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Contents

How to Make Money Trading Forex

In the forex market, you buy or sell currencies. Placing a trade in the foreign exchange market is simple. The mechanics of a trade are very similar to those found in other financial markets (like the stock market), so if you have any experience in trading, you should be able to pick it up pretty quickly.

The objective of forex trading is to exchange one currency for another in the expectation that the price will change. More specifically, that the currency you bought will increase in value compared to the one you sold.
Currencies are always quoted in pairs, such as GBP/USD or USD/JPY. The reason they are quoted in pairs is that, in every foreign exchange transaction, you are simultaneously buying one currency and selling another.

The first listed currency to the left of the slash ("/") is known as the base currency (in this example, the British pound). The second listed currency on the right is called the counter or quote currency (in this example, the U.S. dollar).

In the example above, you will receive 1.21228 U.S. dollars when you sell 1 British pound. The base currency represents how much of the quote currency is needed for you to get one unit of the base currency. If you buy EUR/USD this simply means that you are buying the base currency and simultaneously selling the quote currency.

- You would buy the pair if you believe the base currency will appreciate (gain value) relative to the quote currency.
- You would sell the pair if you think the base currency will depreciate (lose value) relative to the quote currency.

First, you should determine whether you want to buy or sell.
If you want to buy (which actually means buy the base currency and sell the quote currency), you want the base currency to rise in value and then you would sell it back at a higher price. In trader talk, this is called "going long" or taking a "long position."
Just remember: long = buy.
If you want to sell (which actually means sell the base currency and buy the quote currency), you want the base currency to fall in value and then you would buy it back at a lower price. This is called "going short" or taking a "short position".
Just remember: short = sell.

