Introduction

This eBook is written for Forex beginners.

It is so comprehensive yet so easy to read that even a 6 year old would get it's content.

To make it more fun and interesting, we have used anecdotes where fits and explained all the trading terminologies in detail.

In fact, it is my belief that anyone who reads this eBook prior to trading is better placed at starting to earn from the foreign exchange market than someone who just bumped into Forex and started trading without a clue.

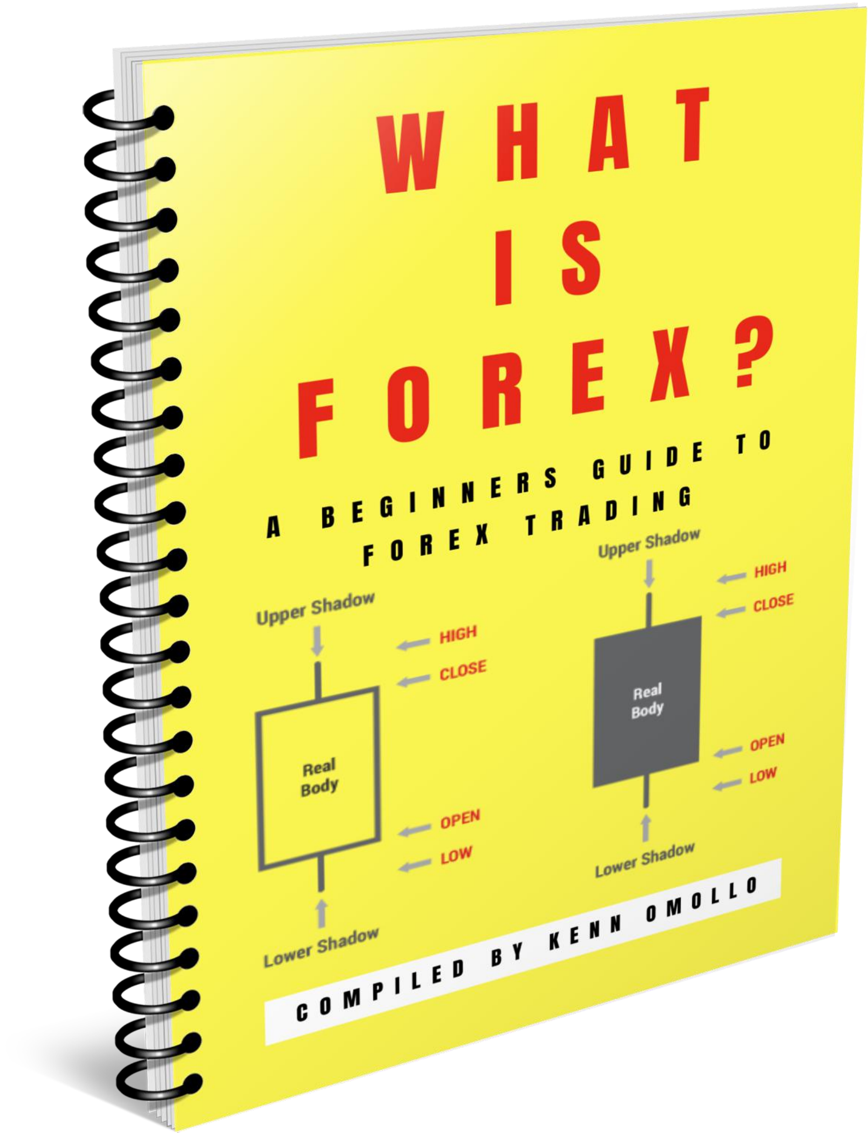
And you know what, it is FREE.

Consider it my free gift of saying, "thank you for always learning how to invest through our blog (**Joon Online**)."

Note: - Most of the content in this eBook have been written by trading professionals in XM Forex.That's how valuable it is.

Here are some quick links to XM Forex website, tools and products.

1. About XM Forex
2. Visit the XM Forex Website
3. Open a real account
4. XM Forex Member Area
5. Open a Demo Account
6. Open an Islamic Account
7. Check out XM Forex Promotions & Bonuses
8. Compare XM Forex Account Types
9. XM Forex Zero Account
10. Download MT4 Platform
11. Download Android MT4
12. Download MT5 Platform
13. Margin Calculator
14. PIP Value Calculator
15. XM Forex Webinars
16. XM Forex Support



Risk Disclosure

Your capital is at risk. Leveraged products may not be suitable for everyone. Seek professional financial advice if you do not understand how they work.

Chapter 1

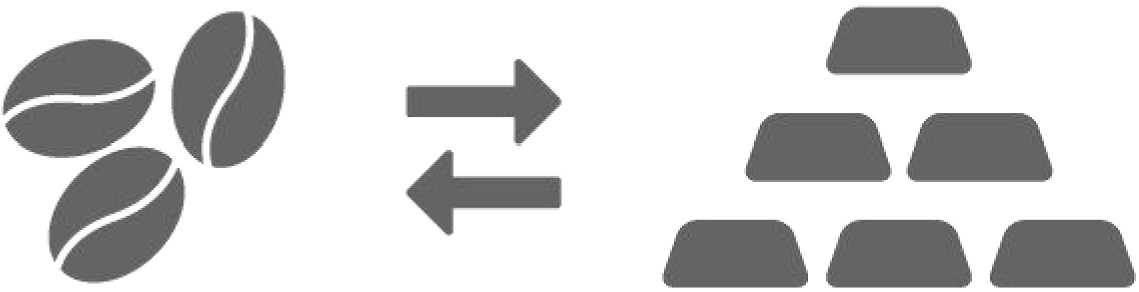
What is trading?

The origins of trading date back to prehistoric times. It's been there ever since man started painting symbols on cave walls and realized that in exchange for a spare flint axe he could get a new arrow head. This is how it all started.

Before modern currencies were invented, bartering was a common way to **buy** and **sell** goods, that is, to exchange them directly for the sake of mutual benefit.

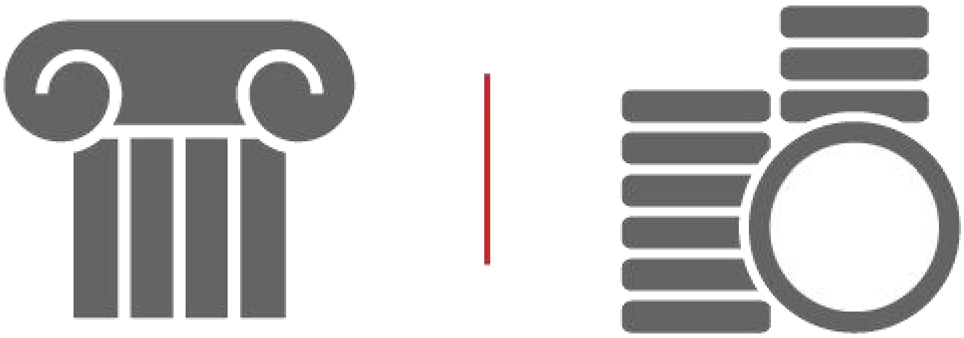
> ***Some 10,000 years B.C., exchanging cacao leaves for shiny turquoise stones was as common as selling your car and buying a new one today.***

Bartering, just like trading later on, was based on two main factors: products that were needed by others and negotiation between seller and buyer to reach an understanding and close the deal.



