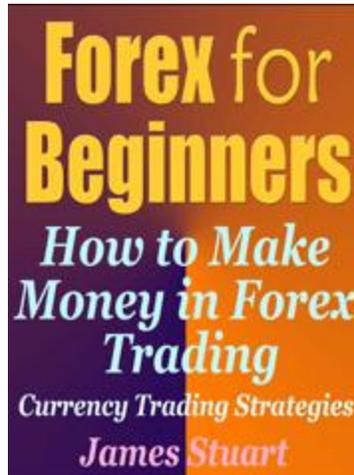


**Forex for Beginners:  
How to Make Money in Forex Trading  
(Currency Trading Strategies)**

By James Stuart



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## 1. Making Money in Forex Trading

The Forex market has a daily volume of over \$4 trillion per day, dwarfing the volume of the equity and futures markets combined. Thousands of people, all over the world, are trading Forex and making tons of money. Why not you?

All you need to start trading Forex is a computer and an Internet connection. You can do it from the comfort of your home, in your spare time without leaving your day job. And you don't need a large sum of money to start, you can trade initially with a minimal sum, or better off, you can start practicing with a demo account without the need to deposit any money.

Once you consider to start Forex trading, one of the first things you need to do is choose a broker, choosing a reliable broker is the single most critical factor to Forex success.

We currently trade at [eToro platform](#). After testing several Forex platforms we find this one to be the best. What made the difference is a unique feature that allow us to watch and copy the strategies and trades of the best performing traders on the platform. You can actually see each move the "Guru" traders make. This method works nicely for us. Since we started trading at this broker we noticed an increase of our successful trades and profits when compared to our former brokers. [You may want to check them out](#).

Please note that all trading involves risk. Only risk capital you're prepared to lose. Past performance does not guarantee future results. This post is for educational purposes and should not be considered as investment advice.

Now I would strongly encourage you to go and visit the above broker's site right now even if you are not yet decided whether you want to go into Forex trading. Why? because it provides tons of free education materials, videos and best of all a demo account that allows you to practice Forex trading for free without the need to deposit any money. Simply go to the site, register for a free account and start "trading" - by actually practicing and experiencing it firsthand you'll be able to decide whether Forex trading is for you.

Having said that, please note that all trading involves risk. Only risk capital you're prepared to lose. Past performance does not guarantee future results. This post is for educational purposes and should not be considered as investment advice.

In any case, before starting to trade for real, it is advisable that you practice with a demo account. Once you build some skill and feel more comfortable with the system you can start trading gradually for real money.

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## 2. What is Forex Trading

Foreign exchange, popularly known as 'Forex' or 'FX', is the trade of a single currency for another at a decided trade price on the over-the-counter (OTC) marketplace. Forex is definitely the world's most traded market, having an average turnover of more than US\$4 trillion each day.

Compare this to the New York Stock Exchange, that has a daily turnover of about US\$70 billion and it is very obvious how the Forex market is definitely the largest financial market on the globe.

In essence, Forex currency trading is the act of simultaneously purchasing one foreign currency whilst selling another, mainly for the purpose of speculation. Foreign currency values increase (appreciate) and drop (depreciate) towards one another as a result of variety of factors such as economics and geopolitics. The normal objective of FX traders is to make money from these types of changes in the value of one foreign currency against another by actively speculating on which way foreign exchange rates are likely to turn in the future.

In contrast to the majority of financial markets, the OTC (over-the-counter) currency markets does not have any physical place or main exchange and trades 24-hours every day via a worldwide system of companies, financial institutions and individuals. Because of this, currency rates are continuously rising and falling in value towards one another, providing numerous trading choices.

One of the important elements regarding Forex's popularity is the fact that currency trading markets usually are available 24-hours a day from Sunday evening right through to Friday night. Buying and selling follows the clock, beginning on Monday morning in Wellington, New Zealand, moving on to Asian trade spearheaded from Tokyo and Singapore, ahead of going to London and concluding on Friday evening in New York.

