A QUICK START GUIDE TO FOREX TRADING

Take your first steps to forex trading success

Learn from someone who trades full time, and who will teach you that failure, is nature's way of preparing you for great success.

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ABOUT ME

I placed my first trade in 1996 and can remember it to this day, indeed I even have the details of the trade, as in those days we had to keep manual records. Funnily enough it was not in the forex market, but in futures, a different market in many ways, but one which provided an excellent grounding in the essential skills you need to develop in order to become a successful forex trader in the longer term.

Since then, I have traded in a variety of markets, and made many mistakes along the way, but have survived, which although painful at the time, has helped me become a better trader, as a result. I now write extensively on the markets in general, and the forex markets in particular, which has since become my speciality, and I hope that by reading this short guide to getting started in forex, that I can help you avoid some of the mistakes that I made in the early years, and speed up your learning curve as a result.

In addition to writing and trading, I also mentor a small number of students each year, but places are severely limited in order to ensure that I can dedicate the time needed to provide the one on one guidance tailored to each student's needs. If you are interested in becoming a student in the future, then please just drop me a line at my personal web site www.annacoulling.com and I will keep in touch should space become available.

ABOUT ME

In the meantime I also hold regular webinars where I give my views on the forex markets and take a look ahead, both from a technical and fundamental perspective. These are free and available to my readership, and by downloading this guide, you will receive details in due course, so I look forward to welcoming you to the next webinar. In addition I also have a home study course available on video, which teaches you in simple stages how to get started, the key steps you need to follow to be successful, and some of my simple trading strategies and tips that I have learnt over the years.

Finally, and in order to provide help to get you started more quickly, I also host live forex trading webinars where we place trades, analyse the market opportunities at the time, and look at placing both intra day scalping trades, along with longer term positions to take advantage of any developing trend. These are available by monthly subscription only, but with an easy in, easy out option, and you can find further details of this service at www.annacoulling.com

So, let's get started with this quick guide to forex trading, as I begin to teach you the basics of what you need start your own journey of discovery in the forex trading world.

INTRODUCTION

First of all thank you for downloading the "Quick Start Forex Trading Report". You have made an excellent decision because I am going to show you how to get started in forex trading, and if you follow these techniques and strategies, I hope in due course, this will give you the following:

- More income
- More free time
- Less stress

My trading techniques are, in essence, very simple, so if you are looking for a complex and perhaps a robotic approach to becoming a successful forex trader, then this document is not for you, as my philosophy throughout my life, whether in business or trading, has been to keep things simple. KISS - Keep it Simple, Stupid!

KEEP IT SIMPLE

I have found over the years, that the best results come from having a system that is easy, and works. In my travels around the trading floors of Europe, attending seminars, reading some of the hundreds of books widely available, and in the many workshops and courses now available, this has simply reinforced my view.

Trading success is about two things. Simplicity and belief in your system. The trading strategies and techniques in this report are the ones I use myself every day in the forex markets, but they are essentially uncomplicated, and I make no apology for this.

I do not believe in 'black box' solutions, which are becoming increasingly common, and indeed are beginning to dominate the markets to such an extent that we often see these effects in market price movements as we hit key levels or price bands. In my opinion there is no substitute for making your own trading decision based on your analysis of the prices and the underlying fundamental picture.

If you are wrong, then you are wrong, short and simple, as making a loss is part and parcel of becoming a trader, and it is how you manage these losses which will ultimately dictate your success. So take control of your decision making from the start, and do not abrogate responsibility to the latest software robot which may work for a short time, before failing in the longer term.

My trading techniques are based on chart analysis, backed by my view of the broader fundamentals and market sentiment, which provide the framework against which the markets move each and every day, and it is I who make the decision to trade - no one else.

TAKE THE RIGHT ACTION

In life, I have found that a small percentage of people are action takers, and it is no surprise that these are the people who ultimately become successful traders. If you read something in this document that strikes a chord with you, then make a note of it and take action. It is almost impossible to fail if you take the right action as opposed to DOING nothing, which sadly will be the case for many, and forex trading is no different.

The noise of the market can be deafening, and when coupled with the information and analysis now available online, can be overwhelming, so in order to help you get started I have put together a simple action list on the last page of this report, highlighting key actions that I believe you need to take and why.

TIPS FOR LEARNING QUICKLY

If you are new to forex trading, it may seem daunting when you first start, and you will almost certainly feel overwhelmed. This is perfectly normal, and indeed was how I first felt when I started trading all those years ago. There just seems to be so much information, so many different 'experts', systems, strategies, tips, techniques and methodologies, that it sometimes seems easier just to give up, and look elsewhere. Indeed, as someone involved in the industry, even I get confused and distracted by some new approach to the market, or the latest technical innovation on my trading platform. The key is to take one small element at a time, and concentrate on this until you feel comfortable, and then to move on to the next piece of the puzzle which is the forex market.

Learning to trade is like any other skill, it has to be broken down into its key components, which you learn individually, before rebuilding the whole picture and adding each element back into its correct place. If you think of it in much the same way as any other course, this will be broken down into various modules, which you then study, before moving on to the next one. This is the approach I advocate for all types of trading, but particularly in forex, which is relatively new.

If you are working full time, then this is even more important as your time will be limited, so you need to break the task down into small manageable topics which you can then study in bite size, before moving on to study the next element. A few hours each evening will soon build up your knowledge.

