about your leveraging, both knowledge and ignorance can be leveraged...and you don't want it to be the latter!

Before you go jumping out of the plane without a parachute, it best to start small before moving into larger leverage, so request lower leverage in your account. Prove to yourself that you can make consistent profits on a lower leverage before you bump things up a little.

Finding a negative balance suddenly within your account cannot happen within the Forex market, as the Brokers have margin policies that need to be upheld to keep positions open, otherwise they automatically close out your positions.

Margin Policies

As a trader, it is your responsibility to ensure that your positions are monitored. Should they get close to your Brokers margin policy minimum then you need to either put more capital into your account, or increase your leverage (which decreases your margin).

Some brokers will close out all your positions regardless if they are a losing trade or in profit – so be mindful of this and check out your brokers margin policy carefully, otherwise you would be very disappointed to be closed out of a good trade, one that could have made up for the losses of the bad ones that brought you into the losing situation in the first place.

Your trading platform may have an alert system that makes you aware your account is getting low, however when the markets are moving fast there may not be enough time for you to make any adjustments.

Lots

Currencies are traded by 'Lot' sizes. There are two types of accounts; a Standard account and a Mini account. The difference between the two is the minimum lot sizes available to trade.

- Standard Account minimum is 100,000 currency units (1 lot).
- Mini Account minimum is 10,000 currency units (1 lot).

If a trader was to have a Standard Account and open 5 lots they would effectively have a position of 500,000 currency units. Whereas, a Mini account would have 50,000 currency units.

Spreads

No Commissions or Brokerage charged!

No, brokers aren't charities, they are there to make money just like everyone else – so before you think that you aren't paying anything out, you certainly are.

The spread is how the brokers make their money. Most brokers advertise that they do not charge commissions or brokerage, which is correct, but it sounds like they aren't taking a cut for themselves. As a trader we need to learn to read between the lines.

The Forex Flight Zone

When trading stocks both a spread and brokerage are charged to the trader. But for currency traders, most of the time just a spread is charged. Spreads are generally not fixed so can widen during times when news is released, so is not a definite amount. Some Forex brokers are charging a flat brokerage rate so the charge is a little more transparent.

The dealing spread is the price difference between the Bid and the Ask. You will see these two prices quoted on your dealing screen which are moving all the time.

So if the quote is 1.5755 and 1.5758 then that means the difference is a 3 pip spread.

Which ultimately means if you were to enter this market 'long', (the intention to profit from a rising market), and you sold immediately before the prices could change – then effectively the transaction has cost you 3 pips.



Calculating Pips

The best way to calculate the pips is to simply remove 4 zeros from the end of the currency lots that you have open for your positions that have four decimal places and if it is a trade in the Yen with only two decimal places then only remove two zeros.

For example if you had a 500,000 currency units (5 LOTS) and were trading the EUR/USD, you would need to remove 4 of the zeros starting from the right, then you would end up with 50.

- This figure 50 would translate into \$50 (per pip).
- Therefore if your position were to increase by 15 pips, your profit would calculate as follows;

$$\$50 \times 15 = \$750$$

Long & Short

When the markets have climbed up to the highest altitude of prices that anyone is prepared to pay, all participants then start to become fearful and buyers stop buying, and eventually there are more sellers than buyers so prices start to lose velocity and plummet back downward. The sellers have to lower their prices until they can attract a buyer.

This is what I love about the financial markets – profits are NOT ONLY made when prices rise.

Impossible you say? Well I can understand if think this concept sound completely off into the clouds but this sort of strategy allows savvy traders to pilot their planes into more profits regardless of market direction.

The first thing you need to ensure you have your head around, if you don't already understand this concept, is how profits are made regardless of direction. Obviously it is the difference between your opening price and your closing price.

- **Going Long:** This is what most people are familiar with, the price moves upwards and the trader profits. To open their position they clicked on the BUY button on their trading platform.

If a trader goes 'long' and opens a position at 1.0100 and then closes their position at 1.0200, then the 'difference' between their opening and closing prices is 100 pips profit.