Over time, some of the items like precious metals or barley grains became so easy to barter that they were used as long-term media of exchange.

This is how the first gold and silver coins emerged in many different parts of the world such as in ancient Greece or Persia.



All That Glitters

As one of the first known metals since recorded history, **gold** has been the symbol of wealth, beauty and power.

Gold has its inner value that remains independent of authorities or political regime. It is no wonder why until recent decades international trading was largely based on gold, or why it has been widely used as a means of monetary exchange.

Gold standards were established as early as the **Byzantine Empire**. In one form or another, gold trading standards remained in effect until 1971, when President Nixon ended the convertibility of the US dollar to gold.

Since then all major currencies have been fiat currencies, which means that their values are not backed by gold and are free to change according to supply and demand.

And Trading Goes On

Ever since the first goods and objects were exchanged between people many thousands of years ago, trading has been a popular form of **buying and selling**, and even of **making a profit**.

Furthermore, today even **trading money for money** is possible.

In 1971 the so-called **foreign exchange market** began to develop, and foreign currency exchange has become one of the most popular ways of trading.

Just as with the oldest forms of trading, the buying and selling of one currency for another is done directly, with no interference from a third person.

Moreover, anyone can do it online, at any time and from anywhere.

Hey Mario, did you learn what trading is? Now let's learn what Forex is

What is Forex?

Forex (or FX) means **foreign exchange**.

What exactly does this involve?

It involves exchanging one currency for another – it's as simple as that.

Forex in Everyday Life

You don't necessarily need to be a trader to participate in the foreign exchange market.

Every time you travel and need to exchange some money into a foreign currency, you *are* participating in it.

Imagine that you have just arrived in New York from Paris.

You want to buy a hamburger at the airport, but you only have Euros on you. So you'll need some US dollars if you don't want to see New York on an empty stomach.

So you go to the first foreign exchange desk at the airport, and exchange your Euros into US dollars.

Whether you believe it or not, this is the very first step of what we call Forex trading.

Wait a minute!

You exchanged 10 Euros and got back 12. 74 US dollars. How's that possible? This is the actual exchange rate that made you richer.

After a few days you wave goodbye to the Statue of Liberty and take a flight to Berlin.

You exchange your leftover US dollars into Euros.

Hey, what happened?

You got back less than you expected… Why?

While you were in New York City, the exchange rate changed. Why? That's because of inflation, economic changes, and the balances between supply and demand, to only name a few of the factors that can influence the value of a currency.

Be Alert to Changes

Everything changes all the time. So do currency rates.

In a nutshell, keep an eye on when exactly you exchange one currency for another, what currency pair you choose (e.g. US dollars vs. Euros) and how much you exchange.

Last but not least, how much you profit from the exchange.

The **when**, **how much**, **what** and **profit** are the basic points of Forex trading

In Forex, you *buy and sell currencies* (for example US dollar, Japanese yen, euro), and you may even earn a profit, according to which currency pair you exchanged.

This is why we call it foreign exchange.

Depending on the currency rates and market movements, you can make profits. It all depends on how alert you are and how economies change.

> **Don't confuse Forex trading with physical trading – it's all online!**

You **buy** a currency online, **sell** another online, and you make a **profit** online.

If you have a Forex trading account, all your profit will be available there. You can withdraw your profit to your personal bank account any time – and finally cash it, if you want.

Because it's all about money, let's start with the basics. To make things simpler, in Forex we use symbols. The most commonly traded currencies are listed in the table below.

CURRENCY	COUNTRY	SYMBOL	NICKNAME
US dollar	United States of America	USD	buck

Euro	In 17 euro zone countries	EUR	fibre
Pound sterling	Great Britain	GBP	cable
Japanese yen	Japan	JPY	yen
Swiss franc	Switzerland	CHF	swissy
Canadian dollar	Canada	CAD	loonie
Australian dollar	Australia	AUD	aussie
New Zealand dollar	New Zealand	NZD	kiwi

How Currency Pairs Work

So this is how it goes: trading always consists of buying one currency and selling another. Together these currencies make up a currency pair.

Imagine choosing the USD/JPY pair.

You expect the US dollar to increase in value as compared to the yen. So you buy USD and sell JPY.

Remember that in order to buy one currency you have to sell another. If the dollar rises against the yen, you close the position and make a profit.

Why is Forex trading done in currency pairs?

Imagine that the first currency in any currency pair (in our example the USD) is a potato. So in order to buy a potato, you need to pay a certain amount of the second currency (in our example, JPY).

There are 3 categories of currency pairs: **major, minor, exotic**.

Majors

Major currency pairs (*majors*) are traded most frequently, and they all contain the US dollar (USD).

PAIR	COUNTRY OF ORIGIN	MEANING
EUR/USD	Eurozone/USA	Euro – US dollar
USD/JPY	USA/Japan	US dollar – Yen
GBP/USD	United Kingdom/USA	Pound sterling – US dollar
USD/CHF	USA/Switzerland	US dollar – Swiss franc
USD/CAD	USA/Canada	US dollar – Canadian dollar
AUD/USD	Australia/USA	Australian dollar – US dollar
NZD/USD	New Zealand/USA	New Zealand dollar – US dollar

Minors

Minor currency pairs (*crosses*) don't contain the USD. The most

EURO MINORS	YEN MINORS	POUND MINORS	OTHER MINORS
EUR/CHF	EUR/JPY	GBP/CHF	AUD/CHF
EUR/GBP	GBP/JPY	GBP/AUD	AUD/CAD
EUR/CAD	CHF/JPY	GBP/CAD	AUD/NZD
EUR/AUD	CAD/JPY	GBP/NZD	CAD/CHF
EUR/NZD	AUD/JPY		NZD/CHF
	NZD/JPY		NZD/CAD

active ones contain EUR, JPY, and GBP.

Exotics

Exotic currency pairs contain one major currency as the base currency, paired with any non-major currency, such as South African rand, Mexican peso, or Danish Krone.

Exotic pairs are not so widely traded.

The table below contains a few examples of exotic currency pairs.