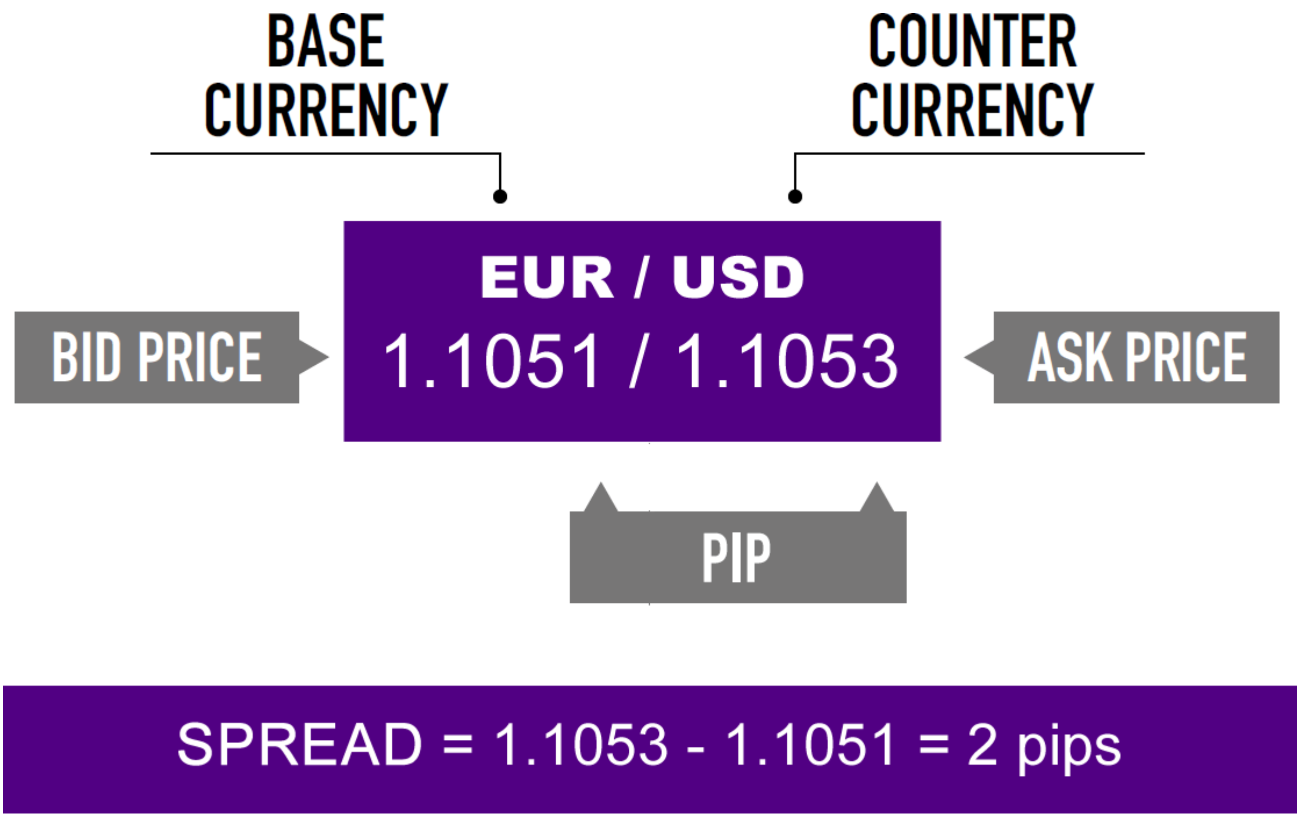
The Bid, Ask and Spread

All forex quotes are quoted with two prices: the bid and ask. In general, the bid is lower than the ask price.

What is “Bid”?
The bid is the price at which your broker is willing to buy the base currency in exchange for the quote currency. This means the bid is the best available price at which you (the trader) can sell to the market. If you want to sell something, the broker will buy it from you at the bid price.

What is “Ask”?
The ask is the price at which your broker will sell the base currency in exchange for the quote currency. This means the ask price is the best available price at which you can buy from the market. Another word for ask is the offer price. If you want to buy something, the broker will sell (or offer) it to you at the ask price.

What is “Spread”?
The difference between the bid and the ask price is known as the SPREAD. Spread is the earning of the broker.



Know When to Buy or Sell a Currency Pair

Forex trading involves trying to predict which currency will rise or fall versus another currency.

How do you know when to buy or sell a currency pair?
In the following examples, we are going to use a little fundamental analysis to help us decide whether to buy or sell a specific currency pair.
The supply and demand for a currency changes due to various economic factors, which drives currency exchange rates up and down.
Each currency belongs to a country (or region). So forex fundamental analysis focuses on the overall state of the country's economy, such as productivity, employment, manufacturing, international trade, and interest rates

EUR/USD
In this example, the euro is the base currency and thus the "basis" for the buy/sell. If you believe that the U.S. economy will continue to weaken, which is bad for the U.S. dollar, you would execute a BUY EUR/USD order. By doing so, you have bought euros in the expectation that it will rise versus the U.S. dollar.
If you believe that the U.S. economy is strong and the euro will weaken against the U.S. dollar, you would execute a SELL EUR/USD order. By doing so, you have sold euros in the expectation that it will fall versus the US dollar.

USD/JPY
In this example, the U.S. dollar is the base currency and thus the "basis" for the buy/sell. If you think that the Japanese government is going to weaken the yen in order to help its export industry, you would execute a BUY USD/JPY order. By doing so you have bought U.S dollars in the expectation that it will rise versus the Japanese yen.
If you believe that Japanese investors are pulling money out of U.S. financial markets and converting all their U.S. dollars back to yen, and this will hurt the U.S. dollar, you would execute a SELL USD/JPY order. By doing so you have sold U.S dollars in the expectation that it will depreciate against the Japanese yen.

GBP/USD
In this example, the pound is the base currency and thus the "basis" for the buy/sell. If you think the British economy will continue to do better than the U.S. in terms of economic growth, you would execute a BUY GBP/USD order. By doing so you have bought pounds in the expectation that it will rise versus the U.S. dollar.
If you believe the British economy is slowing while the American economy remains strong , you would execute a SELL GBP/USD order. By doing so you have sold pounds in the expectation that it will depreciate against the U.S. dollar.

Trading in "Lots"

When you go to the grocery store and want to buy an egg, you can't just buy a single egg, they come in dozens or "lots" of 12.
In forex, it would be just as foolish to buy or sell 1 euro, so they usually come in "lots" of 1,000 units of currency (micro lot), 10,000 units (mini lot), or 100,000 units (standard lot) depending on your broker and the type of account you have (more on "lots" later).

