

# Forex trading course for beginners

Making money on the foreign exchange market doesn't have to be difficult at all. The best Forex traders distinguish themselves by their discipline, perseverance and practice. And because they have a good basic understanding of the Forex market.

This free Forex course provided by [cfdtradingforyou.com](http://cfdtradingforyou.com) teaches the basics of trading. In 10 lessons you will learn things like: what is Forex; trading through an online broker; interpreting Forex quotes and charts; technical analysis and fundamental analysis; tips for success.

After you have gone through the course you will be able to avoid common mistakes made in currency trading, open Forex positions yourself, and make informed decisions on the foreign exchange market. To make optimal use of this course, we advise you to follow the lessons in order. Even if you're already familiar with a subject it is still recommended to briefly go through the appropriate lesson; in later lessons it is assumed you have read the previous lessons.

Besides, in order to be successful with Forex trading it is important to practice a lot. This can be done excellently with the [online trading software of Plus500](#). Through [this link](#) you can open a free demo account to practice Forex trading.

We wish you much fun and success with the Forex trading course for beginners!

**Important note:** Although this eBook is about Forex trading, it can also be used as a guidebook for trading other securities like commodities, stocks and indices, as many lessons about Forex trading can also be applied to other securities. Additionally, the software used in this course (Plus500) is not only one of the best for Forex trading, you can also trade commodities, stocks, indices and more with their trading software.

For more interesting articles about online trading have a look at [www.globaltrader24.com](http://www.globaltrader24.com)

# Lesson 1: Why Forex?

In recent years, many investors have been at wits end because the markets did not perform too well. The economy was in a global crisis and whatever stock people bought, there was little to earn.

During that same time Forex traders made big money on the foreign exchange market. Especially for large investment banks like Goldman Sachs some of the biggest gains from investments were made in foreign currencies. That is not surprising, because the Forex market is the largest market in the world with a daily turnover of over 4 trillion dollars. Additionally, more and more individuals discover that there is money to be made with Forex trading.

## The advantages of Forex

Why is it so attractive to invest in Forex? Below are eight reasons:

1. With Forex you can **always make money**, whether the markets are going up or going down. If you are able to somewhat predict the market better than others, it is always possible to make a profit.
2. Forex can **yield higher returns** than other investments. Because you trade actively and hold positions for a short time, your capital is quickly available for new trading opportunities.
3. Forex is much **easier to learn** than many other ways of trading or investing. There are not hundreds of listed companies from which you have to choose and about which you need to follow the news. You just need to keep an eye on a few major currencies like EUR/USD, USD/JPY, EUR/GBP.
4. Forex is based on major international economic developments. Therefore, you can use the economic **knowledge you already have** to trade Forex and learn more about the global economy by following the news or reading the newspaper.
5. You just need a **small initial capital** to begin trading Forex, because only the gains and losses that you make are added to or subtracted from your trading account. You will read more about this phenomenon called leverage in lesson 3. With just 100 Euros you can already begin trading and be successful on the foreign exchange market. (Many successful traders have never deposited more than 500 Euros and from there built their fortune.)
6. In order to trade Forex you **don't have to pay commissions** to a broker. Because you trade with an online Forex broker you only "pay" a small difference between the buying and selling price (typically a few hundredths of a percent).
7. If you invest in other products as well (such as shares or bonds) then you **spread your risk** by trading in Forex. You can hedge against global economic shifts and take advantage of changes in exchange rates.
8. Besides the lucrative aspect of Forex trading, it is also **exciting, fun and instructive**. You are actively involved with your investments and can take regular decisions about your trading portfolio.

## Being successful in Forex trading

Does this mean that you can get rich with Forex whilst sleeping? No, certainly not. In order to be successful as a Forex trader you should delve into the workings of the foreign exchange market; follow the global economic developments; and most importantly, practice a lot. Cfdtradingforyou.com will help you with all of these things. The most important skills you will learn in this free Forex course. You will notice that you master Forex trading more quickly than you think.

In the next lesson we will explain how trading in currencies exactly works.

## Lesson 2: How does Forex work?

In the world of Forex it is all about being able to predict the **foreign exchange rates** better than others. Many tools are available for that purpose, which can be divided into technical analysis and fundamental analysis. In order to be able to work with these tools, it is important to first understand the foreign exchange market a bit better and to be able to interpret Forex quotes. In this second lesson of the Forex trading course we will focus on the question “how does Forex work?”

### Currency Pairs

Forex currencies are always traded in pairs. That means that you always speculate on a change in value of one currency *relative to* other currencies. Therefore, one cannot simply say, “I think the US dollar is going to rise,” but instead: “I think the US dollar will appreciate *against* the euro.”

All currencies in Forex have their own three-letter abbreviation. For the main currencies (also called the **Majors**), these are as follows:

USD = US Dollar

EUR = Euro

GBP = British pound

JPY = Japanese Yen

CHF = Swiss franc

AUD = Australian Dollar

CAD = Canadian dollar

NZD = New Zealand Dollar

Currency pairs are always indicated by the combination of two three-letter abbreviations as above. For instance, EUR / USD is the currency pair Euro-US Dollar. Hereby the order of the two currencies is important as well.

### Base currency and quote currency

The first currency in a currency pair (the three letters before the slash) is also called the “**base currency**” in Forex terms. This is the primary currency of the pair. If a Forex trader buys a currency pair, he speculates on a rise in the base currency. The second currency in a currency

pair (the three letters after the slash) is called the “**quote currency**” in Forex terms. This is the currency in which the base currency is expressed. The buyer of the currency pair is speculating on a decline of the quote currency (relative to the base currency).

For example, the price of the currency pair GBP / USD is 1.4366 at some point. The base currency, the British Pound is currently 1.4366, expressed in terms of US dollars, which is the quote currency. If the Forex trader wants to buy 1 British Pound he must pay 1.4366 US dollars. Suppose the investor buys 100,000 GBP. Then he is charged with USD 143.660. If the next day the price has risen to 1.4412, he gets USD 144.120 when he sells his position. He has made a profit of 460 USD.

## Forex rates and the spread

In the example, the price of the currency pair GBP / USD was displayed as a single number. In practice, this is usually not the case. To get a good impression of this you can best take a look at what currency pairs within an online broker look like yourself. This is most clearly visible within the software of the [broker Plus500](#). You can [download the software here](#) for free so that you can apply the examples presented in this course to the software.

On the main screen of Plus500 you will see a menu to the left showing under “Forex” two items called “Majors” and “Majors II”; these are the most traded currency pairs. If you click on one of these two items, you will see an overview of the exchange rates in the middle of the screen as in the image below. Behind every currency pair two prices are displayed: a “sell” and “buy” price. The buy-price is the price at which you can buy a currency pair the broker. This is also called the “**ask price**”. The sell-price is the price at which you can sell a currency pair back to the broker. This is also called the “**bid price**”.