The fact that prices are available to deal 24-hours daily makes certain that price gapping (whenever a price leaps from one level to another with no trading between) is less and makes sure that traders could take a position each time they desire, irrespective of time, even though in reality there are particular 'lull' occasions when volumes tend to be below their daily average which could widen market spreads.

Forex is a leveraged (or margined) item, which means that you are simply required to put in a small percentage of the full value of your position to set a foreign exchange trade. Because of this, the chance of profit, or loss, from your primary money outlay is considerably greater than in conventional trading.

Currencies are designated by three letter symbols. The standard symbols for some of the most

commonly traded currencies are:

**EUR – Euros**

USD – United States dollar

CAD – Canadian dollar

GBP – British pound

JPY – Japanese Yen

AUD – Australian dollar

CHF – Swiss franc

Forex transactions are quoted in pairs because you are buying one currency while selling another. The first currency is the base currency and the second currency is the quote currency.

The price, or rate, that is quoted is the amount of the second currency required to purchase one unit of the first currency. For example, if EUR/USD has an ask price of 1.2327, you can buy one Euro for 1.2327 US dollars.

There are so-called majors, for which around 75% of all market operations on Forex are held: the EUR/USD, GBP/USD, USD/CHF, and USD/JPY. As we see, the US dollar is represented in all currency pairs, thus, if a currency pair contains the US dollar, this pair is considered a major currency pair. Pairs which do not include the US dollar are called cross currency pairs, or cross rates. The following cross rates are the most actively traded:

EUR/CHF = euro-franc

EUR/GBP = euro-sterling

EUR/JPY = euro-Yen

GBP/JPY = sterling-Yen

AUD/JPY = aussie-Yen

NZD/JPY = kiwi-Yen

To give you a taste of what is happening in the Forex arena here are some historical Forex events.

One of the most interesting movements in the Forex market involving the British pound took place in the September 16, 1992. That day is known as Black Wednesday with the British Pound posting its biggest fall. It was mostly seen in the GBP/DEM (British Pound vs. the Deutschemark) and the GBP/USD (British Pound vs. the US dollar) currency pairs.

The fall of the British pound against the US dollar in the period from November to December 1992 constituted 25% (from 2.01 to 1.51 GBP/USD).

The general reasons for this "sterling crisis" are said to be the participation of Great Britain in the European currency system with fixed exchange rate corridors; recently passed parliamentary elections; a reduction in the British industrial output; the Bank of England efforts to hold the parity rate for the Deutschemark, as well as a dramatic outflow of investors. At the same time, due to a profitability slant, the German currency market became more attractive than the British one. All in all, the speculators were rushing to sell pounds for Deutschemarks and for US dollars. The consequences of this currency crisis were as follows: a sharp increase in the British interest rate from 10% to 15%, the British Government had to accept pound devaluation and to secede from the European Monetary System. As a result, the pound returned to a floating exchange rate.

Another intriguing currency pair is the US dollar vs. the Japanese Yen (USD/JPY). The US dollar and Japanese Yen is the third on the list of most traded currency pairs after the EUR/USD and GBP/USD. It is traded most actively during sessions in Asia. Movements of this pair are usually smooth; the USD/JPY pair quickly reacts to the risk peaking of financial markets. From the mid 80's the Yen ratings started rising actively versus the US Dollar. In the early 90's a prosperous economic development turned into a standstill in Japan, the unemployment increased; earnings and wages slid as well as the living standards of the Japanese population. And from the beginning of the year 1991, this caused bankruptcies of numerous financial organizations in Japan. As a consequence, the quotes on the Tokyo Stock Exchange collapsed, a Yen devaluation took place, thereafter, a new wave of bankruptcies among manufacturing companies began. In 1995 a historical low of the USD/JPY pair was recorded at -79.80.

The above started an Asian crisis in the years 1997-1998 that led a Yen crash. It resulted in a tumble of the Yen-US dollar pair from 115 Yens for one US dollar to 150.