PAIR	COUNTRY OF ORIGIN	MEANING
USD/HKD	USA/Hong Kong	US dollar – Hong Kong dollar
USD/SGD	USA/Singapore	US dollar – Singapore dollar
USD/ZAR	USA/South Africa	US dollar – South African rand
USD/THB	USA/Thailand	US dollar – Thai baht
USD/HUF	USA/Hungary	US dollar – Hungarian forint
USD/MXN	USA/Mexico	US dollar – Mexican peso
USD/DKK	USA/Denmark	US dollar – Danish krone
USD/SEK	USA/Sweden	US dollar – Swedish krona

Advantages of Trading Forex

The Forex market is **unique** – and as such, it attracts millions of traders daily, who are busy making money online.

What's more, it is open for all investors worldwide. Practically, anyone can trade Forex.

What Makes Forex Exceptional?

1. **HIGH LIQUIDITY**

Forex is the biggest financial market in the world with a trading volume of over $4 trillion a day.

This makes it 53 times bigger than the New York Stock Exchange's daily trading volume.

In such a liquid market, you have instant access to money as you can sell your investment quickly and at fair market price.

2. TRADING ROUND THE CLOCK

As opposed to any other financial market, the Forex market is open 24 hours a day and 5 days a week (22:00 GMT Sunday – 22:00 GMT Friday).

You can make your Forex deals whenever you are online, and at any time, day or night.

3. TRADE LONG OR SHORT – YOUR CHOICE

Whether the market is rising or falling, Forex offers you continuous profit potential – something the stock market does not offer.

Because Forex trading is about buying one currency and selling another, you are always free to trade long or short without any limitations.

4. BIGGER LEVERAGE – BIGGER PROFIT POTENTIAL

While for stocks the typical leverage is 2:1, Forex trading allows you a leverage of up to 500:1, or even more!

No other financial market apart from Forex offers this kind of leverage. You can choose the leverage that suits you best.

5. SMALL INITIAL INVESTMENT TO START TRADING

You can easily open a trading account with a modest initial investment to start buying and selling currencies.

You are free to do this on different levels, depending on your knowledge, skills and risk appetite. Its accessibility is a huge plus!

6. NO MANIPULATIVE INFLUENCE

The daily volume of Forex is huge! As a result, there are no *top dogs* who can manipulate the prices.

Why should your potential profit (or loss) depend on how big investment companies trade? This is something that does not happen to Forex.

No hedge funds, banks, analysts or brokers can influence the market for an extended period of time.

Not only is Forex open to everyone, but it also applies the same rules to all investors, no matter how big they are.

7. NO MIDDLEMEN

We say that Forex is traded over the counter (OTC). This implies that the Forex market has no centralized exchange such as a stock exchange.

Instead, Forex trading is conducted directly between buyers and sellers. Consequently, you have direct online access to the markets without any middlemen charging you extra fees.

8. VERY LOW TRANSACTION COSTS

Unbelievable as it may sound, the Forex market operates without any clearing fees, exchange fees or brokerage fees.

Most Forex brokers are compensated for their services through the *bid-ask spread*.

This is usually less than 0.02% under normal market conditions. At **XM** the spread can be as low as 0.01%.

9. MARKET ORDER EXECUTION IN LESS THAN 1 SEC.

Unlike stock and futures markets, the Forex market is very liquid and as such you can always execute an order.

At XM we are very proud of our **no rejections policy**: 100% of clients' orders are executed in less than 1 second.

10. FREEDOM TO CHOOSE YOUR TRADING STYLE

It is always your choice *how* and *when* to trade. The market is there for you 24 hours a day, 5 days a week.

You can be an intraday trader and keep your positions open from a few minutes to hours, or you can be an overnight trader and have a trading horizon of days, weeks or months.

Besides, you can use automated trading and let the expert advisors (robots) work for you.

Do you need to leave the comfort of your home to trade Forex?

No, you don't. It's all online, so all you need is Internet access on your PC, laptop, tablet, or Smartphone. You have Forex within easy reach at anytime.

11. LESS IS MORE

Over 8,000 stocks are listed on the NASDAQ and the New York

Stock Exchange.

Instead of analyzing and staying abreast with the developments of thousands of stocks, you only need to concentrate on a few currency pairs to make the most of your trading.

While all this looks impressive, the main advantages of Forex trading are more than appealing even to someone who knows little about it.

But does it sound like something you want?

Let's be honest, on some level or another everyone is interested in making money – including you.

The more you will read about it, the more tempted you will feel to embark on your most exciting financial activity ever: Forex trading.

Nobody becomes a professional Forex trader overnight. You can learn all about it by following **XM tutorials and by actually doing it.**

Sup Mario, this course is interesting, isn't it?

