

Forex Trading Guide & Tutorial For Beginner



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Website : <http://www.fcmarket.com>

Email : info@fcmarket.com

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- ♪ Leverage Option up to 1:500
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- ♪ Interest Free / No Swap Accounts*** (for Moslem)
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- ♪ Free of Deposit and Withdrawal Fee
- ♪ Mini and Standard Accounts
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Introduction

Forex Trading Guide and Tutorial For Begginer is a Free E-Book written by [FCMarket.com](http://www.fcmarket.com) Team which contains basic learning materials to start forex trading. This E-book also offers comprehensive forex trading calculation together with explanations and examples to help begginer traders understand foreign exchange world.

By reading and understanding this E-Book, hopefully begginer traders will aware of forex trading risk, and able to avoid potential losses caused by lack of knowlegde.

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Forex (Foreign Exchange) Trading

◆ What is Forex Trading ?

The **foreign exchange** (currency or **forex** or FX) market exists wherever one currency is traded for another. It is by far the largest financial market in the world, and includes trading between large banks, central banks, currency speculators, multinational corporations, governments, and other financial markets and institutions.

The average daily trade in the global forex markets currently exceeds US\$ 2 trillion. Retail traders (individuals) are a small fraction of this market and may only participate indirectly through brokers or banks

◆ What is traded in Forex Trading ?

The answer is **Currencies**. Currencies are always traded in pairs, such as EUR/USD, GBP/USD, etc. When you trade forex, you are exchanging 1 currency to another currency simultaneously (buying 1 currency and selling the other at the same instance). You will gain from differences of traded currency price rates

Trader's Action	Meaning
Buy EUR/USD	Buy EUR by selling USD
Sell EUR/USD	Selling EUR to buy USD

Example :

BUY EUR/USD means you are buying EUR and at the same time selling USD.

SELL EUR/USD means you are selling EUR and at the same time buying USD.

A currency pair depicts a quotation of two different currencies. The first currency in the pair is the **base currency**. The second currency in the pair is labelled **quote currency** or **counter currency**. Such a quotation depicts how many units of the counter currency are needed to buy one unit of the base currency.

Current forex quote displays **GBP/USD = 1.8500**, this means to **BUY 1 pound GBP needs 1.85 USD**.

Another example the quotation of **EUR/USD 1.2500**, while Euro is the **base currency** and USD is the **quote** or **counter currency**.

It means that **one euro is exchanged for 1.25 US dollar**. If the quote moves from EUR/USD 1.2500 to EUR/USD 1.2510, the euro is getting **stronger** and the dollar is getting **weaker**. On the other hand if the EUR/USD quote moves from 1.2500 to 1.2490 the euro is getting **weaker** while the dollar is getting **stronger**.

Cross Rate is an *exchange between two currencies that does not include official currency of a particular country which the exchange is taking place*. For example a transaction of GBP/JPY is taking place in the US. Then GBP/JPY is considered as cross rate for United States.

Pair	Price Chart is moving	EUR (base)	USD (counter)
EUR/USD	Upward	Stronger	Weaker
EUR/USD	Downward	Weaker	Stronger

Here is another example :

Pair **EUR/USD**:

If you predict that EUR will be stronger than USD, then you can Buy EUR/USD.

If you predict that USD will be stronger than EUR, then you can Sell EUR/USD.

Pair **USD/JPY**:

If you predict that USD will be stronger than JPY, then you can Buy USD/JPY.

If you predict that JPY will be stronger than USD, then you can Sell USD/JPY.

Commonly Traded Currency Pairs

Majors are the most liquid and widely traded currency pairs in the world. Trades involving majors make up about 90% of total Forex trading. The Majors are: **EUR/USD**, **GBP/USD**, **USD/JPY**, **USD/CHF**, **AUD/USD** and **USD/CAD**

Symbol	Country	Pair	Nickname
USD	United States	Dollar	Buck
EUR	Euro Union	Euro	Fiber
JPY	Japan	Yen	Yen
GBP	England	Pound	Cable
CHF	Switzerland	Franc	Swissy
CAD	Canada	Dollar	Loonie
AUD	Australia	Dollar	Aussie
NZD	New Zealand	Dollar	Kiwi

Factors Affecting Forex Trading

Although exchange rates are affected by many factors, in the end, currency prices are a result of supply and demand forces. Supply and demand factors are constantly shifting, and the price of one currency in relation to another shifts accordingly. No other market encompasses (and distills) as much of what is going on in the world at any given time as foreign exchange.

Supply and demand for any given currency, and thus its value, are not influenced by any single element, but rather by several. These elements generally fall into three categories:

€ **Economic factors**

These include economic policy, disseminated by government agencies and central banks, economic conditions, generally revealed through economic reports, and other economic indicators.

Economic policy comprises government fiscal policy (budget/spending practices) and monetary policy (the means by which a government's central bank influences the supply and "cost" of money, which is reflected by the level of interest rates)

€ **Political conditions**

Internal, regional, and international political conditions and events can have a profound effect on currency markets.

For instance, political upheaval and instability can have a negative impact on a nation's economy. The rise of a political faction that is perceived to be fiscally responsible can have the opposite effect. Also, events in one country in a region may spur positive or negative interest in a neighboring country and, in the process, affect its currency

€ **Market psychology**

Market psychology and trader perceptions influence the foreign exchange market in a variety of ways:

- a. **Flights to quality:** Unsettling international events can lead to a "flight to quality" with investors seeking a "safe haven". There will be a greater demand, thus a higher price, for currencies perceived as stronger over their relatively weaker counterparts
- b. **Long-term trends:** Currency markets often move in visible long-term trends. Although currencies do not have an annual growing season like physical commodities, business cycles do make themselves felt. Cycle analysis looks at longer-term price trends that may rise from economic or political trends.
- c. **"Buy the rumor, sell the fact":** This market truism can apply to many currency situations. It is the tendency for the price of a currency to reflect the impact of a

particular action before it occurs and, when the anticipated event comes to pass, react in exactly the opposite direction. This may also be referred to as a market being "oversold" or "overbought". To buy the rumor or sell the fact can also be an example of the cognitive bias known as anchoring, when investors focus too much on the relevance of outside events to currency prices.