TIPS FOR LEARNING QUICKLY

This is the opposite of most people's approach which is to open a demo trading account with as many brokers as possible, place practice trades, make huge amounts of 'virtual' money very quickly, and then be fooled into thinking they are ready to trade. Spending hours watching the markets will not teach you anything at this stage, (despite what you may think) - there is a time and place for this, but not at the start of your forex trading journey.

LET'S START WITH THE BASICS

I make no apology by starting with the basics as these are the building blocks of your knowledge, so let me start by answering the five most asked questions in forex trading which are as follows :

- What is forex trading
- Why do we have a forex market
- Who are the the main participants
- How are prices derived
- Where do I fit in

WHAT IS FOREX TRADING?

Forex trading is short for foreign exchange trading and, as such,represents the market in which one country's currency is quoted against that of another, and therefore provides the basis for the exchange of one currency with another, or to agree a rate for any future purchase. Without these market rates being quoted, parties wanting to exchange their currency, would be forced to agree a rate for each contract on an individual basis.

An interesting feature of the forex market is that it has no centralized exchange, such as in stocks or futures, and as a result all trading is conducted over the counter (OTC) which simply means that it is not conducted in a regulated environment, and indeed is often referred to as 'off exchange' trading. The forex market allows businesses, investors and traders to take advantage of the change in currency rates by taking a view as to the likely future direction of one currency relative to another. As a result all currency rates are quoted in pairs.

WHY DO WE HAVE A FOREX MARKET?

The primary purpose of the forex market is to provide an easy and straightforward way for companies to conduct international trade, allowing businesses to convert from one currency to another easily and quickly. If, for example, a US based company is importing goods from the UK, they can then pay for those goods in the currency of the exporter, in this case the British Pound, and the forex market would provide the relevant exchange rate on the day of the transaction. Alternatively, the company may decide to fix the future rate in advance by buying the exchange rate on a forward contract in order to avoid any currency fluctuations on the order.

This, of course, can help to fix the price for the goods, but equally, the company may also lose out on potential savings should the currency rate move in their favour. This is a judgement that each company makes when dealing in the forex market, whether to fix a rate in the future, or to exchange at the current prevailing rates, with advantages and disadvantages for both approaches. The modern exchange rate system of today was formed in the 1970's when countries gradually moved to free floating exchange rates from the previous fixed rate system where rates were pegged using an artificial system known as Bretton Woods.

WHO ARE THE MAIN PARTICIPANTS?

In simple terms there are five broad groups of players in the forex market, each of whom has very different trading objectives and strategies, and as such it is important to understand their role in order to gain a deeper understanding of what drives prices, and why the forex markets react to the stream of daily news and analysis. The major groups are as follows, and we will look at each of these in turn in detail :

- Market makers
- Multinationals
- Speculators
- Central banks
- Retail traders

MARKET MAKERS

In contrast to all the other participants in the forex market, market makers are the only 'non customers' and are there in order to provide a service to their paying clients, and in general are the major retail banks, with the big three of Deutsche Bank (20%), UBS (12%), and Citigroup (11%) continuing to dominate the market, with these three accounting for almost 45% of turnover on a daily basis.

These international banks are the only organizations large enough to manage the mutli billion dollar transactions involved in the corporate world, and in effect create the market prices which are quoted on a daily basis. Now whilst it it is true to say that the above statement is generally correct, in the last few years we have seen the market makers move way from their traditional role, and diversify into proprietary trading themselves, as well as trading on behalf of their clients, along with offering retail brokerage accounts to the small trader and speculator.

This blurring of once traditional roles in the market is likely to continue as the profits to be made from trading in forex continues to increase exponentially, and as such, an opportunity that these large banks can no longer ignore. Of the three banks above, Deutsche is the only one (to date) who currently offer a retail trading platform.

MULTINATIONALS

Large corporate companies are the bread and butter of the forex world, and in many ways are seen as the most logical players, requiring currency exchange for 'real' business purposes, such as paying for imports and receiving payments for exports, hedging future prices for large consumable items, and finally for major mergers and acquisitions. A well run finance department can save a large blue chip company millions of pounds or dollars a year, simply by ensuring that purchases and payments are either fixed, or made at optimum times to maximize potential savings or additional profits, simply in the difference between the two exchange rates, which are magnified as a result of the volumes involved.

As a general rule, corporates are relatively conservative in their buying and selling decisions, and rarely speculate in exchange rates, preferring to fix rates and hence fix their costs or profits, rather than speculate on future exchange rates and run the risk of increased costs, forgoing (generally) the chance of increased profits.

SPECULATORS

The third major group of forex participants are the speculators, and in many ways these are the most interesting, and come in many shapes and sizes. Their primary aim is to make a profit from their analysis of the market, and they have no interest in acquiring real holdings of the currency, but simply 'bet' on which way the market is likely to move in the future. The biggest players in this group include proprietary traders (banks trading their own money), hedge funds, commodity trading advisors (CTA's) and currency overlay managers.

These trading groups are high risk traders, betting large volumes and are happy to take on excessive leverage in order to make huge profits. Equally however, they are also subject to large losses, and it is this group that is responsible for the majority of intraday moves in the forex markets.