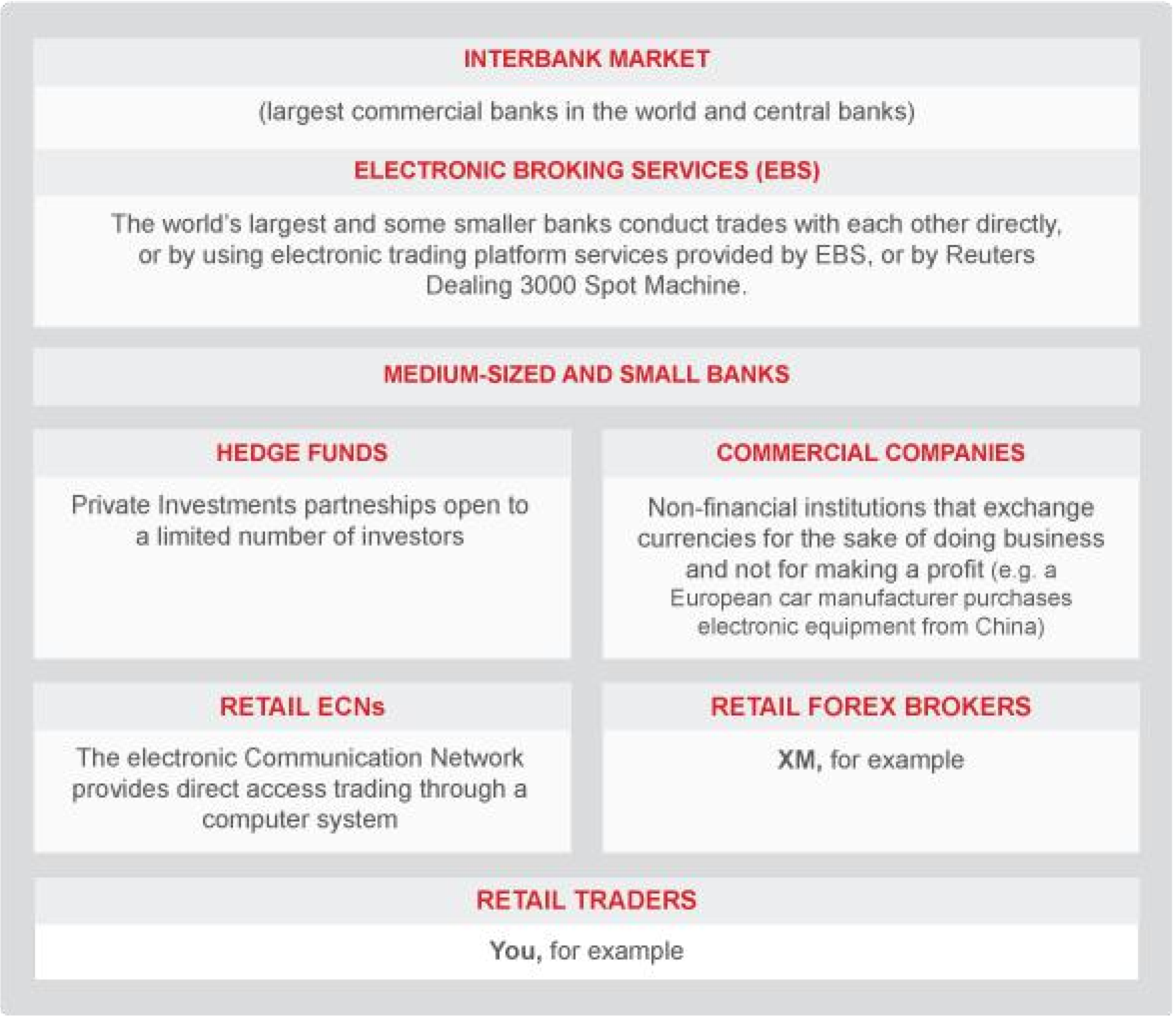
Forex Players

So far you have learned that in the Forex market there is no centralized exchange like a stock exchange.

Forex is **decentralized**: currencies are bought and sold directly between two parties. This is why we call it *over the counter* (OTC).

This also implies that unlike in the stock exchange market where you have one single price for a currency at a time, in the Forex market **price quotes vary**.

However, a decentralized market does not automatically mean



disorganized! Let's see how the Forex market is built up and who its **key players** are.

It is the versatility of the market participants that contributes to the **high liquidity** of the Forex market. In this respect, again, Forex is unique.

Trading Sessions

Now you are a bit closer to Forex: you know what it is, how you can benefit from it and who the market participants are. Let's see **when** you can trade.

Do you remember what you previously learned about the advantages of forex, telling you that the market is open nonstop?

Yes, the Forex market is open 24 hours a day – allowing you to trade at any time of the day or night. You can trade 24/5 between 22:00 GMT Sunday – 22:00 GMT Friday.

There are **4 main Forex trading sessions** with opening/closing hours based on the biggest financial centers.

TIME ZONE	GMT
Sydney Open Sydney Close	22:00 06:00
Tokyo Open Tokyo Close	00:00 08:00
London Open London Close	08:00 16:00
New York Open New York Close	13:00 21:00

****GMT (Greenwich Mean Time)***

When to Trade?

Time is money.

For this reason, in the 24-hour Forex market, **timing is critical**. Good timing produces good profits.

Yes, but which are the best hours/times to trade?

The hot zone is between 13.00 GMT and 16.00 GMT. This is the time when the London and New York sessions overlap.

What makes these hours powerful? Volume and volatility, because they reach their peak during these hours! During this time, the market is busy with active participants, currencies move very quickly, and the most important economic news is also published in this time period.

Volume means that a large number of lots are sold and/or bought for a particular currency pair; while volatility means that the price moves at a great speed.

> ***Volume and volatility during power hours work like gasoline and a spark of fire. In a good way, though!***

What's more, they may cause large movements in almost all currency pairs.

Which Currencies to Trade?

The currencies that you can trade because of their high activity and **large movements** are as follows:

- EUR/USD
- GBP/USD
- USD/CHF
- USD/CAD
- GBP/JPY
- GBP/CHF

Now let's look at the characteristics of each of the **trading sessions**.

Asian Session (22:00 – 08:00 GMT)

The Asian session begins with the Sydney open (22:00 GMT) and ends with the Tokyo close (08:00 GMT).

Japan is the world's third largest Forex trading center and even though we call it the *Tokyo session*, this is not the only busy Forex hub during this period.

Hong Kong, Singapore and Sydney are active players here, too.

The most traded currency is the yen, of course, covering 16.5% of all Forex transactions.

Now let us have a look at the main features of the Tokyo session:

- Approximately 21% of all Forex transactions are carried out here
- Liquidity (i.e. currency sold without causing significant price movements) can be quite thin at times
- Because of this thin liquidity most currency pairs will trade within a range, especially if there is a big move in the preceding New York session
- Most activity takes place at the beginning of the session, as this is the time when economic news is released
- As during the Asian session economic news from Australia, New Zealand and Japan come out, you will most likely see stronger moves in pairs that contain JPY, AUD and NZD.

London Session (08:00-16:00 GMT)

London is considered the capital of Forex and although there are several financial centers all around Europe, it is London that attracts the main interest as the **key financial center**.

It is no wonder because the London session:

- Has a huge trading volume (over 32% of all Forex transactions are carried out here)
- Has high liquidity
- Is the period with most market uptrend and downtrends
- Has lower spreads

- Volatility (i.e. overall price fluctuations) slows down a bit in the middle of the London period (for the simple reason that most traders are off for lunch) until the New York trading session starts
- Market trends may at times reverse just before the session ends as European traders decide to lock their profits.

New York Session (13:00-21:00 GMT)

When the London session traders come back from lunch, the **New York (US) session** starts

Features that mark the US session are as follows:

- Roughly 19% of all Forex transactions are carried out here
- Big market-moving potential: 85% of trades involve the US dollar
- High liquidity in the morning hours when it overlaps the London session
- Most economic news reports are released at the beginning of the session
- Liquidity and volatility decrease during the afternoon hours
- Little movement on Friday afternoon + high chances for trend reversal in the second half of the day.

Trading Styles

The beauty of Forex, among other things, is that you can do it anywhere, anytime and you are free to choose your own trading style.

This means that you can trade according to your individual personality, knowledge and risk tolerance.

Which is The Best Trading Style to Choose?

Let's learn the basics about the popular trading styles first:

a. Intraday Trading

As an intraday trader you hold positions for a short time (from minutes to hours), make many trades a day, and usually enter and close your trades on the same day.

b. Swing Trading

Swing trading is similar to intraday trading, but it has a longer trading horizon between hours to a few days.

c. Position Trading

This means that you hold positions for a long time (from weeks to years).

It's the opposite of intraday trading because you are more interested in long-term investment than in short-term price changes.

d. Scalping

Scalping is very short-term trading. You try to make many small profits during a single trading day.