- d. **Economic numbers:** While economic numbers can certainly reflect economic policy, some reports and numbers take on a talisman-like effect - the number itself becomes important to market psychology and may have an immediate impact on short-term market moves. "What to watch" can change over time. In recent years, for example, money supply, employment, trade balance figures and inflation numbers have all taken turns in the spotlight.
- e. **Technical trading considerations:** As in other markets, the accumulated price movements in a currency pair such as EUR/USD can form patterns that may be recognized and utilized by traders for the purpose of entering and exiting the market, leading to short-term fluctuations in price. Many traders study price charts in order to identify such patterns

How Forex Trading Works ?

Trading Forex is exchanging a currency to another currency to get benefit from changing price rates of a currency, compared to the other one. For example :

A trader made a profit by Buying Great Britain Pound (GBP) :

Trader's Action	Great Britain Pounds (GBP)	US Dollars (USD)
A trader Buy GBP/USD (purchased 10.000 GBP with USD) in the beginning of February 2007 when GBP/USD rate was at 1.9800	+10.000	-19.800*
The next day, the trader Sell GBP/USD (sold back 10.000 GBP to USD) when GBP/USD rate was at 2.0000	-10.000	+20.000**
In this example, the trader earned a gross profit of US\$200	0	+200

* $\$10.000 \times 1.9800 = \text{US}\19.800 (The trader bought GBP of 10000 by selling USD of \$19,800)

** $\$10.000 \times 2.0000 = \text{US}\20.000 (The trader sold back GBP of 10000 by buying again USD of \$20,000)

Forex Market Schedule

Forex can be traded **24 hours a day and 5 days a week**. The main trading centers are in London, New York, Tokyo, and Singapore, but banks throughout the world participate. The biggest foreign exchange trading centre is **London**, followed by **New York** and **Tokyo**. Currency trading happens continuously throughout the day; as the Asian trading session ends, the European session begins, followed by the US session and then back to the Asian session, excluding weekends

Timezone	New York Time	GMT
Tokyo Open	07:00 PM	00:00
Tokyo Close	04:00 AM	09:00
London Open	03:00 AM	08:00
London Close	12:00 PM	17:00
New York Open	08:00 AM	13:00
New York Close	05:00 PM	22:00

Convert New York Time to your local timezone

<http://www.timeanddate.com/worldclock/timezone.html?n=179>

Click here to download Free Atomic Clock : <http://www.qlock.com>

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Why Trade Forex ?

♪ **Forex Has 2 Ways Opportunity**

Unlike stock market, in forex you can earn profit from upward or downward price movement. For example if you **BUY** (go **LONG**) and the price is moving upward, you will be in profit. and the otherway, if you if you **SELL** (go **SHORT**) and the price is moving downward, you will be in profit

♪ **Long Trading Hours**

Forex allows you to trade 24 hours a day and 5 days a week (except on weekends)

♪ **High Liquidity**

Forex is the most liquid market in the world, and that means you can buy or sell anytime you want

♪ **Without Middleman**

Forex Online trading involves no middlemen. Traders execute their trade directly and each decision is taken by the trader themselves. There is no Dealing Quotes intervention.

♪ **No Possible Market Intervention**

Forex Market is the largest Financial Market in the world, it is impossible for any entity to drive the market for any length of time.

♪ **Free of Commission**

Forex Brokers usually charge no trading commission, and other trading fee. However, brokers get their compensation from **spread (Bid Price / Trader's Selling price to brokerage and Ask Price / Trader's Buying Price from brokerage)**

♪ **Flexible lot sizes**

Almost all Forex Online Brokers offer flexible lot sizes for traders (Standard and Mini Lots). This allows individual (small) traders with limited equity to place smaller trading volume.

Example : A trader with US\$500 equity is able to trade mini lots (0.1 incremental lot volume) while other trader with US\$5000 equity is able to trade both mini and standard lots. (1 and 0.1 incremental lot volume)

♪ **Leveraged Trading Volume**

A trader does not need to have \$100.000 to start trading 1 standard lot volume (100.000 units). Leverage function lets a trader to trade 1 standard lot volume of 100.000 units with only a small percentage of his trading volume. (margin or good faith deposit). With 1:100 leverage, the same trader only needs to have around 1%

of his trading volume to be locked for margin. This means, the amount locked temporarily is

$$1\% \times 100.000 = \$1000$$

Keep in mind that the potential profit a trader earned is leveraged as it is calculated based on trader's trading volume (100.000) instead of his/her margin (1000).

♪ **Demo Accounts to practice forex trading without risk**

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What Do You Need To Start Trading Forex

➤ **Personal Computer (PC) and Notebook (Laptop), PDA (optional)**

PC/Notebook is a main device you have to use to start forex trading online, while PDA is optional for mobile trading.

➤ **Stable and high speed internet connection**

Minimum recommended internet connection is dial up (56 Kbps connection). Broadband connection (ADSL, Cable, 3.5G (HSDPA), wimax) is preferred.

➤ **Limited Fund**

We strongly recommend beginner trader to try demo accounts before using real money. Whenever you are ready to trade forex with real money, the minimum amount to have is US\$300 (for mini lot accounts / 10.000 unit), or US\$3000 (for standard lot accounts / 100.000 unit)

➤ **Reliable and Trusted Forex Brokerage**

Trading at Reliable and Trusted Forex Brokerage is very crucial. **Do not** easily attracted to any promotional Bonus without checking your broker's legal aspect and reputation.

