

EBOOK

INTRODUCTION TO FOREX



**1<sup>ST</sup> FOREX**  
TRADING ACADEMY

## Disclaimer

**T**rading in the Forex market is a challenging opportunity where above average returns are available to educate and experienced investors who are willing to take above average risk. However, before deciding to participate in Forex trading, you should carefully consider your investment objectives, level of experience and risk appetite. Most importantly, do not invest money you cannot afford to lose.

There is considerable exposure to risk in any foreign exchange transaction. Any transaction involving currencies involves risks including, but not limited to, the potential for changing political and/or economic conditions that may substantially affect the price or liquidity of a currency.

Moreover, the leveraged nature of FX trading means that any market movement will have an equally proportional effect on your deposited funds. This may work against you as well as for you. The possibility exists that you could sustain a total loss of initial margin funds and be required to deposit additional funds to maintain your position. If you fail to meet any margin call within the time prescribed, your position will be liquidated, without prior notice to you, and you will be responsible for any resulting losses. Investors may lower their exposure to risk by employing risk-reducing strategies such as “stop-loss” or “stop-limit” orders.

## TABLE OF CONTENTS

<b>Introduction</b>	<b>5</b>
<b>How to read and interpret a weekly economic calendar</b>	<b>23</b>
<b>How to manage your risk</b>	<b>35</b>
<b>Fundamental Analysis</b>	<b>38</b>
<b>Glossary</b>	<b>42</b>
<b>FAQ</b>	<b>53</b>
<b>Reading</b>	<b>56</b>

## SUMMARY

**1**st Forex Trading Academy's FOREX trading course intends to provide to all of the students analytical tools on the trading system and methodologies. In this respect, the purpose of the course is to provide an overview of the many strategies that are being used in this market and to discuss the steps and tools that are needed in order to use these strategies successfully. The Academy firmly believe that the key to success rely on the application of the basis trading elements and the discipline to stick to a strategy. Furthermore, the strategy chosen will have to meet your objectives and personality.

1st Forex Trading Academy is a school with a true knowledge conscience and we understand that the objectives of all of our students are different and this is precisely why we are offering a course that will respect the capabilities of each individual in order to apply the mandate of the Academy. For many years, this market was reserved to people working in the financial business and we want to share with the general public all the necessary information to access the trading market.

## Introduction

### Description of the Forex

The Forex market, **established in 1971**, was created when floating exchange rates began to materialize. The Forex market is not centralized, like in currency futures or stock markets. Trading occurs over computers and telephones at thousands of locations worldwide.

The Foreign Exchange market, commonly referred as FOREX, is where banks, investors and speculators exchange one currency to another. The largest foreign exchange activity retains the **spot exchange** (i.e., immediate) between five major currencies: US Dollar, British Pound, Japanese Yen, Eurodollar and the Swiss Franc. It is also the largest financial market in the world. In comparison, the US stock market may trade \$10 billion in one day, whereas the Forex market will trade up to **\$2 trillion in one single day**. The Forex market is an opened 24 hours a day market where the primary market for currencies is the 24-hour Interbank market. This market follows the sun around the world, moving from the major banking centres of the United States to Australia and New Zealand to the Far East, to Europe and finally back to the United States.

Until now, professional traders from major international commercial and investment banks have dominated the FX market. Other market participants range from large multinational corporations, global money managers, registered dealers, international money brokers, and futures and options traders, to private speculators.

There are three main reasons to participate in the FX market. One is to facilitate an actual transaction, whereby international corporations convert profits made in foreign currencies into their domestic currency. Corporate treasurers and money managers also enter the FX market in order to hedge against unwanted exposure to future price movements in the currency market. The third and more popular reason is speculation for profit. In fact, today it is estimated that less than 5% of all trading on the FX market is actually facilitating a true commercial transaction.

The FX market is considered an Over The Counter (OTC) or 'Interbank' market, due to the fact that transactions are conducted between two counterparts over the telephone or via an electronic network. Trading is not centralized on an exchange, as with the stock and futures markets. A true 24-hour market, Forex trading begins each day in Sydney, and moves around the globe as the business day begins in each financial center, first to Tokyo, London, and New York. Unlike any other financial market, investors can respond to currency fluctuations caused by economic, social and political events at the time they occur - day or night.

### History of the Forex

Money, in one form or another, has been used by man for centuries. At first it was mainly Gold or Silver coins. Goods were traded against other goods or against gold. So, the price of gold became a reference point. But as the trading of goods grew between nations, moving quantities of gold around places to settle payments of trade became cumbersome, risky and time consuming. Therefore, a system was sought by which the payment of trades could be settled in the seller's local currency. But how much of buyer's local currency should be equal to the seller's local currency?

The answer was simple. The strength of a country's currency depended on the amount of gold reserves the country maintained. So, if country A's gold reserves are double the gold reserves of country B, country A's currency will be twice in value when exchanged with the currency of country B. This became to be known as The Gold Standard. Around 1880, The Gold Standard was accepted and used worldwide.

During the first WORLD WAR, in order to fulfill the enormous financing needs, paper money was created in quantities that far exceeded the gold reserves. The currencies lost their standard parities and caused a gross distortion in the country's standing in terms of its foreign liabilities and assets.

After the end of the second WORLD WAR the western allied powers attempted to solve the problem at the **Bretton Woods Conference in New Hampshire in 1944**. In the first three weeks of July 1944, delegates from 45 nations gathered at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. The delegates met to discuss the postwar recovery of Europe as well as a number of monetary issues, such as unstable exchange rates and protectionist trade policies.

During the 1930s, many of the world's major economies had unstable currency exchange rates. As well, many nations used restrictive trade policies. In the early 1940s, the United States and Great Britain developed proposals for the creation of new international financial institutions that would stabilize exchange rates and boost international trade. There was also a recognized need to organize a recovery of Europe in the hopes of avoiding the problems that arose after the First World War.

The delegates at Bretton Woods reached an agreement known as the Bretton Woods Agreement to establish a postwar international monetary system of convertible currencies, fixed exchange rates and free trade. To facilitate these objectives, the agreement created two international institutions: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank). The intention was to provide economic aid for reconstruction of postwar Europe. An initial loan of \$250 million to France in 1947 was the World Bank's first act.

Under the Bretton Woods Exchange System, the currencies of participating nations could be converted into the US dollar at a fixed rate, and foreign central banks could convert the US dollar into gold at a fixed rate. In other words, the US dollar replaced the then dominant British Pound and the parities of the world's leading currencies were pegged against the US Dollar.

**The Bretton Woods Agreement was also aimed at preventing currency competition and promoting monetary co-operation among nations.** Under the Bretton Woods system, the IMF member countries agreed to a system of exchange rates that could be adjusted within defined parities with the US dollar or, with the agreement of the IMF, changed to correct a fundamental disequilibrium in the balance of payments. The per value system remained in use from 1946 until the early 1970s.

The United States, under President Nixon, retaliated in 1971 by devaluing the dollar and forcing realignment of currencies with the dollar. The leading European economies tried to counter the US move by aligning their currencies in narrow band and then float collectively against the US dollar.

Fortunately, this currency war did not last long and by the first half of the 1970's leading world economies gave up the fixed exchange rate system for good and floated their currencies in the open market. The idea was to let the market decide the value of a given currency based on the demand and supply of the currency and the economic health of the currency's nation. This market is popularly known as the International Monetary Market or IMM. This IMM is not a single entity. It is the collection of all financial institutions that have any interest in foreign currencies, all over the world. Banks, Brokerages, Fund Managers, Government Central Banks and sometimes individuals, are just a few examples.

This is very much the present system of exchange of foreign currencies. Although the currency's value is dependent on the market forces, the central banks still try to keep their currency in a predefined (and highly confidential) fluctuation band. They accomplish this by taking one or more of various steps.

The International Trade Organization that had been planned in the Bretton Woods Agreement could not be realized in the form initially envisaged - the US Congress would not endorse it. Instead, it was created later, in 1947, in the form of the General Agreement on Tariffs and Trade, which was signed by the US and 23 other countries including Canada. The GATT would later become known as the World Trade Organization. In recent years, the two international institutions created at Bretton Woods the World Bank and the IMF have faced a major challenge in helping debtor nations to get back on stable financial footing.

### *The Euromarket*

A major catalyst to the acceleration of Forex trading was the rapid development of the Eurodollar market; where US dollars are deposited in banks outside the US. Similarly, Euromarkets are those where assets are deposited outside the currency of origin. The Eurodollar market first came into being in the 1950s when Russia's oil revenue - all in dollars - was deposited outside the US in fear of being frozen by US regulators. That gave rise to a vast offshore pool of dollars outside the control of US authorities. The US government imposed laws to restrict dollar lending to foreigners. Euromarkets were particularly attractive because they had far less regulations and offered higher yields. From the late 1980s onwards, US companies began to borrow offshore, finding Euromarkets a beneficial center for holding excess liquidity, providing short-term loans and financing imports and exports.

London was, and remains the principal offshore market. In the 1980s, it became the key center in the Eurodollar market when British banks began lending dollars as an alternative to pounds in order to maintain their leading position in global finance. London's convenient geographical location (operating during Asian and American markets) is also instrumental in preserving its dominance in the Euromarket.

*Important dates in the Forex History*

**Early 20th Century**

Only in the 20th century paper money start regular circulation. This happened by force of legislation, the efforts of central banks to manage money supplies, and government control of gold supplies.

Within a country, this fiat money is as good as any other form. Internationally, it is not. International trade has always demanded a money standard accepted everywhere.

Gold and silver provided such a standard for centuries. An official Gold Standard regulated the value of money for about a century, prior to the start of World War I in 1914.

**1929**

The dollar has been perceived as more of a has-been, due to the Stock Market Crash and the subsequent Great Depression.

**1930**

The Bank for International Settlements (BIS) was established in Basel, Switzerland. Its goals were to oversee the financial efforts of the newly independent countries, along with providing monetary relief to countries with temporary balance of payments difficulties.

**1931**

The Great Depression, combined with the suspension of Gold Standard, created a serious diminution in foreign exchange dealings.

**World War II**

Before World War II, currencies around the world were quoted against the British Pound. World War II crashed the Pound. The only country unscarred by the war was the US. The US dollar became the prominent currency of the entire world.

**1944**

The United National Monetary and Financial Conference at Bretton Woods, New Hampshire discussed the financial future of the post-war world. The major Western Industrialized nations agreed to a «pegging» of the US Dollar, which in turn was pegged at \$35.00 to the troy ounce of gold. The future was designed to be stable, in part due to the tight governmental controls on currency values. The US dollar became the world's reserve currency.

**1957**

The European Economic Community was established.



## **1967**

At the IMF meeting in Rio de Janeiro, the Special Drawing Rights (SDRs) were created. SDRs are international reserve assets created and allocated by the IMF to supplement the existing reserve assets.

## **1971**

The Smithsonian Agreement, reached in Washington, D.C., had a transitional role to the free floating markets. The ranges of currencies fluctuations relative to the US dollar were increased from 1 percent to 4.5 percent band. The range of currencies fluctuating against each other was increased up to 9 percent. As a parallel, the European Economic Community tried to move away from the US dollar block toward the Deutsche Mark block, by designing its own European Monetary System.

In the summer of 1971, President Nixon took the United States off the gold standard, and floating exchange rates began to materialize.

## **1972**

West Germany, France, Italy, the Netherlands, Belgium and Luxembourg developed the European Joint Float. Member currencies were allowed to fluctuate within 2.25 percent band (the snake), against each other and 4.5 percent band (the tunnel) against the USD.

## **1973**

The Smithsonian Institution Agreement and the European Joint Float systems collapsed under heavy market pressures. Following the second major devaluation in the US dollar, the fixed-rate mechanism was totally discarded by the US Government and replaced by The Floating Rate.

## **1978**

The International Monetary Fund officially mandated free currency floating.

## **1979**

The European Monetary System was established.

## **1999**

January 1st, 1999, the Euro makes its official appearance within the countries members of the European Union.

## **2002**

January 1st, 2002, the Euro becomes the only currency and replaces all other twelve national currencies within the European Union and Monetary Market: Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal and Finland.

## TODAY

Today, supply and demand for a particular currency, or its relative value, is the driving factors in determining exchange rates.

Decreasing obstacles and increasing opportunities, such as the fall of communism and the dramatic growth of the Asian and Latin American economies, have created new opportunities for investors.

Increasingly vast amounts of foreign currencies began flowing into other countries banks.

## Players in the Forex Market

**Central Banks** - The national central banks play an important role in the (FOREX) markets. Ultimately, central banks seek to control the money supply and often have official or unofficial target rates for their currencies. As many central banks have very substantial foreign exchange reserves, their intervention power is significant. Among the most important responsibilities of a central bank is the restoration of an orderly market in times of excessive exchange rate volatility and the control of the inflationary impact of a weakening currency.