Instrument	Sell	Buy	Change	High/Low
EUR/USD	1.2260	1.2261	0.25%	1.2268 / 1.2219
EUR/JPY	146.93	146.94	0.54%	146.94 / 145.95
EUR/CHF	1.2035	1.2038	0.04%	1.2041 / 1.2027
EUR/GBP	0.7839	0.7840	0.24%	0.7840 / 0.7820
EUR/CAD	1.4203	1.4206	0.38%	1.4216 / 1.4181
GBP/JPY	187.41	187.43	0.34%	187.56 / 186.50
AUD/NZD	1.0520	1.0522	0.15%	1.0561 / 1.0510

The ask price is always higher than the bid price. The difference between the two is called the “**spread**”. This is what the Forex broker earns its money from. Because, unlike many other investments, for Forex trading no commission is charged for executing orders, the broker needs the spread to offer its services. For the most common currency pairs, the spread is 1 to 3 hundredths of a penny.

## Pips and position size

Such a hundredth of a cent is called a “**pip**” in Forex terms. For the Forex trader this is an important basic unit. Price changes, gains and losses are often expressed in terms of pips. For example, if the currency pair AUD / USD falls from 0.9722 to 0.9694 that is a decline of 28 pips.

This unit is widely used because it is independent of the size of your investment. If you have made 50 pips in two hours on GBP / USD, then it does not matter whether you have bought British Pounds for \$ 1,000 or for \$ 10 million. In the first case you are \$ 5 richer, in the second case \$ 50,000. Of course, it matters a lot for your personal situation, but the quality of the trading decision you have taken is the same. It is therefore that you will likely encounter the term “pip” many more times.

## The next lesson

In the next lesson of the course we will take a closer look at position size and how “leverage” allows you to open large positions with a small capital. Additionally, we will discuss the risks that this involves.

## Lesson 3: Understanding Forex quotes

In the previous lesson of this **Forex course** we have explored currency pairs and Forex rates. The main base unit that is used in Forex is the “pip”, which represents one-hundredth of a cent.

You may wonder why these hundredths of cents are so important. After all they are just very small amounts. This is because Forex traders trade with large positions. The standard size of a position, a “**standard lot**” is 100,000 units of the base currency. Some brokers that focus mainly on individuals, like [Plus500](#), also offer “**mini-lots**” of 10,000 units, and even “**micro-lots**” of 5,000 units or less. A position of one standard lot (=100,000 units) means a profit of \$ 150(or Euros or Pounds, or ...) if the price increases 15 pips. If you imagine that an experienced Forex trader can make multiple profitable trades per day, the yields are rising quickly.

## Leverage

In order to open such large positions, you do not actually need an investment capital of hundreds of thousands of Euros. This is because in Forex only the gains and losses are added to or subtracted from a trader’s account. The only money you yourself need is a much smaller amount on your investment account to cover any losses. This phenomenon is called **leverage**. The Forex broker will open a position for you. The broker provides the required capital. You as a trader can trade with a certain leverage, often from 20x to 400x. A leverage factor of 100x means you only need to buy one hundredth of the position in order to open it.

To give an example we use the software of the broker Plus500, which you can [download for free here](#). In the main screen you will see an overview of the exchange rates, from which you can directly buy or sell currencies. (Do you see other tradable securities instead of currencies? Then choose “majority” under “Forex” in the menu on the left.) For example, suppose you think the euro will soon appreciate against the US dollar. Therefore, you want to buy 10,000 units of the currency pair EUR/USD. Look for the instrument EUR/USD in the list of currencies, then click “Buy”. In the screen that subsequently appears you will see a number of options that you can customize.

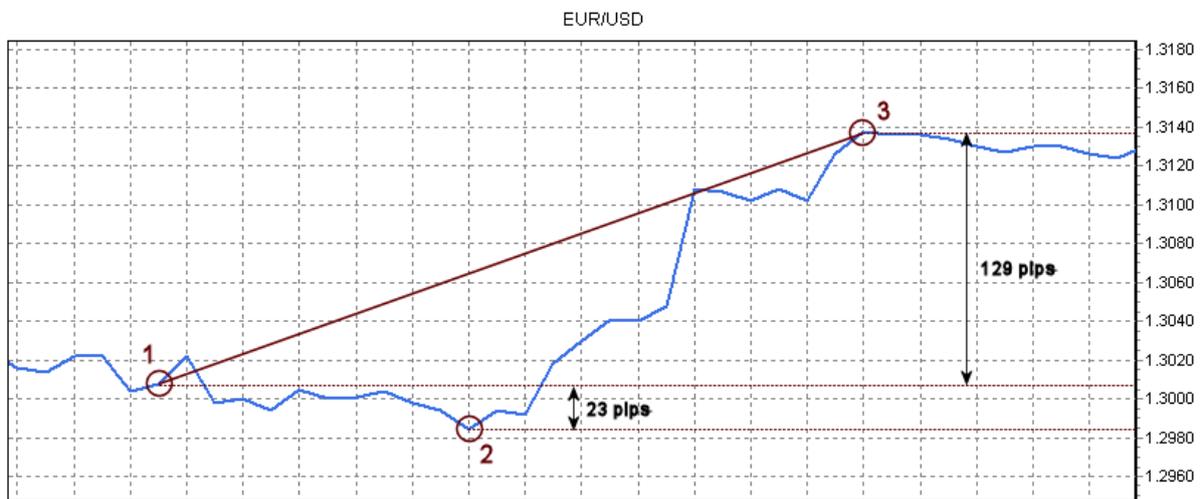
The option at the top is the amount for which that you want to buy that currency pair. Below this amount, you will see the amount that you need on your balance account in order to open the position (the required securities). The leverage factor is the purchase price divided by the required securities. If for example €100 is needed on your account in order to open a position EUR/USD with a value of €5,000, the leverage factor is 50x. The other options that can be adjusted will be discussed later on in this Forex trading course.

## The leverage factor and risk

It may seem like it is more favourable for traders to have the highest possible leverage factor. This, after all, allows him to open the biggest possible position with as little money as possible. That's not entirely true. Because the leverage factor also determines the maximum amount at risk.

Suppose you want to buy one mini lot NZD / USD at a rate of 0.7859, and a maximum leverage factor of 400x. You will need:  $10,000 / 400 = \$ 25$  on your trading account. This \$ 25 is reserved by the broker to cover any losses on your position. It turns out you have made a wrong decision and the New Zealand dollar falls against the US dollar. If the currency pair decreases more than 25 pips, so below 0.7834, then the broker will automatically close your position. At that moment the total value of your position has in fact declined by \$ 25 ( $10,000 \times 25 \times 1/100 \text{ cent} = \$ 25.00$ ) and you had reserved only \$ 25 to cover your losses.