The global economic crisis touched almost all fields of human activities. Forex currency market was no exception. Though, Forex participants (central banks, commercial banks, investment banks, brokers and dealers, pension funds, insurance companies and transnational companies) were in a difficult position, the Forex market continues to function successfully, it is a stable and profitable as never before.

The financial crisis of 2007 has led to drastic changes in the world's currencies values. During the crisis, the Yen strengthened most of all against all other currencies. Neither the US dollar, nor the euro, but the Yen proved to be the most reliable currency instrument for traders. One of the reasons for such strengthening can be attributed to the fact that traders needed to find a sanctuary amid a monetary chaos.

### **Ask and Bid**

When traders want to place an order on the Forex market they should be aware of the currency pair as well as the price of this pair. A Forex market price of a currency pair is denoted by two symbols, Ask and Bid, which have specific digital notations.

Ask price is the highest price in the pair's quotation at which a trader buys the currency, standing first in the abbreviation of the currency pair. Consequently, a trader sells the currency standing second.

Bid price is the lowest price in the quotation of the currency pair, at which a trader sells the currency standing first in the abbreviation of the currency pair. Respectively, a trader buys the currency standing second.

Seem complicated? here's an example:

Let's assume that we have the currency pair of EUR/USD with the quotation of 1.3652/1.3655. This means that you can buy 1 euro for 1.3655 dollars or to sell 1 euro for 1.3652 dollars. The difference between the Bid price and the Ask price is called spread.

The spread is actually the commission of the broker. The Spreads in Forex trading are actually very small compared to currency spreads at banks.

A term that you'll see a lot while trading Forex is "pip" and "pips" - a "pip" stands for "Percentage in Point". A pip is the smallest price movement of a traded currency. It is also referred to as a "point". It is very important that you understand what a pip is in the Forex trading because you will be using pips in calculating your profits and losses.. For most currencies a pip is 0.0001 or 1/100 of a cent.

When a currency moves from a value of 1.2911 to 1.2914, it moved 3 pips. When a pip has a value of \$10, you have gained \$30.

There is an exception for quotations for Japanese Yen against other currencies. For currencies in relation to Japanese Yen a pip is 0.01 or 1 cent.

Another term that you'll need to understand in relation to Forex trading is "Lots". A lot is the minimal traded amount for each currency transaction. For regular accounts one lot equals 100,000 units of the base currency. However you can also open mini and micro accounts that allow trading in smaller lots.

**Understanding the Pip Spread** - The spread is closely associated with the pip and has a major importance for you as a trader. As mentioned above, It is the difference between the selling and the buying price of a currency pair. It is the difference in the bid and ask price. The ask is the price at which you buy and the bid is the price at which you sell.

Suppose the EUR/USD is quoted at 1.4502 bid and 1.4505 ask. In this case the spread is 3 pips. The pip spread is your cost of doing business here. In the case above it means you sustain a paper loss equal to 3 pips at the moment you enter the trade. Your contract has to appreciate by 3 pips before you break even. The lower the pip spread the easier is it for you to profit.

Generally the more active and bigger the market, the lower the pip spread. Smaller and more exotic markets tend to have a higher spread. Most brokers will be offering different

spreads for different currencies. Smaller accounts will generally have higher spreads than bigger regular accounts.

From the profitability point of view it is important to find a broker offering a lower pip spread, however the low spread is not everything. More important is to choose a reputable and reliable broker.

Most brokers will allow leverage. Leverage is defined as the use of borrowed capital, such as “margin” allowing the trader to gain access to larger sums of capital. This can heighten profits and losses and should be used wisely.

Here's an example: Trader A has \$5000 USD – If Trader A has an account leverage of 10:1 and he wishes to use \$1000 on one trade as margin, he will have an exposure of \$10,000 in base currency ( $\$1000 = 10 \times \$1000 = \$10,000$  (trade value)).

Trader B has \$5000 USD – If Trader B has an account leverage of 100:1 and he wishes to use \$1000 on one trade as margin, he will have exposure of \$100,000 in base currency ( $\$1000 = 100 \times \$1000 = \$100,000$  (trade value)).

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