FX BASIC

EBOOK 01

1. What is Forex?
2. 8 Majors
3. What is bought and sold?
4. Types of Charts
5. Basic Terms

GFtrade Inc

What do you know about Forex?

The terminology FOREX stands for the Foreign Exchange and can be described as an international currency market. Forex is very unique because it is everywhere disregarding the factor of time zone.
So, what do you do in Forex? Also known as FX, it is decentralized global market where the world's currencies are traded. The market is the largest, the most liquid market in the world, averaging a daily trading volume of $5 trillion.

8 Majors

When we say that world's currencies are traded in Forex, it is different to the stock market where investors have thousands of stocks to choose from whereas in FX market you only need to track eight major economies and determine which offers the best undervalued or overvalued opportunities. Majority of the trades in the currency market are made up with these eight countries:
USA, Eurozone (Germany, France, Italy and Spain), Japan, UK, Switzerland, Canada, Australia, New Zealand.

The objective of Forex trading is very simple. What you want to do is, buy a certain currency at one price and sell it at a higher price or vice versa to make a profit, just like any other form of speculation.

What are you buying? Selling?

The spread in a forex pair consists of a bid price and offer price. Bid price is which you can sell and offer price is which you can buy. It is important to know which way round you are trading for each forex pair.

When you are buying, the spread reflects the price for buying the first currency of the pair with the second currency. For example, an offer price of 1.2100 for EUR/USD means that it will cost you $1.21 to buy €1. That means you would buy if you think that the price of the euro against the US will rise, thinking that you will be able to sell your €1 that you bought for more than $1.21.

When you are selling, it's just basically the opposite method of buying. The spread gives you the price for selling the first currency for the second. So, if a bid price of 1.21 for EUR/USD means that you can sell €1 for $1.21. You would sell if you think that the price of the euro is going to fall, so you can buy back your €1 for less than the $1.21 that you paid for.

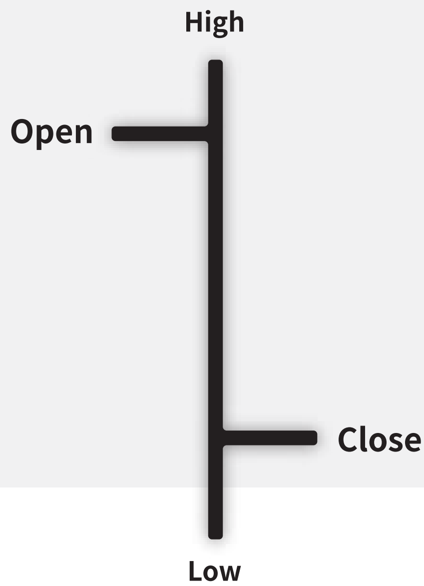
Types of Charts

Bar chart

Bar chart is presented at a bit more complexity. It is made up of bars and it shows opening price, closing price as well as the highs and lows.

The vertical and the horizontal bars indicate different information. The bottom of the vertical bar indicates the lowest price for that period, while the top of the bar indicates the highest price.

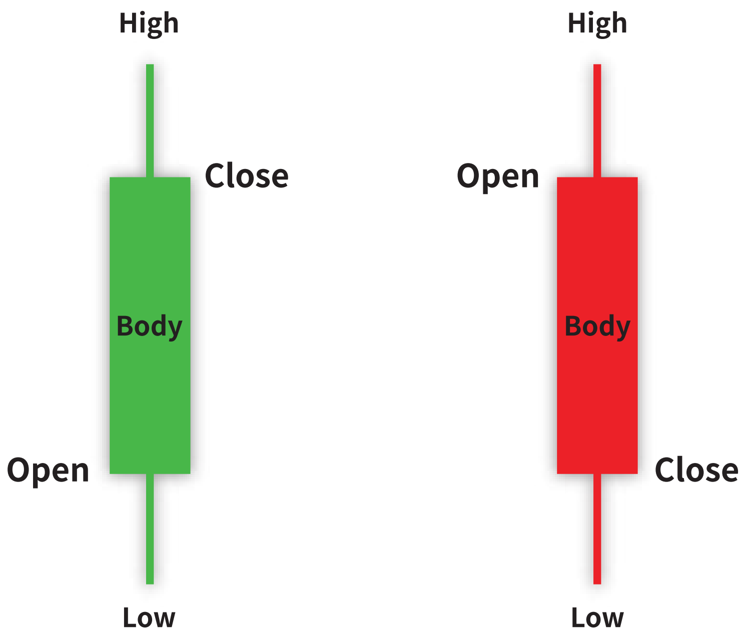
The short horizontal lines coming out of the vertical bar indicates the opening and closing of a price. Line coming out to the left is the opening price, and the line to the right is the closing price.