Frequently, the mere expectation of central bank intervention is sufficient to stabilize a currency, but in case of aggressive intervention the actual impact on the short-term supply/demand balance can lead to the desired moves in exchange rates.

If a central bank does not achieve its objectives, the market participants can take on a central bank. The combined resources of the market participants could easily overwhelm any central bank. Several scenarios of this nature were seen in the 1992-93 with the European Exchange Rate Mechanism (ERM) collapse and 1997 throughout South East Asia.

**Banks** - The Interbank market caters to both the majority of commercial turnover as well as enormous amounts of speculative trading. It is not uncommon for a large bank to trade billions of dollars daily. Some of this trading activity is undertaken on behalf of corporate customers, but a banks treasury room also conducts a large amount of trading, where bank dealers are taking their own positions to make the bank profits.

The Interbank market has become increasingly competitive in the last couple of years and the god-like status of top foreign exchange traders has suffered as equity traders are again back in charge. A large part of the banks' trading with each other is taking place on electronic booking systems that have negatively affected traditional foreign exchange brokers.

**Interbank Brokers** - Until recently, foreign exchange brokers were doing large amounts of business, facilitating Interbank trading and matching anonymous counterparts for comparatively small fees. With the increased use of the Internet, a lot of this business is moving onto more efficient electronic systems that are functioning as a closed circuit for banks only.

The traditional broker box, which lets bank traders and brokers hear market prices, is still seen in most trading rooms, but turnover is noticeably smaller than just a few years ago due to increased use of electronic booking systems.

**Commercial Companies** - The commercial companies' international trade exposure is the backbone of the foreign exchange markets. A multinational company has exposure in accounts receivables and payables denominated in foreign currencies. They can be protected against unfavorable moves with foreign exchange. That is why these markets are in existence. Commercial companies often trade in sizes that are insignificant to short term market moves, however, as the main currency markets can quite easily absorb hundreds of millions of dollars without any big impact. It is also clear that one of the decisive factors determining the long-term direction of a currency's exchange rate is the overall trade flow.

Some multinational companies, whose exposures are not commonly known to the majority of market, can have an unpredictable impact when very large positions are covered.

**Retail Brokers** - The arrival of the Internet has brought us a host of retail brokers. There is a numbered amount of these non-bank brokers offering foreign exchange dealing platforms, analysis, and strategic advice to retail customers. The fact is many banks do not undertake foreign exchange trading for retail customers at all, and do not have the necessary resources or inclination to support retail clients adequately. The services of such retail foreign exchange brokers are more similar in nature to stock and mutual fund brokers and typically provide a service-orientated approach to their clients.

**Hedge Funds** - Hedge funds have gained a reputation for aggressive currency speculation in recent years. There is no doubt that with the increasing amount of money some of these investment vehicles have under management, the size and liquidity of foreign exchange markets is very appealing. The leverage available in these markets also allows such a fund to speculate with tens of billions at a time. The herd instinct that is very apparent in hedge fund circles was seen in the early 1990's with George Soros and others squeezing the GBP out of the European Monetary System.

It is unlikely, however, that such investments would be successful if the underlying investment strategy was not sound. It is also argued that hedge funds actually perform a beneficial service to foreign exchange markets. They are able to exploit economical weakness and to expose a countries unsustainable financial plight, thus forcing realignment to more realistic levels.

**Investors and Speculators** - In all efficient markets, the speculator has an important role taking over the risks that a commercial participant hedges. The boundaries of speculation in the foreign exchange market are unclear, because many of the above mentioned players also have speculative interests, even central banks. The foreign exchange market is popular with investors due to the large amount of leverage that can be obtained and the liquidity with which positions can be entered and exited. Taking advantage of two currencies interest rate differentials is another popular strategy that can be efficiently undertaken in a market with high leverage. We have all seen prices of 30 day forwards, 60 day forwards etc, that is the interest rate difference of the two currencies in exchange rate terms.

## Daily or Position Trader, their strengths and weaknesses

### *Day-trading overview*

Day-trading, which was once the exclusive domain of the floor trader, is now fair game for all speculators. Inspired in part by large intraday price swings, instant availability of quotes, affordable high-powered computers and competitive commissions, the new wave of day-trading methods and systems has attracted thousands of traders in recent years. The undeniable thrill of trading within the time span of one day is, however, a double-edged sword: one that can hurt as well as heal. To be successful, a day-trader must have the discipline of a machine, the instincts of a fox, the emotions of a rock, the skills of a surgeon and the patience of a saint. (And a little luck wouldn't hurt either.) The day trader works more with the emotions along with the fundamental analysis.

### **Definition**

Very active currency trader who holds positions for a very short time and makes several trades each day. Day traders are individuals who are trying to make a career out of buying and selling stocks very quickly, often making dozens of trades in a single day and generally closing all positions at the end of each day. Day trading can be costly, since the commissions and the bid/ask spread add up when there are so many transactions.

### *Position Trading Overview*

Position Trader looks for occasional significant moves that may unfold quickly or over time. It patiently waits for ideal trade setups to occur during minor and major trend reversals in certain sectors, indexes or entire broad markets. Determination of these potential setups is derived from technical indicators, chart patterns, point and figure charts and fundamental news events. Once a move shows sign of development, hourly and intraday charts are monitored for optimum entry.

### **Definition**

Currency trader who, unlike most traders, takes a long-term, buy and hold approach. In currency trading, «long-term» refers to holding until the delivery date is close, usually 5-7 months.

Basically, a position trade approach is to enter the markets only during times of key reversal probability in order to capture large moves as they gradually or quickly unfold. It is designed for traders who favor a gradual, buy and hold approach when ideal trade conditions exist for high-odds success.

## Factors Affecting the Market

Currency prices are affected by a variety of economic and political conditions, most importantly **interest rates, inflation and political stability**. Moreover, governments sometimes participate in the Forex market to influence the value of their currencies, either by flooding the market with their domestic currency in an attempt to lower the price, or conversely buying in order to raise the price. This is known as Central Bank intervention. Any of these factors, as well as large market orders, can cause high volatility in currency prices. However, the size and volume of the Forex market makes it impossible for any one entity to «drive» the market for any length of time.

Another factor affecting the market, with an effect as important as the other factors mentioned above, is the news. Once released, the **news** have a direct outcome on the currency price as per news are always directly related to the economic stability of the market. Here's a list of channels that will provide you useful information on currency news:

**CNBC** – USD News

**Rob TV** – CAD News

**Bloomberg TV** – EUR News

## The Market Hours

The trading begins once the markets are officially open in Tokyo, Japan at 7:00 PM Sunday, New York time.

Afterwards, at 9:00 PM EST, Singapore and Hong Kong opens followed by the European markets in Frankfurt at 2:00 AM and in London at 3:00 AM.

When the clock reaches 4:00 AM, the European markets are in the hot spot and Asia just concluded its trading day.

Around 8:00 AM on Monday, the US markets opens in New York while Europe is slowly going down. Australia will take the lead around 5:00 PM and when it is 7:00PM again, Tokyo is ready to reopen.

## Benefits of Online Investing

Online trading has caused a major paradigm shift in investing. At the turn of the millennium, there are over 6 million online investment accounts, up from 1.5 million in 1997. As a result, start-up firms now compete directly with financial institutions to serve investors in the new Economy, and the clear winner is the customer. The competition between the brick and mortar institutions and the Internet-based companies has dramatically lowered the costs of investing, and empowered the individual investor to take control of their own investment strategy.

On-line trading will revolutionize the currency markets by making it accessible to the small and medium sized investor. For the first time, these investors have the ability to execute transactions of between \$100,000 and \$10,000,000 at the same prices the Interbank market offers for deals well over \$10,000,000. This benefits both those who wish to speculate on the direction of the currency markets for profit, as well as the money manager or corporate treasurer looking to hedge against unwanted exposure to future price fluctuations in the currency markets.

## Benefits of Trading FX on the Internet

- **Deal directly from live price quotes**
- **Instantaneous trade execution and confirmation**
- **Fast and efficient execution of deals**
- **Lower transaction costs**
- **Real-time profit and loss analysis**
- **Full access to market information**

### **Deal directly from live price quotes**

Very few on-line brokers are able to offer their clients real-time bid/ask quotes, which facilitates instantaneous deal execution - no missed market opportunities. Real-time prices also allow investors to compare an on-line broker's dealing spread with that of other pricing services, to ensure they are receiving the best possible price on all their Forex transactions.

Many on-line Forex brokers require their clients to request a price before dealing. This is disadvantageous for a number of reasons, primarily because it significantly lengthens the execution process from just a few seconds to possibly as long as a minute. In a fast paced market, this could make a significant difference in an investor's profit potential. Also, some of the more unscrupulous brokers may use the opportunity to look at an investor's current position. Once they have determined whether the investor is a buyer or a seller, they 'shade' the price to increase their own profit on the transaction.

### **Instantaneous trade execution and confirmation**

Timing is everything in the fast-paced Forex market. On-line trades are executed and confirmed within seconds, which ensures that traders do not miss market opportunities. Even the incremental extra time it takes to complete a transaction over the phone can mean a big difference in profit potential.

### **Lower transaction costs**

Simply, executing trades electronically reduces manual effort, thereby lowering the costs of doing business. On-line brokers are then able to pass along the savings to their client base.

### **Real-time profit and loss analysis**

The fast-paced nature of the Forex market compels traders to execute multiple trades each day. It is vital for each client to have real-time information about their current position in order to make well-informed trading decisions.

### **Full access to market information**

Access to timely and relevant information is critical. Professional traders pay thousands of dollars each month for access to major information providers. However, the very nature of the Internet affords users free access to reliable market information from a variety of sources, including real-time price quotes, international news, government-issued economic indicators and reports, as well as subjective information such as expert commentary and analysis, trader chat forums etc.

## **Benefits of Forex Trading vs. Equity Trading**

- **24 hour trading**
- **Liquidity**
- **50:1 Leverage to 400:1 Leverage**
- **Lower transaction costs**
- **Equal access to market information**
- **Profit potential in both rising and falling markets**

### **24-hour trading**

The main advantage of the Forex market over the stock market and other exchange-traded instruments is that the Forex market is a **true 24-hour market**. Whether it's 6pm or 6am, somewhere in the world there are always buyers and sellers actively trading Forex so that investors can respond to breaking news immediately. In the currency markets, your portfolio won't be affected by after hours earnings reports or analyst conference calls.

Recently, after hours trading has become available for US stocks - with several limitations. These ECNs (Electronic Communication Networks) exist to bring together buyers and sellers when possible. However, there is no guarantee that every trade will be executed, nor at a fair market price. Quite frequently, stock traders must wait until the market opens the following day in order to receive a tighter spread.

## Liquidity

With a daily trading volume that is **50 times larger than the New York Stock Exchange**, there are always broker/dealers willing to buy or sell currencies in the FX markets. The liquidity of this market, especially that of the major currencies, helps ensure price stability. Investors can always open or close a position, and more importantly, receive a fair market price.

Because of the lower trading volume, investors in the stock market and other exchange-traded markets are more vulnerable to liquidity risk, which results in a wider dealing spread or larger price movements in response to any relatively large transaction.

## 50:1 Leverage to 400:1 Leverage

Leveraged trading, also called margin trading, allows investors in the Forex market to execute trades up to \$250,000 with an initial margin of only \$5000. However, it is important to remember that while this type of leverage allows investors to maximize their profit potential, the potential for loss is equally great. A more pragmatic margin trade for someone new to the FX markets would be 5:1 or even 10:1, but ultimately depends on the investor's appetite for risk. On the other hand, a 100:1 leverage would be the foremost suggested margin trading to use for the best risk and reward return.

## Lower transaction costs

It is much more cost efficient to invest in the Forex market, in terms of both commissions and transaction fees.

Commissions for stock trades range from a low of \$7.95-\$29.95 per trade with on-line brokers to over \$100 per trade with traditional brokers. Typically, stock commissions are directly related to the level of service offered by the broker. For instance, for \$7.95, customers receive no access to market information, research or other relevant data. At the high end, traditional brokers offer full access to research, analyst stock recommendations, etc.

In contrast, on-line Forex brokers charge significantly lower commission and transaction fees. Some, like *FCStone FX*, charge LOW fees, while still offering traders access to all relevant market information.

In general, the width of the spread in a FX transaction is less than 1/10 as wide as a stock transaction, which typically includes a 1/8 wide bid/ask spread. For example, if a broker will buy a stock at \$22 and sell at \$22.125, the spread equals .006. For a FX trade with a 5 pip wide spread, where the dealer is willing to buy EUR/USD at .9030 and sell at .9035, the spread equals .0005.

## Equal access to market information

Professional traders and analysts in the equity market have a definitive competitive advantage by virtue of that fact that they have first access to important corporate information, such as earning estimates and press releases, before it is released to the general public. In contrast, in the Forex market, pertinent information is equally accessible, ensuring that all market participants can take advantage of market-moving news as soon as it becomes available.