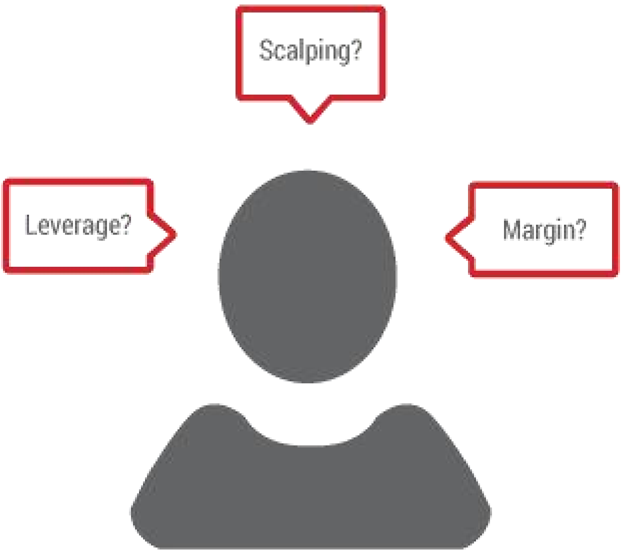
Speak Forex

Learning a foreign language starts with the alphabet – and so does Forex.

Forex has **its own language**, that is, special terminology.

> ***If you don't want to be embarrassed in front of other traders, it's useful to know that a*** **pip** ***is not a seed in an orange, and*** **execution** ***is not about playing Russian roulette.***

Basic Terms



Currency Pair

It is the quotation of one currency unit against another currency unit.

For example, the euro and the US dollar together make up the currency pair **EUR/USD**.

The first currency (in our case, the euro) is the *base currency*, and the second (the US dollar) is the *quote currency*.

As you see, we use short forms for currencies: euro is EUR, US dollar is USD, and Japanese yen is JPY.

Exchange Rate

It is the rate at which you exchange one currency for another. The exchange rate shows you how much of the quote currency you need if you want to buy 1 unit of the base currency.

Example: **EUR/USD = 1.3115**.

This means that 1 euro (**the base currency**) is equal to 1.3115 US dollars (**the quote currency**).

Now take a quick peek at how the euro is doing against the Japanese yen: for 1 euro I can get 106.53 Japanese yen (**i.e. EUR/JPY=106.53**).

Maybe I'll wait until the euro gets stronger before I exchange it and fly to Tokyo again.

The exchange rate may change in 2 days or 1 week, though. It may even stabilize for a while.

Okay, but when?

If you're a time freak like me, the when is important to you, too.

The *when* is a question that nobody can answer precisely.

It depends on a great deal of social and economic factors, many of which you'll be watching more closely when you start trading Forex.

Why?

Because currency rates change all the time, and you want to know when to buy one currency and when to sell another to make a profitable deal.

Quote

It is a market price that always consists of 2 figures: the first figure is the bid/selling price, and the second is the ask/buying price. (**e.g. 1.23458/1.12347**).

Ask Price

Also known as the **offer price**, the ask price is the price visible on the right-hand side of a quote.

This is the price at which you can **buy the base currency**.

> *For example, if the quote on the EUR/USD currency pair is 1.1965/67, it means that you can buy 1 euro for 1.1967 US dollars.*

Bid Price

It is the price at which you can sell a currency pair.

For example, if the EUR/USD is quoted at 1.4568/1.4570, the first figure is the bid price at which you can sell the currency pair.

Bid is always lower than *ask*. And the difference between bid and ask is the *spread*.

Spread

It is the difference in pips between the ask price and the bid price. The spread represents the brokerage service costs and replaces transaction fees.

There are *fixed* spreads and *variable* spreads. Fixed spreads maintain the same number of pips between the *ask* and *bid* price, and are not affected by market changes.

Variable spreads fluctuate (i.e. increase or decrease) according to the liquidity of the market.

Account Currency

It is the currency you choose when you open a trading account with XM.

All your profits and losses will be converted into that particular currency.

At XM you can open any kind of trading account you prefer with many base currency options: USD, EUR, GBP, JPY, CHF, AUD, HUF, PLN, or RUB.

So if you open an account in USD but you transfer funds in EUR, the funds will be automatically converted into USD at the prevailing inter-bank price.

Pip

A pip is the smallest price change of a given exchange rate.

Are you a visual type?

Here's an example: if the currency pair EUR/USD moves from 1.255**0** to 1.255**1**, that's a 1 pip movement; or a move from 1.255**0** to 1.255**5** is a 5 pip movement.

As you see, the pip is the last decimal point.

All currency pairs have 4 decimal points – the Japanese yen is the *odd one out*. Pairs that include JPY only have 2 decimal points (e.g. USD/JPY=86.51).

Fractional Pip

It is an extra decimal place in the exchange rate. In the case of non-JPY pairs, we have 1.23456 instead of 1.2345, while in pairs that contain JPY, we have 123.456 instead of 123.45.

We call the last decimal place in such pricing a pip fraction or *tenth pip*.

Lot

Forex is traded in amounts called lots.

One **standard lot**> has 100,000 units of the base currency, while a **micro lot** has 1,000 units.

For example, if you buy 1 standard lot of EUR/USD at 1.3125, you buy 100,000 Euros and you sell 131,250 US dollars.

Similarly, when you sell 1 micro lot of EUR/USD at 1.3120, you sell 1,000 Euros and you buy 1,312. US dollars.

Pip Value

The pip value shows how much 1 pip is worth.

The pip value changes in parallel with market movements. So it is good to keep an eye on the currency pair(s) you are trading and how the market changes.

Mario, now let's reflect on what you have learnt about pips!

To benefit from pips and see significant a increase/decrease in profit, you will need to trade larger amounts.

Suppose your account currency is USD and you choose to trade 1 standard lot of USD/JPY. How much is 1 pip worth per $100,000 on the USD/JPY currency pair?

The calculation formula is as follows:

Amount x 1 pip = 100,000 x 0.01 JPY = JPY 1,000

If USD/JPY = 130.46, then JPY 1,000 = USD 1,000/130.46 = USD 7.7

Therefore, the value of 1 pip in USDJPY is equal to: (1 pip, with proper decimal placement x amount/exchange rate)

Here is another example:

In the EUR/USD pair, a movement from 1.3151 to 1.3152 is 1 pip, so 1 pip is .0001 USD.

How much US dollar is this movement worth per $1,000 micro lot?

1,000 x 0.0001 USD = 1 USD.

Margin

Margin is the minimum amount of funds, expressed as a percentage that you will need if you want to **open a position** and keep your positions open.

If you trade on a 1% margin, for instance, for every USD 100 that you trade, you need to put down a deposit of USD 1.

And so, in order to buy 1 standard lot (i.e. 100,000 of USD/CHF), you need to maintain only 1% of the traded amount in your account i.e. USD 1,000.

But how can you buy 100,000 USD/JPY with only USD 1,000?

Basically, margin trading involves a loan from the Forex broker to the trader.