Candle stick chart

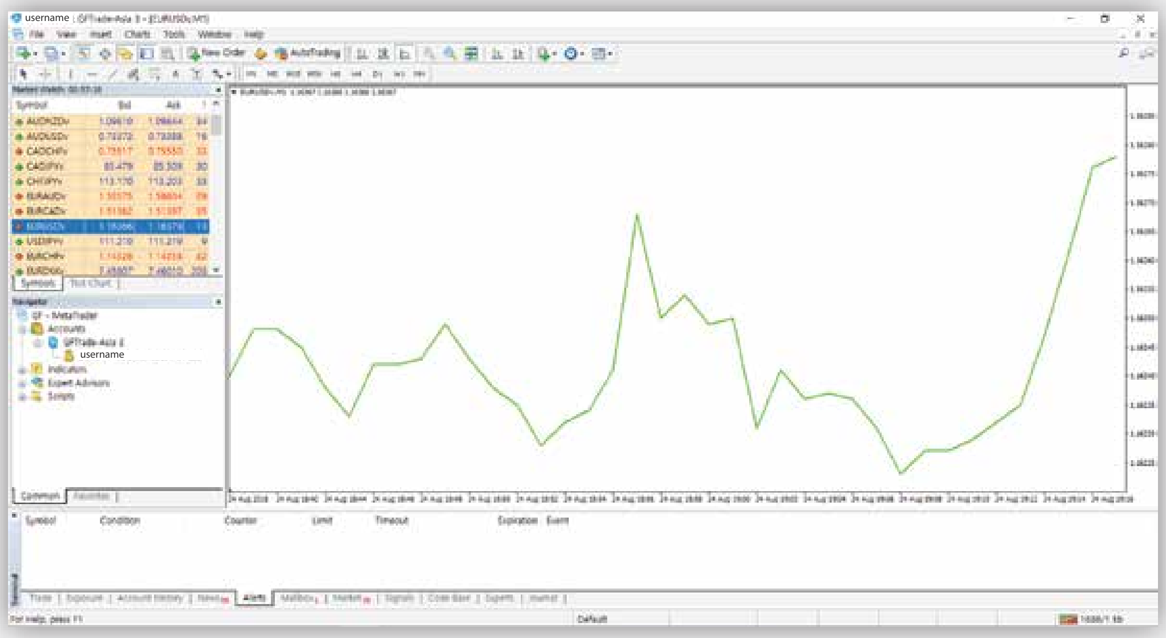
Candlestick chart is very similar to the bar chart. It looks different, but it presents the same price information as the bar chart.

Candlestick chart is formed with vertical lines and rectangle shaped bar over the lines which we call a "body". Vertical lines show the highs and lows whereas the body shows the opening and closing price. Benefits of observing the candlestick chart is that it is a lot easier to see when the price is opened and closed. The different colors represent the movement of the body moving up or down.



Line chart

Line chart shows one closing price to the next closing price connected through a line. Since line chart is so fundamental, it doesn't provid much information to the traders. We have to say it is good for looking at a general price movement of a currency pair over a period of time.