Forex Quotes

The quotation of a currency pair usually consists of **two prices (Bid and Ask)**. **Bid** (usually lower than Ask) is the price at which a market maker or a brokerage is willing to buy the base currency in exchange for the quote currency (or we could say, bid is the trader's selling price)

The **Ask / Offer** (usually higher than Bid) is the price at which a brokerage is willing to sell the base currency in exchange for the quote currency (or we could say, offer or ask is the trader's buying price).

Conclusion :

- ♪ **Bid** is *the price at which trader will get while he sells (trader's selling price)*
- ♪ **Ask / Offer** is *the price at which trader will get while he buys (trader's buying price)*
- ♪ Bid is **usually lower than** Ask.
- ♪ **Spread** is the *difference of Bid and Ask / Offer. The smaller the spread the more profitable to trader*

How to read Forex Quote :

Market Watch: 16:33:13				
Symbol	Bid	Ask	High	Low
GBPUSD	1.9899	1.9902	1.9950	1.9835
EURUSD	1.5720	1.5722	1.5735	1.5627
USDJPY	102.57	102.59	102.85	101.48
USDCHF	1.0135	1.0138	1.0172	1.0054
AUDUSD	0.9262	0.9265	0.9263	0.9177

From the left image, you can see that **GBP/USD** has **Bid 1.9899** and **Ask 1.9902**. Or simply can be said **1.9899/02**.

Spread of GBP/USD above is :

$1.9902 - 1.9899 = 0.0003$ (3 points or 3 pips)

(For FCMarket's new Platform which has 5 decimal digits, 3 points mean 0.00030 !)

Please Note :

- ♪ If you open **Buy (going Long)**, you buy with **Ask** price, and will have to use **Bid** price while selling it back (*liquidating/closing, stop loss, and taking profit also use Bid*)
- ♪ If you open **Sell (going Short)**, you sell with **Bid** price, and will have to use **Ask** price while buying it back (*liquidating/closing, stop loss, and taking profit also use Ask*)

Position	Open with	Close with (TP & SL)
Buy (Long)	Ask Price	Bid Price
Sell (Short)	Bid Price	Ask Price

* **TP** = Take Profit

** **SL** = Stop Loss

While we are **Buying (going Long)** with **Ask**, we have to pay attention to **Bid** at forex quote table / list. **Bid must be HIGHER than Ask price we initially bought (the price at which we opened the position) in order to earn Profit.**

While we are **Selling (going Short)** with **Bid**, we have to pay attention to **Ask** at forex quote table / list. **Ask must be LOWER than Bid price we initially sold (the price at which we opened the position) in order to earn Profit.**

Market Watch: 16:33:13				
Symbol	Bid	Ask	High	Low
GBPUSD	1.9899	1.9902	1.9950	1.9835
EURUSD	1.5720	1.5722	1.5735	1.5627
USDJPY	102.57	102.59	102.85	101.48
USDCHF	1.0135	1.0138	1.0172	1.0054
AUDUSD	0.9262	0.9265	0.9263	0.9177

Example :

A trader opens **BUY (Long) GBP/USD** at **1.9902 (Ask)**, in this case, if current **Bid** price is still at **1.9899**, means the trader's position is at floating loss of 3 pips. To earn profit you have to wait until current bid price goes **above 1.9902**. You may notice that **each time you open a new position**, there are initial negative pips at the **SAME** amount as the spread of

corresponding pair you use. This initial negative pips are caused by spread charges.

High, Low, Open, and Close :

- **High :** *The record of highest price reached at the time range from opening to the closing of a specific timeframe.* (example : for chart with 5 minutes timeframe, High price means the highest price of the corresponding 5 minutes chart)

- **Low** : *The record of lowest price reached at the time range from opening to the closing of a specific timeframe.* (example : for chart with daily timeframe, Low price means the lowest price of the corresponding daily chart)
- **Open** : *Opening / initial price of a specific timeframe.* (example : for chart with 5 minutes timeframe, the first / opening price of the current time frame is 2.0000. This means **Open Price** for current timeframe is 2.0000)
- **Close** : *Closing / ending price of a specific timeframe.* (example : for chart with 5 minutes timeframe, the last / ending price of the current time frame is 2.0050. This means **Close Price** for current timeframe is 2.0050)

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Contract Size (Lot) and Point / Pip

Contract Size (Lot) : *is the smallest trading amount / quantity for exchanging currencies.*

The common size are **mini** and **standard** lot. The **standard lot is equal to 100,000 units** while **mini is equal to 10,000 units**. For example : A forex broker offers you mini lot account, you can trade in incremental of 10,000 units. for example : 20,000 units, 110,000 units, and so on. A forex broker which only supports standard lot will allow you to trade with incremental of 100,000 units. For example : 300,000 units, 1,000,000 units, and so on.

Contract Size value (in Lot Volume):

1 Lot : 100.000 unit (or 1 Standard Lot)

0.1 Lot : 10.000 unit (or 1 Mini Lot)

0.01 Lot : 1000 unit (or 1 Micro Lot)

Point (pip) : *is the smallest number in a quotation of a currency.*

For example if the quotation of EUR/USD is 1.2025, a pip is represented by 0.0001.

However, for a different currency such as USD/JPY 116.25, a pip will be 0.01.

In order to calculate the pip value or “how much you will earn for one pip”, you have to know some additional information such as: **contract size (Lot)** and **the pair used**

Example :

EUR/USD contract size : 100,000 units (1 standard lot), 1 pip loss or profit equals to \$10. While a trader closes 10 points of profit, total profit he earns is \$10 x 10 = \$100. The same calculation also applies for loss.