When you carry out a Forex transaction, you don't actually buy all the currency and deposit it into your trading account.

Practically speaking, what you do is speculate on the exchange rate.

In other words, you estimate how the exchange rate will move, and you make a contract-based agreement with your broker that he will pay you, or you will pay him, depending on whether your estimation has proved to be correct or wrong (i.e. whether the exchange rate has moved in your favor or against your initial speculation).

If you purchase a USD/JPY standard lot, you don't need to put down 100,000 USD as the full value of your trade.

Instead, you will have to put down a deposit that we call margin. This is why margin trading is trading with borrowed capital.

In other words, you can trade with a loan from your broker, and that loan amount depends on the amount you initially deposited.

Margin trading has another big advantage: it allows leverage.

As you can see in our example, your initial deposit serves as a guarantee for the leveraged amount of 100,000 USD.

This mechanism ensures the broker against any potential losses.

Moreover, you as a trader are not using the deposit as payment, or to purchase currency units.

Your broker needs a so-called good-faith deposit from you.

Leverage

Strictly speaking, through leverage the Forex broker *lends* you money so that you can trade bigger lots:

Leverage depends on the broker and its flexibility.

At the same time, Leverage varies: it can be 100:1, 200:1, or even 500:1.

Remember that with leverage you can use $1,000 to trade $100,000 (1,000×100) or $200,000 (1,000×200), or $500,000 (1,000×500).

This sounds great, but how does it actually work?

I open a trading account and I get a *loan* from my broker as simple as that?

Firstly, it depends on what type of account you open, what the leverage for that particular account type is, and how much leverage you need.

Don't be greedy – but don't be too shy, either.

Leverage can be used to maximize gains – but also

losses, if you are too greedy.

Secondly, your broker will need an initial margin on your account, that is, a minimum deposit.

How this works?

You open a trading account that has a leverage of 1:100.

You want to trade a position worth $500,000 but you only have $5,000 in your account.

No worries, your broker will *lend* you the remaining $495,000 and sets aside $5,000 as your *good faith deposit*.

The profits that you make by trading will be added to your account balance – or, if there are losses, they will be deducted. Leverage increases your buying power and can multiply both your gains and losses.

Always choose a broker that offers no negative balance protection, and so your losses will never exceed your capital.

This means that if your loss reaches USD 5,000, your positions will be closed automatically so that you will not end up owing money to your broker.

Equity

It is the total amount of money in your trading account, including your profit and losses.

For instance, if you deposited USD 10,000 into your account and you also made a profit of USD 3,000, your equity amounts to USD 13,000.

Used Margin

It is the amount of money kept aside by your broker so that your current trading positions can be kept open and you don't end up with a negative balance.

Free Margin

It is the amount of money in your trading account with which you can open new trading positions.

Free margin = Equity – Used Margin.

This means that if your equity is USD 13,000 and your open positions require USD 2,000 margin (used margin), you are left with USD 11, 000 (free margin) available to open new positions.

Margin Call

Margin calls are a major part of risk management: as soon as your Equity drops to a percentage of the margin used, your Forex broker will notify you that you need to deposit more money if you want to maintain your position.

At XM this percentage is 50%.

Profit/loss Calculation

> ***Now that you're not a complete beginner any more, let's get down to calculating your profit (or loss).***

We will take the USD/CHF currency pair. You want to *buy USD* and *sell CHF*.

The quoted rate is 1.4525 / 1.4530.

Step 1:

You buy 1 standard lot of 100,000 units at 1.4530 (ask price).

Wait! In the meantime the price has moved to 1.4550, so you decide to close the position.

Step 2:

You can see the new quote for your USD/CHF currency pair.

It's 1.4550 / 1.4555. You are already closing your position, but don't forget that you initially bought a standard lot to enter the trade.

Now you are selling in order to close your trade. You must take the bid price of 1.4550.

Step 3:

You start calculating. What do you see?

The difference between 1.4530 and 1.4550 is .0020. This equals 20 pips.

Do you remember our calculation formula earlier? You will be using it now.

100,000 x 0.0001 = CHF 10 per pip x 20 pips = CHF 200 or USD 137.46

> *Important! **When you enter and exit your position, you must always** watch the spread **in the bid/ask quote.***

As you learnt it before, you use the **ask price when you buy** a currency, and the **bid price when you sell** a currency.

Position

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

Long Position

When you enter a long position, you **buy** a base currency.

Supposing you choose the EUR/USD pair, you expect the EUR to strengthen as compared to the USD, so you will buy EUR and profit from its increase in value.

Short Position

When you enter a short position, you **sell** a base currency. If you choose the EUR/USD pair again, but this time you expect the EUR to weaken as compared to the USD, you will sell the EUR and profit from its decrease in value.

Close a Position

If you enter a long (buy) position and the base currency rate has gone up, you want to get your profit. To do so, you must close the position.

Order Types

Market Order / Entry Order
It is an order to buy or sell currency instantly at the current price.

Open Order

It is an order to buy/sell a financial instrument (e.g. forex, stocks, or commodities like oil, gold, silver, etc.) that will stay open until you close it, or you have your broker close it for you (e.g. via telephone trading).

Limit Order

It is an order placed away from the current market price.

Assuming that EUR/USD is traded at 1.34; you want to go short (place a sell order on this currency pair) if the price reaches 1.35, so you place an order for the price 1.35.

This order is called limit order. So your order is placed when the price reaches the *limit* of 1.35.

A **buy limit order** order is always set below the current price whereas a **sell limit order** is always set above the current price.

Stop-entry Order

It is an order that you give to **buy above the current price** or an order to **sell below the current price** when you think the price will continue in the same direction. It is the opposite of a limit order.

Let's assume that EUR/USD is traded at 1.34.

You want to go long (i.e. place a *buy* order on this currency pair) if the price reaches 1.35, so you place a stop-entry order to buy at 1.35. This order is called stop-entry order.

Take Profit Order (TP)

It is an order that closes your trade as soon as it has reached a certain level of profit.

Stop-Loss Order (SL)

It is an order to close your trade as soon as it reaches a certain level of loss. With this strategy, you can minimize your loss and avoid losing all your capital.

You can make stop-loss orders with automated trading software.

It's a great thing because even if you're on holiday when you don't watch how the market and currency rates change, the software does it for you.

Execution

It is the process of completing an order.

When you place an order, it will be sent to your broker, who decides whether to fill it, reject it, or re-quote it.

Once your order is filled, you will receive a confirmation from your broker. Unlike other Forex brokers, XM operates with a strict No Rejections and No Re-quotes policy.

It is **crucial to have your orders executed quickly**.

If there is a delay in filling your order, it can cause you losses.

That is why your Forex broker should be able to execute orders in less than 1 second. Why? Forex is a fast-moving market – and many Forex brokers don't keep pace with its speed, or purposefully slow down execution to steal a few pips from you even during slow market movements.