## Profit potential in both rising and falling markets

In every open FX position, an investor is long in one currency and short the other. A short position is one in which the trader sells a currency in anticipation that it will depreciate. This means that potential exists in a rising as well as a falling FX market. The ability to sell currencies without any limitations is one distinct advantage over equity trading. It is much more difficult to establish a short position in the US equity markets, where the Uptick rule prevents investors from shorting stock unless the immediately preceding trade was equal to or lower than the price of the short sale.

## Currency pairs

The currencies are always traded in pairs. For example, EUR/USD, which means Euro over US dollars, would be a typical pair. In this case, the Euro, being the first currency can be called the **base currency**. The second currency, by default USD, is called the **counter or quote currency**.

As mentioned, the first currency is the base, therefore in a pair you can refer the amount of that currency as being the amount required to purchase one unit of the second currency.

So, if you want to buy the currency pair, you have to buy the EURO and sell the USD simultaneously. On the other hand, if you are looking forward to sell the currency pair, you have to sell the EURO and buy the USD.

**The most important thing to understand in a currency pair, or more precisely in a Forex transaction, is that you will be selling or buying the same currency.**

## Major currencies

**US Dollar** – The United States dollar is the world's main currency – a universal measure to evaluate any other currency traded on Forex. All currencies are generally quoted in US dollar terms. Under conditions of international economic and political unrest, the US dollar is the main safe-haven currency, which was proven particularly well during the Southeast Asian crisis of 1997-1998.

As it was indicated, the US dollar became the leading currency toward the end of the Second World War along the Bretton Woods Accord, as the other currencies were virtually pegged against it. The introduction of the Euro in 1999 reduced the dollar's importance only marginally.

The other major currencies traded against the US dollar are the Euro, Japanese Yen, British Pound and the Swiss Franc.

**Euro** – The Euro was designed to become the premier currency in trading by simply being quoted in American terms. Like the US dollar, the Euro has a strong international presence stemming from members of the European Monetary Union. The currency remains plagued by unequal growth, high unemployment, and government resistance to structural changes. The pair was also weighed in 1999 and 2000 by outflows from foreign investors, particularly Japanese, who were forced to liquidate their losing investments in euro-denominated assets. Moreover, European money managers rebalanced their portfolios and reduced their Euro exposure as their needs for hedging currency risk in Europe declined.

**Japanese Yen** – The Japanese Yen is the third most traded currency in the world; it has a much smaller international presence than the US dollar or the Euro. The Yen is very liquid around the world, practically around the clock. The natural demand to trade the Yen concentrated mostly among the Japanese keiretsu, the economic and financial conglomerates. The Yen is much more sensitive to the fortunes of the Nikkei index, the Japanese stock market, and the real estate market.

**British Pound** – Until the end of the World War II, the Pound was the currency of reference. The currency is heavily traded against the Euro and the US dollar, but has a spotty presence against the other currencies. Prior to the introduction of the Euro, both the Pound benefited from any doubts about the currency convergence. After the introduction of the Euro, Bank of England is attempting to bring the high U.K. rates closer to the lower rates in the Euro zone. The Pound could join the Euro in the early 2000's, provided that the U.K. referendum is positive.

**Swiss Franc** – The Swiss Franc is the only currency of a major European country that belongs neither to the European Monetary Union nor the G-7 countries. Although the Swiss economy is relatively small, the Swiss Franc is one of the four major currencies, closely resembling the strength and quality of the Swiss economy and finance. Switzerland had a very close economic relationship with Germany, and thus to the Euro zone. Therefore, in terms of political uncertainty in the East, the Swiss Franc is favored generally over the Euro.

Typically, it is believed that the Swiss Franc is a stable currency. Actually, from a foreign exchange point of view, the Swiss Franc closely resembles the patterns of the Euro, but lacks its liquidity. As the demand for it exceeds supply, the Swiss Franc can be more volatile than the Euro.

The Canadian Dollar and the Australian Dollar are also part of the currencies traded on the Forex market but do not count as being part of the major currencies due to their insufficient volume and circulation. They can only be traded against the US Dollar.

**Canadian Dollar** - Canada decided to use the dollar instead of a Pound Sterling system because of the ubiquity of Spanish dollars in North America in the 18th century and early 19th century and because of the standardization of the American dollar. The Province of Canada declared that all accounts would be kept in dollars as of January 1, 1858, and ordered the issue of the first official Canadian dollars in the same year. The colonies that would come together in Canadian Confederation progressively adopted a decimal system over the next few years.

**Australian Dollar** - The Australian Dollar was introduced in February 14, 1966, not only replacing the Australian Pound but also introducing a decimal system. Following the introduction of the Australian Dollar in 1966, the value of the national currency continued to be managed in accord with the Bretton Woods gold standard as it had been since 1954. Essentially the value of the Australian Dollar was managed with reference to gold, although in practice the US dollar was used. In 1983, the Australian government «floated» the Australian dollar, meaning that it no longer managed its value by reference to the US dollar or any other foreign currency. Today the value of the Australian Dollar is managed with almost exclusive reference to domestic measures of value such as the CPI (Consumer Price Index).

## Forex Symbol

Symbol	Currency
GBP	British Pound
USD	US Dollar
EUR	Euro
JPY	Japanese Yen
CAD	Canadian Dollar
CHF	Swiss Franc
AUD	Australian Dollar

Ex.: EUR/USD = Euro/US Dollar

## Definitions

### Pip

Price Interest point (Pip) is the term used in currency market to represent the smallest price increment in a currency. It is often referred to as ticks or points in the market. In EUR/USD, a movement from .9018 to .9019 is one pip. In USD/JPY, a movement from 128.50 to 128.51 is one pip.

### Average trading range

EUR/USD	76 PIPS
USD/JPY	105 PIPS
GBP/USD	96 PIPS
USD/CHF	140 PIPS
AVERAGE/TOTAL	104/417 PIPS

**Pip Values** – according to your trading platform from \$7.00 to \$10.00 USD.

**Pip Spreads** – according to your trading platform from 3 to 20 pips.

## **Volume**

The trading volume measures how much “money” is being traded. During some types of news breaks and when the New York’s exchange is open, the volume is obviously higher. The volume indicates us that more things can change. There no real strong correlation for volume, good trades is being developed even when the Forex volume is relatively low.

## **Buying and Selling short**

Buying = term to use when buying a currency pair to open a trade.

Selling short = term to use when selling a currency pair to open a trade.

Both terms, refer to things we do to open a trade.

On the other hand, to exit a trade, you will have to use the terms “selling” and “buying-back”. The term “selling” refers to what we do to exit a trade that initially started by “buying”. The term “buying-back” refers to what we do to exit a trade that initially started by “selling-short”.

Basically the term, “selling-short” can be referred to the futures and commodities market. For instance the mentality of buying a field to plant vegetables that will grow in the future is the same thing than buying a currency and to predict that it will eventually go short.

## **Bid/Ask Spread**

A spread is the difference between the bid and the ask price. The bid price is the price at which you may sell your currency pair for. The ask price is the price at which you must buy the currency pair. The ask price is always higher then the bid price. Profits in the market are made from charging the ask price for a currency pair and buying it from someone else at the bid price.

The bid/ask spread increases when there is uncertainty about what is going to happen in the market.

## **Technical Definitions**

### **Trading Platform**

A trading platform is, along with the charts, one of the most important tools that a trader will be using while trading on the Forex market. By definition, a trading platform is an exchange account where you can buy and sell a currency.

### **Entry Stop**

An entry stop is executed when the exchange rate breaks through a specific level. The client placing a stop entry order believes that when the market’s momentum breaks through a specified level, the rate will continue in that direction. The execution of a stop entry order may involve a limited degree of slippage, usually two pips or less.

## Entry Limit

An entry limit is executed when the exchange rate touches (not breaks) a specific level. The client placing a limit entry order believes that after touching a specific level, the rate will bounce in the opposite direction of its previous momentum. Limit entry orders are always executed at the specified level.

## Types of Forex Orders

**Market Order** – An order where you can buy or sell a currency pair at the market price the moment that the order is processed.

Example: If you are looking to place an order for JPY when the dealing price is 104.00/05, a market order will request to buy JPY at 104.00 or will request to sell JPY at 104.05.

**Entry order** – An order where you can buy or sell a currency pair when it reaches a certain price target. In theory, this can be any price. You can set an entry order for the low price of a time period or the high price of a time period.

“I want to buy this currency pair at a certain price, if it never reaches that price, I don't want to purchase the pair”.

The entry order allows you to choose a price and place an order to buy at that price.

**Stop Order** - An order that becomes a market order when a particular price level is reached and broken. A stop order is placed below the current market value of that currency.

Example: If you have an open buy JPY position, which you bought at 104.00 and you want to set a stop order in case JPY's value starts to depreciate (to stop your loss). Since the JPY's currency appreciates when the dealing rate moves from 104.00 closer to parity with the USD (102 JPY/1USD), a movement in the opposite direction would necessitate a stop order. For instance, you could set a stop order rate to sell JPY at 103.50, thus closing your position at a 50-pip loss.

**Limit Order** - An order that becomes a market order when a particular price level is reached. A limit order is placed above the current market value of that currency.

Example: If you have an open buy JPY position, which you bought at 104.00, and you want to set a limit order to protect your profit, you would set a limit order at a number, which indicates that JPY has appreciated, such as 104.5. When the market reaches 104.5, your position will automatically be closed, resulting in a 50-pip gain.

**OCO Order** – One Cancels Other. An order placed so as to take advantage of price movement, which consists of both a Stop and a Limit price. Once one level is reached, one half of the order will be executed (either Stop or Limit) and the remaining order canceled (either Stop or Limit). This type of order would close your position if the market moved to either the stop rate or the limit rate, thereby closing your trade, and, at the same time, canceling the other entry order.

Example: If you have an open buy JPY position, which you bought at 104.00, and you want to set a limit and a stop order, you could place an OCO order. If your OCO limit rate was 103.5 and OCO stop rate was 104.50, once the market rate reaches 103.5, the original JPY position would be closed and the stop rate would be canceled.

**If Done Order** – If Done Orders are supplementary orders whose placement in the market is contingent upon the execution of the order to which it is associated.

### Trade Intervals

The chart software will list, for each interval, an open price, a low price, a high price and a close price. The open price is the price at the beginning of the period. The low price is the lowest price achieved during the period while the high price is the highest price achieved during the period. The close price is simply the last price achieved during the period.

You can choose the time interval that you would like to trade under. Possibilities are: 1 minute, 5 minutes, 15 minutes, 30 minutes, 60 minutes, 4 hours, daily and week.

The larger the time interval is, the wider the price movement will be. For example, you should expect to see a higher price gain from a trade entered using daily charts than you would normally see when using 15 minutes charts. The daily chart based trade may take weeks or even months to run its course. On the other hand, the 30 minutes charts will have higher profits than the 15 minutes charts. However, you can get more profits in trading more trades using the 15 minutes charts.

## How to read and interpret a weekly economic calendar

In order to explain to you the importance of an economic calendar, let's read a little scenario to measure the impact of not using this great tool.

### **You've got a successful trading session, but why are you losing?**

You've done your homework.

Countless hours of seeking out the right guru (or piecing together your own system). Weeks of monitoring your guru's daily trade picks (or paper-trading and back-testing your homemade system).

You've done it by the book. No seat of the pants trading for you!

OK, now you're confident. It's time to put your money where your homework is. You've had your coffee and your first trade signal is before you.

Confidence high. Trade made. First loss. Not a problem. You understood before you started that successful traders both win and lose and "losing is part of the overall winning". You've also heard more than once that "successful traders don't win on every trade."

Moving on, still confident. Next trade made. Another loss, but this one hurt your pride a little because you got stopped out early in the trade, and then the market rebounded and would have hit your profit target if you weren't stopped out. You double check. Yep, you placed the stop where your trading system told you to place it. You kind of had a feeling that the early weakness in the market was just profit-taking from the previous day's trading, but you're trading a system and you must stick to it. Wounded, but resilient.

After a good night's sleep and a few mouse clicks, your new daily trades are in front of you. Hey, this one looks good! It's a little bit more risk than yesterday's trades had, but look at that profit potential! With a smiling face, the trade is executed. With a nice start to the trade, you're feeling good and you've moved your stop to breakeven, just like your system said.

Surprise piece of news – market reverses – blows through your stop – an "unexpected" loss. Is something wrong with the system? Has the overall market "personality" changed, affecting your system to the Core, rendering all your back-testing irrelevant? Your confidence turns to doubt.

You decide to "watch" the next trade... I mean, isn't it wise to make sure the system gets back on track before you "throw good money after bad?" Isn't that what a conservative trader does? Trade watched. It wins! In your head, you beat yourself up a little because you know that when you started your "live" trading, you made an agreement with yourself to take the first 10 trades "no matter what"... and here you wimped-out and missed a big winner that would have gotten you even.