CENTRAL BANKS

The central banks of the world act as the administrators of the forex market, with each National Bank responsible for its own currency. In general, central banks do not like to see their currency being used for speculative purposes, and as a result are not averse to stepping into the market in order to manipulate its own currency in order to reduce harmful volatility which in turn could damage the reputation or economic stability of the country as a result.

The Bank of Japan, for example, frequently intervenes in this way, particularly where any strength in the Japanese Yen is likely to damage Japanese exports, which in turn makes them more expensive to overseas buyers. The role of the central bank is to manage monetary policy to ensure economic stability and to remove volatile currency fluctuations.

RETAIL TRADERS

Finally we come to the latest group of traders in the forex market, which is, of course YOU and ME, and we could equally be classified as small speculators, as we have no interest in holding the currency we are buying or selling, but are simply looking to make a profit from our analysis of the market. Unfortunately, we come at the bottom of this 'food chain' and sadly, as a result, generally provide a constant, new supply of funds to the bigger market players.

HOW ARE PRICES DERIVED?

The prices we see quoted on our screens every day come from one principle source, but arrive in front of us in very different ways. In simple terms it is the major retail banks outlined above who effectively set the central exchange rates, by virtue of their interbank trading, and this is often referred to as the interbank liquidity pool. This group of banks, therefore, act as the central exchange for the forex market, and whilst they are regulated as a bank, they are unregulated as far as the provision of currency rates is concerned, and are able to influence market prices to suit their own investment and trading needs.

Indeed, the nirvana for any bank is to earn income from what is called 'off balance sheet', and this is where the forex market delivers in abundance, with millions in profit every day. All that is required is for the bank to set up a forex dealing desk along with a proprietary trading group, and fairly soon the money starts rolling into its coffers!

So the interbank liquidity pool is the starting point for the market, and from here the rates are then delivered via a number of live feeds through a variety of channels. The most expensive live feeds come from three major providers, namely www.currenex.com, EBS and www.fxall.com, and represent the professional end of the market, and are generally way beyond the budget and pocket of the small retail trader, costing thousands of dollars a month.

HOW ARE PRICES DERIVED?

However, if you do trade using one of these, you will effectively be trading at the 'central exchange' along with the major banks, and will be receiving the latest quotes, the tightest spreads and access to the deepest pool of liquidity, as well as the ability to see the depth of the market at any time - the equivalent of level 2 and level 3 data feeds in equity markets.

Whilst it is possible for individual traders to subscribe to these feeds directly, it is much more likely that you will become a client of a broker who is using one of these feeds to provide live prices to their own platform, and this is the price you are likely to see quoted on your trading screen. However, it is important to note that as the broker is now "making a market", the price quoted by one broker may be very different from that quoted by another, as each is able to present the price they wish at any time.

In addition, the price they quote may be very different from that being quoted in the interbank market as many of these brokers are in fact trading against you, and along with market manipulation, lagging prices, and outright malpractice represents one of the many challenges we face as forex traders every day. Some smaller brokers may not even be able to afford to subscribe to these feeds directly or have sufficient funds to establish their own platform and to meet the minimum capital requirements under the various regulatory rules.

These brokers become known as 'white label' brokers for these larger brokerage companies, in effect adding a further layer to the prices quoted with all that this entails, removing the trader still further from the real price action in the interbank pool.

HOW ARE PRICES DERIVED?

The interbank liquidity pool is dominated by the following major banks, who between them control around 80% of the forex market :

- Deutsche Bank - 20 % fx market share
- UBS - 12% fx market share
- Citigroup - 11% fx market share
- Barclay's Capital - 7% fx market share
- RBS - 7% fx market share
- Goldman Sachs - 5% fx market share
- HSBC - 5% fx market share
- Bank of America - 4% fx market share
- JP Morgan Chase - 4% fx market share
- Merrill Lynch - 4% fx market share

WHERE DO I FIT IN?

Sadly, as small retail forex traders we are at the bottom of the heap, and are generally considered by the rest of the market as 'fair game' both by the institutional banks and market makers, as well as by our own brokers!

The forex market is a voracious beast, which requires fresh money every day, and with such huge sums being made it is no surprise that it often attracts the worst kind of business practice and outright profiteering, which can leave the novice disillusioned and substantially less well off than when they started, and I hope from reading this guide, and my many other trading resources and membership sites, that you will avoid many of the traps, set for the unwary.

To succeed in the forex market you need to be consistent, and to be consistent you need to have a clear plan, remain focused and remove emotion from your trading decisions. Believe it or not, trading is more to do with psychology and the mind, and less to do with making money. If you can manage your emotions, and forget about the money then you stand a chance.

IT'S NOT ABOUT THE MONEY!

Becoming a successful trader is not about the money, it's about training your mind to think of trading as an intellectual challenge of understanding the markets - the money will follow. Forget about making money, and concentrate on the following - this is the starting point for all successful traders who ultimately do make a great deal of money.

- The psychology of failure
- How do we measure success

THE PSYCHOLOGY OF FAILURE

As individuals we are programmed from an early stage not to fail, and indeed failure is not an option for many of us. Teachers, parents, mentors, friends and family exhort us not to fail each and every day, and in our early childhood this is reinforced with exams, tests, and peer pressure whether in the academic environment of the classroom or on the sports field.