Re-quote

A re-quote is an unfair execution method used by some brokers.

It occurs when your broker doesn't want to execute your order on the price you entered, and slows down execution for its own benefit.

How does this take place?

- You decide to buy or sell a currency pair at a certain price;
- You press the button to place your order;
- Your broker receives the order;
- You receive a re-quote notification on the trading platform you're using;
- You can either cancel your order or accept a worse price.

How can you avoid re-quotes?

- Choose a Forex broker with a no re-quotes policy;
- Place a limit order: inform your broker in advance that you are only open for placing an order at a certain price or better.

Mario? Now you have taken your first baby steps and learned to toddle around in the world of Forex.

And most importantly, you now know the basic Forex terminology.

It's time to **open a demo account and start practicing with virtual money**. However, before you do that you have to make two important decisions: you need to choose a broker and a trading platform.

Choose Your Broker

The market is full of online brokers – and each one claims to be the best.

However, you are not looking for perfection. You want a **regulated broker** with **low spreads**, **low minimum lot size**, **outstanding execution**, **technical tools**, and **flexible leverage**.

- Is your broker licensed and authorized to operate its services? If not, your money and potential trading profits are at constant risk!
- Does your broker guarantee safety of client funds? This means that your money is kept separated from the broker's own assets, and so the broker is not allowed to use it.

- Does your broker offer tight spreads? The tighter the spreads, the better value you get. Why? Wider spreads mean a higher ask price and a lower bid price. In other words, with wide spreads you'll find it difficult to make a profit because you pay more when you buy and you get less when you sell.
- Does your broker provide spot on execution? That's crucial! It means that your trading orders are carried out without delay, at the best market price possible, without rejections or re-quotes.
- If you are a beginner, trade small lots – this means lower risk. Choose a broker that offers trading accounts with micro lots and a low minimum deposit.
- Choose a broker who provides you with all the necessary market information and analytical tools to make profitable trades.
- A good broker allows you to change the leverage if and when you want. Brokers that force you to use the same high leverage only want you to lose your money. So your broker should ideally allow you to increase/decrease your leverage by a single e-mail.
- Your broker should ideally offer you a great selection of trading platforms with top notch facilities: a high number of tradable financial instruments, streaming market news and technical analysis. These platforms must be cutting-edge web-based entities that contribute to investment growth and safety.

- Forex is a 24-hour industry, and you as the client fully deserve to be provided with professional support round the clock. The ideal broker is by your side with 24-hour customer support via live chat, email, and telephone in a variety of languages. Ideally, a dedicated Personal Account Manager is at your service 24 hours a day to assist you with your inquiries and to help you make the best of your trading activity.
- In Forex speed is vital. And this also applies to withdrawals. A professional broker guarantees 100% automatic deposits and same-day withdrawals with a variety of payment methods that meet the needs of a varied client base – and he does this without hidden fees or commissions.
- Without knowledge and practice there's no gain – at least, not in the long run. Choose a broker with a rich Forex educational program, ideally free of charge trading tutorials, as well as free and regular webinars and seminars held by professionals.

Choosing Your Trading Platform

Also called **trading software**, a trading platform is computer software through which you conduct your trades online.

Imagine it as a platform that connects you to the Forex market online – and most importantly through the broker that provides it for you for free.

What do you need for it? Internet connection → download → install. It's as simple as that.

Where can you get it? From an online Forex broker's website that you choose to trade with.

Which trading platform should you choose?

The most popular, and also the best software available for trading Forex today, is **MetaTrader**. You may have heard about it already.

With XM, for example, you can

- Download and install MetaTrader for free
- Access the market online in real-time
- Simulate your demo trading so that it looks 100% real
- Test and improve your strategies
- Follow market updates
- Use expert advisors (EAs) that carry out buy/sell orders for you automatically
- Have full online technical support in over 20 languages
- Manage your account comfortably
- Have access to over 30 technical indicators to analyze

price quotes

- Carry out many trading orders simultaneously
- Trade on multiple currencies
- Take advantage of the one-click trading feature

Demo Trading

Now you know the basics, you have chosen your broker, and you are even ready to open a demo account.

Having a demo account means the following:

- You will trade on the live market
- It is **for free**, and you can use it as long as you want
- It **simulates real trading conditions**, but does not expose you to risk
- You trade with **virtual currency** – with no danger of losing real money
- You can **test all possible trading strategies** as many times as you want
- You can learn to use a trading platform **at your own pace**
- You can learn to read charts, follow market trends, open and close orders.

Disadvantage

Demo trading only exposes you to *virtual risk*, so it does not really give you the feel of proper risk management. Dealing with your emotions is as important as dealing with your money. And a virtual world doesn't involve real emotions to the full.

So how can you learn to keep emotions out of your trading decisions?

Solution

Open a demo account, use it to test the basics, and after a while open a real trading account fit for beginners with smallest minimum deposit and flexible leverage.

And now you may ask yourself: when is the best time to switch from demo to real?

A reasonable question to which there is no definitive answer.

Forex trading is a learning process the duration of which depends on the individual.

Besides, it also depends on your investment needs, expectations, and the time you dedicate to it.

At XM, you can keep your demo account parallel to your trading account for an unlimited time.

You have the freedom to use your demo account to test strategies, and then use the most effective ones on your real account.

Trading Advice

Is Forex trading your cup of tea?

You will know this after you have been doing it for a while. But nothing ventured, nothing gained, right?

Forex is not Gambling

Forex trading is not about gambling or testing your luck at the roulette table.

And it's not about hitting the jackpot with a single lottery ticket. There's much more to it!

A gambler is someone who risks his money and has no influence over what will happen to it.

If he's lucky, he wins – if he's unlucky, he loses. A trader, on the contrary, is someone who decides for himself.

He follows the market movements and decides when to take the profit. If the market turns against him, he decides how much he wants to risk.

Learn and Practice

Every trader can have ups and downs in the Forex market – just like in everyday life. To have more ups than downs, try to take it seriously, get to know more about it, build your own strategies, and follow a trading plan. But we will also tell you more about this later.

Also, don't expect immediate success.

A little knowledge is a dangerous thing – this doesn't mean that you need to study every single aspect of trading to make good profits, but try to develop your knowledge and skills gradually over time.

Do It the Clever Way

Knowing what you want from Forex trading is the best starting point.

It's easy to take a plunge into it right away, but having a good plan before you do it will work out better for you in the long run.

> ***Give yourself time to adapt to Forex, and you may even discover your hidden talents.***

It would be naïve to think that it's always easy or that trading Forex will make you the Shah of Persia in two days.

Forex has amazing opportunities, but you must be clever and know what, how, when to trade.