WARNING :

For the new platform FCMarket-FxPro, some currency pairs have 1 additional last decimal digit, AUD/USD, EUR/CHF, EUR/GBP, EUR/USD, GBP/CHF, GBP/USD, NZD/USD, USD/CAD, USD/CHF → 1 point means 0.00010 (instead 0.0001).

This also applies for pairs involving JPY : EUR/JPY, GBP/JPY, USD/JPY → 1 point means 0.010 (instead 0.01).

You may add 1 digit of zero (0) at the back of trading price for pairs mentioned above, example BUY GBP/USD at 2.0005 with TP of 45 pips. In this case, you need to fill in **2.00050** at BUY order price field and TP at **2.00500** (NOTE ! do not fill in 2.00050 for TP 50 pips, since 2.00050 means 5 points Take Profit).

Another example : SELL USD/JPY at 110.55, please fill in 110.550 at SELL order price field. TP 50 pips at price 110.050 (NOTE ! 0.050 is NOT 50 point but 5 point !)

**For simplicity, this tutorial uses common and standard digits of 0.0001 and 0.01
Please add 1 more zero (0) decimal digit at the end of price (for the pairs
mentioned above) if you are using FCMarket-FxPro Platform**

Definition of Long / Short

LONG or **open BUY** means *buying a currency with the expectation to sell it at higher price*.

Traders earn profit if the price they bought is lower than the price they sold. (profit while the chart is moving upward / profit from an increasing market).

Example : A trader opened BUY EUR/USD at 1.1500, he sold EUR/USD at 1.1525, in this case he will earn 25 points profit.

Please remember, to get the profit, a trader has to **sell back (liquidate or close or settle)** what he has bought.

Upward movement of currency pair indicates *Base currency of the pair is getting stronger than Quote currency*. Example : EUR/USD chart increase indicates that Euro becomes stronger than USD. EUR/USD decrease indicates that Euro becomes weaker than USD.

The price used to **OPEN BUY / LONG** is **Buying Price (ASK)** and the price used to close / liquidate / sell back is **Selling Price (BID)**.

LONG position is usually known as **BUY** for short

SHORT or **open SELL** means *selling currency to anticipate decreasing value, then buy it back at lower price*

Traders earn profit if the price they sold is higher than the price they bought. (profit while the chart is moving downward / profit from a decreasing market).

Example : A trader opened SELL USD/JPY at 110.50, he bought USD/JPY at 110.00, in this case he will earn 50 points profit.

Downward movement of currency pair indicates *Base currency of the pair is getting weaker than Quote currency*. Example : USD/JPY chart decrease indicates that USD becomes weaker than JPY. USD/JPY increase indicates that USD becomes stronger than USD

The price used to **OPEN SELL / SHORT** is **Selling Price (BID)** and the price used to close / liquidate / buy back is **Buying Price (ASK)**

SHORT position is usually known as **SELL** for short.

Position	Started with	Ended with	Chart move Up	Chart move Down
Long	Buy	Sell	Profit	Loss
Short	Sell	Buy	Loss	Profit

Order Types

♪ **Market Order** : *means order at the current market price.*

Opening **Buy / Long** position at market price means trader will open at the **current Ask price**. Opening **Sell / Short** position at market price means trader will open at the **current Bid price**.

Example : Trader will Buy EUR/USD at market price, current forex quote shows **Bid / Ask = 1.2934 / 1.2938**. This means brokerage agrees to buy EUR/USD from trader at 1.2934 and sells to trader at 1.2938. (Also can be said : Trader buys EUR/USD from brokerage at 1.2938 and sells to brokerage at 1.2934)

♪ **Stop Order and Limit Order (Pending Order)** : *Orders to open Buy or Sell only if the price set is reached (hit).*

Pending orders remain active if the price ordered have not been reached. Traders can set the expiration date and time as they wish.

There are two types of Pending Order : **Stop Order** and **Limit Order**.

STOP ORDER



LIMIT ORDER



There are four Pending Order combinations:

♪ **Buy Stop**

To **buy ABOVE current Market Price**, use **Buy Stop**.

In this case, **Buy order price must be HIGHER** than current Market price.

Example : Current price is at 1.2000, and you want to **Buy (LONG) only if the market hits 1.2050**. You can set a Buy Stop at 1.2050
(Note : Opening Buy/Long using ASK Price !)

♪ **Sell Stop**

To **sell BELOW current Market Price**, use **Sell Stop**.

In this case, **Sell order price must be LOWER** than current Market price.

Example : Current price is at 2.0000, and you want to **Sell (SHORT) only if the market hits 1.9550**. You can set a Sell Stop at 1.9550
(Note : Opening Sell/Short using BID Price !)

♪ Buy Limit

To **buy BELOW current Market Price**, use **Buy Limit**
In this case, **Buy order price must be LOWER** than current Market price.

Example : Current price is at 2.0000, and you want to **Buy (LONG) only if the market hits 1.9950**. You can set a Buy Limit at 1.9950
(Note : Opening Buy/Long using ASK Price !)

♪ Sell Limit

To **sell ABOVE current Market Price**, use **Sell Limit**.
In this case, **Sell order price must be HIGHER** than current Market price.

Example : Current price is at 1.2000, and you want to **Sell (SHORT) only if the market hits 1.2050**. You can set a Sell Limit at 1.2050
(Note : Opening Sell/Short using BID Price !)