Failure is not an option, and indeed it is so ingrained into our early years, this constant striving for success, that for many of us the fear of failure is our driving force, to such an extent that we lie, cheat, and hide the truth to avoid admitting that we have failed, whether in a personal or business context. Now to put this into context, let me list some of the greatest failures the world has known:

- Henry Ford - went bankrupt twice
- Rodin - failed to get into art school
- Abraham Lincoln - lost seven elections
- Einstein's Ph.d was rejected
- Edison - 13 months of tests before the light bulb!

Great failures - I don't think so, but failures for them personally never the less. What marks them apart is their ability to move on, and to consider these failures as a stepping stone towards their ultimate goal, and as such as much a part of success as success itself. No doubt at the time, they felt deflated, and disappointed, but had the inner strength to move on, and not dwell on these minor setbacks. Indeed, as one of my friends once said to me - "well if they can't see your genius then that's their loss!"

THE PSYCHOLOGY OF FAILURE

This is the attitude you need to develop, this is not to say a cavalier approach to failure, but almost to welcome failure as moving you a step closer to a positive result. Indeed in marketing, when cold calling, each rejection is viewed as an increasing likelihood of the next call being successful. It is the numbers game, and provided you are able to manage your losses, and control your emotions, then this is how you need to view each and every trade.

Any losing trade is not a failure, it is simply a step towards a more positive result. Failure is giving up when you are down and not getting back up again - anything else is simply part of the process of succeeding and as such should be seen as small victories, as you have then learnt the art of accepting these for what they are, moving on, and keeping going fueled by your own self belief and determination.

HOW DO WE MEASURE SUCCESS?

Ask yourself this question - does a sportsman or sportswoman measure success in terms of the money made or the medals and cups won? The simple answer is no, and no doubt many would swap a significant part of their income for a gold medal or a world record, which would cement their place in history, even if only for a short period of time. Success in career terms, has more to do with the position held, and the pleasure in having worked so hard to achieve results and recognition, rather than the monetary rewards alone.

For a pilot a successful flight is one that lands safely, for a doctor a successful operation is one that involves a complete recovery for the patient, and a successful marketing campaign is one that gets the message across to potential clients - all very different measures of success.

Success in the context of trading the markets is measured in the pleasure of forecasting the market move correctly, not in the money. You may find this hard to believe, and may have to read this sentence again, but this is a fact, and it is how I trade. When I am analysing the market I am not particularly interested in the money, rather the mental challenge of trying to understand the future direction of the market.

When I am right I am delighted and I enjoy the feeling of success that this gives me. Indeed as I am writing, I have just placed a short trade on the euro dollar, following a strong bearish signal on the hourly chart. Several hours later the market sold off strongly, so I was correct in my analysis, and am delighted as I was sure that it would fall. Yes, I have made money, but the greater pleasure comes from a successful trade but perhaps not in the way you would expect.

HOW DO WE MEASURE SUCCESS?

I know that there are many, many rules, sayings, quotes, old wives tales, strategies, techniques, black box solutions, magic signals, and all sorts of 'secret' techniques to help you become a successful trader. However, in my view, the above advice is worth all of them put together. Forget about the money and measure success as being correct in your market analysis. Frankly, I could trade with no money at stake, and still get pleasure from providing my readers with an analysis that is right - so forget the money, it will come in due course.

FORECASTING SUCCESS

There are three elements required to become successful at forecasting market direction and these are as follows :

- Technical analysis of the various price/time charts
- Fundamental analysis of the worldwide and country specific economic data
- Market momentum

Of the three topics listed above, the first two can be taught and learnt with practice, but the third is based on intuition and instinct, and is almost impossible to teach. Put simply, it is your intuition that will tell you whether a particular market move will develop and gather momentum. You will come to recognize whether the market is likely to move higher or lower.

It is hard to describe this feeling, but feel it you will, once you begin to study charts on a daily basis and watch how market moves develop and evolve. The problem, of course, is that you can never be sure, as sometimes the moves are simply the large institutions moving the market for their own ends. However, combine a strong, reliable trading signal with your instinct and overall analysis and you will have a powerful weapon.

TECHNICAL ANALYSIS

There are hundreds, if not thousands of books, that have been written about various aspects of technical analysis, and I cannot possibly hope to cover the subject in a few short paragraphs here. However, what I can do, hopefully, is to guide you through the subject and to provide some pointers as to what I believe are the most important aspects of this key area, which I hope will help you in getting started a little quicker.

Put simply, technical analysis is based on the principle that in looking at a chart of price and time, then the chart contains all the views of all the market players condensed in one place, in the form of a chart. It is, if you like, much like a cake, where all the ingredients are mixed together to produce a cake where the sweet and sour blend together in the finished product.

On a chart, all the views of the bulls and bears are clearly visible and consolidated into a single price, which also includes all the fundamental and economic data within the price action. Now the corollary to this is, that if all market participants are looking at the same chart and the market makes a sudden move, is this the market or the fact that all the players have seen the same signal?

TECHNICAL ANALYSIS

Within the broad topic of technical analysis there are many many different types of chart styles and indicators, and the first place to start is with a simple book on Japanese candlesticks, which are now considered to be the de facto standard for presenting price action using solid 'candles'.

These provide meaningful and instant signals and once you begin to recognise various patterns they will give you clues as to the likely future direction for the market.

