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INTRODUCTION

Whether you’re a power trader or a financial newbie, you’re likely to hear just about anything—market movements, outlooks and stocks—being described as bullish or bearish.

Traditionally, bull markets offer traders an opportunity to enter a trade by buying a financial product at a low rate and closing the trade for a profit by selling it at a higher rate. Conversely, bear markets offer the opportunity to enter a trade by selling at a high rate to close the trade by buying at a lower rate. Although, many financial products have restrictions on selling to capitalize on bear market opportunities.

However, forex does not have these restrictions. Furthermore, the forex market is open 24/5 and is the most traded market in the world with an average daily turnover of more than $3 trillion, giving you trading opportunities in any market conditions at any time of day.
LET’S TALK ABOUT THE BULLS AND THE BEARS.

A BULLISH TRADER

Buys a financial product to sell at a **HIGHER** price.

**IN A TRADITIONAL BULL MARKET**

Stocks and bonds are rising in value. Traders buy to enter the market and find profit potential.

A BEARISH TRADER

Sells a financial product to buy at a **LOWER** price.

**IN A TRADITIONAL BEAR MARKET**

Stocks and bonds are declining in value. Traders sell to exit the market and minimise losses. Many traditional markets don’t allow traders to sell to enter the market to find profit potential.

IN THE FOREX MARKET

One currency is always strengthening against another (bullish), and therefore, one currency is always weakening against another (bearish). Because of this, you have equal opportunity to buy or sell to enter the market.

IT’S TIME TO RETHINK EVERYTHING YOU KNOW ABOUT BULLS AND BEARS.

You may not realize it, but the bulls and bears aren’t at odds. In fact, they represent two opportunities to find profit potential in the forex market.
Also known as foreign exchange or currency trading, forex is one of the most traded markets in the world. In forex trading, traders hope to generate a profit by speculating on the value of one currency compared to another. This is why currencies are always traded in pairs—the value of one unit of currency doesn’t change unless it’s compared to another currency.

**WHAT IS FOREX TRADING?**

Currency pairs appear like this: **EUR/USD**

The first currency listed is the base currency.

The second currency is called the quote or terms currency.

A sample quote for this pair could be: **1.33820**

The base currency is always worth one. The quoted price shows how much of the quote currency you’ll get for one unit of the base currency. So in this case, 1 EUR is worth approximately 1.33 USD.

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TWO TRADE OPPORTUNITIES

SCENARIO 1: BUY TRADE
If you believe the current value of the euro is strengthening against the US dollar, you might enter a trade to buy euros in the hopes that the currency’s value will become stronger compared to the US dollar. In this scenario, you think the euro is bullish (and the US dollar is bearish).

SCENARIO 2: SELL TRADE
Conversely, if you think the current value of the euro will weaken against the US dollar, you might enter a trade to sell euros in the hopes that the currency’s value will become weaker compared to the US dollar. In this scenario, you think the euro is bearish (and the US dollar is bullish).

DID YOU KNOW?
The buy or sell action you take to enter a trade always applies to the base currency. The opposite action automatically applies to the quote currency. So, if you buy the EUR/USD, this means you’re buying euros and selling US dollars. If you sell the EUR/USD, you’re selling euros and buying US dollars.
For example, if you’ve ever traveled to another country, you had to exchange your native currency for that of the country you were visiting. At that time, you probably realized that your one dollar was not exactly equal to one unit of the other country’s currency: it’s value was either more or less.

DID YOU KNOW?
When you exchange currencies while travelling in a foreign country, you are technically selling your currency and buying that of the country you are visiting.

EVEN IF YOU’RE NEW TO FOREX, YOU MAY HAVE TRADED CURRENCIES BEFORE.

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In the global economy, thousands of business transactions take place every day that require organizations to exchange the value of one currency for that of another. When a United States manufacturer buys Japanese steel, they need to convert dollars to yen to pay the bill. A British clothing retailer converts pounds to euros to pay for garments from a French textile company. In every exchange, prices need to be adjusted because one currency is typically weaker (has less value) while the other is stronger (has more value).

**WITH SO MANY CHANGES TAKING PLACE, CURRENCY VALUES ARE RARELY STATIC.**

Throughout the course of the day, the value of one currency compared to another can change in response to political news, economics and interest rate changes. This means that a currency that was weaker than another in the morning may be stronger by the afternoon. These frequent changes in the value of currency are what drive forex trading and a trader’s profit potential in the currency markets.

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While the worldwide bond and stock markets have a daily volume in the billions of dollars, the forex market has a daily volume of over US$4 trillion. This can lead to more trading opportunities.