This seems not too bad. After all, it turned out you opened a losing position and because of the leverage you have been spared from ever greater losses. Exchange rates, however, usually do not move in straight lines towards the direction you predicted. A price chart is volatile, and a currency often drops in price first before it moves towards the right direction. And that may just mean that your position is closed even before it starts making a profit.



Take for example the chart above. You can open a chart like this within the [Plus500 software](#) as well by clicking on a random security. Additionally, you can also switch between candlestick and line. At a certain point in the graph you decide to buy the currency pair EUR / USD, because you believe that the Euro will appreciate against the US dollar. In hindsight, it appears to have been a good decision, because if you sell the position at point 3 again, you made a whopping 129 pips profit. With a mini lot of 10,000 units this would mean a profit of \$ 129. However, before the price really starts to rise, it drops a little. At point 2 in the graph, the rate dropped 23 pips with respect to the purchase price.

If you had used a leverage of 600x for this position, your position would have been closed when the rate had dropped 18 pips. So, even before it reached point three. In that case you had lost \$ 18 and the position would have been closed. If the leverage was just 100x for example, you would have indeed needed a slightly larger capital (\$ 100 instead of \$ 25), but then your position would have remained open and you would have made the full \$ 127 profit. So, keep in mind that, although leverage is very useful, it can sometimes work against you.

## The next lesson

If all is well, you should by now have a good idea of how to interpret Forex quotes, why Forex traders can make money with only very small price changes of just hundredths of cents, what the importance of **leverage** is and the risks associated with it. In the next lesson we focus on the graphical representation of currency rates: Forex charts.

## Lesson 4: reading Forex charts

So far in this **Forex course** we have only used simple price charts. These are also called “**line charts**”. Experienced currency traders on the Forex market however make little use of these line charts because there are other Forex charts that give much better and more information on the price and price movements.

### Candlestick charts

An example of a more advanced chart type is the “**candlestick chart**”. If, during one of the previous lessons you have installed [the Plus500 software](#), you can easily see candlestick charts of all currency pairs. Click on the currency pair of which you want to see the chart and then click the button “Switch between candlestick / line”.



In a candlestick chart each period is represented by a colored vertical bar with a vertical line sticking out from the top and the bottom, the **candle**. The vertical bar is the main **body** of the candle. A red body means that the price of a currency pair has fallen within that specific period; a green body means the price has risen. The thin vertical line above and below the body is called the “**shadow**” of the candle. This indicates the distance between the highest and lowest quoted price within the period, or how much the price fluctuated during this the period.



The graph above shows an example of a candlestick chart. Each candle represents a one-hour period for the currency pair USD / JPY. Region (1) shows a series of successive short green candles. The price has risen considerably in that time without much fluctuation. Region

however (2), shows three consecutive negative bars that indicate a price decrease. Moreover, the first two candles have quite large shadows, indicating that the rate has been even lower during that period. Finally, region (3) shows one interesting candle. This candle doesn't have a body but only a long shadow. The closing price after that hour was exactly equal to the opening price. However, the price did move within this period.

## Candlesticks explained: clear trends

### The high test / low test

To the right you see a high test; the high test is characterized by a long stick above the body (at least 2/3). A low test is exactly the opposite, the body is then above and the stick and directed downwards. The color does not matter with the high and the low test.

The high and low tests both are very strong price signals; they reflect the shift from buyers to sellers and vice versa. The price is strongly pushed upwards in case of a high test: the buyers however, were too weak and the price has fallen back again. This is a strong sell signal. Conversely, the low test is a strong buy signal.



### Train tracks and twin towers

Train tracks consist of two (almost) identical bars next to each other: first a green then a red. Twin towers are exactly the opposite: a red bar is followed by an identical green bar. This combination can be seen as a combined high or low test, the two bars together constitute a failed breakthrough.

Train tracks are a strong sell signal; After all, the sellers overpowered the buyers. As the twin towers are precisely the opposite, they are a strong buy signal.



### Bullish / bearish engulfing bar

The bullish engulfing bar is a red (negative) bar followed by a green (positive) bar that engulfs the previous bar: it opens lower and closes higher. After the initial decrease in the price it has fallen even further (second bar opens lower): from here however, the buyers took over and the bar closes above the previous day's high. Bullish engulfing is a strong buy signal.

Conversely, a bearish engulfing bar is a strong sell signal. The price increase is followed by a stronger price decrease in which both the high and the low of the previous bar are exceeded.



## Candles explained: indecisiveness

### Inside bars

The inside bars are a strong indication of indecisiveness. The inside bar fits into the previous bar: there is no clear direction. The double inside bars (see image) are even stronger; hereby the third bar fits into the second bar. After the double inside bars a strong movement up or down may be expected.



### Doji bars

The doji bar also indicates a high level of indecisiveness: the doji bar is almost symmetric in the middle whereas the price has gone up as much as it has gone down. Ultimately, not much has happened during that period.



Because the candlestick chart is the most used chart for Forex traders nowadays, we will only use candlestick charts in the rest of this Forex course. In the lesson on technical analysis we will discuss what you can do with candlestick charts.

## The next lesson

Before that, however, we will explain how you can open positions yourself in the Forex market. This is a basic skill you will need to trade profitably in Forex or other kinds of securities like stocks, indices, and commodities. You will learn key issues such as the use of a stop loss and a take profit in order to maximize your profits and minimize your losses.

## Lesson 5: Opening Forex positions yourself

In the previous lessons of this Forex trading course you have already learned about Forex positions and leverage. In this lesson we will continue on the subject of **opening Forex positions**.

### Long or short

So far we have only discussed the purchasing of currency pairs. For example, if you buy EUR / USD, you assume the Euro will appreciate against the US dollar. It can happen that you expect the US dollar to appreciate against the euro. You may probably think: “then I should buy the currency pair USD / EUR”, whereas the US Dollar is the **base currency** and the Euro the **quote currency**. That's a logical thought, only no such currency pair exists on the Forex market, only EUR / USD. This is so for all currency pairs: it is internationally agreed upon which currency is used as base currency and which is used as the quote currency.