I have been studying and using candle charts for over fifteen years, and if you follow me in my trading webinars I always conduct some live chart reading as the signals appear in real time. As you will see once you start to study this aspect of technical analysis, there are a myriad of patterns and signals to be learnt which can be overwhelming, so where do I suggest you start? For my students this is where I begin:

- Understand the various elements of the candle and in particular the importance of the wicks and shadows at the top and bottom of each candle

TECHNICAL ANALYSIS

- Concentrate on learning five major candles and my suggestions are as follows and are the ones that I use all the time, in whatever timescale or market I am trading:
    - The hammer candle
    - The shooting star candle
    - The doji candle
    - The gravestone
    - The hanging man
- Learn three major candle patterns - again these are ones I use all the time
    - Bearish engulfing
    - Bullish engulfing
    - Dark cloud over

Once you have a basic understanding of these key patterns and candles, then the next thing to do is to study a chart in real time and watch for these to appear. Identify the candle within the market move and then watch the market to see how it reacts to the signal. Remember, markets do not always react immediately and you may have to wait a short time for the expected move to develop.

TECHNICAL ANALYSIS

From there, it is practice, practice and more practice, and as your confidence grows so will your chart reading skills. When I first started I spent the first 6 months of my trading career just studying candle charts - nothing else - until I could read a chart with confidence.

The next stage is to consider all the various Western or mathematical technical indicators, of which there are many, and whilst I am sure they all have their various advocates, I use very few of these, preferring to stick to simple candle pattern analysis, coupled with two or three of the most basic. This is not to say that these indicators have no place in your analysis, it is simply that you will need to test and study each one and make your own decision.

You may find that one in particular resonates with you and you then begin to learn how to use the indicator as part of your decision making process. Some of the most common in the forex markets which have a strong following are those based on Fibonnaci and Gann, and I use some elements of these to arrive at longer term forecasts and market predictions of where I believe a price may turn based on the underlying mathematical concepts.

As a start I would suggest you begin with the following concepts which are widely accepted by technical analysts around the world and which form the basis of my own trading analysis techniques :

- Simple moving averages
- Support and resistance
- Trend lines

SIMPLE MOVING AVERAGES

Simple moving averages are exactly that - they are averages based on the last number of periods specified by you for the chart under analysis, and as such provide a line on the chart which displays how this average has moved over the period.

So to give an example, suppose we want to display a 10 day moving average, then the software on our chart will take the closing price for the last ten days and divide by 10, to give us our 'moving' average which is then recalculated following the close of the market for the next day.

Now like all indicators, the information displayed is based on historic information, and is therefore considered to be a 'lagging' indicator, and many critics point out that this is therefore of little use to us as traders in forecasting the future price direction of the market.

However, just like every other technical indicator this is only a guide, and in addition is never used in isolation, an important point, since one indicator alone will ever give you a true signal. It is the combination of indicators coupled with your chart reading skills and knowledge of the fundamental news that will ultimately dictate whether you open a new trade or close an existing position.

The beauty of the simple moving average is that is provides a simple signal as to the bullish or bearish strength of the market, and as such I tend to use four in my own charting, namely the 9, 14, 40 and 200 period moving averages

SIMPLE MOVING AVERAGES

The point to note is that the shorter the timeframe you use (such as the 9 or 14) then these are highly sensitive as they are close to the market price action, and therefore are likely to provide more false signals that the longer term 40 day and 200 period indicators.

The general rule in using this family of indicators is that when the market crosses above or below, or when the indicators themselves cross one another, then these are giving a signal and therefore potential trading opportunities, as market sentiment may be changing from bearish to bullish or from bullish to bearish.

The longer term 200 period (as you would expect) provides a clue to the longer term for the market. Now detractors often argue that the market will have already moved on following 200 periods, and this information is therefore out of date.

However, it is also important to realize that the markets themselves are aware of these levels, along with the market players, and therefore they become key points on the chart, where markets often pause or reverse as a result.

The numbers that I use above are my own, and many other analysts and market commentators may use fewer or with different time periods - 20 and 50 are quite popular for example. The key point is to find those that work for you and stick with them - this is part of trading, as you must build your trading system to suit you.

SUPPORT & RESISTANCE

Understanding support and resistance is another key concept in any basic analysis of price action on a chart. The reason I use this concept so much in my own trading is that I have found it works well, and in addition, most other market players also trade using this concept, and as such has an element of the self fulfilling prophecy where we are all looking at the same chart. So let me explain this briefly for you.

From time to time markets move sideways, and as a result create areas of price congestion where the price simply moves up and down in a relatively narrow range. This is often referred to as price consolidation, and leaves the chart with a dense area of candles tightly packed in a narrow channel.

At some point in the future, the price action returns to this price level, either from above or below, and this area of congestion then can act either as a platform of support if the price move is from above, with a consequent bounce and reversal back higher, or if the price action is from below, then as a possible barrier to any further progress and consequent reversal lower.

At times, of course, the congestion area is breached, and this is when it becomes most interesting for two reasons. First, the market clearly has some momentum as it has breached this area of price congestion, and secondly, this price area now gives us some protection to any short term reversal, allowing us to place a trade with a degree of confidence and upside or downside protection.