Basic Terminologies you need to know

1. **Ask Price**
   The price that the market will sell a specific currency pair to you. Therefore, at the ask price you can buy the base currency from your broker.

2. **Base Currency**
   Also known as Transaction currency, is the first currency in a currency pair quotation. The base currency represents how much of the quote currency is needed for you to buy the base currency.

3. **Bear**
   When an individual trader believes that the base currency will depreciate.

4. **Bid Price**
   The price that the market will buy a specific currency pair from you. Therefore, at the bid price, a trader can sell the base currency to their broker.

5. **Bull**
   When an individual trader believes the base currency will appreciate.

6. **Currency pair**
   A quotation of one currency unit against another currency unit. For example, EUR/USD, USD/JPY, USD/CHF

7. **Drawdown**
   Represents the maximum loss from a peak to a trough of a portfolio before a new peak is reached.

8. **Equity**
   It represents the total amount of money in your trading account, which includes your profits and losses. (Equity = Balance + Floating Profit/Loss)

9. **Exchange rate**
   The value of one currency expressed in terms of another. For example, hypothetically EUR/USD is 1.2000, 1 Euro is worth US $1.2000

10. Expert Advisor (EA)
EA's are algorithmic program that have been developed to open trades for the investors on the MT4 platform. EA's are based on signals created by various technical indicators.

11. Free Margin
Amount of money in your account, which you can open new trading positions with.

12. Hedging
Refers to the opening of a new position in the opposite direction of an existing position on the same instrument.

13. Indicators
Forex indicators are used to assist interpret priced data and create a signal to let the trader know to buy and sell.

14. Leverage
The ability to control a large amount of money in the FX market. For example, if a trading company offers you 500:1 leverage, that means you can trade up to $500 for every $1 you have.

15. Limits/Limit order
An order that attempts to buy at a lower levels than the current market or sell it at higher levels. A limit order puts restriction on the maximum price to be paid or the minimum price to be received.

16. Liquid Market
A market which has sufficient number of active buyers and sellers to smoothen out the movement of the market price.

17. Long Position
A position that appreciates in value if market price increases. The position is said to be long when the base currency is bought. Long position is taken with the expectation that the market will rise.

18. Lot Size
The minimum trading unit for a FX broker account. The standard lot size is 100,000 base currency unit, 10,000 base currency units for Mini lot and 1,000 for Micro lot.

19. Margin
It is the amount of money required in your account to be able to open a trade.

20. Margin Call
It is a warning that occurs when a trader's account has insufficient funds to continue their current open positions on the market. If the market moves against a trader's position, additional funds will be requested through a margin call. If there are insufficient amount of fund available, the positions will be forced to close out.

21. Market Order/Entry Order
An order to buy or sell currency instantly at the current price.

22. Moving Average (MA)
A way of calculation to analyze data points by creating series of averages. For example, average price over a given number of tie periods.

23. Oscillators
Measurable methods/signal in the MT4 platform designed to give signals regarding the overbought and oversold conditions.

24. Pip
The smallest increment of price moment a currency can move. For example, 1 pip is for the EUR/USD is 0.0001 representing the fourth decimal point number (0.0010 would be 10 pips). The pip numbers are a little different for the JPY. 1 pip for the USD/JPY Is 0.01, and it is counted from the second decimal point.

25. Position
It is a trade that you hold open during a certain period of time.

26. Quote Currency
The second currency listed in a currency pair. It indicates how much of the quote currency is required to purchase one unit of the base currency.

27. Rollover Interest
It is the paid or earned interest for holding a currency position overnight.

28. Short Position

An investment position that benefits from a decline in market price. Position is said to be short when the base currency is sold.

29. Spread

It is a difference in pips between the Bid price and the Ask price quote in a currency pair.

30. Stop Loss

An arrangement process when a position is automatically closed out for reaching a certain amount of loss or when exchange rate reaches specified values.

31. Used Margin

Amount of money kept away by your broker. Purpose of this is so that your current trading positions can be kept open and you do not end up with a negative balance.