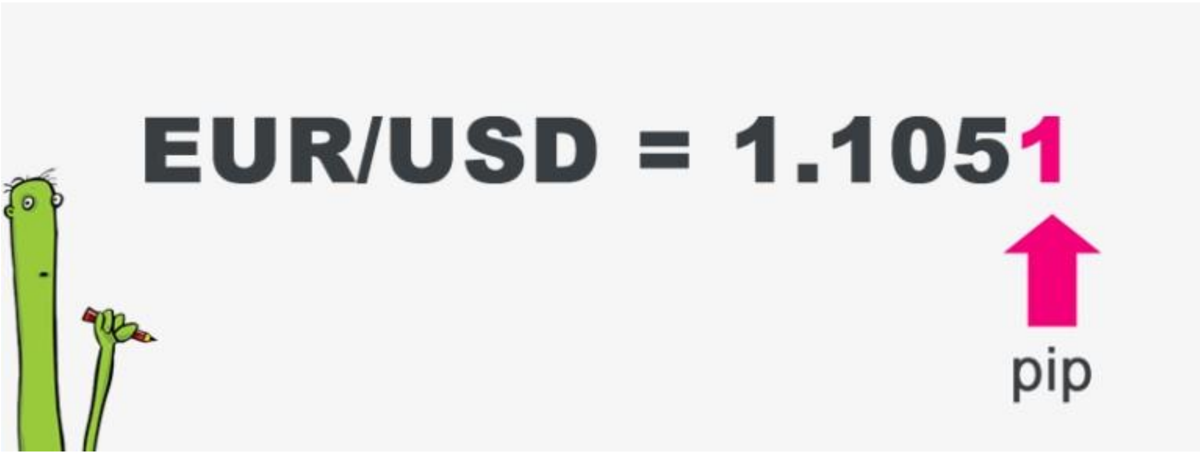
Margin Trading

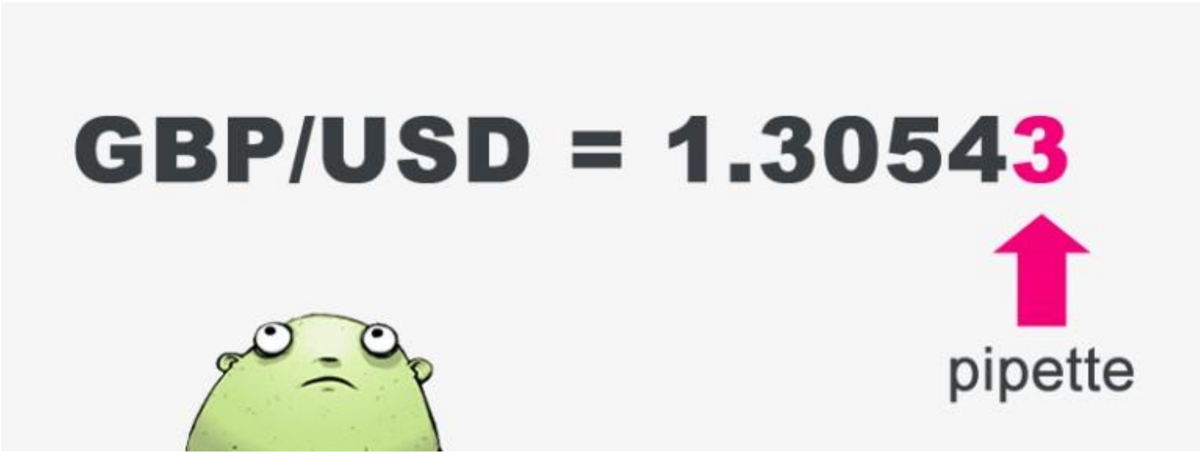
"But I don't have enough money to buy 10,000 euros! Can I still trade?"
You can! By using leverage. When you trade with leverage, you wouldn't need to pay the 10,000 euros upfront. Instead, you'd put down a small "deposit", known as margin.
Leverage is the ratio of the transaction size ("position size") to the actual cash ("trading capital") used for margin.
For example, 500:1 leverage, means $200 of margin is required to open a position size worth $100,000.
Margin trading lets you open large position sizes using only a fraction of the capital you'd normally need. This is how you're able to open $1,250 or $50,000 positions with as little as $25 or $1,000. You can conduct relatively large transactions with a small amount of initial capital.