SUPPORT & RESISTANCE

What happens in this case, assuming we are approaching from below, is that the market moves through the price area, and what was a barrier to further progress, has now become a potential level of support to a move higher. In effect, the ceiling has now become the floor!

This price area also provides us with some protection in case the market should reverse suddenly, having breached the area, as we know that any move back lower will take some effort, and therefore we can use this region as a natural protection for our trade, should we decide to enter the market with a buy order at this level.

This is a powerful technical technique and one that I use constantly in all my analysis of the markets. It is both simple to understand and easy to interpret and applies to all markets, timescales and instruments, and you will be surprised at how often markets pause as they approach these areas, particularly if the price congestion is both deep and wide. Should the price action breach such an area, then you can be relatively confident that the market will continue in its direction once clear.

TREND LINES

This is perhaps the simplest of all our technical tools, and provides a quick visual guide to the overall trend in a market. Whilst this is often self evident, a trend line can also help to identify points where the market may struggle, assuming the current trend continues. The key point to note with all trend lines, is that in order to construct them correctly it is imperative that you always use three points to connect a line, never two, as this can be misleading in drawing any relevant conclusions.

Trend lines can also be used to draw 'channels' of price action with one line drawn above and another below the price action. Here again, this is useful in providing clues as to likely price points where we could see a reversal, or high points in a downwards trend which could signal potential entry points for a further move lower, or equally in an upwards trend, an entry point on the lower trend line for a continuation higher.

There is, of course, a great deal more than this to the art of technical analysis, but I hope the above will help to get you started and to focus your attention on some of the simple indicators and candle patterns that I use myself every day in my own trading. So now let's look at the second key area in forecasting market moves, and that's the fundamental news and data which is released to the markets each day and which impacts the broad economy of each country, and currency rates as a result.

FUNDAMENTAL ANALYSIS

One of the great myths of forex trading (in fact there are many but this is one of the biggest ones) is that you can trade in the market using technical analysis alone - you cannot, and to become a successful trader, you not only need to have a broad knowledge of the fundamental economic picture underlying each country, but, in addition, you also need to consider market movements in other sectors of the market, such as commodities, equities, and treasuries, all of which play their part.

Currency rates do not move in isolation in some sort of vacuum, and as I tried to explain at the start, the market was originally created in order to allow major companies to buy and sell products and commodities, along with hedging future prices. In other words real money for real goods. As a consequence, the currency of one country may be closely associated with its exports, and this is certainly true in the case of some of the 'commodity currencies' such as the Australian dollar and the Canadian dollar (often referred to as the "comm dollars") since these countries are rich in natural minerals and, in the case of Canada, oil, so that changes in the weekly oil inventories released in the US will have a greater impact on the Canadian dollar, rather than the US dollar as a result.

It is these inter market correlations, and underlying relationships between currencies, country economics and how a country generates its wealth, that will help you begin to understand how and why currencies move when fundamental data is released to the markets. Moreover, it will also broaden your understanding of the role of the central banks in setting a country's broader fiscal and monetary policy for the longer term.

FUNDAMENTAL ANALYSIS

Now, like technical analysis, fundamental analysis is a huge subject all on its own, and could easily be considered a degree in economics. Indeed, when I am writing or discussing the markets, it is impossible not to consider the broader economics, and at the time of writing we have the world recession to consider, the slowdown in China, the European sovereign debt problems, and the longer term recovery in the US, to name just a few! In the last 12 months we have seen strong gains in equities, commodities breaking out into new highs led by gold and silver, and once traditional correlations between markets breaking down.

Given that this is such a big subject where should you start?

In my opinion I would suggest that you read a quality daily publication such as the Financial Times or the Wall Street Journal - but a word of caution - in reading these publications you are ONLY looking for analysis to help you understand what GDP means, or why interest rates are so important, an explanation of Non Farm Payroll, why treasury yields are important, and the correlations between the various markets.

FUNDAMENTAL ANALYSIS

Indeed both these publications release excellent videos on an almost daily basis, and are well worth the annual subscription fee alone, as they provide a deeper insight into these instruments. So my first suggestion is to sign up for a trial of one of these and start the education process as soon as possible. However, try to stick to one source of news as it is very easy to become overwhelmed by market noise and conflicting opinions.

Next, you need to find a good economic calendar, either on the internet or use the one provided by your broker. Try to find a calendar which also displays the trend for the news release in question and whether recent releases have been above or below market forecast. This is important as often data may have already been priced into the market resulting in only a minor change in the existing trend or sentiment.

Whilst there are a huge number of releases each month, some of which are weekly or monthly, I would suggest that you start with the following broad groups and specific releases. Understand what they are, what the numbers mean, and how they relate to the economy for the country, and in turn the likely impact for the currency. It is also important to understand that these broad groups fall in and out of favour with the markets in terms of importance.

FUNDAMENTAL ANALYSIS

Ten years ago, it was interest rates that were the number one indicator and driver and therefore eagerly awaited for the latest decision by the central bank, which then set the tone for monetary policy along with their longer term view of the economic outlook. In the last 2 years, interest rate decisions from the US, UK or Europe no longer move the markets to any great extent. The reason? With interest rates at record lows and with little chance of any immediate change, these releases are largely ignored. Meanwhile, interest rate decisions from healthy economies such as China, Australia, Canada or Brazil can and do have an effect.