Market Order & Pending Order Comparison

Order Type	Buy (Long)	Sell (Short)
Market	Buy at current Ask Price	Sell at current Bid Price
Stop Order	Buy Above Current Price (Open with Ask)	Sell Below Current Price (Open with Bid)
Limit Order	Buy Below Current Price (Open with Ask)	Sell Above Current Price (Open with Bid)

Pending Order Expiration

♪ **GTC (Good Till Cancelled)**

Good Till Cancelled means *pending order will remain active until cancelled*. GTC is the default setting of Pending Order Expiration

♪ **GTD (Good Till Date)**

Good Till Date means *pending order will remain active until a specific time set*. If the date set is reached, pending order will be cancelled

♪ **OCO (Order Cancels Other)**

Order Cancels Other : *Trader orders 2 pending orders at the same time. Once one of pending order is executed, the other one will be cancelled.*

Margin and Leverage

Leverage is *borrowed capital to increase potential return*.

With leverage function, a trader does not have to deposit \$10,000 in order to trade \$10,000. He can give \$100 (1% of contract size) as good faith deposit to trade \$10,000 while trading at brokerage which offers Leverage 1:100. Leverage is commonly available in ratio, example : 1:50, 1:100, 1:250, or 1:500.

Imagine, if another trader trades forex without leverage. He must have at least \$10,000 to trade \$10,000 lot (1:1). At above scenarios, both traders have the **SAME** potential profit but the first trader's margin requirement is a lot smaller than the second.

Conclusion : Leverage makes a trader with smaller equity to have the **SAME** potential profit as trader with much bigger equity

Margin : *Good faith deposit required to open an order*.

Margin is temporarily held by brokerage until the order is closed / settled. Keep in mind that margin is held by your broker until the order is closed. Right after the position is liquidated, the margin will be credited back to your balance.

Margin is quantified in percentage and affected by Leverage offered by forex broker. Example : Leverage 1:100 = 1% Margin Requirement, Leverage 1:50 = 2% Margin Requirement, and so on.

Lets say, you have \$1000 cash deposited to your broker with Leverage 1:100. The maximum contract size (lot) you can trade is almost 1 Lot of \$100.000 (almost 100 times the balance). It can also be said that to trade 1 lot of \$100.000, the broker needs $1\% \times 100,000 = \$1000$ margin

Another example : You have \$500 cash deposit and your broker offers Leverage 1:100. In this case, if you open 1 mini lot (10.000 unit), the margin held is 1% of the contract sizenya $(10.000) = (1\% \times 10.000) = \100 Margin.

Your \$100 margin will be locked temporarily by your broker, and the rest \$400 can be used to anticipate loss that may occur. While floating loss is approaching \$400, you are run out of available margin, if this happens, your broker is going to close open positions to prevent your balance falling to negative.

The benefit of leverage : A trader is able to trade **much bigger contract size** with a relative smaller fund.

With or Without Leverage ?

Trader	Equity	Leverage	Contract Size	Margin Requirement (\$)	Margin Requirement (%)	Profit	Available Margin
A	\$3000	1:1	\$1000	\$1000*	100%	\$0.1/pip	\$2000**
B	\$3000	1:100	\$1000	\$10	1%	\$0.1/pip	\$2990

* Margin Requirement (\$) = Margin Requirement (%) x Contract Size

\$1000 = 100% x 1000

** Available Margin to hold loss = Equity – Margin Requirement (\$)

\$2000 = \$3000 – \$1000

From the table above, we can see by using **Leverage** function, *trader B has an opportunity to use the SAME Contract Size (\$1000), but with smaller margin requirement (\$10). Potential profit both traders have are also the SAME (\$0.1/pip).*

At the other side, *leverage can help trader B by giving more Available Margin to hold the loss (\$2990 available margin can hold more loss than \$2000)*

Big or Small Leverage ?

Trader	Leverage	Contract Size	Margin Requirement (%)	Margin Requirement (\$)	Profit
A	1:100	\$100.000	1%	\$1000	\$10/pip
B	1:200	\$200.000	0.5%	\$1000	\$20/pip
C	1:500	\$500.000	0.2%	\$1000	\$50/pip

From the illustration above, we can see by using **Bigger Leverage**, *trader C has an opportunity to use BIGGER Contract Size (\$500.000), with the SAME Margin Requirement (\$1000).*

Please note : *Lot Size (Contract Size) used will affect pip value. From the example above, it is clearly seen, eventhough Trader A, B, and C have the same Margin Requirement (\$1000). Trader C have the biggest profit for every pip he gets (\$50/pip)*

Margin Calculation

There are 3 groups of Currency Pair :

- **Direct Rates** : Currency Pairs at which USD operating as **counter currency** (USD is located at the right side of currency pair), example : GBP/USD, EUR/USD, AUD/USD, NZD/USD
- **Indirect Rates** : Currency Pairs at which USD operating as **base currency** (USD is located at the left side of currency pair), example : USD/JPY, USD/CHF, USD/CAD
- **Cross Rates** : Currency Pairs which do not involve USD, example : GBP/JPY, EUR/JPY, AUD/JPY, EUR/GBP, GBP/CHF

How to Calculate Margin of Direct Rates :

Margin Percentage x Contract Size x Lot x Current Price = Margin

Example : Sell 3 mini lot GBP/USD at Bid 2.0000 (Note : Open Sell uses bid price !)
 $0.01 \times 10.000 \times 3 \times 2.0000 = \600 (Leverage 1:100)

$0.002 \times 10.000 \times 3 \times 2.0000 = \120 (Leverage 1:500) → Leverage 1:500 has less margin requirement than Leverage 1:100 !

How to Calculate Margin of Indirect Rates :

Margin Percentage x Contract Size x Lot = Margin

Example : Buy 2 mini lot USD/JPY at Ask 110.00 (Note : Open Buy uses Ask price !)
 $0.01 \times 10.000 \times 2 = \200 (Leverage 1:100)
 $0.002 \times 10.000 \times 2 = \40 (Leverage 1:500) → Leverage 1:500 has less margin requirement than Leverage 1:100 !