### **What's happening?!!**

What's happening is that you are out of control. Your emotions are ruling your trading.

The above scenario plays out in every trader from time to time. New bee and veteran alike. The winning trader senses what is happening and nips it in the bud. The winning trader spend time EVERY DAY, working on “the discipline of trading”. Reads a chapter in his favorite psychological trading book, scans the “ten commandments of trading” that hangs on the wall over his/her desk, listens to his/her mental training software for futures traders... Something... Every Day... before trading begins.

Do not lose your hard earned money, as very often it's extremely hard to recover it. Fact is that most of the times you just never get it back and instead of making money you will be struggling to recover the losses incurred.

1st Forex trading academy will provide you with a weekly economic calendar and the dose of ammunition to be a winner in the battlefield. The support, resistance levels with possible high and low targets, and to establish the direction of the Forex trading market is our job.

### How to read and interpret a weekly economic calendar

The calendar lists the important economic events for the day, by the time at which they occur (or at midnight if they do not have a specific time).

Sections on the different panels below the main display give access to the financial events for each day and time of the current week, indicators and forecast. The calendar always opens on the current day and the displayed date is noted in the Title Bar for the calendar.

The currency displays all events for that week with additional information.

You use technical analysis to trade but the currency markets are driven by major fundamental announcements. Therefore, it is important to know exactly when these announcements will be made so you can take advantage of the big moves that follow or avoid losing through a sudden surprise reaction.

Sometimes consolidation takes place before a major fundamental announcement and you can benefit from a straddle trade. Economic calendars show in advance what time the economic data release will take place.

If traders are expecting an interest rate to rise and it does, there usually will not be much of a movement because the information will already have been discounted by the market. However, if the interest rate does not rise as expected, then the market may react violently.



## Economic Data Release Calendar

1st Forex Trading Academy  
June 21, 2004 – June 25, 2004

Date	Country/ Currency	Event	New York	GMT	CONSENSUS	PREVIOUS
Mon	JPY	Machine Tools Orders (y/y)	02:00	06:00		55.1%
	JPY	Convenience Store Sales (y/y) (May)	03:00	07:00		0.7%
	EUR	ECB Tumpei-Gugerell speech (Frankfurt)				
	EUR	EU-Japan Summit (Tokyo)				
Tue	CHF	Trade Balance (May)	03:45	07:15		CHF0.49Bn
	CAD	CPI (m/m) (May)	07:00	11:00	0.5%	0.2%
	<b>CAD</b>	<b>CPI Ex Core 8 (May)</b>	<b>07:00</b>	<b>11:00</b>	<b>1.5%</b>	<b>1.8%</b>
	CAD	Leading Indicators (m/m) (May)	08:30	12:30	0.6%	0.6%
	EUR	ECB Weekly Financial Statement - Balance (Jun 18)	09:00	13:00		869.05Bn
	EUR	ECB Weekly Currency Reserves (Jun 18)	09:00	13:00		175.2Bn
	JPY	Merchants Trade Balance Total	19:50	23:50	JPY800Bn	JPY1079.1Bn
Wed	<b>GBP</b>	<b>Bank of England Minutes (9/10 June Mtg)</b>	<b>04:30</b>	<b>08:30</b>		
	CAD	Wholesale Sales (m/m) (Apr)	08:30	12:30	0.2%	4.6%
	<b>JPY</b>	<b>Tertiary Industry Index (m/m) (Apr)</b>	<b>19:50</b>	<b>23:50</b>	<b>1.0%</b>	<b>1.0%</b>
	JPY	All Industry Activity Index (m/m) (Apr)	19:50	23:50	1.1%	1.1%
	JPY	BSI Large All Industry (q/q) (Q2)	19:50	23:50		5.1%
	JPY	Adjusted Merchandise Trade (May)	19:50	23:50	JPY1084.2Bn	JPY985Bn
	GBP	CBI Monthly Industrial Trends Survey	06:00	10:00		
Thu	USD	Initial Jobless Claims (Jun 19)	08:30	12:30		336K
	<b>USD</b>	<b>Durable Goods Orders (May)</b>	<b>08:30</b>	<b>12:30</b>	<b>1.5%</b>	<b>-3.2%</b>
	USD	New Home Sales (May)	10:00	14:00	1120K	1093K
	<b>JPY</b>	<b>Tokyo CPI (m/m) s.a. (Jun)</b>	<b>19:30</b>	<b>23:30</b>		<b>-0.1%</b>
	JPY	Tokyo CPI Ex Fresh Food (m.m) s.a. (Jun)	19:30	23:30		0%
	JPY	National Consumer Prices s.a. (May)	19:30	23:30		-0.3%
	JPY	National CPI Ex Fresh Food (m/m) (May)	19:30	23:30		-0.1%
	<b>JPY</b>	<b>BoJ Monetary Policy Meeting</b>				
	GBP	MPC members testify to TSC				
	<b>CAD</b>	<b>BoC Dodge speech (Paris)</b>				
Fri	EUR	ECB EZ - Current Account s.a. (Apr)	04:00	08:00	9Bn	5.1Bn
	GBP	BBA Releases UK Mortgage Lending Figures	04:30	08:30		
	EUR	Industrial New Orders s.a. (m/m) (Apr)	05:00	09:00	1.1%	1.5%
	<b>CAD</b>	<b>Retail Sales (m/m) (Apr)</b>	<b>08:30</b>	<b>12:30</b>	<b>0.7%</b>	<b>1.2%</b>
	CAD	Retail Sales Less Autos (m/m) (Apr)	08:30	12:30	0.2%	1.0%
	<b>USD</b>	<b>GDP (Q1)</b>	<b>08:30</b>	<b>12:30</b>	<b>4.5%</b>	<b>4.4%</b>
	<b>USD</b>	<b>Personal Consumption (Q1)</b>	<b>08:30</b>	<b>12:30</b>	<b>3.9%</b>	<b>3.9%</b>
	<b>USD</b>	<b>GDP Price Deflator (Q1)</b>	<b>08:30</b>	<b>12:30</b>	<b>2.6%</b>	<b>2.6%</b>
	<b>USD</b>	<b>University of Michigan Confidence (Jun)</b>	<b>09:50</b>	<b>13:50</b>	<b>93</b>	<b>95.2</b>
	USD	Existing Home Sales (May)	10:00	14:00	6.5Mn	6.64Mn

## Major Indicators

**APICS Survey** – Composite diffusion index of national manufacturing conditions. The APICS survey gives a detailed look at the manufacturing sector. This survey is less well known than the ISM, but can also indicate trends in production. The diffusion index does not move in tandem with the ISM index every month, but sometimes the two do move in the same direction. Since manufacturing is a major sector of economy, investors can get a feel for the general economic backdrop for various investments. An index level of 50 means no growth, but every 10 points signals gains of 4% in manufacturing.

**Business Inventories** – Dollar amount of inventories held by manufacturers, wholesalers and retailers. The level of inventories in relation to sales is an important indicator of the near-term direction of production activity. Investors need to monitor the economy closely because it usually dictates how various types of investments will perform. Rising inventories can be an indication of business optimism that sales will be growing in the coming months. By looking at the ratio of inventories to sales, investors can see whether production demands will expand or contract in the near future. The business inventory data provide a valuable forward-looking tool for tracking the economy.

**Chain Stores Sales** – Monthly sales volumes from department, chain, discount and apparel stores. Sales are reported by the individual retailers. Chain store sales are an indicator of retail sales and consumer spending results. Consumer spending accounts for two-thirds of the economy, so if you know what consumers are up to, you will have a pretty good handle on where the economy is headed. Sales are reported as a change from the same month a year ago. It is important to know how strong sales actually were a year ago to make sense of this year's sales. In addition, sales are usually reported for "comparable stores" in case of company mergers.

**Construction Spending** – Dollar value of the new construction activity on residential, non-residential and public projects. Data are available in nominal and real (inflation-adjusted) dollars. Businesses only put money into construction of new factories or offices when they are confident that demand is strong enough to justify the expansion. The same goes for individuals making the investment in a home. That's why construction spending is a good indicator of the economy's momentum.

**Consumer Confidence** – Survey of consumer attitudes concerning both the present situation as well as expectations regarding economic conditions conducted by The Conference Board. Five thousand consumers across the country are surveyed each month. The level of consumer confidence is directly related to the strength of consumer spending. Consumer spending accounts for two-thirds of the economy, so the markets are always dying to know what consumers are up to and how they might behave in the near future. The more confident consumers are about the economy and their own personal finances, the more likely they are to spend. With this in mind, it's easy to see how this index of consumer attitudes gives insight to the direction of the economy. Changes in consumer confidence and retail sales don't move in tandem month by month.

**Consumer sentiment** – Survey of consumer attitudes concerning both the present situation as well as expectations regarding economic conditions conducted by the University of Michigan. Five hundred consumers are surveyed each month. The level of consumer sentiment is directly related to the strength of consumer spending. Consumer spending accounts for two-thirds of the economy, so the markets are always dying to know what consumers are up to and how they might behave in the near future. The more confident consumers are about the economy and their own personal finances, the more likely they are to spend. With this in mind, it's easy to see how the index of consumer attitudes gives insight to the direction of the economy. Changes in consumer sentiment and retail sales don't move in tandem month by month.

**Consumer Price Index (CPI)** – Measure of the average price level of a fixed basket of goods and services purchased by consumers. Monthly changes in the CPI represent the rate of inflation. The CPI is the most followed indicator of inflation in the United States. Inflation is a general increase in the price of goods and services. The relationship between inflation and interest rates is the key to understanding how data like the CPI influence the markets. By tracking the trends in inflation, whether high or low, rising or falling, investors can anticipate how different types of investments will perform.

**Current account** – Measure of the country's international trade balance in goods, services and unilateral transfers. The level of the current account, as well as the trends in exports and imports, are followed as indicators of trends in foreign trade. U.S. trade with foreign countries hold important clues to economic trends here and abroad. The data can directly impact all the financial markets, but especially the foreign exchange value of the dollar.

### ***Books***

**Beige Book** - District banks have been printing summaries of the economic conditions in their districts since 1970. Initially this "Red Book" was prepared for policymakers only and was not intended for public consumption. It was made public in 1983. To mark this change, the color of the cover was changed and the publication became known as the Beige Book. The Beige Book is released two weeks prior to each FOMC meeting eight times per year. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its district through reports from bank and branch directors and interviews with key businessmen, economists, market experts, and other sources. The Beige Book summarizes this information by district and sector. An overall summary of the twelve district reports is prepared by a designated Federal Reserve Bank on a rotating basis. The report is primarily seen as an indicator of how the Fed might act at its upcoming meeting.

**Green Book** - The green book is prepared by staff members at the Board of Governors five days in advance of an FOMC meeting. It presents the staff's interpretations on several economic and financial variables and is divided into two parts. The first part of the green book describes and interprets significant developments in U.S. economic activity, prices, interest rates, flows of money and credit, and the international sector that have occurred in recent months or quarters. This section also presents forecasts of a number of variables for the next six to eight quarters. The second section of the green book provides additional information on recent developments. It describes trends in employment, production, and prices and the factors influencing them. This section also includes sector-by-sector analyses, commenting on such areas as housing, motor vehicle production, inventories, and spending by federal, state, and local governments. It reviews a range of developments in domestic financial markets, including credit patterns for banks, other financial intermediaries, non-financial businesses, and consumers. Finally, international developments are reviewed, with commentary on trade statistics, international financial transactions, foreign exchange markets, and economic activity in a number of foreign countries.

**Blue Book** – A day after the green book, the FOMC members receive the blue book. All blue books present the Board staff's view of monetary and financial developments for the few months surrounding the meeting in question. Each book first reviews recent developments in policy variables, including the Federal Funds rate, reserve measures, and the monetary aggregates. The blue book also presents two or three alternative policy scenarios for the upcoming inter-meeting period. The blue books written for the February and July meetings contain two extra sections to assist the Committee in its preparation for the Humphrey-Hawkins testimony. The first of these sections provides longer term simulations, covering the next five or six years. This section also offers estimates of how different assumptions about factors such as fiscal policy, the equilibrium unemployment rate, or the speed of adjustment to changed inflationary expectations would affect the predicted outcome. The second additional section in the February and July blue books sets out alternative annual ranges for growth of the monetary aggregates.

**Red Book** - Published every Tuesday, this report presents the detail sales of some 30 US stores produce the previous week and compared to the previous month. It is always a forecast which counts for the request of the households but a rather volatile measurement taking into consideration the more or less significant months for the detail business.

