Forex Trading Basic Strategies

"Learn How To Make Money From Forex"

Lesson 1

Introduction to Forex

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What is Forex Trading?

Forex trading involves dealing in international currencies. Here, one can sell currency of one country to buy that of another. The trader deals in Foreign Exchange [Forex] at the most appropriate time to profit from the transaction. Good ability to forecast plays a vital role here. One may wonder how Forex trading can be such a lucrative earning opportunity since fluctuations in exchange is so little.

But remember, when done in big volumes, a minor change can mean a lot. There are many nonmonetary advantages to it as well. Anyone who wants to deal in Forex can do so, since only the basic knowledge is required for it.

Forex can help you earn a lot of money. But there are certain conditions to follow before trading in Forex. Firstly, one must have a thorough knowledge about the trends in the stock market, the basics of trading and risk-taking ability. You will get all the help you need for attaining these conditions very easily.

There are many sites on the internet which can help you clarify your basics and help you brave rough weather. A good reason why Forex trading can be considered is the fact that there are frequent fluctuations in currencies, though in percentage terms it may be small.

You gain if the fluctuation favors you and the reverse holds true as well. No one can accurately predict the trend of the currencies. Liquidity is another reason why Forex trading is so popular.

Now the most important part – in Forex, you can make huge sums of money even if your initial investment is on a lower side. You can invest as little as $50,000. Rich people have no upper cap to the amount of investment. So remember that even with a nominal investment, the earning ability is undoubtedly very huge.

Most of the great businesses are connected to the world of internet today, and Forex trading is no exception. You can deal in foreign currencies right from your home. In fact, it is fully conducted online. You have the liberty to choose when you want to trade, and you don't need to meet any deadlines.

Basically, you can be your own boss. The process of online trading is fairly simple for anyone to understand. You just need to open an account for Forex trading with a recognized broker and they will complete the rest of the formalities. The only bit you need to do is get ready with your investment amount.

So, it is thus clear that Forex trading can be one of the best businesses to earn money. Though there is a level of risk attached to it, but it can be avoided with due care and an alert mind!

Forex trading Importance

Foreign Exchange [Forex] involves exchanging of different foreign currencies for a profit. The reason for buying the currency of another country may be the need to buy some commodity of the said country as well, besides making money through the difference in exchange rates.

In the latter case, people buy currency of a foreign country when the rate in the market is low, and sell it off when the rates go up. Currency trading is usually done between the central banks, the government, speculators and MNCs. Nations cannot trade with each other without the presence of a foreign market.

A huge amount of money is daily traded in the Forex market, though the amount invested by an individual trader may be very low. No one individually can have any influence on the Forex fluctuations, not even the government. So it can easily be concluded that the level of the currency reflects the strength or the weakness of the economy of a country. So this makes the Forex market a good place for competition.

The government and the central bank do try to stabilize the currency of their country by speculating, by buying and selling currencies at appropriate times. So they can influence the market if they conduct a trade in huge volumes, though. To buy its own currency, however, the government or the central bank must have huge reserves of foreign currency with them. So it is virtually impossible to inflate the currency value artificially.

Banks trade a lot in foreign currencies and this forms a chunk of the volume in the Forex market. They buy currencies not only as individual bodies, but also on behalf of their clients.

They trade in lots of futures. Till a few years back, the brokers could influence the volumes of trading in the Forex market. But due to the electronic services available now, the services of brokers is not required. It's easy to operate electronically.

Trading with international countries is possible only with the existence of Forex markets. When there is no Forex market, there is no common currency between two countries, so one cannot evaluate the value of one currency with respect to the other.

The buyer pays the seller in the former's currency. With the money so received, the seller buys goods in the buyer's country and sells those goods in his [seller] country.

Only then he is able to know how much he has earned through the export. In the presence of a Forex market, though, it is very easy for a seller to know of his earnings at the very instant that he conducts an export trade. In the same manner, the buyer too will have a thorough knowledge of the cost he will have to incur to buy goods from an international country.

Four Main Types of Orders in Forex Market

There are many kinds of orders which traders can place to transact in the Forex market, for making profit out of it.

- **Market Order**

  The market order is the most simple and common kind or order. Here, the trader buys and sells the currency at the rate prevailing in the market at the time of placing the order.

  Due to the huge size of the market and the high volatility, trends can reverse any instant, so people prefer placing orders at the market price to guard themselves against any adverse trend

- **Limit order**

  In this case, the trader specifies a price at which he may wish to buy or sell the currency.

  Suppose a trader has bought GBP against the USD at 1.9710, then he can place a sell order at 1.9725, when the exchange will execute the order and he will profit from it.

  The order will get cancelled if the target price is not achieved during the day.

- **Stop loss order**

  Due to the volatility, stop losses are essential. They determine the maximum loss a trader is willing to suffer. Suppose in the above instance, the risk-taking ability of the trader is low, then he may place a stop loss at 1.9705, at which level the exchange will book losses for him, and he won't be affected by any fall below 1.9705.

- **Entry order**

Forex Trading Strategies Such an order is filled only when certain conditions are met in the market, which the order specifies. The entry order can be a limit entry order or even a stop entry order.

– **Limit entry order**

As an example, let's assume that the current market price for GBP/USD is 1.9705-10.

This implies that the trader can transact at these levels. Here, a trader can put a limit entry order to sell his holdings at a price more than the market price, say, 1.9715. His order would be executed only if that price is attained. In the similar manner, he can place an order for buying at a level of, say 1.9700, and his 'buy' order would remain pending till the price falls to that level.

- **Stop entry order**

Such an order is generally used when the trader has sufficient grounds to believe that the currency is trading in a fixed range and believes that it is on the verge of a breakout from that range. He might want to buy at a price higher than the market price or sell at a lower price than the market price. In the same example, the trader may go ahead and buy at 1.9720 or sell at 1.9690, where he believes that once these levels are attained, the currency will only go up or fall further, as the case may be. A trader exercises the stop entry order only when a trader has reasonable grounds to believe that there will be sharp movements in the currency rates in the Forex market.

Highly Recommended Resources

Forex Millionaire's System-DTS, # 1 Forex Daily Trading System, more than 140 Training Videos Plus 39 Meta quotes and 2 Custom Indicators

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