

# Forex Joy Flight Downward Spiral

It is interesting that there are many things out there in this world that we just don't know about or believe could be possible, simply because a concept doesn't fit within our current paradigms.

Did you know that planes don't need wings to fly, we simply built them that way because birds had them.

I bet if you walked up to any person on the street and asked them to name you two ways of profiting from price movement within the financial markets they would probably only be able to tell you one way - when prices rise.

It would be very unlikely that they would even conceive that you can make money when prices fall. I know personally when people hear that I trade the financial markets when prices are taking a fall they automatically assume that I am losing money.

When I express that you can also make money when prices fall, a strange blank emptiness passes over their face, then an awkward half-smile appears and they suddenly change the subject as though they didn't even hear what I said, and I am very sure they would be thinking I am slightly loony!

Each and every day our paradigms hold us back from 'seeing and hearing' opportunities that can very well assist us achieve more from our lives. The quality of our lives is determined by the quality of the questions we ask, and if we ignore things that seem a little strange just because we don't have references yet built within our minds we may overlook the best opportunity yet.

From when we are young we are taught that prices need to rise for there to ever be a profit. You buy something then sell it at a higher price, and you keep the difference.

Well this is correct, but ...

What if you were to sell something you didn't own, then when the price falls you buy the exact same item back at a cheaper price – again you have the difference in your pocket.

Let me explain it through an analogy with a physical item:

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Imagine if I borrowed a brand new mobile phone from a friend and said to them I would return it to them in one week's time. I then take that phone and sell it for the current market price of \$200 - so now have \$200 cash sitting in my pocket.

A few days later there is a massive phone sale at the local mobile phone dealer, they are slashing 40% off the prices – so I take the \$200 and buy the exact same brand of mobile phone for only \$120. I take that brand new phone back and return it to my friend.

I still have the \$80 profit in my pocket – which is simply the price difference of the transaction. My friend gets the phone, and I get a big profit.

In the financial markets traders make their money on the price difference between the open and the close, regardless if the prices go up or go down. The important part is that you get the direction right and open your position correctly for the direction you intend to profit from.

If you believe the prices are going to rise then you need to open a position by “BUYING” into the market (called ‘going long’), this way you will profit if the prices rise, but will lose should the prices fall; whereas, if you believe the prices are going to fall then you need to open a position by “SELLING” into the market, this way you will profit if the prices fall (also called ‘going short’), but lose should the prices rise.

So to reiterate, the prices need to go into the direction you believe the market is going to go.

The process is simple on your trading platform or when you call your broker to place your order. On your trading platform to open a ‘short’ position you simply click on the SELL button rather than the buy button to open your new position. Or tell your Broker that you want to open a SHORT position.

Being able to profit from both directions of the financial markets is the very reason I believe it is the most phenomenal investment vehicle available – you don't need to search for another vehicle to shift your money to when it goes out of ‘flavour’.

So this point is important when you are choosing a Trading Plan, ensure that it includes criteria that give the trader the ability to short sell the market. Traders can get to intimately know particular markets and trade them through all cycles of both bull and bear markets.

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Their system gives them indications when the market is strong or 'bullish' and it allows them to trade the market 'long' and profit as prices rise; then as soon as the market shows signals that it is highly likely to be weakening then the trader has rules within their plan that tells them to exit their 'long' position and then reverse into a 'short' position.

Normally there may be 1 or 2 extra criteria that need to apply within their Trading Plan rules that give more probability that the market is in fact more likely to have changed direction and is not just a larger than usual fluctuation against the main trend.

The nice thing is that when prices fall, they do so much more quickly than when prices rise. This is due to the psychology behind it; people are affected by fear much more than by optimism. So you can make money 'short selling' much faster than trading 'long'.

During Bear markets traders can get 'tricked' into thinking that the bottom of the market has arrived when they see a 'rally' against the trend, and you will often hear people saying;

"Now's a good time to Buy some shares" ...

– but a mentor of mine always used to tell me that even though a stock has fallen from \$10 down to \$5, doesn't mean it can't still fall down to \$1.

Looking at the following chart you can see the market rally every now and then, causing many novice investors to think that market has bottomed out and is on its way back up again. It almost tricks us to believe that there are no traders left to 'panic'.

Many financial planners will be advising to 'Dollar Cost Average' which means if you bought some stocks at \$10, now that they have dropped to \$5 you should accumulate more.

I'd rather do my best at trading the direction of the market – otherwise you just become a 'long term investor' holding onto positions waiting for them to finally come back into profit.

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Short trading is nothing new. In fact it has been around for as long as the markets have been around which is hundreds of years. Jesse Livermore who made millions from the markets in the early 1900's is known as the greatest 'Bear Trader', he shorted the massive US share market crash in 1929.

Whilst millions of people were losing money hand over fist because their belief systems had them believe that money could only be made if prices rose, Jesse was watching the money literally fall into his lap.

Having knowledge gives you power within any situation, and more often than not enables you to break free from the thinking of the crowd, (aka 'herd mentality').

## Q&A – Questions

### QUESTION & ANSWER SECTION

		Answers
<b>Question 1:</b>	Traders can only make money if prices rise. True or False?	
<b>Question 2:</b>	To profit from declining prices is called 'going' or 'selling' _____	
<b>Question 3:</b>	To open a short position a trader needs to click on the _____ button?	
<b>Question 4:</b>	If a trader has taken a short position and the prices rise do they still profit?	
<b>Question 5:</b>	Traders make their money on the price difference. True or False?	
<b>Question 6:</b>	Traders paradigms can cause their own demise when their belief systems stops them for seeing other opportunities. True or False?	
<b>Question 7:</b>	To close out a short position the trader needs to click on the _____ button?	
<b>Question 8:</b>	Prices fall quicker than they rise so traders can make money quicker when they short trade. True or False?	
<b>Question 9:</b>	Short sell is only a new concept since the internet was invented. True or False?	
<b>Question 10:</b>	Having knowledge depletes opportunity. True or False?	

## Q&A – Answers

### QUESTION & ANSWER SECTION

		Answers
<b>Question 1:</b>	Traders can only make money if prices rise. True or False?	False
<b>Question 2:</b>	To profit from declining prices is called 'going' or 'selling' _____	Short
<b>Question 3:</b>	To open a short position a trader needs to click on the _____ button?	Sell
<b>Question 4:</b>	If a trader has taken a short position and the prices rise do they still profit?	No
<b>Question 5:</b>	Traders make their money on the price difference. True or False?	True
<b>Question 6:</b>	Traders paradigms can cause their own demise when their belief systems stops them for seeing other opportunities. True or False?	True
<b>Question 7:</b>	To close out a short position the trader needs to click on the _____ button?	Buy
<b>Question 8:</b>	Prices fall quicker than they rise so traders can make money quicker when they short trade. True or False?	True
<b>Question 9:</b>	Short sell is only a new concept since the internet was invented. True or False?	False
<b>Question 10:</b>	Having knowledge depletes opportunity. True or False?	False