**Durable goods order** – The durable goods orders reflect the new orders placed with domestic manufacturers for immediate and future delivery of factory hardgoods. Orders for durable goods show how busy factories will be in the months to come, as manufacturers work to fill those orders. The data not only provides insight to demand for things like refrigerators and cars, but also business investment going forward. If companies commit to spending more on equipment and other capital, they are obviously experiencing sustainable growth in their business. Increased expenditures on investment goods set the stage for greater productive capacity in the country and reduce the prospects for inflation. It tells investors what to expect from the manufacturing sector, a major component of the economy and therefore a major influence on their investments.

**Existing home sales** – Number of previously constructed homes with a closed sale during the month. Existing homes (also known as home resales) are a large share of the market than new homes and indicate housing market trends. This provides a gauge of not only the demand for housing, but the economic momentum. People have to be feeling pretty comfortable and confident in their own financial position to buy a house. Even though home resales don't always create new output, once the home is sold, it generates revenues for the realtor. It brings a myriad of consumption opportunities for the buyer. Refrigerators, washers, dryers and furniture are just a few items home buyers might purchase. In a more specific sense, trends in the existing home sales date carry valuable clues for the stocks of home builders, mortgage lenders and home furnishings companies.

**Factory orders** – Dollar level of new orders for manufacturing durable goods and nondurable goods. It gives more complete information than durable goods orders which are reported one or two weeks earlier in the month. The orders data show how busy factories will be in coming months as manufacturers work to fill those orders. This report provides insight to the demand for not only hard goods such as refrigerators and cars, but nondurables such as cigarettes and apparel. In addition to new orders, analysts monitor unfilled orders, an indicator of the backlog in production. Shipments reveal current sales. Inventories give a handle on the strength of current and future production. All in all, this report tells investors what to expect from the manufacturing sector, a major component of the economy and therefore a major influence on their investments.

**Gross Domestic Product (GDP)** – The sum of all goods and services produced either by domestic or foreign companies. GDP indicates the pace at which a country's economy is growing (or shrinking) and is considered the broadest indicator of economic output and growth. Investors need to closely track the economy because it usually dictates how investments will perform. The GDP report contains a treasure-trove of information which not only paints an image of the overall economy, but tells investors about important trends within the big picture. GDP components like consumer spending, business and residential investments and price (inflation) indexes illuminate the economy's undercurrents, which can translate to investment opportunities and guidance in managing a portfolio.

**Housing starts** – Housing starts measure the number of residential units on which construction is begun each month. Home builders don't start a house unless they are fairly confident it will sell upon or before its competition. Changes in the rate of housing starts tell us a lot about demand for homes and the outlook for the construction industry. Furthermore, each time a new home is started, construction employment rises and income will be pumped back into the economy. Once the home is sold, it generates revenues for the home builder and a myriad of consumption opportunities for the buyer. Refrigerators, washers and dryers, furniture and landscaping are just a few things new home buyers might spend money on, so the economic "ripple effect" can be substantial especially when you think of it in terms of a hundred thousand new households around the country doing this every month. Trends in the housing starts date carry valuable clues for the stocks of home builders, mortgage lenders and home furnishings companies. Commodity prices such as lumber are also very sensitive to housing industry trends.

**IFO Business Climate in industry and trade** – The IFO Business Climate Index is a widely early indicator for economic development in Germany. Every month the IFO Institute surveys more than 7,000 enterprises in west and east Germany on their appraisals of the business situation (good/satisfactory/poor) and their expectations for the next six months (better/same/worse). The replies are weighted according to the importance of the industry and aggregated. The percentage shares of the positive and negative responses to both questions are balanced and a geometric mean is formed from the balances divided according to east and west Germany. The series of balances thus derived are linked to a base year (currently 1991) and seasonally adjusted.

**Import and export prices** – The prices of goods that are brought in the United States but produced abroad and the prices of goods sold abroad but produced domestically. These prices indicate inflationary trends in internationally traded products. Changes in import and export prices are a valuable gauge of inflation here and abroad. Furthermore, the data can directly impact the financial markets such as bonds and the dollar. Inflation leads to higher interest rates and that's bad news for stocks as well. By monitoring inflation gauges such as import prices, investors can keep an eye on this menace to their portfolio.

**Industrial production and capacity utilization** – The Index of Industrial Production is a chain-weight measure of the physical output of the nation's factories, mines and utilities. The capacity utilization rate reflects the usage of available resources. Investors want to keep their finger on the pulse of the economy because it usually dictates how various types of investments will perform. Industrial production show how much factories, mines and utilities are producing. Since the manufacturing sector accounts for one-quarter of the economy, this report has a big influence on market behaviour. The capacity utilization rate provides an estimate of how much factory capacity is in use. If the utilization rate gets too high (above 85%) it can lead to inflationary bottlenecks in production. The Federal Reserve watches this report closely and sets interest rate policy on the basis of whether production constraints are threatening to cause inflationary pressures.

**International Trade** – Measures the difference between imports and exports of both tangible goods and services. The level of the international trade balance, as well as changes in exports and imports, indicate trends in foreign trade. Changes in the level of imports and exports, along with the difference between the two (the trade balance) are a valuable gauge of economic trends here and abroad. Furthermore, the data can directly impact all the financial markets, but especially the foreign exchange value of the dollar. Imports indicate demand for foreign goods and services here and the US exports show the demand for US goods in overseas countries. The dollar can be particularly sensitive to changes in the chronic trade deficit run by the United States, since this trade imbalance creates greater demand for foreign currencies. This report gives a breakdown of US trade with major countries as well, so it can be instructive for investors who are interested in diversifying globally. For example, a trend of accelerating exports to a particular country might signal economic strength and investment opportunities in that country.

**Institute for Supply Management (ISM)** – Formerly known as the NAPM. Change was effective in January 2002. ISM is a composite diffusion index of national manufacturing conditions. Readings above 50% indicate an expanding factory sector. Investors need to keep their fingers on the pulse of the economy because it dictates how various types of investments will perform. By tracking economic data like the ISM, investors will know what the economic backdrop is for the various markets. The ISM gives a detailed look at the manufacturing sector, how busy it is and where things are headed. Since the manufacturing sector is a major source of cyclical variability in the economy, this report has a big influence on the markets. More than one of the ISM sub-indexes provides insight on commodity prices and clues regarding the potential for developing inflation. The Federal Reserve keeps a close watch on this report which helps it to determine the direction of interest rates when inflation signals are flashing in these data.

**Jobless Claims** – A weekly compilation of the number of individuals who filed for unemployment insurance for the first time. This indicator, and more importantly, its four-week moving average, portends in the labor market. Jobless claims are an easy way to gauge the strength of the job market. The fewer people filing for unemployment benefits, the more have jobs, and that tells investors a great deal about the economy. Nearly every job comes with an income which gives a household spending power. Spending greases the wheels of the economy and keeps it growing, so the stronger the job market, the healthier the economy. By tracking the number of jobless claims, investors can gain a sense of how tight the job market is. If wage inflation threatens, it's a good bet that interest rates will rise, bond and stock prices will fall, and the only investors in a good mood will be the ones who tracked jobless claims and adjusted their portfolios to anticipate these events. The lower the number of unemployment claims, the stronger the job market is, and vice versa.

**Leading Indicators** – A composite index of ten economic indicators that typically lead overall economic activity. Investors need to keep their fingers on the pulse of the economy because it dictates how various types of investments will perform. By tracking economic data like the index of leading indicators, investors will know what the economic backdrop is for the various markets. The index of Leading Indicators is designed to predict turning points in the economy such as recessions and recoveries. Incidentally, stock prices are one of the leading indicators in this index.

**Money supply** – The monetary aggregates are alternative measures of the money supply by degree of liquidity. Changes in the monetary aggregates indicate the thrust of monetary policy as well as the outlook for economic activity and inflationary pressures. The monetary aggregates (known individually as M1, M2 and M3) used to be all the rage a few years back because the data revealed the Fed's (tight or loose) hold on credit conditions in the economy. The Fed issues target ranges for money supply growth. In the past, if actual growth moved outside those ranges it often was a prelude to an interest rate move from the Fed. Today, monetary policy is understood more clearly by the level of the federal funds rate. Money supply fell out of vogue in the nineties, due to a variety of changes in the financial system and the way the Federal Reserve conducts monetary policy. The Fed is working on some new measures of money supply, and given the way economic indicators ebb and flow in popularity, don't be surprised if the monetary aggregates make a comeback in the future.

**New home sales** – The number of newly constructed homes with a committed sale during the month. The level of new home sales indicates housing market trends. This provides a gauge of not only the demand for housing, but the economic momentum. People have to be feeling comfortable and confident in their own financial position to buy a house. Furthermore, this narrow piece of data has a powerful multiplier effect through the economy, and therefore across the markets and your investments. By tracking economic data such as new home sales, investors can gain specific investment ideas as well as broad guidance for managing a portfolio. Each time the construction of a new home begins, it translates to more construction jobs, and income which will be pumped back into the economy. Once the home is sold, it generates revenues for the home builder and the realtor. Trends in the new home sales data carry valuable clues for the stocks of home builders, mortgage lenders and home furnishings companies.

**Nonfarm Payroll** – The employment situation is a set of labor market indicators. The unemployment rate measures the number of unemployed as a percentage of the labor force. Nonfarm payroll employment counts the number of paid employees working part-time and full-time in the nation's business and government establishments. The average workweek reflects the number of hours worked in the nonfarm sector. Average hourly earnings reveal the basic hourly rate for major industries as indicated in nonfarm payrolls. This is without a doubt the economic report that moves the markets the most. The employment data give the most comprehensive report on how many people are looking for jobs, how many have them, what they're getting paid and how many hours they are working. These numbers are the best way to gauge the current state and future direction of the economy. They also provide insight on wage trends, and wage inflation is high on the list of enemies for the Federal Reserve. By tracking the jobs data, investors can sense the degree of tightness in the job market.

**Personal Income** – Personal income is the dollar value of income received from all sources by individuals. Personal outlays include consumer purchases of durable and nondurable goods and services. The income and outlays data are another handy way to gauge the strength of the economy and where it is headed. Income gives households the power to spend and/or save. Spending greases the wheels of the economy and keeps it growing. The consumption (outlays) part of this report is even more directly tied to the economy, which we know usually dictates how the markets perform. Consumer spending accounts for two-thirds of the economy, so if you know what consumers are up to, you'll have a pretty good handle on where the economy is headed. Needless to say, that's a big advantage for investors.

**Philadelphia Fed Survey** – A composite diffusion index of manufacturing conditions within the Philadelphia Federal Reserve district. This survey is widely followed as an indicator of manufacturing sector trends since it is correlated with the ISM survey and the index of industrial production. The Philly Fed survey gives a detailed look at the manufacturing sector, how busy it is and where things are headed. Since manufacturing is a major sector of the economy, this report has a big influence on market behaviour. Some of the Philly Fed sub-indexes also provide insight on commodity prices and other clues on inflation.



**Purchasing Managers Index (PMI)** - The National Association of Purchasing Managers (NAPM), now called the Institute for Supply Management, releases a monthly composite index of national manufacturing conditions, constructed from data on new orders, production, supplier delivery times, backlogs, inventories, prices, employment, export orders, and import orders. It is divided into manufacturing and non-manufacturing sub-indices.

**Producer Price Index (PPI)** – PPI is a measure of the average price level for a fixed basket of capital and consumer goods paid by producers. The PPI measures price changes in the manufacturing sector. It measures average changes in selling prices received by domestic producers in the manufacturing, mining, agriculture, and electric utility industries for their output. Inflation at this producer level often gets passed through to the consumer price index (CPI). The relationship between inflation and interest rates is the key to understanding how data like the PPI influence the markets and your investments.

**Retail Sales** – Retail sales measure the total receipts at stores that sell durable and nondurable goods. Retail sales not only give you a sense of the big picture, but also the trends among different types of retailers. Perhaps auto sales are especially strong or apparel sales are showing exceptional weakness. These trends from the retail sales data can help you spot specific investment opportunities, without having to wait for a company's quarterly or annual report.

**Retail Prices Index (RPI)** - The RPI is the UK's principal measure of consumer price inflation. It is defined as an average measure of change in the prices of goods and services brought for the purpose of consumption by the vast majority of households in the UK. It is compiled and published monthly. Once published, it is never revised. RPI includes data on food and drink, tobacco, housing, household goods and services, personal goods and services, transport fares, motoring costs, clothing and leisure goods and services. Measures of inflation are vital tools for economists, business and government. The Bank of England's Monetary Policy Committee sets UK interest rates on the basis of a target figure for inflation set by Chancellor of the Exchequer. Wage agreements, pensions and change in benefit levels are often linked directly to the RPI. Utility regulators impose restrictions on price movements based on the RPI.

**Trade Balance** - The balance of trade is a statement of a country's trade in goods (merchandise) and services. It covers trade in products such as manufactured goods, raw materials and agricultural goods, as well as travel and transportation. The balance of trade is the difference between the value of the goods and services that a country exports and the value of the goods and services that it imports. If a country's exports exceed its imports, it has a trade surplus and the trade balance is said to be positive. If imports exceed exports, the country has a trade deficit and its trade balance is said to be negative.

