

Three skills to help you **trade forex**



AN INTRODUCTION TO TRADING CURRENCIES

A FOREX.com educational guide

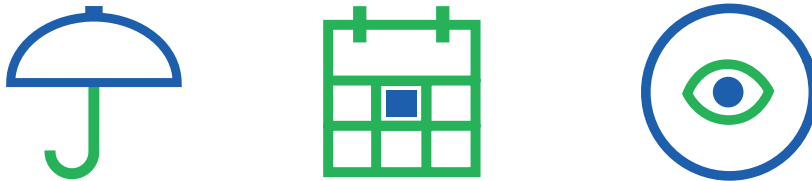
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Anticipating, planning and analyzing: three skills to help you trade forex

Making a **forex** trade can be extremely risky. However, you can take precautions to try to minimize those risks and their 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 the trailing stop, 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 if you had 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 outside of your trading plan in an attempt 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 LOG OF EVERY ONE OF YOUR TRADES. IT WILL FORCE YOU TO FOLLOW YOUR RULES AND HELP AVOID IMPULSIVE TRADING.



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 **0800 056 7928** or [chat with us](#) online to set up a personalized trading plan consultation.

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 & CANDLESTICK CHARTS

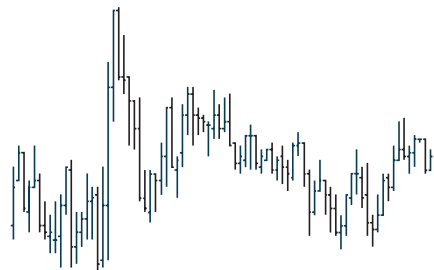
Bar and candlestick charts provide an easy-to-analyze appearance that displays detailed information about the price movements of a currency pair.

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.

BAR CHARTS



CANDLESTICK CHARTS



ANALYZING: WHAT IS TECHNICAL ANALYSIS?

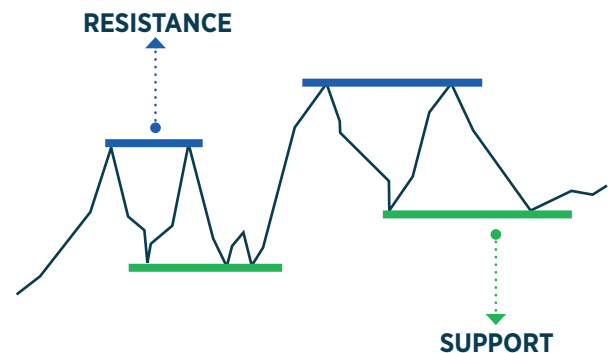


Technical analysis is the study of repeating patterns and movements in the market caused by the pattern-like behavior of traders. Traders use technical analysis to monitor the current and historical price movements of a currency pair, help determine market trends and forecast potential entry and exit 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:

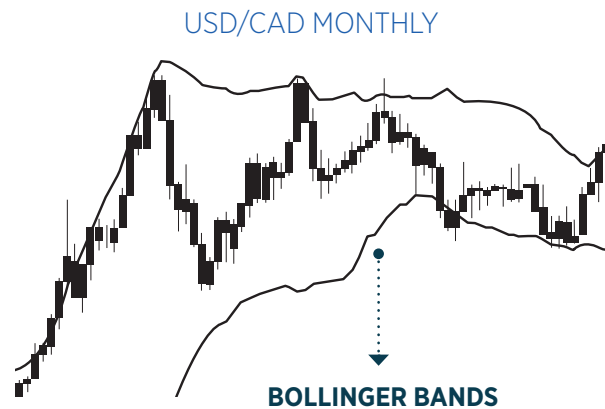
SUPPORT AND RESISTANCE LEVELS

These levels are price points that the market consistently hits and then reverses 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.



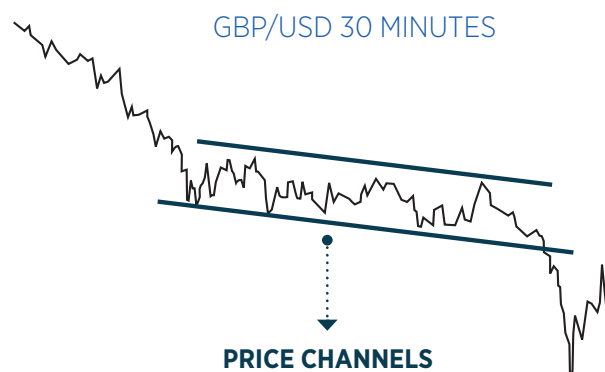
INDICATORS

Indicators 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.