At 5pm ET on Sunday evening, financial markets open in the Pacific (Australia, New Zealand, Japan and various Asian countries). As those begin to close, markets in the Middle East and Europe start to open. When Europe is in mid-session, financial markets across the Americas open. This pattern continues until 5pm ET on Friday when the American financial markets close for the weekend. The consistent closing and opening of markets around the globe provides around-the-clock access to traders, 5.5 days a week. This is why you may hear many people refer to forex as a global market.

WHO TRADES FOREX?
The financial community, from big banks and hedge funds to small and medium sized traders, understands the wide range of opportunities in the forex market. And since the markets are open longer than traditional markets, you can trade when it’s convenient for you.
WHAT CURRENCIES CAN I TRADE?

You can trade almost any currency—depending on which currency pairs your dealer offers. FOREX.com has over 50 pairs to choose from. As a new trader, however, you will probably make your first trade with eight of the most commonly traded currencies in the world.

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CURRENCY CODES are always three letters: the first two identify the country name and the last letter usually identifies the name of the currency.

The exception to this rule is the Euro (EUR), which is used in multiple countries in the European Union.
By now, you may feel comfortable and even a little excited about trading forex: you know who trades it, when to trade it, and what currencies are available. In this section, we’ll discuss some concepts you need to know before you trade your first currency pair.

**WHY ARE CURRENCY PAIR PRICES DISPLAYED WITH FIVE DECIMAL PLACES?**

Typically in forex, currency pairs display their prices with four decimal points. A few, such as the Japanese yen, display two decimal places. No matter what currency pair you’re trading, the last large number behind the decimal always represents a pip, the main unit price that can change for the currency pair. As you trade, you’ll track your profits (or losses) in pips.

At FOREX.com, you’ll see a smaller number behind the pip—this is called a “fractional pip” and offers even more precise pricing. Sometimes, the fractional pip will be a 0—that is, there will be no fraction of a pip being quoted at that time. One unit of movement represents a pip. That may seem small and you may be wondering how forex can be worthwhile if all you’re speculating on is a small fraction of a currency. Since forex is traded in large volumes, called lots, these fractions of a cent can add up very quickly. Quite simply, the higher volume you trade the more each pip will be valued.

**WHAT IS A LOT?**

In forex, a lot is a standard unit of measurement. At most forex dealers, one standard lot usually equals 100,000 worth of currency. At FOREX.com you are able to trade in intervals of 1,000 units, but you are not required to invest $1,000 to do so because forex is leveraged. Whenever you place a trade, you start with your desired volume. Let’s say 10,000 for this next example.

**WHAT IS LEVERAGE?**

One of the benefits of this market is the ability to trade on leverage. You don’t need $10,000 in your account to trade the EUR/USD. Currency pairs can have a leverage ratio of up to 50:1. This means you can control a large position ($10,000) with a small amount of money ($250).

Many traders find the leverage that most forex dealers offer very appealing. Nonetheless, you should know that trading this way can also be risky. It can produce substantial profits as easily as it can cause substantial losses.
SO HOW DO PIPS, LOTS AND LEVERAGE WORK TOGETHER?

Let’s imagine that you just bought 10,000 EUR/USD on 50:1 as we discussed in the previous example on leverage.

You purchased at 1.30000 then closed the trade by selling at 1.30200. This means you’ve earned 20 pips.

0.0001 X US$10,000 = US$1 per pip

For your 20 pip trade, you would have earned US$20.

Not all of the pips you’ll earn will be worth US$1. The value of a pip depends on the lot size of your trade, how many lots you’re trading, the currency pair and your account currency.

While you can manually calculate this or use online pip calculators to learn the value of a pip before you trade, most trading applications, like the FOREXTrader platform, automatically calculate pip values and convert them to the currency you’re trading.

**DID YOU KNOW?**

At FOREX.com, we offer a wide range of tools to help you make the most of every opportunity. To learn more about these tools click here.
Now that you know a little more about forex, we’ll take a closer look at how to make your first trade. Let’s say that you opened an account with FOREX.com. Before you trade, you need to follow a few steps.
1 SELECT A CURRENCY PAIR
The nature of forex trading is to exchange the value of one currency for another. In other words, you will always buy one currency while selling another at the same time. Because of this, you will always trade a pair of currencies.

Most new traders start out by trading the most commonly offered pairs of major currencies, but you can trade any currency pair you want, as long as you have enough money in your account. For this walkthrough, we’ll look at the EUR/USD.

2 ANALYZE THE MARKET
Research and analysis should be the foundation for your trading endeavors. Without these, you’re operating largely on emotion. This doesn’t typically end well.