The **major currency pairs** are as follows:

EUR / USD

GBP / USD

USD / JPY

USD / CHF

EUR / GBP

GBP / JPY

AUD / USD

NZD / USD

USD / CAD

Nevertheless, it is possible to speculate on a decline of the base currency relative to the quote currency. This is possible by opening a “**short position**”. In order to understand this, you must first know that if you normally purchase a currency pair, you open a “**long position**”. The broker does this by purchasing a number of units of the base currency while simultaneously selling the same value of the quote currency. For example, if you go long for 100,000 USD / CHF at a rate of 0.9468, then the broker purchases 100,000 US dollars and simultaneously sells 94,680 Swiss francs. When you close the position again, the broker carries out the same transaction in opposite direction and profits are for you.

With a short position is the exact opposite happens. The broker sells 100,000 units of the base currency and buys the same value of the quote currency. That way you speculate on a rise in the quote currency relative to the base currency. Thus, taking a short position on EUR / USD in fact the same as taking a long position on the USD / EUR (except that there is no USD / EUR).

## Opening Forex positions yourself

You have now seen how to speculate on a rise or fall of a currency pair. If you think a currency pair is going to rise, take a long position. If you think that a currency pair is going to fall, take a short position. Now it's time to learn to take positions yourself. Again, we use the [Plus500 trading software](#). This is one of the most user-friendly and comprehensive brokers out there. (Moreover, it is very attractive that Plus500 gives a welcome bonus of 25 euro to all new traders, without having to make a deposit first.) If you have not yet installed the software, you can [download it for free here](#). Within the Plus500 software it is very easy to open and close positions.

Suppose you have read positive news about the US economy and believe the US dollar will appreciate against the euro. Then you want to trade in the currency pair EUR / USD. Because you think the base currency will decrease in price relative to the quote currency, you want to take a short position. You can do so by clicking the button “Sell” behind the currency pair EUR / USD. (With “Buy” you can take a long position).

If you click either buy or sell a new screen will pop up. In this screen you can enter multiple options, like the size of your position. As you have already seen in lesson 3 of the Forex course, you can fill in the desired size of your position behind “Amount”. And remember that you only need the amount behind “**Required securities**” on your trading account. Because you are using **leverage** you need only a small percentage of the position to be actually available on your account.

## Stop loss and take profit

The following two options are VERY IMPORTANT! The “**take profit**” and the “**Stop loss**” are the two most important options for Forex trading. To start with the last one: the stop loss indicates the maximum amount of money you want to risk if the price does not move into the direction you expected. If this amount is reached, the Forex broker will automatically close your position. It is recommended to always set a stop loss so that you minimize the damage to your investment capital if you're wrong with your prediction of the foreign exchange market.

You set the **stop loss** by checking the box “Close at loss” in the Plus500 software and subsequently you choose a price at which Plus500 should close your position. Below the price you choose you can immediately see what your loss would be if your position would be closed at that particular price. Do not set the stop loss too wide, because then you expose yourself to excessive losses. However, do not set the stop loss too tight either, because then you risk your position being closed after a small price setback, before the potential profit could be realized.

The **take profit** is the opposite of the stop loss. The take profit determines at which price you want the broker to close your position automatically. It may seem strange to put a limit on your earnings. After all, you want your profit to be as large as possible, without a maximum. Most of the time however, the Forex market moves up and down. It can be very logical to expect a currency pair to rise, but that the maximum potential profit will be obtained at a price increase of, for example, 150 pips. After that the market is likely to reverse its direction and the price of the currency will decrease again. Therefore, also check the box “Close at profit” and select a target that you deem realistic.



An example of this is clearly visible in the chart above. Between point A and B, you would have made a profit of 14 pips on a long position AUD / USD. With a position size of 1 standard lot that would mean a profit of \$ 140. Not bad at all, but if you had used the stop loss and take profit wisely, your profits could have been much higher.

Suppose you had taken a long position at point A with a take profit of 31 pips. Then your position would be automatically closed on point TP1. Subsequently, you took a short position with a take profit of 24 pips. (Remember that with a short position you make money if the price falls and thus your take profit will be below the current price. In case of a long position

the take profit lies above the current price) The short position would be closed on point TP2, after which you could have taken a long position, and so on.

This way you could have made a whopping profit of 148 pips (= 31 + 24 + 18 + 18 + 32 + 25) between point A and B. With the same position size that would be a profit of \$ 1480 ... more than ten times as much as the \$ 140 that you would have otherwise earned during the same period! Of course, no Forex trader has excellent knowledge of the Forex market and no one is able to buy exactly at the lowest points and sell precisely at the highest points. This is just an example to show how take profits and stop losses can significantly increase your total profits.

## The next lesson

This is one of the reasons **why you can earn much more money with Forex trading than with any other (passive) investments**. By actively monitoring the market, you benefit both from price increases and price decreases. And by setting a stop loss and a take profit at strategically chosen points you can maximize your profits and limit your losses. In the next lesson we will further examine how to protect your capital through risk management.

## Lesson 6: Risk management

Nothing is certain, except death and taxes. This also applies to **Forex trading**. No matter how convinced you are a currency pair will rise or fall, there is always a chance that something else happens on the Forex market. That's why, in this lesson of the Forex trading course for beginners, we are going to discuss **uncertainty** and see what you can do to **protect yourself and your money**.

### Money management

Even the best Forex investors in the world can will never be able to close every position with a profit. And there is no need to. As long as more than half of your trades are profitable, or as long as your profitable trades are larger than your losing trades, you will eventually make money. It may happen that you have three consecutive losing trades. In that case you do not want to lose your entire capital immediately. In order to prevent that from happening you use, what experienced Forex traders call "**money management**".

Money management is the opening positions in such a way that you risk only a small portion of your investment capital. If you cannot afford to lose a large portion of your invested capital it is recommended to risk no more than 2 to 3 percent of your capital. If you want to trade with reason, but you are also able to add to your capital after unforeseen losses, then it is recommended to risk no more than 5 to 8 percent of your capital. Risking more than 8 percent is never a good idea.

### Stop loss (again)

**Limiting risk** can best be done by using a **stop loss**. Suppose you have opened an account with a Forex broker and deposited € 500. You would like to protect this money, but would not be a disaster if you lost it. A reasonable starting point is to risk no more than 5% of your capital per position. In your case this is  $5\% \times 500 = € 25$ .

In Lesson 5 of the Forex course you learned how to open a position yourself. We use the software of the [broker Plus500](#) as an example, because it is the most user-friendly, cheapest, and best suitable broker for beginning traders. In the price table you can choose a currency pair that you think is going to rise (or fall, if you want to take a short position), for example the EUR / USD. You click on “Buy” and set the size of the position and the stop loss.

If, for example, the price of EUR / USD is 1.3160 at the time of purchase, you can buy a mini lot (10,000 units) with a stop loss at 1.3135 (25 pips). In the event that the price then, contrary to your expectations, declines with 25 pips, you lose  $10,000 \times 0.0025 = € 25$ . You can also choose to open a smaller position, of say 5,000 units. This allows you to afford a stop loss of 50 pips, which gives a little more room to your trade.