Instead, news items which can and do move rates are those around unemployment as these provide a direct and relatively immediate view of the underlying health of an economy, with the monthly Non Farm Payroll figures for the US, generally taking centre stage. These are released on the first Friday of each new month at 8.30 ET and provide a detailed analysis of the jobs market, not only in terms of headline unemployment, but also in wages, salaries, part time and full time employment.

FUNDAMENTAL ANALYSIS

In terms of ranking of importance at the moment the most important economic releases likely to move the markets are as follows:

1. Unemployment data - jobs gained or lost to the economy

- Generally weekly and monthly releases of key figures
- Non farm payroll in the US is the biggest of these
- Weekly unemployment claims
- Monthly jobless claims
- Unemployment claims

2. Consumer data

- Retail sales figures (provide a snapshot of consumer confidence)

3. Inflation - is the economy in inflation, deflation, overheating etc (likely to dictate interest rates)

- RPI (retail price index)
- CPI (consumer price index)
- Core CPI
- PPI (producer price index)

4. Broad economy

- GDP - measure whether an economy is expanding or contracting
- Industrial production
- Industrial output
- Factory orders
- Inventories of products and raw consumables
- Durable goods
- Purchasing managers index
- Trade balance

5. Housing data

- House prices
- Existing home sales - up or down
- New homes built or sold
- Mortgage information - new applications

6. *Interest rates*

- Managed by the central banks and used as a blunt instrument to control inflation.

7. Sentiment indicators

- These are generally based on some kind of survey and cover both retail and business. The indicator provides a view from the survey sample of whether they are bullish or bearish. There are several of these every week - some carry more weight than others, such as the
- CCI - consumer confidence indicator is one of the most important in the US
- University of Michigan sentiment report (UoM)

There are of course many other indicators and releases on a daily basis, but the above will I hope get you started as you begin to study economics as a subject, and my suggestion is to take one at a time, read around the subject, and tie this in to your background reading from the FT or the Wall Street Journal, which will then help to build your knowledge in small pieces as you develop an overall picture of the global economy.

This will take time, and you cannot hope to understand all you read when you start, but gradually as you develop an interest in the subject it will make more sense, but be warned, the markets do not necessarily react in the way you might think when a new piece of news hits the wires. After all, if it were that easy, all we would need to do would be to read the fundamental news and trade accordingly.

FUNDAMENTAL ANALYSIS

At times, the market will rise on bad news, and fall on good news - this is because the release, whilst bad, was perhaps not as bad as expected, or if good, not as good as the markets hoped. Markets can and do have phases of pessimism and optimism where bad news is discounted and good news ignored! It is all part and parcel of trading, which makes this such a fascinating subject to study.

MARKET MOMENTUM

Now market momentum is the odd one out of the above three, as I believe that it is something that you simply have to learn from experience, and it that 'sixth sense' if you like that the market is moving in one direction and one direction only, and your instinct and intuition are telling you so. The best way that I have found to explain it, is to watch a very short term chart, such as the 1 minute or 5 minute, and to try to feel the mood of the market.

Now in this case, moves may only last for a few minutes or a few hours, but they are certainly there, and for scalpers who like to trade many times a day this is a crucial skill to master as you will often be trading against the longer term trend, but in the short term there is a clearly defined and positive move that has some momentum behind it, which is sufficient for you as an intraday trader to take a few pips on each move.

It is a skill that is worth developing, and even though you may never decide to trade on these short term moves, it will help you develop a better feel for the longer term markets, where this market momentum is less pronounced and less evident.

NOW IT'S UP TO YOU!

In the end, no one can ever hope to master the forex markets completely, but to be successful you need to set the dollar signs apart and begin to focus on the intellectual enjoyment of trading, a game rather like chess or backgammon, and if you can achieve this and forget about the money, then your chances of success are magnified exponentially. Sadly few can, which is why I advocate you approach forex trading as an intellectual exercise as you apply yourself to the learning process.

In order to become a successful trader you do need to immerse yourself in the subject in order to find your edge in the market. If you are already a successful forex trader and winning consistently, then make sure you know why, and what your edge is, as this is what will keep you going during the tough times, as winning streaks can and do turn into losing ones as trade after trade goes against you.

Finally I have deliberately excluded money and risk management from this guide as these topics require dedicated reports in their own right as this guide is only meant as an introduction to the world of forex trading.

As always, good luck and good trading - Anna

FX GLOSSARY

Appreciation:	Describes a currency strengthening in response to market demand.
Ask Price:	Lowest price acceptable to the buyer.
Back Office:	Settlement & related processes.
Bank Rate:	The rate at which a central bank lends money to its banks.
Base Currency:	Currency in which bank operates.
Base Rate:	Term used in UK to calculate retail interest rates.
Basis Point:	1% of 1%.
Bear:	Person who believes prices will fall.
Bear Market:	One characterized by falling prices.
Bid Price:	Highest price the seller is offering.
Bid Figure:	Refers to first 3 digits of an exchange rate.
BIS:	Bank of International Settlement.
Bretton Woods:	A system of fixed currency exchange rate. No longer used.
Broker:	Executes orders to buy & sell currencies.
Bull:	Person who believes prices will rise.
Bull Market:	One characterised by rising prices.
Cable:	A term used to describe British Pound/US Dollar rate.
Central Bank:	Bank responsible for a country's monetary policy.
Counterparty:	Customer or bank which an fx deal is executed.
Cross Rate:	A pair which does not include the US dollar.
Currency:	A type of money a country uses.