How to Calculate Margin of Cross Rates :

Margin Percentage x Contract Size x Lot x Current Median Price* = Margin

* **Current Median Price : Current BASE Currency's Bid and Ask Average**

Median Price = (Bid + Ask) / 2

(Note : Base Currency is the Currency located at the left side of the pair. Example : EUR/GBP Pair → EUR is **BASE** Currency, GBP is **QUOTE** Currency)

Example : Buy 1 mini lot EUR/GBP at Ask 0.8020. Quote of EUR/USD : **1.5800/02**
(EUR is the Base Currency, so we need to use the Base Currency Pair of EUR, which is EUR/USD)

EUR/USD Median = $(1.5800 + 1.5802) / 2 = 1.5801$

$0.01 \times 10.000 \times 1 \times 1.5801 = \158.01 (Leverage 1:100)

$0.002 \times 10.000 \times 1 \times 1.5801 = \31.60 (Leverage 1:500) → **Leverage 1:500 has less margin requirement than Leverage 1:100 !**

From the illustrations above, we can see the **Larger Leverage Ratio Used**, the **Smaller Margin Used**.

Profit and Loss Calculation

There are 3 groups of Currency Pair :

- **Direct Rates** : Currency Pairs at which USD operating as **counter currency** (USD is located at the right side of currency pair), example : GBP/USD, EUR/USD, AUD/USD, NZD/USD
- **Indirect Rates** : Currency Pairs at which USD operating as **base currency** (USD is located at the left side of currency pair), example : USD/JPY, USD/CHF, USD/CAD
- **Cross Rates** : Currency Pairs which do not involve USD, example : GBP/JPY, EUR/JPY, AUD/JPY, EUR/GBP, GBP/CHF

How to Calculate Profit and Loss of Direct Rates :

$$0.0001 \times \text{contract size} \times \text{lot} = \text{Pip Value}$$

$$0.0001 \times 100.000 \times 1 = \text{Pip Value} = \$10/\text{pip}$$

$$(\text{Selling Price} - \text{Buying Price}) \times \text{contract size} \times \text{lot} = \text{Profit or Loss}$$

Example :

Sell GBP/USD 5 lot at 1.9100, Buy (Liquid) at 1.9050.
 $(1.9100 - 1.9050) \times 100.000 \times 5 = \text{US\$ } 2.500$

How to Calculate Profit and Loss of Indirect Rates :

$$(0.01 / \text{current price}) \times \text{contract size} \times \text{lot} = \text{Pip Value}$$

$(0.01 / 120.50) \times 100.000 \times 1 = \text{Pip Value} = \$8.3/\text{pip}$

$$[(\text{Selling Price} - \text{Buying Price}) / \text{Liquidating Price}] \times \text{contract size} \times \text{lot} = \text{Profit or Loss}$$

Example :

Sell USD/JPY 5 lot at 110.5, Buy (Liquid) at 110.0
 $[(110.5 - 110.0) / 110.0] \times 100.000 \times 5 = \text{US\$ } 2.272,7$

How to Calculate Profit and Loss of Cross Rates :

$$(\text{Base Currency Price} \times \text{contract size} \times \text{lot}) / \text{Current Cross Rate} = \text{Pip Value}$$

Example :

EUR/GBP Rate : 0.6750, EUR/USD Rate: 1.1840 (EUR/USD is the basic currency of EUR/GBP, as the left side of EUR/GBP Pair is Base Currency)

$$(1.1840 \times 100.000 \times 1) / 0.6750 = \$17,54/\text{pip}$$

{{(Selling Price – Buying Price) x Current Base Currency Price} / Current Price of Cross Pair} x contract size x lot = Profit or Loss

Example :

Sell EUR/GBP 1 Lot at 0.6760, Buy (Liquid) EUR/GBP at 0.6750. EUR/USD Rate: 1.1840

$$\{[(0.6760 - 0.6750) \times 1.1840] / 0.6750\} \times 100.000 = \$175,4$$

Take Profit, Stop Loss, and Trailing Stop

Take Profit is *a target point at which you want to liquidate your position in profit automatically when the market price hits it.*

- € For **Buy/Long** position, **take profit level is located ABOVE opening price of Buy/Long** position.
(Note ! Open Buy/Long is based on ASK, Take Profit or Stop Loss is based on BID)
Example : Buy EUR/USD at 1.2000, Take Profit at 1.2050 (50 points take profit)
- € For **Sell/Short** position, **take profit level is located BELOW opening price of Sell/Short** position.
(Note ! Open Sell/Short is based on BID, Take Profit or Stop Loss is based on ASK)
Example : Sell EUR/USD at 1.2050, Take Profit at 1.2000 (50 points take profit)

Stop Loss is *an order to limit potential losses if the market moves against trader's position.*

- € For **Buy/Long** position, **stop loss level is usually located BELOW opening price of Buy/Long** position

(Note ! Open Buy/Long is based on ASK, Take Profit or Stop Loss is based on BID)
Example : Buy EUR/USD at 1.2050, Stop Loss at 1.2000 (50 points stop loss)

€ For **Sell/Short** position, **stop loss level is usually located ABOVE opening price of Sell/Short** position.

(Note ! Open Sell/Short is based on BID, Take Profit or Stop Loss is based on ASK)
Example : Sell EUR/USD at 1.2000, Stop Loss at 1.2050 (50 points stop loss)

Stop Loss can also be used to *protect the profit you have got (lock profit)*.

In order to lock the profit you have already got, you can adjust your stop loss by moving it to a level exceeding the profit you want to lock. Move stop loss upward (for Buy/Long Positions) or move it downward (for Sell/Short Positions).