The balance of trade sometimes refers to trade in goods only. The term should not be confused with the balance of payments, which is a much broader statement of international monetary flows, including not only trade in goods and services, but also investment income flows and transfer payments. A positive or negative balance may simply reflect a change in the relative cost of domestic products compared with international prices. For industries that rely heavily on exports, like the auto sector, a positive balance of trade may reflect a higher international demand, which can mean more jobs in that industry.

**Unemployment rate** - Percentage of employable people actively seeking work, out of the total number of employable people determined in a monthly survey by the Bureau of Labor Statistics. An unemployment rate of about 4% - 6% is considered "healthy". Lower rates are seen as inflationary due to the upward pressure on salaries; higher rates threaten a decrease in consumer spending.

## How to manage your risk

### Risk Management

Once you have the facts it is decision time. You can choose to do nothing or seek to reduce the exposures or to hedge them in whole or in part. **The unforgivable sins are to fail to consider the risks or fail to act on any decisions.**

The risk culture of your business is critical and must be established at the most senior level. Above all it calls for honesty. Too often individuals are criticized for decisions that, at the time, were in tune with the organization's perceived appetite for risk. But it is never easy to set down effective guidelines and the range of exposures for even a simple transaction can be extensive.

For example, an exporter needing to borrow to finance a sale in foreign currency may have to consider counterparty credit risk, funding risk and interest rate risk. The permutations are endless and the costs of hedging transactions to reduce or eliminate every possible exposure could potentially swallow any profit from a deal.

While losses are likely to be quantitative, the potentially infinite number of risk combinations means that the skills needed to make good decisions are usually qualitative. Even a computer programmed to consider every conceivable permutation of risks needs to be told what level of exposure is acceptable. Any program is only as good as the parameters and data fed into it by people who have themselves been conditioned by experience.

But what of the improbable, the wholly unexpected or the never-seen-before?

**Effective risk management requires thinking the unthinkable.** This does not in any way lessen the great value of the many sophisticated risk-management systems available. The problems come if people start to think of them, and the models they are based on, as infallible.

It is also common for the development of control systems to come after any new risk-related products. Be careful not to bet the business until the exposure is known. To be in business you must make decisions involving risk. However sophisticated the tools at your disposal you can never hope to provide for every contingency. But unpleasant surprises should be kept to a minimum.

*Ask yourself...*

- 1- **Can the risks to your business be identified**, what forms do they take and are they clearly understood - particularly if you have a portfolio of activities?
- 2 - **Do you grade the risks faced** by your business in a structured way?
- 3 - **Do you know the maximum potential liability** of each exposure?
- 4 - **Are decisions made on the basis** of reliable and timely information?

5 - **Are the risks large in relation to the turnover of your business** and what impact could they have on your profits and balance sheet?

6 - **Over what time periods** do the risks exist?

7 - Are the exposures **one-off or are they recurring?**

8 - **Do you know enough about the ways** in which you exposures can be reduced or hedged and what it would cost including the **potential loss of any upside profit?**

9 - Have trading and risk-management functions **or decisions been adequately separated?**

#### *Where to place stops*

We stop out of a trade when we no longer want to hold onto that particular position. The question that arises is: **WHY** do we want to get out of that trade?

There can be 2 reasons for stopping out of a trade. **EITHER** the market tells us that our intrinsic View or Directional Assessments itself was wrong. **OR** we stop out of a trade (even if we still believe in our basic Bullish or Bearish reading) because we think we can establish another position at a better level than the previous one.

The effort should be to choose a meaningful SL which is neither too close to the entry to get activated soon after entry (only to have the market go back in the original direction thereafter), nor so far away from the entry that we have no time or space left for follow up action.

The difficult part about the paragraph above is that it requires us to have a **Trading Plan or Strategy** and to choose our Entry much more carefully than we tend to do, in accordance with that plan.

Follow through action required we come back to the reasons for wanting to stop out. In the first case, when our directional reading has been proved wrong, we should look to enter into a trade in the opposite direction - a case of Stop-and-Reverse (SAR). It needs to be pointed out here that it is **NOT** necessary to SAR at the same instance and level all the time. If you are an intra-week (or longer) trader, you can enter into a reverse trade after stopping out of the original trade, allowing yourself time to reformulate your strategy.

## Risk and Reward

Traders have no business trading if risk/reward analysis is not at the top of their concerns. If a trader has no idea of the potential profit return on any given trade relative to the initial risk of taking the trade at all, his long-term profitability is in question.

Of course, for every trader, the best case scenario would be to minimize the first and maximize the second. But how do you get a handle on the potential reward in any investment and the risk you might be taking on?

Technical analysis – what’s popularly called charting – can help traders evaluate both risk and reward. The technical indicators used to read the charts will give you the simplest kind of picture you can get of a currency’s performance.

Simply by placing your support and resistance and by looking at the past performance of a currency you can get a record of its closing price over time. Once all of the elements are in place for an analysis, you can calculate your pips difference and verify, depending on the trend of the market, if you will make more profit or loss and if it is after all worth the position.

For example, if the market is in a bullish situation, you need to have a higher pips difference between your buy-stop order and your resistance price than between your support price and your buy-stop order so that your reward will be maximize and your risk will be minimize.

In each case, upside (bullish) or downside (bearish), the tools of technical analysis will tell you important things about risk and reward. Don’t trade without them.

## **Fundamental Analysis**

### **Introduction**

#### *Why Trade Forex*

The future is coming quickly upon us; very soon millions will be on the Internet trading foreign currency. Forex trading is gaining momentum now, as the word goes out that is a SAFE market to trade in.

The major reasons why Forex trading is catching on to the individual trader are Safety, Liquidity, Trade when you wish, guaranteed stop losses, and it's fun.

You do not have to sit in front of your computer all day long to trade the Forex, although once you see the power of Forex trading you might want to. Our teaching methods will show you the correct entry and exit points. All you have to do is glance at the charts occasionally to see if correct entry point is approaching, and if it is then get in on the trade. We will even show you how to leave your computer and have your trade be closed automatically at the level that you wish.

Everything you need to trade in the Forex market will be provided to you. You will be able to participate in the trading seminars, listen and watch experienced traders in our system live to your computer.

The world is getting more complex, but getting smaller at the same time. The Internet has made information accessible to anyone on the planet. We urge you to educate yourself in the techniques of 1st Forex trading academy, as it is already becoming the best way to increase your income from your own computer.

Don't be the one that says, «Forex, I could have been in that.» It's time for 1st Forex Trading Academy to teach you how to make money with money. After all, when you boil it down, that is what currency trading really is.

Forex fits into your trading plan than gets started. Don't be surprised that you can use various trading vehicles in the world of Forex.

#### *Advantage of Forex Currency Trading*

Foreign Exchange trading (also called Forex, FX, or currency trading) describes trading in the many currencies of the world. It is the largest and least regulated market providing the greatest liquidity to investors. Daily volume in the currency markets is around \$1.6 trillion. By comparison, the NYSE daily volume averages \$25 billion a day.

The spot Forex market is the most liquid. Spot, meaning that trades are settled within two banking days. There is no central exchange of physical location. Trading takes place over-the-counter, 24-hours a day directly between the two telephones and computer.

Participants in Forex include central banks, corporations, individual investors and speculators, and hedge funds. With the advent of electronic trading platforms, self-directed investors and smaller financial firms now have access to the same liquidity as larger market participants.

Trading, or speculation, makes up 95% of the daily volume. The other 5% of daily volume consists of governments and commercial companies converting one currency into another from buying and selling goods and services.

### Description

Fundamental analysis requires, among other things, a close examination of the Forex in order to determine its current financial strength, future growth and profitability prospects, and current management skills, in order to estimate whether the currency price is undervalued or overvalued.

A good deal of reliance is placed on annual and quarterly earnings reports, the economic, political and competitive environment facing the country, as well as any current news currency or rumors relating to the economy. Simply put, fundamental analysis concerns itself with the «basics» of the business in assessing the worth of a currency. Fundamental analysis may be the preferred method to use for mid to longer term investors. However, it is not suitable for use by day traders because of the amount of research required, and the fact that trades are entered into and exited within a very short time frame.

At its broadest, Fundamental Analysis studies any data that might be expected to impact the price or perceived value of a currency, other than analyzing the trading patterns of that Forex itself. Fundamentals include economic factors, industry-specific trends, capital market conditions, and company-specific data and qualities. Within fundamental analysis lie the equally broad concepts of quantitative analysis, where economic or company-specific numerical data are analyzed with computer software and other objective means, and qualitative analysis, which examine less tangible concepts such as technology strength and management effectiveness.

### Read and understand a Forex Quote

A Forex quote is always a two-sided quote with a 'bid' and 'offer'. The 'bid' is the price at which you can sell the base currency (i.e. buy the second currency). The 'offer' is the price at which you can buy the base currency (i.e. sell the second currency).

As mentioned before, the first currency listed is the base currency. In the major currency pairs the US dollar is traditionally treated as the base currency this includes USD/JPY, USD/CHF and USD/CAD. In this case \$1 USD (the base currency) is quoted in terms of the second currency. For example, a quote of USD/JPY = 112.25 means that one US dollar is equal to 112.25 Japanese Yen.

Among the major currency pairs there are three exceptions where the US dollar is not quoted as the base currency, the Euro (EUR), the British Pound (GBP), and the Australian Dollar (AUD). In these cases, you might see a quote such as GBP/USD = 1.8455, which means that one British Pound equals 1.8455 US dollars.

In both of the above examples the base currency becomes stronger when its price increases. For example if the USD/JPY rises from 112.20 to 113.20 the dollar is stronger because it is now worth more JPY.

Cross currencies are currency pairs that do not involve the US dollar. For example: EUR/GBP, GBP/AUD, EUR/JPY, etc. A quote of EUR/GBP at 0.6750 signifies that one Euro is equal to 0.6750 British Pounds.

### Forex Value Dates

All Forex quotes are typically based on settlement business days after the transaction was executed (the one major exception being the USD/Canadian Dollar which settles after one business day). Theoretically a currency trader will take physical delivery of the currency in two days; however, delivery is avoided by rolling the positions forward one day, usually referred to as Tomorrow Next Day (Tom Next) procedures. The newly opened position is assigned a new value date allowing the client to hold this position another day without taking delivery of the currency.

The Tom Next rate is determined by the respective difference in interest rates between the two currencies held. If a trader is long a high interest currency and short a low interest currency he will earn interest for one day. If a trader is holding the foreign currency with the lower rate of interest he will pay interest. These payments are received during the establishment of the new opening rate, in the form of a slightly better or worse price after the roll (swap) has taken place.

During the roll procedure all open positions are closed at the current market rate, and any unrealized profits or losses are realized. This new rate is determined by the price the position was closed out at plus or minus the Tom Next rate. If a trader is flat e.g. long €2 million EUR/USD and short €2 million EUR/USD it is not necessary to roll positions.



## Best Times to Trade

### **EUR/USD**

During the Tokyo session, the Euro only trades 15% of all volume so it is best to start watching the Euro late in the Tokyo session. It trades 39% of all Forex volume during the London session. It can also be traded during the New York session.

### **GBP/USD**

The pound trades extremely lightly during the Tokyo session. Start watching it near the end of the Tokyo session as it can start moving then. In the London session, GBP/USD accounts for approximately 23% of all Forex trading volume. The pound can be traded in the New York session also.

### **USD/JPY**

During the Tokyo session, USD/JPY accounts for approximately 78% of all Forex volume. This drops to about 17% during the London session. There are occasional days when these 3 pairs make significant price moves outside the sessions which normally have the most trading volume.

### **News Releases / Economic Data Releases**

23:50 GMT Japan Fundamentals

07:45 GMT Euro Fundamentals

13:30 GMT USA Economic Figures

*During Summer Time these news release times are 1 hour earlier.*

## GLOSSARY

**A B C D E F G H I J K L M N O P Q R S T U V W X Y Z**

### A

**Accrual** - The apportionment of premiums and discounts on forward exchange transactions that relate directly to deposit swap (Interest Arbitrage) deals, over the period of each deal.

**Adjustment** - Official action normally by either change in the internal economic policies to correct a payment imbalance or in the official currency rate or. Adjustment - Official action normally by either change in the internal economic policies to correct a payment imbalance or in the official currency rate or.

**Appreciation** - A currency is said to 'appreciate' when it strengthens in price in response to market demand.

**Arbitrage** - The purchase or sale of an instrument and simultaneous taking of an equal and opposite position in a related market, in order to take advantage of small price differentials between markets.