Consider These Trading Tips

- Understand the basics of Forex trading
- Choose a regulated online broker with excellent trading conditions

- Start 100% risk-free trading on a demo account
- Choose the right trading tools and learn how to analyze the market
- Watch the market, as it's never the same – and adapt your decisions to how it moves up or down
- Learn to read trading charts and indicators
- Develop your own trading system
- Keep a trading diary and note what works and what doesn't so that you don't make the same mistake twice
- Know your strengths and weaknesses
- Forget about emotions when you sit down to trade and don't start banging the wall if you closed a trade that didn't work out as you hoped
- Keep a cool head and be patient, remember to follow your trading system and act when the best trade shows up!

Getting Ready

So far you have learned about Forex and the basics. You have also decided that Forex trading is your cup of tea. And now you are eager to know more!

Imagine that you are out in a market, shopping for your Sunday lunch.

You have a shopping list and a budget for the ingredients. You know what to buy and at which stall, because this is not your first time here.

You even know the market sellers by name. It's almost like a routine.

Bluntly speaking, that's the way you prepare for Forex trading.

You know the market, you have a plan, you follow market price changes, and you use the right combination of ingredients to make a profitable deal.

Preparing for Forex Trading

Before anyone can start trading, it is necessary to study the market first.

We need to look at different factors that are affecting prices and also examine what happened in the past that caused prices to move in a certain direction.

If you go blindly into trading you are sure to lose a large amount of money. It would be pure gambling.

While it is a fact that all traders lose money at some point, and we cannot avoid losses, what we can do is minimize our losses?

Through careful planning and analysis of the markets and the use of different methods, we can achieve this.

Fundamental, Technical and Sentiment Analysis

The three big shots of market analysis that will help you immensely are **fundamental**, **technical**, and **sentiment analysis**.

Fundamental analysis involves looking at economic, political and social factors that affect the market.

For example, with regards to the Forex market, we would examine interest rates, inflation, unemployment data, GDP, monetary policy, government elections, and so on.

The aim of this analysis is to study the causes of the market movement.

Technical analysis however, studies market action primarily through the use of charts for the purpose of predicting future price trends.

> ***It is said that everything that can possibly affect price is already reflected in the charts.***

Following on from this is the belief that the market basically represents traders' feelings about the market, and thus represents their sentiment.

This is where **sentiment analysis** comes in.

It studies whether the market is bullish or bearish. By taking market sentiment into consideration it will help you when creating a trading strategy.

For example, if a market is bullish, you have the opportunity to enter a buy position.

It is hardly possible to say which of the three types of analysis is best, since each method is unique and takes into account different factors.

However, it is a good idea to try and use all three.

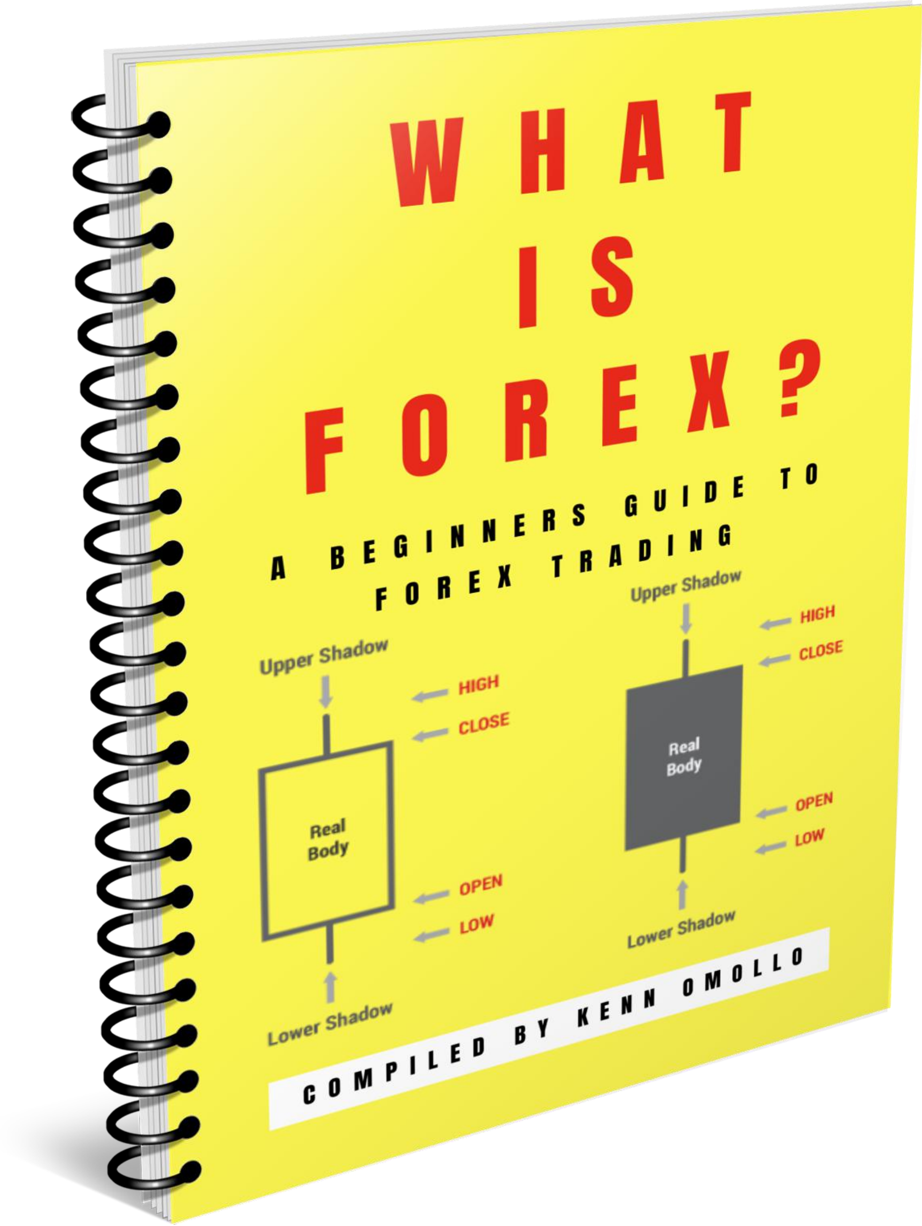
Technical analysis is gaining popularity these days and we will look into this method of market analysis in greater detail later.

Mario, did you enjoy reading chapter one

Come back for chapter 2

Useful Links

- About XM Forex
- Visit the XM Forex Website
- Open a real account
- XM Forex Member Area
- Open a Demo Account
- Open an Islamic Account
- Check out XM Forex Promotions & Bonuses
- Compare XM Forex Account Types
- XM Forex Zero Account
- Download MT4 Platform
- Download Android MT4
- Download MT5 Platform
- Margin Calculator
- PIP Value Calculator
- XM Forex Webinars
- XM Forex Support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A BEGINNERS GUIDE TO
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