Example :

A trader Open Buy at 2.0000, TP (Take Profit) at 2.0050, SL (Stop Loss) at 1.9970. A few hours later, market price moves upward to 2.0040. The trader is in floating profit position of 40 points. To lock 20 points profit, he can move his stop loss to opening price (2.0000) + 20 points = 2.0200. (you may use 10, 15, 20 or any minimum locking profit level which is allowed by your broker)

Important : For Buy/Long position, the locking profit level must be lower than current floating profit level ($2.0020 < 2.0040$) and the locking profit level must be higher than opening price level ($2.0000 < 2.0020$).

If market moves higher to 2.0060, the trader can re-adjust his stop loss to 2.0040 (40 points locked). This technique is also known as the basic of Trailing Stop feature.

NOTE : After filling Take Profit and Stop Loss levels, the data is saved in Broker's server. Trader does not need to connect his/her PC to internet since take profit and stop loss levels will remain active in Broker's server.

Position	Take Profit (TP)	Stop Loss (SL)
Buy (Long)	Higher than Open Price (TP based on Bid)	Lower than Open Price (TP based on Bid)
Sell (Short)	Lower than Open Price (TP Based on Ask)	Higher than Open Price (TP based on Ask)

Trailing Stop is *an automatic stop order adjustment feature in order to protect profit earned*. Trailing stop will move stop loss upward (Long Position) or downward (Short Position) within range set by trader. Trailing Stop is a development of stop loss function.

Trailing Stop will be activated whenever positions opened have **exceeded** a specific minimum level of profit. For example : Trailing stop will remain in pending state while current floating profit has not exceeded 15 points (for a broker with minimum 15 points trailing stop level).

(NOTE : Trailing stop feature is commonly executed at traders computer. Connection problem or other computer failure will prevent trailing stop from functioning correctly)

Traders have to aware that his position is still risky while his profit has not exceeded minimum trailing stop level allowed. In addition traders may use **BOTH** stop loss and trailing stop to limit trading risk.

Example : Buy EUR/USD 1.2050, Stop Loss 1.2000, Trailing Stop 15 points.

While current BID price is reaching 1.2070 (20 points profit), trailing stop will adjust stop loss to 1.2055 (1.2070 subtracted by 15 points). In this case, trader have got **+5** points profit locked by stop loss (20 point profit – 15 points trailing stop = +5 points locked).

Case A : When market moves downward from 1.2070 to 1.2055, the position will be liquidated at **+5** points profit. At this level, trailing stop will prevent a position falling to negative profit.

Case B : If market hikes from 1.2070 to 1.2095 (instead of falling to 1.2055). The trader will get profit of 45 points (1.2050 initial open price to current price level at 1.2095), in such case, trailing stop will adjust stop loss to 1.2080 (45 points profit – 15 trailing stop level = **+30** points locked)

Margin Call Calculation

Margin call is *liquidation procedure executed by broker when trader's margin falls below broker's minimum margin requirement*. Margin call plays a role to protect trader's balance from falling to minus balance when there is no enough margin to hold losses. Usually brokerage will liquidate open positions immediately one by one until trader's margin is enough to cover losses.

There are 2 approaches used to determine Margin Call :

♪ **Margin Level**

Margin level system is used at MetaTrader Platform. (Please try FCMarket's demo accounts at <http://www.fcmarket.com/demo.php> in order to fully understand margin level calculation at MetaTrader Platform)

Margin level calculation formula :

$$\text{Margin Level (\%)} = \text{Equity} / \text{Used Margin}$$

$$\text{Equity} = \text{Used Margin} + \text{Free Margin}$$

$$\text{Equity} = \text{Balance} + \text{Profit} - \text{Loss}$$

At the time of no positions opened, Balance = Equity. While Profit/Loss=0, Balance will be the same as Equity. (Please see Equity Calculation Formula above !).

Free Margin is *free withdrawable margin while there are open positions* (**note** : *Please leave enough margin to hold losses and prevent Margin Call !*)

Lets say, a broker determines Margin Call by 5% Margin Level (example : FCMarket.com), if $\text{Equity} = \text{Used Margin} \times 5\%$, Margin Call will happen. (open positions immediately closed one by one until trader's margin is enough to cover losses).

Using MetaTrader Platform, a trader does not need to calculate Margin Level manually. Each time position is opened, Margin Level percentage can be monitored at "Trade" Tab inside MetaTrader. By seeing at "Trade" tab, it is easier for us to know current Margin Level percentage. All we need to do is maintain margin level at above Broker's minimum Margin Level (example = Margin Level should be more than 5%). Margin call will happen if Margin Level is **equal to or less than** Broker's minimum requirement.

♪ **Equity = Used Margin (Equity – Used Margin + Profit – Loss = 0)**

There is another system which determines Margin Call based on : $\text{Equity} - \text{Used Margin} + \text{Profit} - \text{Loss} = 0$. (This system actually has 100% Margin Level if you are using MetaTrader system since when $\text{Used Margin} = \text{Equity}$, Margin Call happens)

Example :

Trader's initial deposit **\$300**. He opened 1 mini lot (10.000 units) GBP/USD. Margin requirement will be : **10000 (mini lot) x 0.002 (leverage 1:500) x 2.0000 = \$40**. Margin (good faith deposit) temporarily held by broker is **\$40**.

Margin Level System Calculation:

Broker's Margin Level = 5%.

When Equity is approaching 5% Margin Level = $5\% \times \text{Used Margin} = 5\% \times \$40 = \$2$. Margin Call will be generated if trader's equity is falling to \$2 or less. This also means $\$300 - \$2 =$ **\$298 margin left to hold losses**.