When you first start researching, you’ll find a wide wealth of forex resources—which may seem overwhelming at first. But as you research a particular currency, you’ll find valuable resources that stand out from the rest. You should regularly look at current and historical charts, monitor the news for economic announcements, consult indicators and perform other analysis activities. We’ll talk more about specific types of research later on.

3 READ ITS QUOTE
You’ll notice two prices are shown for all currency pairs. For example, when you look up EUR/USD on FOREXTrader PRO, you’ll see it listed as:

Example of a EUR/USD quote in FOREXTrader PRO

The first rate (1.31936) is the price at which you can sell the currency pair. The second rate (1.36683) is the price at which you can buy the currency pair. The difference between the first and second rate is called the spread. This is the amount that a dealer charges for making the trade.

DID YOU KNOW?
Spreads will vary among dealers. FOREX.com offers competitive spreads on the wide range of currency pairs offered. See our live spreads here.
PICK YOUR POSITION
If you’ve traded stocks, bonds or other financial products, you know that you can usually only speculate on one direction of the market—up.

Forex trading is a little different. Because you are buying one currency while selling another at the same time, you can speculate on up AND down movement in the market.

WITH A BUY POSITION,
You believe that the value of the base currency will rise compared to the quote currency. If you’re buying the EUR/USD, you believe the price of the euro will strengthen against the dollar. In other words, you believe the euro is bullish (and that the US dollar is bearish).

WITH A SELL POSITION,
You believe that the value of the base currency will fall compared to the quote currency. If you’re selling the EUR/USD, you believe the price of the euro will weaken against the dollar. In other words, you believe the euro is bearish (and that the US dollar is bullish).

Let’s see how these would work. Imagine that you did some research and decided to enter a trade.
ENTERING A BUY POSITION

The current price for the EUR/USD is 1.33820/840. You believe that the euro is bullish, so you decide to enter a buy position for one lot of the EUR/USD. Because you are buying, your trade is entered at the price of 1.33840 to cover the spread.

ENTERING A SELL POSITION

Let’s imagine that you believe the euro is bearish. You decide to enter a sell position for one lot of EUR/USD. Because you are selling, your trade is entered at the price of 1.33820.

Now, let’s say that later in the day, you look at your position. The EUR/USD is now at 1.34160/180. Your trade has gained 32 pips. You decide to close your position at the current sell price of 1.34160 and take a profit.

$0.0032 \times 100,000 = \text{Your profit is US$320}$

You look at your position later in the day and discover that the EUR/USD is now at 1.34160/180. Your trade has lost 36 pips. You decide to close your position at the current buy price of 1.34180, to cover the spread, and accept your losses.

$0.0036 \times 100,000 = \text{Your loss is US$360}$

* The examples shown here are for educational purpose only.
As you can see from the sell example, making a 
forex trade can be extremely risky. Like anything 
that takes risk, you can take precautions to try 
to minimise those risks and the impact. In forex, 
there are three skills you can develop to help you 
manage your trading risk: anticipating, planning 
and analyzing.
ANTICIPATING: HOW DO I HANDLE RISK?

It’s important to realize that even the best forex traders have losing trades. While you may make some successful forex trades, you will also make some losing trades. Fortunately, there are a number of things you can do to anticipate risk.

1. PROTECT YOUR POSITION WITH STOPS, LIMITS AND OTHER ORDER TYPES.
   There are a number of order types, such as trailing stops, If then, and Order Cancels Order (OCO) designed to help traders manage risk and protect potential profits.

2. SET PROPER LEVELS.
   You might say that setting a stop is an art; you need to make sure that your stop is set so that your trade can handle smaller jumps and drops in price while protecting you from losing your shirt if the market doesn’t go your way. A stop that’s too narrow may lead you to reenter the market, causing you to get stopped out again. That can cause more damage to your account balance than if you entered a stop that was too wide or no stop at all.

3. CHECK YOUR EMOTIONS.
   Sometimes, the factor that determines how successful your trade will be isn’t the amount of research you did, but your mindset at the time. As you trade, try to stay objective and calm. Even if you have a losing trade, resist the urge to enter another trade to win your earnings back.

4. CREATE A TRADING PLAN AND STICK TO IT.
   A good trading plan is crucial to your trading success. Not only will it help you meet some of your goals, it will define the way you trade, what you’re willing to risk and how you will protect yourself when a trade doesn’t go your way.

* Placing Contingent Orders may not limit your losses to the intended amount.
PLANNING: HOW DO I CREATE A TRADING PLAN?

Face it. Without a plan and a rules-based approach to trading, you are simply trading by the seat of your pants. It may seem to work for a while, but self-doubt and/or greed will ultimately get in the way of being successful.

A trading plan serves as a steady anchor in chaotic markets, helping you forecast when to enter and exit the market. Best of all, it’s fairly easy to create. The following steps may help you get started.