In this way, the position size and stop loss can be combined to control the total amount at risk. By the way, you don't have to perform these calculations every time yourself. The Plus500 software makes these calculations automatically and directly shows what your maximum loss would be for every price you enter in “Close at Loss”. This is the amount that you risk on a trade. This amount can be reduced by either decreasing the purchased amount, or by setting the stop loss closer to the purchase price. We recommend you experiment with these values to get a feeling for the risk when you open certain trades. A good way to experiment risk-free is with a demo-account. With the Plus500 demo account you can trade as much and as long as you like.

## Take profit (again)

Besides money management there is another important component of **risk management in Forex trading**: Ensure that you earn enough money on your profitable trades. Suppose that, because you use a stop loss, the maximum amount you risk is € 25. Then it's not a good idea to close any position on which you have made € 10 profit. Because that way you win only € 10 on good decisions and lose € 25 on bad decisions. In that case you must be right more than 70% of the time to make money in the long run. This is a **common beginner's mistake**: closing a position as soon as it has just a little profit.

If instead you place your take profit at € 75 (= 75 pips with a mini lot), this is much more beneficial for you. If you have opened a good position you make € 75, while if you have opened a “wrong” trade you lose only € 25. In this case you need to be right only 25% of the time in order to break even. However, do not set the take profit too high either, because then the risk becomes too great that you miss your target price and the currency pair drops back again before it reaches your take profit.

## The next lesson

So far we have talked mainly about how the Forex market works and how you can open and close positions in a sensible way. However, it is not only important *how* you take positions, but also *what* positions you take. Why can you expect a certain currency pair to increase or decrease in price? In the next two lessons of this Forex course we will look at **how you can predict the developments on the foreign exchange market**. The very next lesson is about “**fundamental analysis**” and the lesson thereafter will be about “**technical analysis**”.

# Lesson 7: Fundamental Analysis

So far in this Forex course we have mainly talked about how to interpret Forex quotes and charts, how to open positions and how to set the various options of a position. However, we haven't actually discussed **how to predict the Forex market**. We start with that in this lesson.

## Fundamental and technical analysis

Within the world of Forex roughly two movements exist that each predict the foreign exchange market on their own way. On the one hand there are the fundamental traders. They believe the market can be predicted best by looking at developments in the economy and the reaction of the markets to these developments. This is called "**fundamental analysis**". On the other hand there are technical traders. They believe that all information about the economic outlook is already included in the rates. By analyzing price charts one can predict what the market will do in the future. This is called "**technical analysis**".

Actually, both movements are right. When important economic news is broadcast the currency markets often react violently to it. (Remember when the Swiss Central Bank decided to abandon measures to hold down the value of the Franc to the Euro. It's rate increase over 30% in one day) And in the long term the value of a currency reflects the strength of the underlying economy. But much of this information is often already reflected in the Forex charts. In addition, the Forex market is ultimately driven by the decisions of banks, governments, businesses and individuals and they also respond in a predictable way to price movements. In the next lesson we will focus on the analysis of Forex price charts. The current lesson is devoted to the **analysis of economic news and developments**: fundamental analysis.

## Fundamental analysis and economic developments

The rising and falling of currencies relative to each other is caused by **economic and political developments** and the responses of investors and traders. These developments are published in the economic news. Often this is about official announcements of the central bank of a country on the state of the economy. In general, it can be said that positive news about a country is good for the currency of that country, whereas negative news will cause the rate to decline. But on the foreign exchange market there are predictions of what the news will be before it is released. If the actual news is better than the expectation it often leads to an increase in price, even if the expectation itself is poor.

Take for example the weekly **initial jobless claims** in the United States. These are released every Thursday at the opening of the market by the US Department of Labour. Suppose last week 430,000 people had applied for unemployment benefits. The expectation among Forex investors is that the new figure this week will be 475,000. That is a bad sign for the US economy and this expectation will cause the US Dollar to already fall slightly against other currencies. On Thursday, however, it is announced that this week's figure is "only" 445,000. That is still an economic downturn, but because the expectation was even worse, this news will probably cause a price increase of the US Dollar.

## The economic calendar

Where can you find **the most important economic news** that affects the foreign exchange rate? Globaltrader24 has dedicated a page especially to this with an “[economic calendar](#)”. On the calendar you can see exactly what economic news events are planned for the coming days. With each new fact the following information is displayed:

- The date
- The time (You can adjust the time on the top of the calendar)
- The currency for which the news is most important
- The importance of the new fact (The more bull icons there are behind the news fact, the more important it is. Important news has a greater impact on the Forex rates)
- The news fact (If you click on this you will get an explanation)
- The actual figure of the news fact (This appears only after the news has been published)
- The predicted figure of news fact
- The last figure of the news fact

By watching the economic calendar closely, you always know when interesting news can be expected that could offer an opportunity for a potentially profitable trade. As you do this more often, you will develop a good feel for how the market reacts to specific news. You will see that as you get more experienced, your predictions will be more accurate each time (and based on these predictions you can open profitable Forex positions).

## The most important economic news

Although there is news every day on the economic calendar, not all news is equally important for the Forex markets. Below, we briefly describe the most important economic news.

### Interest rate announcements from national banks

Interest rate announcements directly affect exchange rates, because they determine the yield an investor receives in a given currency. If the European Central Bank (ECB) announces that it is to increase the interest rates in the euro zone, someone will get more interest on money he invests in Euros. The exchange rate of the Euro will therefore rise relative to other currencies. Conversely, a fall in interest rates leads to a decline of the corresponding currency.

### Economic productivity

If an economy performs well more companies will want to invest in that economy. That causes the demand for the currency to rise, after which the exchange rate will increase. Simple as that. For this reason, news that describes the state of an economy has major impacts on Forex rates. The main indicator is the increase or decrease of the **gross domestic product** of a country (GDP). A higher GDP usually leads to a price increase and a lower GDP to a fall in price.

### Inflation figures

Inflation in the financial world is measured with price indices (such as the “**consumer price index**” (CPI) and the “**producer price index**” (PPI)). Central banks will generally try to keep inflation limited to a few percent. Their main tool to accomplish that is the interest rate. When

inflation is too high, the economy is overheating and the central bank will try to cool it with an increase in interest rates. Conversely, a low inflation is often an indication for a interest rate decline. That's why higher inflation rates have a positive impact on exchange rates and low rates a negative impact.

This applies, of course, only to a certain extent. If a country is struggling with very high or even hyperinflation, it is rather a weak sign for the currency. There will be no interest rate increase that could save the currency. In such cases, one should definitely not go long on the currency.

