LOUISE TRADING GUIDE

On this guide we'll be talking about what the forex and financial market is all about, also about risk management, trade management and money management with fundamental analysis. This would put you steps ahead and give you complete idea of how the financial market works and how to trade it. Pay attention to details and make sure you read through each page with an open mind so you can grasp the basic knowledge of how the financial market works.

What is Forex Market?

WHAT IS FOREX?

Here is the truth about Forex trading that you should know, learning and mastering the Forex market is very easy but also one of the most difficult things that you will have to do. About 90% of people trying to master the Forex market will quit because they did not start their journey with the right mind-set.

Congratulations for taking the first step by investing in your knowledge with making the decision to start with reading this Trading Guide. We ensure that this guide will be a valuable tool to you in becoming successful in the Forex market.

In simple terms, Forex is a global market that allows people to trade one currency against another currency. This is a market we all participate in one way or the other without being aware of it. Let’s assume you are planning to go to Spain on holiday and you want to change some of your British Pounds to Euros, you visit the nearest bureau de change or currency exchange booth at the airport to change some of your British Pounds to Euros, indirectly you have participated in the Forex market without knowing. You have sold your pounds and bought Euros, the only difference is that when trading forex, we do not deal with physical cash.

The foreign exchange market works like most other markets in that it is subject to demand and supply. Using a very basic example, if there is a strong demand for the USD (United States Dollars) from European countries with Euros, they will exchange their Euros into the USD. The value of the USD will rise while the value of the Euros will fall. Keep in mind that this transaction only affects the EUR/USD currency pair and will not for example, cause the USD to depreciate against the JAPANESE YEN.

Forex market is traded actively 5 days a week, 24 hours a day, opening 10pm on a Sunday night and closing at 10pm on a Friday night, well that depends on the part of the world you reside. A lot of people, businesses, investors, governments, banks and retail traders (such as yourself) exchange and speculate on the currencies that are available through an online broker, ultimately using probabilities (fundamental/technical analysis) to predict the currency's next move either up or down. One thing you have to understand at the early stage is that nothing is guaranteed in forex, you will never know 100% of the time where the market is heading but your job as a forex trader is for you to be able to analyse the market technically in order for you to have an idea of what the market is about to do. So, do not think there are some traders out there that knows exactly what market will do. The truth is, we are all speculators not certainties.

When trading Forex, all currencies are traded in pairs, for example Euros/British Pounds (EUR/GBP) or Australian Dollar/Japanese Yen (AUD/JPY) and anybody anywhere in the world is able to profit from the market if they are able to make correct judgement and direction of their constant price fluctuations. One of the reasons why we decided to trade Forex more and other instruments like the stock market, cryptocurrency is because the Forex market is the largest and most liquid market in the whole world with an average daily turnover of $4.98 Trillion dollars (toppling over the stock market, which is in the billions.) Due to the amount of money being traded daily in the Forex market, it can never be manipulated by other traders, except the big boys like banks and hedge funds.

The main Forex trading centres worldwide include: London, New York, Zurich, Frankfurt, Hong Kong, Singapore, Paris and Sydney. Once you have familiarise yourself with a currency pair and your research indicates a certain position that you feel you will profit from, you may then work that position all day and night if you wish. Allowing you to potentially accumulate greater profits in a shorter amount of time than you could achieve if you were to trade stocks.

WHY DO PEOPLE TRADE FOREX?

People turn to trade the Forex market for so many reasons and they are listed below:

Freedom to do whatever you like whenever you want. You can trade from anywhere in the world, all you need is your computer, mobile device and internet.

People trade forex to gain financial freedom.

Forex is the most liquid market in the world, traders can profit whether a specific currency is increasing or decreasing in value.

Forex does not require a high initial investment, traders can begin with as little as $50 depending on your broker, which makes Forex all the more popular.

High liquidity allows large amounts of leverage, some brokers allow leverage up to 1:1000

The goal of Forex trading is to buy a currency that is anticipated to gain value or sell a currency that is anticipated to lose value against another currency, and that is how you make money in the Forex market.

Whos is a Broker?

Selecting a broker could be very overwhelming for new traders especially when they do not know what exactly they should be looking for.

Regulatory Compliance – A very good broker should have high level of security and most importantly make their clients feel safe. A good broker should be well regulated with FINRA (Financial Industry Regulatory Authority). To protect investors and ensure the market's integrity, FINRA—the Financial Industry Regulatory Authority—is a government-authorized not-for-profit organization that oversees broker-dealers. They work every day to ensure that everyone can participate in the market with confidence.

What is Fundamental Analysis?

When it comes to analysing the market before coming to conclusion of what direction the market might head to, fundamental analysis is one of two main methodologies for evaluating and forecasting movements in currency exchange rates, as well as for commodities, indices or stocks.

The second method used by most traders is known as technical analysis which we are going to be talking about in depth in this course. Technical analysis focuses on market observables like the exchange rate or the price of an asset, the volume traded and open interest, in this situation we then have to analyse the market by putting alot of things into consideration like price movements, candlesticks formation, market structure and many more.

When we talking about fundamental analysis, the basic skill involved requires an analyst or trader to determine how a currency will react to macro-economic events, central bank monetary policy shifts, and political and social news from the currency's nation of origin when compared to the other currency in a currency pair. For example, during Brexit, there were lots of movement in the market and a lot of people gained and also some lost money due to price movements. In the case of a common regional currency, such as the Euro, the analysis of each member state in addition to the entire regional economy as a whole is required to make an accurate fundamental evaluation of the currency.