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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.

ANALYZING: WHAT IS FUNDAMENTAL ANALYSIS?

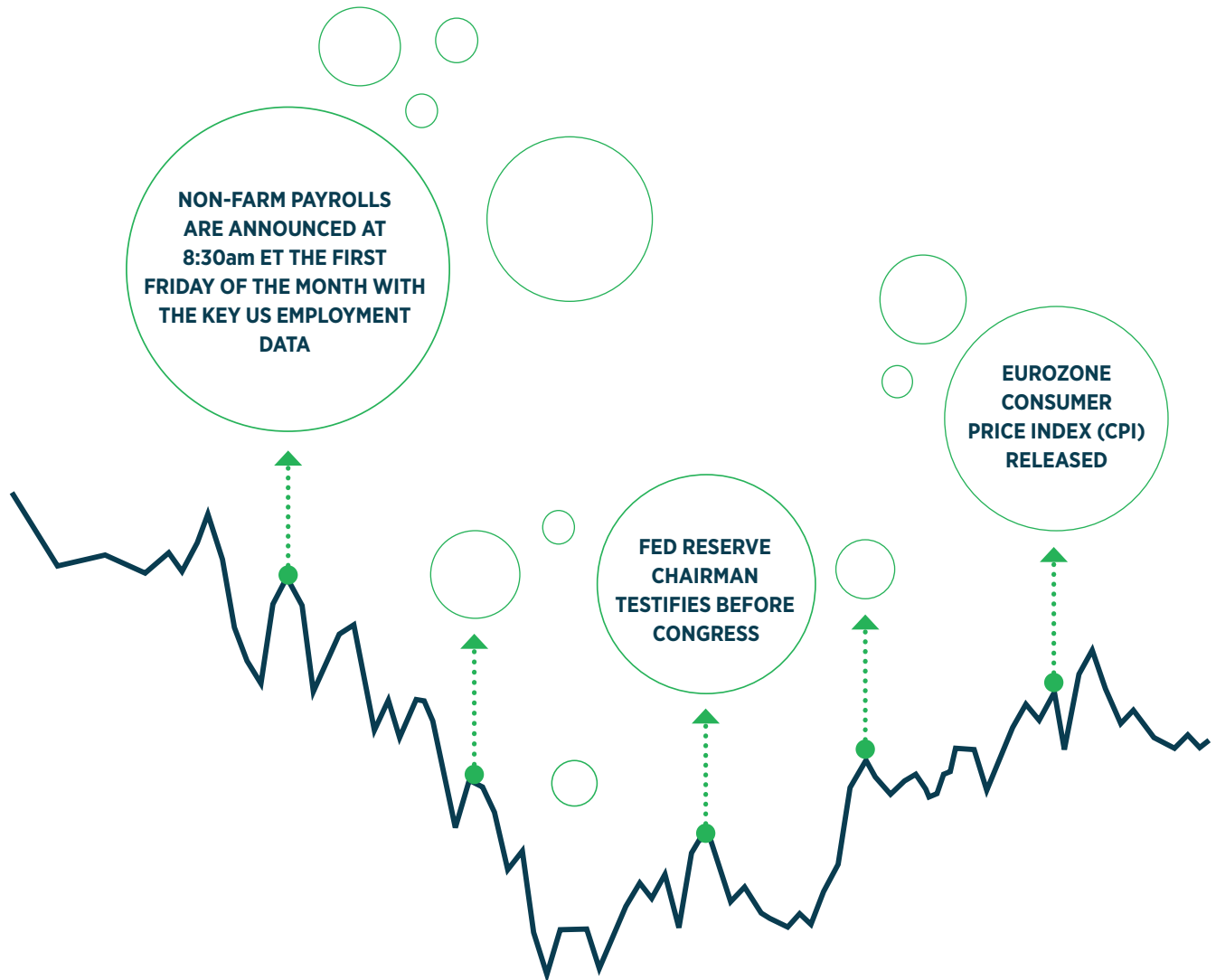


Fundamental analysis is tracking political, social and economic forces and forecasting how they will affect the value of the currencies you're trading.

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.

EXAMPLES OF MARKET-MOVING EVENTS:



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.](#)

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