1. WHEN CONSTRUCTING A TRADING PLAN, ASK YOURSELF:
   A. Will I trade only one specific currency pair or many?
   B. Will I trade on a daily basis or hold my positions for days or longer?
   C. How much do I want to make?
   D. How much am I willing to lose per trade?
   E. If I trade on a daily basis, how many consecutive losses will I tolerate before I stop for the day?
   F. How will I analyze the markets? Will I look at news and other events? Will I examine charts and price movements?
   G. How will I use stops to control my risk?
   H. Will I have one profit target or multiple targets?
   I. What kind of profit can I reasonably expect to gain?

2. USING YOUR ANSWERS, WRITE OUT A SHORT BUT DETAILED PLAN OF ACTION.

3. NOW, COMES THE HARDEST PART — STICKING TO YOUR PLAN. TRY KEEPING A DIARY OF EVERY ONE OF YOUR TRADES. IT WILL FORCE YOU TO FOLLOW YOUR RULES AND AVOID IMPULSIVE TRADING AS MUCH AS POSSIBLE.

DID YOU KNOW?

Creating your own trading plan for the first time can be confusing, but don’t worry: FOREX.com is here to help. Give us a call at 877.367.3646 or chat with us online to set up a personalized trading plan consultation.

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ANALYZING: HOW WILL I ANALYZE THE MARKETS?

You may have found making your trading plan fairly easy. But one question may have had you scratching your head, "How will I analyze the markets?" One of the most common ways is through the use of price charts.

WHAT ARE PRICE CHARTS?
Price charts plot the recent prices of a currency pair on a graph and provide a snapshot of market movements over a particular period of time.

LINE CHARTS
Line charts are one of three common chart types that most traders use. They provide a quick way to view the changes in price movements over a period of time.

BAR CHARTS
Bar and candlestick charts provide an easy-to-analyze appearance that displays detailed information about the price movements of a currency pair.

CANDLESTICK CHARTS
Each bar or candle on the chart is defined by four price points (high, low, open and close). The length of the bar or candle represents the level of trading activity for a specified period. For example, on a chart with a ten-minute time scale, a bar or candle would represent all of the trading activity on the market in a ten-minute period. When the price of a currency pair rises, the bar or candle appears one color (usually green) and when the price of a currency pair drops, the bar or candle appears another (usually red).

Most traders switch between different time frames so that they can compare market movements and verify trends. In FOREXTrader PRO, for example, you can select to view charts with time frames as small as a tick all the way up to one year.
Technical analysis is the study of repeating patterns and movements in the market caused by the pattern-like behavior of traders. Traders use technical analysis to monitor the current and historical price movements of a currency pair, help determine market trends and forecast potential entry and exit points for their trades.
Because no two traders are alike, there are hundreds of technical analysis tools and methods to choose from. Some of the most common are:

**Support and Resistance Levels**
These levels are price points that the market consistently hits and then reverses its direction. Support usually refers to points that the price drops to but never breaks through before rising again. Resistance refers to points that the price rises to but never breaks through before dropping again.

**Indicators**
These display trend lines either over the recent market movements on a chart or in a separate area below the chart. Bollinger Bands, Average Directional Index (ADX) and Moving Averages are all examples of indicators. Indicators can be either lagging (these analyze past market price movements) or leading (these forecast future price movements).

**Patterns**
A chart pattern is a series of price points that move in a particular arrangement and, once completed, forecast market movements. Some common patterns are flags, channels and triangles. You can also plot more complex patterns, such as ABCD patterns or Fibonacci levels.

**DID YOU KNOW?**
FOREX.com’s Global Research Team publishes streaming commentary and research on upcoming fundamental events and market trends to help you know what’s driving the markets and plan your strategies. Read the latest research.
Fundamental analysis traders track these *political*, *social* and *economic* forces and then forecast whether the value of a currency will go up or down.

Earlier in this guide, you learned that the value of a currency pair *changes* in response to news, interest rate changes, government decisions and other events. As you watch the charts, you’ll notice that events and news on the state of a particular country’s or region’s economy can cause currency markets to shoot up or down *dramatically*.

Many new traders will develop their fundamental analysis skills by following news events and *scheduled economic announcements*. But there will be times when the price movements of a currency pair won’t behave as you believe it should based on your fundamental analysis. That’s when it becomes important to incorporate technical analysis into your strategy as well.
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DID YOU KNOW?

There are two types of economic indicators. Leading indicators are economic factors that change BEFORE the economy starts to follow a particular trend. They’re used to predict changes in the economy. Lagging indicators are economic factors that change AFTER the economy has already begun to follow a particular trend. They’re used to confirm changes in the economy.
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