Basically, currency pairs tend to react sharply to the release of economic data and current geopolitical and local news events, especially when the results differ significantly from what was originally expected by a consensus of market participants. This makes performing a fundamental market analysis of economic releases and events and their effect on currencies valuable when determining the direction of the market and the level of future exchange rates.

Risk Management

In this module you are going to learn how money/risk management can affect your trading as a whole. Risk management in forex will either make you or break you so it is very important you take this seriously. I have always told my students that my greatest strength as a trader is my ability to manage my risk effectively.

Before we proceed, let me try to explain to you more about why risk management is very important. I am sure you must have heard about risk Management and how important it is, you will be surprised to know not a lot of people take this part of trading so seriously. Everybody is more interested in what they could probably make from the market but not what could probably go wrong or lose, they focus too much on the money but not the risk involved. One thing you should realise is that, trading forex is not about how much money you make but how much money you are able to save. When you start paying attention to that, I promise you that a lot will change in your trading. Before you place any trade, it is very important to know how much money or percentage you are willing to take, where you would love to place your SL and where you would love to secure partial profits or all profits. Make sure when placing a trade, you are risking what you are comfortable losing.

Trade management is just as important as risk management, For you to acheive trading success, you have to learn how to also manage your live trades. An example is, when you have a position running, you have to keep track of the trade because market is constantly changing. Let us assume you have a buy trade running in profits, it is adviceable for you to monitor the trade and also mark out potential level or zone where you could see price reverse from, at that level you might wanna secure partial profits.

Why does anyone need risk management?

This question can easily be overlooked when trading in the Forex market because a lot of people believe they can manage themselves well so they focus more on technical analysis and forget risk management. For you to be a successful trader, there has to be a balance. Let's look at the underlying effect of poor risk management by answering the popular opposite question.

Imagine you had a 100% success rate in Forex inevitably, just imagine for a moment.

Would you need risk management at all?

Answer: Of Course not.

Why?

Because there is no risk of losing your money and that is because you have been winning all your trades.

In fact, you could use the maximum lot size for every single trade you took and in no time grow your account way into the millions and millions of dollars.

BUT, back down to reality

Any trader who has had any experience with the market will very quickly pick up the fallibility of the above statement. If you lost just once at the maximum lot size guess what?

Your entire account is gone. That is:

1 bad trade x maximum lot size = 100% loss of account capital = blown account.

See why risk management is important, because if you know that you are inevitably going to lose at some point you will need to mitigate for this loss.

You also need to understand that trading is a game or probabilities, nothing is certain, It is possible to have a very good technical analysis and still go through losing streaks. The only thing that is going to save you is having risk management in place and this is why I always advice people to risk 1% of their trading capital on a trade or maximum of 2%

What are the benefits of risk management in Forex trading:

Managing your risk allows for longevity – The less money you lose on your wrong trades, the longer you can survive in the market.

Keeping emotions controlled – The less you risk per trade, the less emotionally affected you will be when a trade does not go your way.

How to implement risk management techniques in Forex trading?

There are multiple ways in which you can implement risk management techniques in Forex trading. We will look at the main ones, namely:

Risk to reward ratio
Stop loss
Not over leveraging
Not Overtrading

Money Management

Once you have measures in place to manage your risk, it is important to understand how you can make the maximum money possible from your good trades.

This is the challenge of all retail Forex traders. Losing is common but very few traders elevate their trading abilities beyond breaking even because they lack the necessary money management techniques to maximize the winning trades.

We will investigate the different ways in which you can add an edge to your trading system by looking at the various money management techniques, the pros and cons and how you can apply the one that suits you best – moving your trading to a new level.

The different money management techniques are listed below:

Fixed lot;
Fixed percentage; and

Fixed Ratio.

Fixed lot

This is the simplest way in which a trader can manage their money. This method is very intuitive and is best recommended for beginners who are still learning all the other topics of Forex trading.

How fixed lot money management works is that you as the trader, decide that you will risk a certain monetary amount every trade no matter what.

PROS:

Very Intuitive and easy to implement – therefore you know if you traded 10 times and you risk only $5 per trade, you could lose/make maximum of $50, so you can get a quick overview of you money management without any need to calculate anything.

CONS:

You miss out on greater returns when your account grows and you risk too much during a period of draw down – Let’s say you risk and make $20 per trade on a $1000 dollar account meaning a 1:1 risk reward ratio. This means that at $1000 you can gain or loose 2% per trade. You then through a green patch of winning 10 trades in a row giving you a profit of $200. Now your account is $1200 but you are only making $20 which is now only 1.6% of your total account. Hence you are not making as much as you could be making.

The same works for a losing streak. If you lose 10 trades in a row – you would lose $200 meaning that your account would end up being $800. If you use fixed lot and risk $20 then you would now be risking 2.5% of your account. Which is now more than the original risk when your account was at $1000.

Therefore fixed lot money management is a double edged sword. The fixed percentage money management technique is used to combat this pitfall.

Fixed Percentage Money management

This form of money management is the most common form of money management.

The premise of fixed percentage money management is that you risk a percentage of your money per trade instead of a fixed amount. The table below shows the difference in capital between fixed lot and fixed percentage

Pros

Because you risk a percentage, in theory you could never blow your account

Cons

The principle is that if you loose 50% of your trading capital, you would need to make 100% due to the lower percentage increase, therefore it is harder to grow your account with fixed percentage money management if you do not have a win ratio that can mitigate this negative, or if your trading strategy experiences periods of consecutive losses.

I hope this guide helps and gives you clarity of how the forex, stock, and crypto market works. If you need more information and help regarding trading, you can send me a message on any of my social media platforms or contact me through my contact details on my page. I wish you all the best as you embark on your trading journey.