- **Going Short or Short Trading:** This means the trader intends to profit from falling prices. So to open their position they need to first click the SELL button. Then to close out this position to bring it once again to a neutral state they need to click on the 'buy' button indicating the exact same amount of lots as originally opened.

So if this trader goes 'short' and opens a position by selling into the market at 1.0100 and the price falls down to 1.0000 where they close out their position, the difference between their opening and closing prices is 100 pips profit.

This is just one of the beautiful benefits where the trader doesn't need to search for another investment vehicle when prices decline; they just need to reverse their position to take advantage of the new trend. Short trading will be covered in much more detail in a following chapter.

Q&A - Questions

QUESTION & ANSWER SECTION

		Answers
Question 1:	Does the daily volume transacted exceed \$2.5 billion or trillion?	
Question 2:	Currencies are traded one against the other. True or False?	
Question 3:	The percentage of speculators within the Forex market is?	
Question 4:	The 'crosses' are the most popular currency pairs. True or False?	
Question 5:	Is the profit/loss quoted in the base or counter currency?	
Question 6:	The CHF is also known as the swizy. True or False?	
Question 7:	The most popular 'major' pair is?	
Question 8:	The best times to trade is when all major zones are open and overlap. True or False?	
Question 9:	The best trading hours are between ____ and ____ EST?	
Question 10:	1 pip is equal to 1 cent. True or False?	
Question 11:	The yen is quoted with only two decimal places. True or False?	
Question 12:	Brokers have the right to close out all positions regardless of their profit/loss should it be stated within their 'Margin Policy'. True or False?	
Question 13:	The minimum lot for a Standard Account is _____ currency units?	
Question 14:	The minimum lot for a Mini Account is _____ currency units?	
Question 15:	Brokers do not charge or receive any sort of payment for their service. True or False?	
Question 16:	How is the spread calculated? The difference between the B____ and the A_____.	
Question 17:	To calculate the pips, remove ____ zeros from the currency units held in positions with four decimal places, and ____ zeros from the currency units held in positions with two decimal places.	
Question 18:	To profit from a falling market is called 'going _____'	
Question 19:	To open a short position you need to click on the SELL button. True or False?	
Question 20:	If a trader took a short position and the market moved from their entry at 1.2040 to 1.2050 they have just lost 10 pips. True or False?	

Q&A - Answers

QUESTION & ANSWER SECTION

		Answers
Question 1:	Does the daily volume transacted exceed \$2.5 billion or trillion?	Trillion
Question 2:	Currencies are traded one against the other. True or False?	True
Question 3:	The percentage of speculators within the Forex market is?	95%
Question 4:	The 'crosses' are the most popular currency pairs. True or False?	False
Question 5:	Is the profit/loss quoted in the base or counter currency?	Counter
Question 6:	The CHF is also known as the swizzy. True or False?	True
Question 7:	The most popular 'major' pair is?	EUR/USD
Question 8:	The best times to trade is when all major zones are open and overlap. True or False?	True
Question 9:	The best trading hours are between _____ and _____ EST?	7.30pm-9.00am
Question 10:	1 pip is equal to 1 cent. True or False?	False
Question 11:	The yen is quoted with only two decimal places. True or False?	True
Question 12:	Brokers have the right to close out all positions regardless of their profit/loss should it be stated within their 'Margin Policy'. True or False?	True
Question 13:	The minimum lot for a Standard Account is _____ currency units?	100,000
Question 14:	The minimum lot for a Mini Account is _____ currency units?	10,000
Question 15:	Brokers do not charge or receive any sort of payment for their service. True or False?	False
Question 16:	How is the spread calculated? The difference between the B___ and the A___.	Bid & Ask
Question 17:	To calculate the pips, remove ___ zeros from the currency units held in positions with four decimal places, and ___ zeros from the currency units held in positions with two decimal places.	4 and 2
Question 18:	To profit from a falling market is called 'going _____'	Short
Question 19:	To open a short position you need to click on the SELL button. True or False?	True
Question 20:	If a trader took a short position and the market moved from their entry at 1.2040 to 1.2050 they have just lost 10 pips. True or False?	True