## Unemployment rate

Just like the economic productivity figures, the unemployment figures also give a good picture of the economic situation in a country. Higher unemployment means a weaker economy and falling exchange rates. Lower unemployment characterises a stronger economy and usually leads to rising exchange rates.

## **Timing**

The currency markets usually react violently to important news. Immediately after the release of a news fact it is not unusual for a currency pair to move 100 pips up or down within minutes. This makes it difficult to open a position immediately after the news.

Therefore, it is better to either open a position in advance of the news, or afterwards, when the market has calmed down. If you open your position before the news fact, you do so because you think you have a good idea about the figure that is going to be published soon. For example, it is predicted that consumer prices in the US have increased 0.25% compared to last month. From a reliable source you have heard that this actually is 0.35%. Therefore, you expect that after the release of the news, the US Dollar will rise and so you take a short position EUR / USD. Make sure you set a wide stop loss, because the rate will fluctuate violently immediately after the release of the news. Then just let the market determine its new price and when the volatility has decreased you close your position again.

If you do not want to open a risky position in advance you can also wait for the first **reactions by the market to the news**. Immediately after the news the exchange rate will often fluctuate up and down. At a given moment, however, a certain consensus arises among traders about which way the market will go. If you open a position at that point, you can still profit from a large part of the price movement. This strategy requires a less tight stop loss because the volatility (fluctuation of the exchange rate) is smaller.

## **The next lesson**

If following all those news facts is too much work or too complicated, you can also choose to trade based on analysis of price charts. In that case you focus on technical analysis. We will discuss this in the next lesson of this Forex course.

## Lesson 8: Technical analysis

Where some Forex traders believe that in order to predict the currency markets one should look at economic and political news (**fundamental analysis**), others believe that the most important information can be found in the price charts. They belong to the group of technical analysts in Forex. In this lesson of the Forex course we will further discuss **technical analysis** and show how you can use it in your advantage.

### Predictive Forex charts

Although the values of currencies are ultimately determined by the underlying economies, **Forex trading is a game of people**. And people behave (to some extent) in a predictable manner. If a currency is overvalued, many people will be selling this currency, causing the price to go down. Conversely, people will buy an undervalued currency, leading to an increase in price. If a currency pair has never been below a certain price level historically, more and more people will be buying this currency as the rate is approaching that price. Because people expect the price will not go below a certain point, they will buy that currency, causing the price to rise. This phenomenon is called a self-fulfilling prophecy.

This kind of behaviour is reflected in the **Forex charts**. There are several points to be designated where Forex investors will buy or sell a currency pair en masse. At these points, it is wise to go with the tide. After all, the price is determined by the majority, and if you want to take advantage of this you must belong to that majority. However, you must carefully consider your entry and exit points. Technical analysis helps you to determine these entry and exit points.

There are many, many patterns and indicators that are used for technical analysis. A **“pattern”** is a certain movement of a price that occurs frequently. For example, a graph that moves continuously back-and-forth between two price levels within a certain period. An **“indicator”** is a figure that can be calculated with a mathematical formula (or have it done by your Forex software) and that says something about the state of a currency pair.

Every technical trader prefers his or her own system of patterns and indicators. Thus, there is no consensus on which indicators best predict the future price movements of a currency pair. Something most experienced Forex traders do agree on is that you should not be making it yourself too difficult by using too many indicators together. It is best to take one or a few indicators and use them to develop your trading strategy. As you become more experienced with Forex trading, you will eventually discover which indicators work best for you. For beginners, we can introduce at least two technical analysis tools that are easy to understand and can be used immediately.

### Support and resistance levels

Sometimes a currency pair moves up and down during a given period, but does not go below a certain price. In that case, we call that price a **“support level”**. In the same way, it might happen that the price does not seem to go through a certain maximum price level. In that case we speak of a **“resistance level”**. Support and resistance levels can be recognized in charts because it looks as if the price “bounces” from a virtual bottom and against a virtual ceiling.

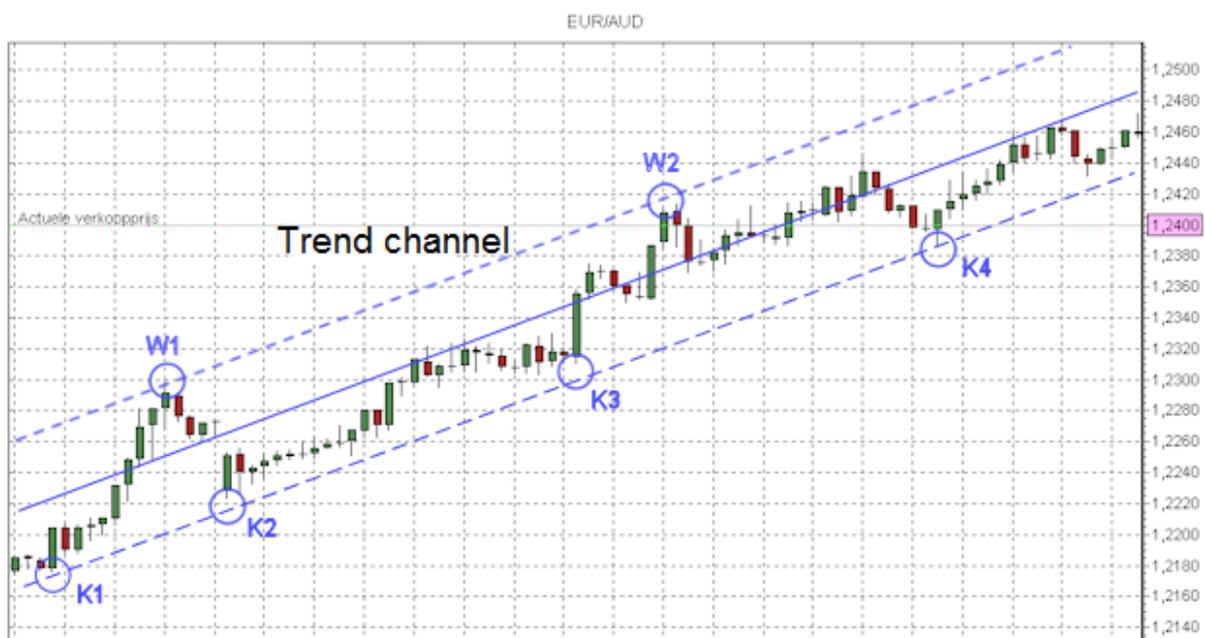


Look at the chart above. You can open such a chart yourself with the software of Plus500, the most intuitive broker. Do you not have the software yet? You can [download it for free here](#). The graph shows the price movements of the currency pair USD / JPY where each candle represents one hour. It is obvious that there is a support level at 80.03. In the beginning of the graph, the price closes at this level multiple successive periods. After that the support line is (almost) tapped a number of times (blue circles), but each time the price increases again.