Equity = Used Margin Calculation:

While Equity is approaching 100% Margin Level (or when $\text{Equity} = \text{Used Margin}$). Margin Call will be generated if trader's equity is falling to \$40 or less. This also means $\$300 - \$40 =$ **\$260 margin left to hold losses**.

Interest / Swap / Rollover Calculation

Interest / Swap / Rollover refers to *the interest traders may earn or be charged for holding open positions more than 1 day.*

Forex market calculates interest on a daily basis. At the end of each trading day at 5:00 pm New York timezone, traders will see the interest charged or interest income credited to their accounts

To convert New York timezone to your local timezone please click :

<http://www.timeanddate.com/worldclock/timezone.html?n=179>

When opening forex transactions, the actual value date is two days forward. A deal which is done on Monday is for Wednesday's value. A deal done on Friday is for Tuesday's value (Saturday and Sunday are not counted), and so on. **Please note** : On Wednesday the amount of swap is multiplied three times (tripled) to compensate weekend holidays which swap is not charged.

How to Calculate Swap:

Traders will earn positive swap if the currency bought has greater swap rate than borrowed one.

Example :

USD/JPY Pair. USD Swap Rate = 5.25% , JPY Swap Rate = 0.5%

Buy USD/JPY means a trader is buying USD by borrowing JPY. Since bought currency's swap rate (USD) is greater than borrowed currency's swap rate (JPY), the trader will earn interest income : $5.25\% - 0.5\% = 4.75\%$

When a trader Sell USD/JPY (means borrowing USD to buy JPY), the trader will be charged by interest fee : $-5.25\% + 0.5\% = -4.75\%$

Example 2:

EUR/USD Pair. EUR Swap Rate = 3.75%, USD Swap Rate = 5.25%

Buy EUR/USD means a trader is buying EUR by borrowing USD. Since bought currency's swap rate (EUR) is smaller than borrowed currency's swap rate (USD), the trader will be charged by interest fee : $3.75\% - 5.25\% = -1.5\%$

When a trader Sell EUR/USD (means borrowing EUR to buy USD), the trader will earn interest income : $-3.75\% + 5.25\% = 1.5\%$

Forex Broker usually provides a list of daily swap rates for every currency pairs available. Traders could find interest fee / earning based on Buy or Sell positions they will trade. (swap is usually in \$ or pips value). If the swap value is quantified in pips, traders need to convert pip to dollar by calculating pip value of corresponding currency pair.

Symbol	Buy	Sell
EUR/USD	\$3.82	-\$5.02
USD/JPY	\$6.9093	-\$8.7093
GBP/USD	\$12.81	-\$15.21

At the image on the left, we can see that by holding Buy GBP/USD for more than 1 day, a trader will earn \$12.81/day (Standard Lot).

To check swap rate for a specific currency at MetaTrader Platform : [Click right mouse button at forex quotes list](#) →

[Symbols](#) → [Select desired currency pair](#) → [Properties](#)

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Hedging and Averaging Techniques

Hedging is *a technique to minimize unwanted risk by opening opposite trading positions.*

Usually hedging strategy is used to limit risk without cutting losing positions. (as sometimes traders do not want to use Stop Loss).

By using hedging, a trader is able to maintain loss amount at a constant range (locking).

Example : A trader ordered Buy EUR/USD 1 lot. Unfortunately, market went against the trader's position (downward). At the moment his position reached -20 points floating loss, he can order Sell EUR/USD 1 lot to lock losing position at -20 points.

This action is called hedging, and no matter what direction the market goes, upward or downward, his loss will be locked at -20 points. (assuming there is no spread charge)

Averaging is *a technique to minimize unwanted risk by opening another position with the same direction at different price level.*

Averaging strategy's objective is to minimize risk by averaging more than 1 positions which are opened at different price levels.

Example : A trader ordered Buy EUR/USD 1 lot at 2.0100, unfortunately, market went against the trader's position (downward) to 2.0000. Now he suffered 100 points floating loss.

In this scenario, the trader could use Averaging technique to minimize the risk by opening Buy EUR/USD 1 lot at 2.0000. At this point there were 2 open trades : Buy EUR/USD 1 lot at 2.0100 (-100 points loss) and Buy EUR/USD 1 lot at 2.0000. (0 point)(assuming there was no spread charge).

A few hours later, market moved to 2.0050, the trader would have 1 trade at -50 points loss and another trade at +50 points profit. This point (2.0050) is BEP level (Break Even Point) of both trades. Once, the price goes higher than 2.0050, the trader will earn profit.

Important Trading Tips

- ◆ Only use regulated and trusted forex brokerage. We strongly recommend <http://www.fcmarket.com>
- ◆ Try our demo account (**Free of charge**) for at least a few months before trading with real funds. Click here to start a demo account : <http://www.fcmarket.com/demo.php>
- ◆ Use as much leverage as you can, for example : Leverage 1:500
- ◆ Carefully calculate **free margin** and **contract size** used.
Warning : Do not use ALL of margin you have as you will get Margin Call easily and probably will lose large amount of money. We advice you to use up to 50% of Available Equity.
Example : For \$1000 deposit, the maximum total lot you can use is $(1000 \times 50) / 100.000 = 0.5$ lot
- ◆ Always use Stop Loss. (**If you are beginner at forex trading, do not trade without Stop Loss !**)
- ◆ Be very careful if you are trading during News Announcement time. Especially the big impact news. Always check “Economic Calendar” schedule available at internet to find out Important News to avoid.

Risk Warning

Trading on Forex market involves substantial risks, including complete possible loss of funds and other losses and is not suitable for everyone.

The high degree of leverage can work against you as well as for you. Before deciding to participate in the Forex market, you should carefully consider your investment objectives, level of experience and risk appetite.

Most importantly, do not invest money you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor if you have any doubts