1. You believe that signals in the market are indicating that the British pound will go up against the U.S. dollar.
2. You open one standard lot (100,000 units GBP/USD), buying with the British pound with a 500:1 leverage.
3. You wait for the exchange rate to climb.
4. When you buy one lot (100,000 units) of GBP/USD at a price of 1.50000, you are buying 100,000 pounds, which is worth $150,000 (100,000 units of GBP * 1.50000).
5. Since the margin requirement was 0.2% (500:1 leverage), then US$300 would be set aside in your account to open up the trade ($150,000 * 0.2%).
6. You now control 100,000 pounds with just $3,00.
7. Your predictions come true and you decide to sell. You close the position at 1.50500. You earn about $500.

What is a Pip in Forex?

You've probably heard of the terms "pips," "points", "pipettes," and "lots" thrown around, and now we're going to explain what they are and show you how their values are calculated.
The unit of measurement to express the change in value between two currencies is called a "pip."
If EUR/USD moves from 1.1050 to 1.1051, that .0001 USD rise in value is ONE PIP.
A pip is usually the last decimal place of a price quote. Most pairs go out to 4 decimal places, but there are some exceptions like Japanese yen pairs (they go out to two decimal places).
For example, for EUR/USD, it is 0.0001, and for USD/JPY, it is 0.01





What is a Lot in Forex?

Forex is commonly traded in specific amounts called lots, or basically the number of currency units you will buy or sell.
A “lot” is a unit measuring a transaction amount.
When you place orders on your trading platform, orders are placed in sizes quoted in lots.
It’s like an egg carton (or egg box in British English). When you buy eggs, you usually buy a carton (or box). One carton includes 12 eggs.
The standard size for a lot is 100,000 units of currency, and now, there are also mini and micro lot sizes that are 10,000 and 1,000 units.

LOT	NUMBER OF UNITS
Standard	100,000
Mini	10,000
Micro	1,000

As you may already know, the change in a currency value relative to another is measured in “pips” which is a very, very small percentage of a unit of currency’s value.

To take advantage of this minute change in value, you need to trade large amounts of a particular currency in order to see any significant profit or loss.

For example, if the allowed leverage is 500:1 (or 0.2% of position required), and you wanted to trade a position worth $100,000, but you only have $5,000 in your account.

No problem as your broker would set aside $200 as a deposit and let you “borrow” the rest. Of course, any losses or gains will be deducted or added to the remaining cash balance in your account. The minimum security (margin) for each lot will vary from broker to broker.

Let’s say you want to buy 1 standard lot (100,000) of USD/JPY. If your account is allowed 500:1 leverage, you will have to put up $200 as margin.

The $200 is NOT a fee, it’s a deposit. You get it back when you close your trade. The reason the broker requires the deposit is that while the trade is open, there’s the risk that you could lose money on the position!

Types of Forex Orders

There are some basic order types that all brokers provide and they fall into two buckets:

- Market order: an order instantly executed against a price that your broker has provided.
- Pending order: an order to be executed at a later time at the price you specify.

Here’s a quick “map” of the different types of orders within each bucket.

Market Orders	Pending Orders
Buy Sell	Buy Limit Buy Stop Sell Limit Sell Stop

Market Order

A market order is an order to buy or sell at the best available price.
For example, the bid price for EUR/USD is currently at 1.2140 and the ask price is at 1.2142. If you wanted to buy EUR/USD at market, then it would be sold to you at the price of 1.2142. You would click buy and your trading platform would instantly execute a buy order at that exact price.

Limit Order

A limit order is an order placed to either buy below the market or sell above the market at a certain price.
This is an order to buy or sell once the market reaches the “limit price”.
You place a “Buy Limit” order to buy at or below a specified price.
You place a “Sell Limit” order to sell at a specified price or better.
Once the market reaches the “limit price” the order is triggered and executed at the “limit price” (or better).

Stop Order

A stop order “stops” an order from executing until price reaches a stop price.
You would use a stop order when you want to buy only after price rises to the stop price or sell only after the price falls to the stop price.
A stop entry order is an order placed to buy above the market or sell below the market at a certain price.
You place a “Buy Stop” order to buy at a price above the market price, and it is triggered when the market price touches or goes through the Buy Stop price.
You place a “Sell Stop” order to sell when a specified price is reached.

To open a position, the following pending orders may be used:
“Buy stop” to open a long position at the price higher than the current price
“Sell stop” to open a short position at the price lower than the current price
“Buy Limit” to open a long position at the price lower than the current price
“Sell Limit” to open a short position at the price higher than the current price
Here’s a cheat sheet (current price is the blue dot):