**Ask (Offer) Price** - The price at which the market is prepared to sell a specific Currency in a Foreign Exchange Contract or Cross Currency Contract. At this price, the trader can buy the base currency. In the quotation, it is shown on the right side of the quotation. For example, in the quote USD/CHF 1.4527/32, the ask price is 1.4532; meaning you can buy one US dollar for 1.4532 Swiss francs.

**At Best** - An instruction given to a dealer to buy or sell at the best rate that can be obtained.

**At or Better** - An order to deal at a specific rate or better.

### B

**Balance of Trade** - The value of a country's exports minus its imports.

**Bar Chart** - A type of chart which consists of four significant points: the high and the low prices, which form the vertical bar, the opening price, which is marked with a little horizontal line to the left of the bar, and the closing price, which is marked with a little horizontal line of the right of the bar.

**Base Currency** - The first currency in a Currency Pair. It shows how much the base currency is worth as measured against the second currency. For example, if the USD/CHF rate equals 1.6215 then one USD is worth CHF 1.6215 in the FX markets, the US Dollar is normally considered the 'base' currency for quotes, meaning that quotes are expressed as a unit of \$1 USD per the other currency quoted in the pair. The primary exceptions to this rule are the British Pound, the Euro and the Australian Dollar.

**Bear Market** - A market distinguished by declining prices.

**Bid Price** - The bid is the price at which the market is prepared to buy a specific Currency in a Foreign Exchange Contract or Cross Currency Contract. At this price, the trader can sell the base currency. It is shown on the left side of the quotation. For example, in the quote USD/CHF 1.4527/32, the bid price is 1.4527; meaning you can sell one US dollar for 1.4527 Swiss francs.

**Bid/Ask Spread** - The difference between the bid and offer price.

**Big Figure Quote** - Dealer expression referring to the first few digits of an exchange rate. These digits are often omitted in dealer quotes... For example, a USD/JPY rate might be 117.30/117.35, but would be quoted verbally without the first three digits i.e. «30/35».

**Book** - In a professional trading environment, a 'book' is the summary of a trader's or desks total positions.

**Broker** - An individual or firm that acts as an intermediary, putting together buyers and sellers for a fee or commission. In contrast, a 'dealer' commits capital and takes one side of a position, hoping to earn a spread (profit) by closing out the position in a subsequent trade with another party.

**Bretton Woods Agreement of 1944** - An agreement that established fixed foreign exchange rates for major currencies, provided for central bank intervention in the currency markets, and pegged the price of gold at US \$35 per ounce. The agreement lasted until 1971, when President Nixon overturned the Bretton Woods agreement and established a floating exchange rate for the major currencies.

**Bull Market** - A market distinguished by rising prices.

**Bundesbank** - Germany's Central Bank.

## C

**Cable** - Trader jargon referring to the Sterling/US Dollar exchange rate. So called because the rate was originally transmitted via a transatlantic cable beginning in the mid 1800's.

**Candlestick Chart** - A chart that indicates the trading range for the day as well as the opening and closing price. If the open price is higher than the close price, the rectangle between the open and close price is shaded. If the close price is higher than the open price, that area of the chart is not shaded.

**Cash Market** - The market in the actual financial instrument on which a futures or options contract is based.

**Central Bank** - A government or quasi-governmental organization that manages a country's monetary policy. For example, the US central bank is the Federal Reserve, and the German central bank is the Bundesbank.

**Chartist** - An individual who uses charts and graphs and interprets historical data to find trends and predict future movements. Also referred to as Technical Trader.

**Cleared Funds** - Funds that are freely available, sent in to settle a trade.

**Closed Position** - Exposures in Foreign Currencies that no longer exist. The process to close a position is to sell or buy a certain amount of currency to offset an equal amount of the open position. This will 'square' the position.

**Clearing** - The process of settling a trade.

**Contagion** - The tendency of an economic crisis to spread from one market to another. In 1997, political instability in Indonesia caused high volatility in their domestic currency, the Rupiah. From there, the contagion spread to other Asian emerging currencies, and then to Latin America, and is now referred to as the 'Asian Contagion'.

**Collateral** - Something given to secure a loan or as a guarantee of performance.

**Commission** - A transaction fee charged by a broker.

**Confirmation** - A document exchanged by counterparts to a transaction that states the terms of said transaction.

**Contract** - The standard unit of trading.

**Counters Currency** - The second listed Currency in a Currency Pair.

**Counterparty** - One of the participants in a financial transaction.

**Country Risk** - Risk associated with a cross-border transaction, including but not limited to legal and political conditions.

**Cross Currency Pairs or Cross Rate** - A foreign exchange transaction in which one foreign currency is traded against a second foreign currency. For example; EUR/GBP.

**Currency symbols**

AUD - Australian Dollar

CAD - Canadian Dollar

EUR - Euro

JPY - Japanese Yen

GBP - British Pound

CHF - Swiss Franc

USD - American Dollar

**Currency** - Any form of money issued by a government or central bank and used as legal tender and a basis for trade.

**Currency Pair** - The two currencies that make up a foreign exchange rate. For Example, EUR/USD

**Currency Risk** - the probability of an adverse change in exchange rates.

## D

**Day Trader** - Speculators who take positions in currency which are then liquidated prior to the close of the same trading day.

**Dealer** - An individual or firm that acts as a principal or counterpart to a transaction. Principals take one side of a position, hoping to earn a spread (profit) by closing out the position in a subsequent trade with another party. In contrast, a broker is an individual or firm that acts as an intermediary, putting together buyers and sellers for a fee or commission.

**Deficit** - A negative balance of trade or payments.

**Delivery** - An FX trade where both sides make and take actual delivery of the currencies traded.

**Depreciation** - A fall in the value of a currency due to market forces.

**Derivative** - A contract that changes in value in relation to the price movements of a related or underlying security, future or other physical instrument. An Option is the most common derivative instrument.

**Devaluation** - The deliberate downward adjustment of a currency's price, normally by official announcement.

## E

**Economic Indicator** - A government issued statistic that indicates current economic growth and stability. Common indicators include employment rates, Gross Domestic Product (GDP), inflation, retail sales, etc.

**End Of Day Order (EOD)** - An order to buy or sell at a specified price. This order remains open until the end of the trading day which is typically 5PM ET.

**European Monetary Union (EMU)** - The principal goal of the EMU is to establish a single European currency called the Euro, which will officially replace the national currencies of the member EU countries in 2002. On January 1, 1999 the transitional phase to introduce the Euro began. The Euro now exists as a banking currency and paper financial transactions and foreign exchange are made in Euros. This transition period will last for three years, at which time Euro notes and coins will enter circulation. On July 1, 2002, only Euros will be legal tender for EMU participants, the national currencies of the member countries will cease to exist. The current members of the EMU are Germany, France, Belgium, Luxembourg, Austria, Finland, Ireland, the Netherlands, Italy, Greece, Spain and Portugal.

**EURO** - the currency of the European Monetary Union (EMU). A replacement for the European Currency Unit (ECU).

**European Central Bank (ECB)** - the Central Bank for the new European Monetary Union.

## F

**Federal Deposit Insurance Corporation (FDIC)** - The regulatory agency responsible for administering bank depository insurance in the US.

**Federal Reserve (Fed)** - The Central Bank for the United States.

**First In First Out (FIFO)** - Open positions are closed according to the FIFO accounting rule. All positions opened within a particular currency pair are liquidated in the order in which they were originally opened.

**Flat/square** - Dealer jargon used to describe a position that has been completely reversed, e.g. you bought \$500,000 then sold \$500,000, thereby creating a neutral (flat) position.

**Foreign Exchange** - (Forex, FX) - The simultaneous buying of one currency and selling of another.

**Forward** - The pre-specified exchange rate for a foreign exchange contract settling at some agreed future date, based upon the interest rate differential between the two currencies involved.

**Forward Points** - The pips added to or subtracted from the current exchange rate to calculate a forward price.

**Fundamental Analysis** - Analysis of economic and political information with the objective of determining future movements in a financial market.

**Futures Contract** - An obligation to exchange a good or instrument at a set price on a future date. The primary difference between a Future and a Forward is that Futures are typically traded over an exchange (Exchange-Traded Contracts - ETC), versus forwards, which are considered Over The Counter (OTC) contracts. An OTC is any contract NOT traded on an exchange.

**FX** - Foreign Exchange.

## G

**G7** - The seven leading industrial countries, being: US, Germany, Japan, France, UK, Canada, Italy.

**Going Long** - The purchase of a stock, commodity, or currency for investment or speculation.

**Going Short** - The selling of a currency or instrument not owned by the seller.

**Gross Domestic Product** - Total value of a country's output, income or expenditure produced within the country's physical borders.

**Gross National Product** - Gross domestic product plus income earned from investment or work abroad.

**Good 'Til Cancelled Order (GTC)** - An order to buy or sell at a specified price. This order remains open until filled or until the client cancels.

## H

**Hedge** - A position or combination of positions that reduces the risk of your primary position.

«**Hit the bid**» - Acceptance of purchasing at the offer or selling at the bid.

## I

**Inflation** - An economic condition whereby prices for consumer goods rise, eroding purchasing power.

**Initial Margin** - The initial deposit of collateral required to enter into a position as a guarantee on future performance.

**Interbank Rates** - The Foreign Exchange rates at which large international banks quote other large international banks.

**Intervention** - Action by a central bank to affect the value of its currency by entering the market. Concerted intervention refers to action by a number of central banks to control exchange rates.

## K

**Kiwi** - Slang for the New Zealand dollar.

## L

**Leading Indicators** - Statistics that are considered to predict future economic activity.

**Leverage** - Also called margin. The ratio of the amount used in a transaction to the required security deposit.

**LIBOR** - The London Inter-Bank Offered Rate. Banks use LIBOR when borrowing from another bank.

**Limit order** - An order with restrictions on the maximum price to be paid or the minimum price to be received. As an example, if the current price of USD/YEN is 117.00/05, then a limit order to buy USD would be at a price below 102. (i.e. 116.50)

**Liquidation** - The closing of an existing position through the execution of an offsetting transaction.

**Liquidity** - The ability of a market to accept large transaction with minimal to no impact on price stability.

**Long position** - A position that appreciates in value if market prices increase. When the base currency in the pair is bought, the position is said to be long.

**Lot** - A unit to measure the amount of the deal. The value of the deal always corresponds to an integer number of lots.

## M

**Margin** - The required equity that an investor must deposit to collateralize a position.

**Margin Call** - A request from a broker or dealer for additional funds or other collateral to guarantee performance on a position that has moved against the customer.

**Market Maker** - A dealer who regularly quotes both bid and asks prices and is ready to make a two-sided market for any financial instrument.

**Market Risk** - Exposure to changes in market prices.

**Mark-to-Market** - Process of re-evaluating all open positions with the current market prices. These new values then determine margin requirements.

**Maturity** - The date for settlement or expiry of a financial instrument.

## N

**Net Position** - The amount of currency bought or sold which have not yet been offset by opposite transactions.

## O

**Offer (ask)** - The rate at which a dealer is willing to sell a currency. See Ask (offer) price

**Offsetting transaction** - A trade with which serves to cancel or offset some or all of the market risk of an open position.



**One Cancels the Other Order (OCO)** - A designation for two orders whereby one part of the two orders is executed the other is automatically cancelled.

**Open order** - An order that will be executed when a market moves to its designated price. Normally associated with Good 'til Cancelled Orders.

**Open position** - An active trade with corresponding unrealized P&L, which has not been offset by an equal and opposite deal.

**Over the Counter (OTC)** - Used to describe any transaction that is not conducted over an exchange.

**Overnight Position** - A trade that remains open until the next business day.

**Order** - An instruction to execute a trade at a specified rate.

## P

**Pips** - The smallest unit of price for any foreign currency. Digits added to or subtracted from the fourth decimal place, i.e. 0.0001. Also called Points.

**Political Risk** - Exposure to changes in governmental policy which will have an adverse effect on an investor's position.

**Position** - The netted total holdings of a given currency.

**Premium** - In the currency markets, describes the amount by which the forward or futures price exceed the spot price.

**Price Transparency** - Describes quotes to which every market participant has equal access.

**Profit /Loss or «P/L» or Gain/Loss** - The actual «realized» gain or loss resulting from trading activities on Closed Positions, plus the theoretical «unrealized» gain or loss on Open Positions that have been Mark-to-Market.

## Q

**Quote** - An indicative market price, normally used for information purposes only.

## R

**Rally** - A recovery in price after a period of decline.

**Range** - The difference between the highest and lowest price of a future recorded during a given trading session.

**Rate** - The price of one currency in terms of another, typically used for dealing purposes.

**Resistance** - A term used in technical analysis indicating a specific price level at which analysis concludes people will sell.

**Revaluation** - An increase in the exchange rate for a currency as a result of central bank intervention. Opposite of Devaluation.

**Risk** - Exposure to uncertain change, most often used with a negative connotation of adverse change.

**Risk Management** - The employment of financial analysis and trading techniques to reduce and/or control exposure to various types of risk.