FX GLOSSARY

Currency Basket:	Various weightings of other currencies grouped together.
Deal Date:	Date of which a transaction is agreed upon.
Deal Ticket:	Primary method of recording a transaction.
Dealer:	Individual or firm acting as a principal.
Deficit:	Shortfall in balance of trade, balance of payments or govt budgets.
Delivery:	Settlement of contract by delivery of underlying currency.
Delivery Date:	Date of maturity of a contract.
EFT:	Electronic fund transfer.
EMS:	European Monetary System.
European Union:	Formerly known as European Community.
Exchange Risk:	Potential loss incurred from adverse rate move.
Exotic:	A less broadly traded currency.
Expiry Date:	Date of expiry of option or futures contract.
FED:	US Federal Reserve.
Fixed Xchge Rate:	Official rate set by monetary authorities.
Flat/Square:	A neutral position in the market.
FOMC:	Federal Open Market Committee.
Foreigh Exchange:	Purchase or sale of currency.
Forex:	An abbreviation of the above term.
Forward Contract:	Buying currency at an agreed price in the future.
Forward Points:	Interest rate differential between two currencies in points.
Forward Rate:	The exchange rate agreed for a future contract.

FX GLOSSARY

Front Office:	Activities carried out by the dealer.
Fundamental Analysis:	Analysis based on economic and political factors.
FX:	Foreign exchange.
GTC:	Good til cancelled-an order left to buy or sell at fixed price.
Indicative Quote:	Market makers price that is not firm.
Inflation:	Continued rise in prices & falling purchasing power.
Interbank Rates:	Rates quoted between large international banks.
Interest Rate Risk:	Potential loss from changes in interest rates.
Intervention:	Action by a central bank to manipulate value of its currency.
Kiwi:	Dealer slang for the New Zealand Dollar.
Leading Indicator:	Statistic considered to precede changes in economic growth.
Liability:	The liability to deliver on a futures contract.
Libor:	London interbank offer rate, based on quotes from 16 banks.
Limit Order:	An order to execute at a better rate than current level.
Loonie:	Dealer slang for Canadian Dollar.
Margin:	Initial deposit to enter into a position with broker.
Margin Call:	Demand for additional funds to cover positions.
Maturity:	Date for settlement of a transaction.

FX GLOSSARY

Offer:	The rate at which dealer is willing to sell base currency.
OCO:	One cancels other. One order automatically cancels previous.
Open Position:	Any deal that has not been settled.
Outright Forward:	Fx transaction involving puchase or sale at a future date.
OTC:	Over the counter. Market conducted directly. No exchange.
PIP:	Smallest incremental move on exchange rate.
Point:	100th part of 1%, normally 10000 of any spot rate.
Position:	Net total exposure in a given currency.
Range:	Difference between highest & lowest price.
Rate:	Price of one currency in terms of another.
Reserve Currency:	Currency held by central bank as a store of international liquidity.
Resistance:	Price level at which selling is expected to take place.
Revaluation:	Increase in exchange rate as a result of official action.
Rollover:	Settlement of a deal is carried forward to a future date.
Selling Rate:	Rate at which bank is willing to sell foreign currency.
Settlement:	Physical exchange of one currency for another.

FX GLOSSARY

Settlement Date:	Date at which above is carried out.
Short:	Position where trader has sold currency.
Slippage:	Difference between screen price & fill price.
Spot:	The most common forex transaction.
Spot Price Rate:	Price currently in the spot market.
Spread:	Difference between the bid and the ask.
Sterling:	The British Pound.
Stop Loss Order:	Automated order execution to exit a trade at a loss.
Support Levels:	Price levels at which buying is expected.
Swap:	Simultaneous purchase & sale of same amount of currency.
Swissy:	Market slang for Swiss Franc rate.
Technical Analysis:	The study of price that reflects the supply demand relationship.
Technical Correction:	An adjustment to price not based on market sentiment.
Tick:	Minimum change in price, up or down.
Trade Date:	The date on which a trade occurs.
Transaction Date:	The date on which a trade occurs.
Value Date:	Settlement date of a spot or forward contract.
Value Spot:	Normally settlement two days from date of contract.
Volatility:	A measure of fluctuation over a given period.
Whipsaw:	Dealer slang for highly volatile price action.
Yard:	Dealer slang for one billion dollars.

TRADING AXIOMS

WALL STREET SAYINGS with thanks to the New York Times, WSJ & Forbes :

"If you are going to panic, panic early." In other words when in doubt get out.

"Never meet a margin call." Never let a losing position run away from you. Cut your losses short.

"When you rob a whorehouse, take the piano player too because no one is entirely innocent." Money attracts sharks!!

"A bullish market is born amidst pessimism, grows up under scepticism, matures with optimism and dies with euphoria." Translation: most people are wrong most of the time.

My Own Advice:

"Never turn a short term losing trade into a long term strategic investment!!"

DISCLAIMER & COPYRIGHT

I hope you have enjoyed this short guide to forex trading, and that you found the information useful. If you would like to share this document with someone please direct them to http://www.annacoulling.com

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