You could have used this support level to open positions. If the price approaches 80.03 again, chances are that it will move upwards again. Therefore, you could open a long position on USD / JPY. However, do set a stop loss in case the support level is broken unexpectedly, for example at 79.95. (Do not use the support level itself as stop loss, because the price could sometimes drop a little lower before “bouncing” back.

## Trends

A currency pair often moves in a certain direction over a longer period. From period to period, it might fluctuate a bit, but the general direction is clear. In that case, we speak of a “**trend**”, in Forex terms. If clear signals that indicate the contrary are absent, a trend will normally continue. So, it's a good idea to follow that trend. An important saying in Forex trading is: “The trend is your friend”.



The above chart is a good example of a trend in the rate of the EUR / AUD. Over a longer period it is clearly visible that the price moves upwards. However, the price does fluctuate within a certain range. This is also called a “**channel**”. The best times to be buying this currency is when the price is at the bottom of the trend channel (K1, K2, K3 and K4 in the graph). Not only do you benefit from the overall upward trend, the price will probably increase extra within the bandwidth as well.

If the price is moving close to the top of the bandwidth you should wait with your purchase (W1 and W2 in the graph). Although the overall trend is positive, the share price may temporarily decline because it is already near the top of the channel. Since the overall trend is an uptrend, it would be unwise to take a short position, even if the price is close to the top of the channel.

## **The next lesson**

What you have learned in this lesson of the Forex course, is just the beginning of technical analysis. If you (after finishing this Forex course) want to learn more about various indicators and ways to use technical analysis, please have a look at our various articles about technical analysis. In the next lesson we will discuss how to use the acquired knowledge to develop your own **Forex trading system**.

## **Lesson 9: Your own Forex trading system**

In the previous lessons of this Forex course you have already learned a lot about **the functioning of the foreign exchange market**, the **opening of Forex positions** and **analysing good investment/trading opportunities**. This knowledge forms the basis for developing your own **Forex trading system**. Every successful Forex trader has his own trading system: the basic principles he uses to select currency pairs and take positions.

Such a Forex system is very personal. It depends partly on how much risk you want to take, how much time you have, what currencies have your preference and which analysis tools you prefer. In this lesson we will help you to figure out what system works best for you. Eventually you will develop your own system and continuously improve it based on your trading experience.

### **Your Forex trading account**

If you have not already opened one, it is now time to open a trading account with a Forex broker. A broker is required to place buy and sell orders and to analyze Forex charts. Many brokers can be found on the internet although they are not all equally reliable, cheap, and user-friendly. For new Forex traders we recommend the broker Plus500. This is a reliable CFD broker where your money is safe (Plus500 is authorised and regulated by the Financial Conduct Authority, the Cyprus Securities and Exchange Commission, and by Australian Securities and Investments Commission) and it offers very user-friendly and easy-to-understand software. You can open a free trading account [here at Plus500](#). If you want to read more about Plus500 you can download the E-book “Plus500 guide for beginners”.

Most Forex brokers also offer a practice, or **demo account**. Such a demo account is useful to get used to the software and allows you to practice with virtual money so you won't have any risk at all. Besides, you can use the demo account to test your new trading system without risking any money. Nevertheless, we recommend trading with a demo account not too long.

The reason for that is that in Forex trading **psychology plays an important role**. And when there is real money at stake most people often behave slightly different. There are many traders who were very successful at first... with a demo account. However, once they switched to a real account they felt real money was at stake. They no longer opened promising positions, closed positions after sudden price drops in panic, and they didn't close profitable positions in time. In short, they transformed from good traders into emotional gamblers, just because real money was at stake.

You should absolutely try to avoid this. Therefore, it is a good idea to get used to trading with real money from the beginning. You should not immediately start with large sums of money however. On the contrary, it is best to start with a small capital so you limit your risks. I would recommend an initial capital of 150 to 500 Euros to start trading. That way you will get to know your own psychological behaviour, you will learn how to deal with stress, and you will become more disciplined. These factors are what will eventually make you a profitable trader.

If you would like to start by opening a demo account? Then you can open one [here at Plus500](#).

## **Setting up a Forex trading system**

In order to develop a good Forex system, you will need to answer the following questions for yourself:

### Are you a technical or a fundamental trader?

After going through lesson 7 on fundamental analysis and lesson 8 on technical analysis you should probably have a good idea about which technique is most suitable for you. Are you someone who is always aware of the latest economic news? And would you enjoy using that knowledge in practice? Then fundamental analysis would be recommended. If you instead like to study charts and find patterns? Then you will probably prefer technical analysis. Although you can use both forms of analysis together, it is always advisable to take one technique as a starting point and use the other only as extra support for your decisions.

### How much risk are you willing to take on the foreign exchange market?

You must decide for yourself how much money you want to invest in your Forex trades. Our experience tells us that a suitable amount to start with is about 150 to 500 Euros (you will get a first deposit bonus as well, €30 if you deposit €150, and €150 if you deposit €500). But if you think this is still too much, you can start with as little as €50. However, NEVER invest with money that you definitely cannot afford to lose! Although you should be growing your capital if all goes well, trading is still a risky activity and there is always a chance that you will lose your money. The importance of your investment capital also affects the type of positions you can open. If you do not want to take too large risks it is better to open more conservative positions with moderate stop loss and take profit. If you can afford to lose your

money and want to experiment, you can also open riskier positions with a wider stop loss and high profit potential.

### How much time do you have and at what times?

Forex trading is an activity that requires attention. You will have to decide how much time you want to spend on it. Opening a position and holding it for months without ever looking at it, like some investors on the stock market do, is not what Forex trading is about. But you can, for example, have a look at the markets in the morning before going to work, place orders and set the stop loss and take profit, and in the evening when you come home have a look at the results. If you have more time, because you do not have to work (at fixed times), you can also open positions for a shorter period and keep watching them closely.

Another aspect of this is that not all currency pairs are active at the same time. This is because currencies are traded in various international markets (such as New York, London and Tokyo) which are open at different times. We recommend you trade as much as possible on the same time because then you will get to know how the markets behave at specific times.

### What currencies do you prefer?

Once you are engaged in Forex, you will notice that different currency pairs behave differently. It is therefore wise not to start with too many different currencies. Maybe you already know much about the US or the UK economy; it is then logical to trade the USD and the GBP. If you do not know which currency pair to trade, we recommend the EUR / USD. This is the most traded currency pair and there is a lot of information to be found on this currency pair. A currency pair that usually shows a lot of movement and is therefore interesting for riskier traders is the GBP / USD.