**Roll-Over** - Process whereby the settlement of a deal is rolled forward to another value date. The cost of this process is based on the interest rate differential of the two currencies.

**Round trip** - Buying and selling of a specified amount of currency.

## S

**Settlement** - The process by which a trade is entered into the books and records of the counterparts to a transaction. The settlement of currency trades may or may not involve the actual physical exchange of one currency for another.

**Short Position** - An investment position that benefits from a decline in market price. When the base currency in the pair is sold, the position is said to be short.

**Spot Price** - The current market price. Settlement of spot transactions usually occurs within two business days.

**Spread** - The difference between the bid and offer prices.

**Square** - Purchase and sales are in balance and thus the dealer has no open position.

**Sterling** - Slang for British Pound.

**Stop Loss Order** - Order type whereby an open position is automatically liquidated at a specific price. Often used to minimize exposure to losses if the market moves against an investor's position. As an example, if an investor is long USD at 156.27, they might wish to put in a stop loss order for 155.49, which would limit losses should the dollar depreciate, possibly below 155.49?

**Support Levels** - A technique used in technical analysis that indicates a specific price ceiling and floor at which a given exchange rate will automatically correct itself. Opposite of resistance.

**Swap** - A currency swap is the simultaneous sale and purchase of the same amount of a given currency at a forward exchange rate.

**Swissy** - Market slang for Swiss Franc.

## T

**Technical Analysis** - An effort to forecast prices by analyzing market data, i.e. historical price trends and averages, volumes, open interest, etc.

**Tick** - A minimum change in price, up or down.

**Tomorrow Next (Tom/Next)** - Simultaneous buying and selling of a currency for delivery the following day.

**Transaction Cost** - The cost of buying or selling a financial instrument.

**Transaction Date** - The date on which a trade occurs.

**Turnover** - The total money value of all executed transactions in a given time period; volume.

**Two-Way Price** - When both a bid and offer rate is quoted for a FX transaction.

## U

**Unrealized Gain/Loss** - The theoretical gain or loss on Open Positions valued at current market rates, as determined by the broker in its sole discretion. Unrealized Gains' Losses become Profits/ Losses when position is closed.

**Uptick** - A new price quote at a price higher than the preceding quote.

**Uptick Rule** - In the US, a regulation whereby a security may not be sold short unless the last trade prior to the short sale was at a price lower than the price at which the short sale is executed.

**US Prime Rate** - The interest rate at which US banks will lend to their prime corporate customers.

## V

**Value Date** - The date on which counterparts to a financial transaction agree to settle their respective obligations, i.e., exchanging payments. For spot currency transactions, the value date is normally two business days forward. Also known as maturity date.

**Variation Margin** - Funds a broker must request from the client to have the required margin deposited. The term usually refers to additional funds that must be deposited as a result of unfavorable price movements.

**Volatility (Vol)** - A statistical measure of a market's price movements over time.

**W**

**Whipsaw** - Slang for a condition of a highly volatile market where a sharp price movement is quickly followed by a sharp reversal.

**Y**

**Yard** - Slang for a billion.

## FAQ

### **What is a Limit order?**

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### **What is a Position order?**

Position orders are directly related to individual positions. These orders are only active for as long as the position remains open and can be a stop loss or limit order.

### **What is Foreign Exchange?**

The Foreign Exchange market, also referred to as the «Forex» market, is the largest financial market in the world, with a daily average turnover of approximately US\$1.2 trillion. Foreign Exchange is the simultaneous buying of one currency and selling of another. The world's currencies are on a floating exchange rate and are always traded in pairs, for example Euro/Dollar or Dollar/Yen.

### **Where is the central location of the FX Market?**

FX Trading is not centralized on an exchange, as with the stock and futures markets. The FX market is considered an Over the Counter (OTC) or 'Interbank' market, due to the fact that transactions are conducted between two counterparts over the telephone or via an electronic network.

### **Who are the participants in the FX Market?**

The Forex market is called an 'Interbank' market due to the fact that historically it has been dominated by banks, including central banks, commercial banks, and investment banks. However, the percentage of other market participants is rapidly growing, and now includes large multinational corporations, global money managers, registered dealers, international money brokers, futures and options traders, and private speculators.

### **When is the FX market open for trading?**

A true 24-hour market, Forex trading begins each day in Sydney, and moves around the globe as the business day begins in each financial center, first to Tokyo, then London, and New York. Unlike any other financial market, investors can respond to currency fluctuations caused by economic, social and political events at the time they occur - day or night.

**What are the most commonly traded currencies in the FX markets?**

The most often traded or 'liquid' currencies are those of countries with stable governments, respected central banks, and low inflation. Today, over 85% of all daily transactions involve trading of the major currencies, which include the US Dollar (USD), Japanese Yen (JPY), Euro (EUR), British Pound (GBP), Swiss Franc (CHF), Canadian Dollar (CAD) and the Australian Dollar (AUD).

**What is Margin?**

Margin is essentially collateral for a position. It allows traders to take on leveraged positions with a fraction of the equity necessary to fund the trade. In the equity markets, the usual margin allowed is 50% which means an investor has double the buying power. In the Forex market leverage ranges from 1% to 2%, giving investors the high leverage needed to trade actively.

**What does it mean have a 'long' or 'short' position?**

In trading parlance, a long position is one in which a trader buys a currency at one price and aims to sell it later at a higher price. In this scenario, the investor benefits from a rising market. A short position is one in which the trader sells a currency in anticipation that it will depreciate. In this scenario, the investor benefits from a declining market. However, it is important to remember that every FX position requires an investor to go long in one currency and short the other.

**How are currency prices determined?**

Currency prices are affected by a variety of economic and political conditions, most importantly interest rates, inflation and political stability. Moreover, governments sometimes participate in the Forex market to influence the value of their currencies, either by flooding the market with their domestic currency in an attempt to lower the price, or conversely buying in order to raise the price. This is known as Central Bank intervention. Any of these factors, as well as large market orders, can cause high volatility in currency prices. However, the size and volume of the Forex market makes it impossible for any one entity to «drive» the market for any length of time.

**How do I manage risk?**

The most common risk management tools in FX trading are the limit order and the stop loss order. A limit order places restriction on the maximum price to be paid or the minimum price to be received. A stop loss order ensures a particular position is automatically liquidated at a predetermined price in order to limit potential losses should the market move against an investor's position. The liquidity of the Forex market ensures that limit order and stop loss orders can be easily executed.

**What kind of trading strategy should I use?**

Currency traders make decisions using both technical factors and economic fundamentals. Technical traders use charts, trend lines, support and resistance levels, and numerous patterns and mathematical analyses to identify trading opportunities, whereas fundamentalists predict price movements by interpreting a wide variety of economic information, including news, government-issued indicators and reports, and even rumor. The most dramatic price movements however, occur when unexpected events happen. The event can range from a Central Bank raising domestic interest rates to the outcome of a political election or even an act of war. Nonetheless, more often it is the expectation of an event that drives the market rather than the event itself.

**How often are trades made?**

Market conditions dictate trading activity on any given day. As a reference, the average small to medium trader might trade as often as 10 times a day.

**How long are positions maintained?**

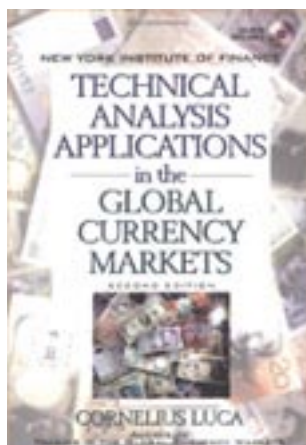
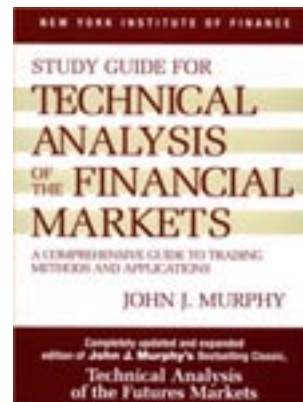
Approximately 80% of all Forex trades last seven days or less, while more than 40% last fewer than two days. As a general rule, a position is kept open until one of the following occurs: 1) realization of sufficient profits from a position; 2) the specified stop-loss is triggered; 3) another position that has a better potential appears and you need these funds.

## SUGGESTIONS OF ADDITIONAL READING

Education is vital to the success of every self-directed investor. We strongly believe that educated, experienced clients are more likely to trade productively with us over the long-term.

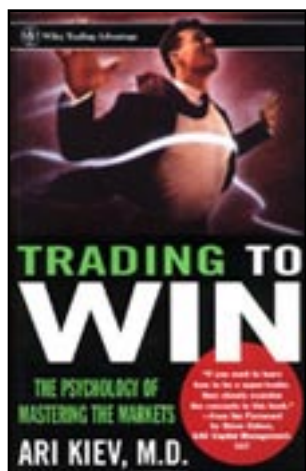
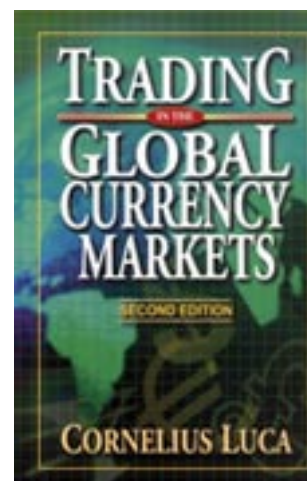
We consider the following books to be essential reading on trading in the currency markets, and encourage you to consider them as such, regardless of your level of experience.

- **Technical Analysis of the Financial Markets : A Comprehensive Guide to Trading Methods and Applications**  
*by John Murphy*



- **Technical Analysis Applications in the Global Currency Markets**  
*by Cornelius Luca*

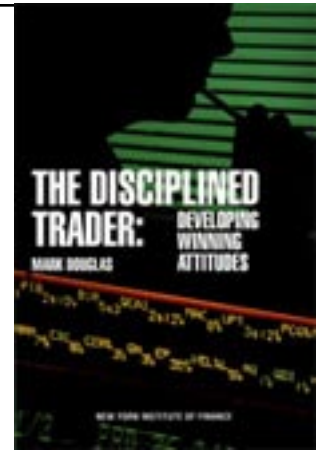
- **Trading in the Global Currency Markets**  
*by Cornelius Luca*



- **Trading to Win : The Psychology of Mastering the Markets (Wiley Trading Advantage Series)**  
*by Ari Kiev*

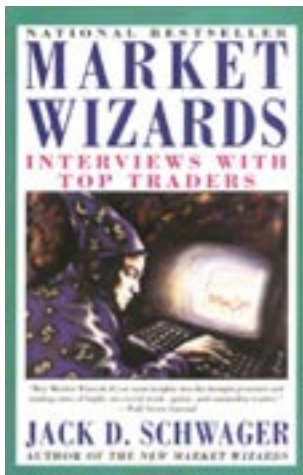
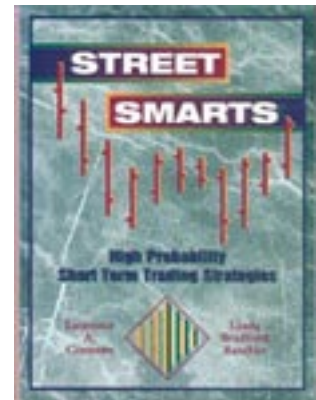


- **The Disciplined Trader: Developing Winning Attitudes**  
*by Mark Douglas*



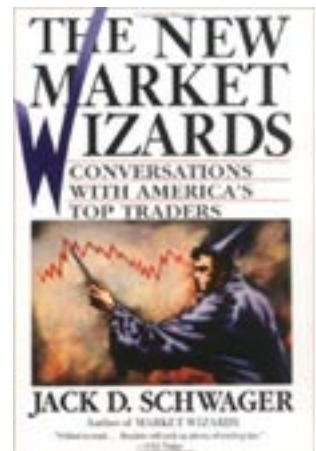
- **The Psychology of Technical Analysis : Profiting from Crowd Behavior and the Dynamics of Price**  
*by Tony Plummer*

- **Street Smarts; High Probability Short Term Trading Strategies**  
*by Laurence A. Connors, Linda B. Raschke*



- **Market Wizards : Interviews With Top Traders**  
*by Jack D. Schwager*

- **The New Market Wizards : Conversations With America's Top Traders**  
*by Jack D. Schwager*



## USEFUL LINKS AND ADDRESSES FOR THE ACADEMY

- **Web site:** <http://www.1st-forex-trading-academy.com/>
- **Member's login:** <http://www.1st-forex-trading-academy.com/en/login.php>
- **For information:** [info@1st-forex-trading-academy.com](mailto:info@1st-forex-trading-academy.com)
- **Customer Service Department:** [cservice@1st-forex-trading-academy.com](mailto:cservice@1st-forex-trading-academy.com)
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