### Which analysis tools do you prefer?

In order to really understand the consequences of fundamental news or technical indicators you will need to become familiar with these instruments. Therefore, do not start with too many different indicators. Are you a fundamental trader, then start for example with trading interest rate announcements from the ECB, or the publication of the US non-farm payrolls. Look at the [Forex economic calendar](#) to find the news you want to use for your analysis and try to remember at what days and at what times they are published.

Are you a technical trader, then start for example with trend analysis and eventually add other techniques like “moving averages” or “Fibonacci levels”. However, make sure that you fully understand the indicators you are currently using before applying new indicators. A good strategy is to get to know a new indicator, experiment with it for a certain period, then decide whether to add it to your Forex trading system, and only then look for another indicator.

### What do you want to achieve with Forex?

Finally, it is good to consider what you really want to achieve with Forex. Is it to earn some pocket money? To save for a major purchase? Do you see it primarily as a nice hobby? Or do you aspire to eventually make it your profession. In that case, you will need to invest time not only in trading itself but also on studying. If you just want to earn some extra money with

forex you can take more risk than if you want to build a savings capital. So always keep in mind what your actual goal is.

If you have answered all these questions for yourself, then that forms the basis of **your personal Forex trading system**. With that your trading system is not fixed however. Perhaps you will eventually change your mind about different parts of your system. That is nothing to worry about: after all, as you trade more you gain more experience and you use that experience to improve your trading system. It is always a good idea to ask yourself the above questions once in a while. This gives you a clear basis for a successful trading strategy.

## **The next lesson**

By now you have reached the point that you should understand the basics of Forex trading. From this point, you will develop your knowledge further and improve your trading as you gain experience. In the last lesson however, we want to give you **seven golden Forex trading tips**.

## **Lesson 10: Important tips for beginners**

This is the last lesson of the Forex course. If you have studied and completely understand all the previous lessons, you are actually no longer a Forex beginner: you are well on your way to becoming a successful Forex trader. In this lesson we will provide you with seven important **Forex beginners tips**. Use them wisely and hopefully you can avoid some common beginner mistakes and make more money with Forex trading.

### **1. Always open positions with a good reason**

Forex is serious trading and no gambling. It is therefore not a good idea to buy a currency pair just because you “feel that it is going to rise”. Make sure you make rational decisions to justify your position. For example, the unemployment rate has declined in the US and the market has not yet responded. That might be a good reason to open a short position EUR / USD. Or if the rate of GBP / USD is near the bottom of a rising trend channel that could also be a good reason for a long position in that currency pair. Professional Forex traders distinguish themselves from beginners by always making rational decisions.

### **2. Always use a stop loss and take profit**

There is nothing more annoying than when you just walk away from your computer screen, to come back a few minutes later and see your Forex positions have gone up in smoke. Usually it is not that bad, but sometimes the currency markets can be very volatile. And because small changes of just a few pips can cause big profits or losses, it is important to protect yourself against such fluctuations.

Even if you are 100% sure that you won't leave your computer and closely keep an eye on your trade, then it is still wise to set a stop loss and take profit for your positions. Because this forces you to think in advance about the potential profit of a position, and what maximum loss you are willing to accept in case you made a wrong prediction. If you catch yourself having

no clear idea about this, you should closely consider the position again before actually opening it.

### **3. Do not question yourself in the middle of a trade**

It will happen more than once that you have opened a Forex position and that the price immediately moves in the wrong direction. Like many beginning Forex traders you can be tempted to close your position quickly, before the losses become larger. Do not do that. After all, you have been thinking in advance about a good stop loss. As long as that is not reached, you have to give your currency pair the opportunity to find its direction.

The same applies to the take profit. Many (bad) traders want to close their position as soon as they have a little profit, because they fear they will lose their profit. Because they close their positions too early however, they often miss a large part of their potential earnings. Trust the price target that you have chosen through your take profit. Thinking about a position in advance in excellent, but doubt during a position will cost you money.

### **4. Choose a Forex broker that suits you**

Make sure you have a **Forex broker** that you trust and which provides good software that you are able to trade with. For new traders we recommend the broker Plus500, because it has the most comprehensive and user-friendly software. However, perhaps you already have more experience or maybe this software just doesn't work for you. Then you should have a look at our broker comparison page.

### **5. Choose a period that suits you**

For some people it is the most comfortable to open a position and then leave it for a few hours (or even days) and earn tens of pips. Others open and close their positions within a few minutes with a few pips profit (this is called "scalping"). Most Forex traders however will be somewhere in between.

For beginners in Forex it is important to select the right period. This is important for the price charts you will be analysing. If you like to trade in the short term, you rather watch the 5-minute or 15-minute charts; if you prefer trading in the long term you look at the one-hour, 4-hour, or even day charts. Choose a period that suits you and can keep focussing on. For novice Forex traders we discourage scalping because it requires a highly developed sense of the market movements.

### **6. Only trade in the right mood**

There have been many Forex traders who were very disciplined and successful in the currency markets only to lose their entire capital on one day in a bad mood. Under the influence of alcohol, drugs, sadness or anger our brains will function very different, causing us to make reckless, sometimes even catastrophic decisions.

Thus, stay away from your Forex software if you have been drinking, if you experienced something emotional or if you just have a bad temper. The currency markets will be open the

next day as well, so wait until you are fully capable of making the right decisions before you start trading.

## **7. The market is always right**

Ultimately all buyers and sellers together determine the direction of the Forex market. If more people are buying than selling the price rises; if more people are selling than buying the price will decline. So always try to find out what the largest group of people is going to do and follow them. Just make sure you open and close your position in time. There is no such thing as “outsmart the market” by taking an opposite position. The market is always right.

## **Finally**

This brings us to the end of the **Forex course**. If you have studied and understood all the lessons, you are now capable of being a profitable trader on the Forex market. You have learned some basic skills and analytical techniques and you know how to avoid the most common beginner mistakes. You have an advantage over those who haven't read this Forex course.

However, that does not make you an expert... because there is still much to learn about Forex trading. If you want to expand your knowledge, you can go to our website [www.globaltrader24.com](http://www.globaltrader24.com) and browse through the articles. But besides studying theory it is especially important to gain experience in practice. We therefore recommend you open a free account with a broker and practice with a demo account or with a little money on a real account. **You will soon find out how fun and interesting Forex trading is!**

As you have noticed in this Forex trading course we have used the **Plus500 trading software** as an example. I have been trading with this broker for many years now and I'm absolutely satisfied about it. On my website [globaltrader24.com](http://globaltrader24.com) I will explain everything you need to know about this broker.