INTRODUCTION TO
Forex Trading

NSFX
INNOVATION IN TRADING

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Trading foreign exchange on margin carries a high level of risk and may not be suitable for all investors. The high degree of leverage can have both positive and negative ramifications. Before deciding to trade foreign exchange you should carefully consider your investment objectives, level of experience, and risk tolerance.

When trading foreign exchange, there is a distinct possibility exists that you could sustain losses in excess of your initial investment. 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.

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So What is Forex?

FOREX is the industry or abbreviated way of referring to **FOR**eign **EX**change. Forex is often also referred to as **FX**.

In its most basic definition, foreign exchange is the exchange or conversion of one country's currency for another - for example, US Dollars (USD) for British Pounds (GBP). From a trading context, Forex refers to the foreign exchange market – a huge, liquid, decentralized global market where currencies are traded 24 hours a day, 5 days a week. Forex trading is transacted via financial institutions, including banks and forex brokers.

The depth of the Forex Market in April 2013 was estimated by the Bank for International Settlements in April 2013 in their 2013 Triennial Central Bank Survey of Foreign Exchange and OTC Derivatives Markets Activity to be… ***$5.3 trillion per day.***

The Forex Market is perhaps the most competitive in the world and is characterised by **volatility** and **leverage**, an irresistible combination that can result in enormous profits in a very short period of time.

… and Why Should You Care?

Whether you like it or not, an industry this size affects you. In fact, you may not have even realised it, but chances are that you were a participant, albeit a tiny one, in the Forex Market if you ever travelled overseas.

When travelling, you need the local currency for basic purchases and no doubt you exchanged your local currency for the foreign currency of the country you are visiting. For example, a German visiting the US would require US dollars. When you went to the bank or money changer to exchange the currency, you were a participant in the Forex Market. However, Forex transactions for travelling are a miniscule amount of the Forex Market.

The real volume in Forex is generated from Forex trading. Forex trading is performed by banks, hedge funds, insurance companies, giant multinationals and people just like you, who trade either to hedge currency risk, as a form of alternative investment or for profit.

So why should you care? Well how about we answer a question with a question – actually, two questions. **Have you ever bought or traded in equities? If yes, why?**

Do you know that in 2013, the 10 largest stockmarkets in the world combined traded approximately $46 trillion for the year. In other words, the Forex Market trades in about 9 days what the stockmarket trades in a year. Add to this the fact that stocks are traded in literally thousands of companies versus the 6 major currency pairs that comprise approximately 80% of Forex transactions. This means that liquidity can become very thin in the stockmarket – and usually at the worst possible times. Similarly, Forex trades 24/5 as against perhaps 6-12 hours a day for most stocks.

Other advantages in trading Forex in comparison to many other forms of investment include:

- **Leverage:** Trading Forex enables traders to do **a whole lot more with a whole lot less.**

This is due to the availability of leverage. Traders can use up to 200 times leverage to maximise potential gains.

- **Low Fees:** Due to the enormous volume of transactions, automation of the trading process and tight spreads, transaction costs for Forex trading form a minimal part of the trading experience.

- **Make Money Irrespective of the Market's Direction:** Forex trading enables traders to profit by 'selling high and buying low'. This involves selling 'short' or 'shorting' the currency that is deemed to be too highly priced, and buying it back when the price falls to crystallise a profit.

- **Too Big to Rig:** The size of the Forex Market means that it is too big to be dominated by any one player and is consequently a transparent place to trade, free from manipulation and available as an **even playing field for all participants.**

- **Open to Everyone:** Virtually anyone can trade Forex. Due to the leverage, the sums required to play are not too high; the transaction costs are low, trading can be performed from virtually anywhere at any time and all the tools required to trade are freely available.

- **An Alternative Investment:** Forex trading is considered an alternative investment, and depending on a trader's overall portfolio, has been academically proven to actually increase portfolio return whilst simultaneously decreasing portfolio risk.

- **Diversification:** Forex adds international diversification and exposure to a portfolio without the constraints of actually having to invest in that foreign country or grapple with issues such as language, foreign laws and foreign culture.

Why Didn't You Hear About Forex Trading Sooner?

Thousands of people in almost every developed country in the world trade Forex – some for a living, some to supplement their income. The Forex Market is no secret – how could you hide a secret this big? And we're sure now you've discovered it; you're probably asking yourself why you weren't aware of this massive market sooner.

Undoubtedly, as it has with almost everything, the Internet has helped enlighten and educate people the world over about the potential investment opportunity and profits available to successful Forex traders. It also is the medium for the platforms that enable every individual to access the Forex Market cheaply and from anywhere with Internet access using your PC, laptop or smart device.

The bottom line is that Forex trading is a legitimate, respectable and totally legal way of potentially making enormous profits from a limited outlay. It has been done before and will undoubtedly be done again.

Determining What to Trade and How to Trade It

Trading Forex markets is all about analysing prices and their future direction – and profiting from this analysis. Foreign exchange is the price of a country's currency vis-à-vis another currency. Is the currency undervalued or overvalued relative to that other currency? If it is undervalued, perhaps it is worth going long (buying) the currency and if it is overvalued, it may be worth shorting (selling) the currency.

However, how does a trader determine whether a currency, commodity or any other asset is overpriced, underpriced or fairly priced?

We have ascertained that an exchange rate is a price. Consequently, the price of a currency – its exchange rate; is determined by the demand for and supply of that currency.

There are two methods used by all traders to determine demand and supply as it pertains to Forex – **Fundamental Analysis and Technical Analysis.** Actually, many traders use a combination of both these techniques.

Fundamental analysis deals with all the factors – microeconomic, macroeconomic, political; and the vast number of variables within these determinants such as monetary and fiscal policy, central bank policy, trade policy, etc. that ultimately impact the value of a currency.

Sources of fundamental analysis are abundant and free. Television, the Internet, newspapers etc.; in fact, there is so much freely available fundamental information that it may be overwhelming as nobody can possibly assimilate all the data available.

Once you have ascertained the current value for an asset using fundamental analysis, you can compare the value to the current value of the asset and act accordingly in the market to profit from your analysis.

For example, if you believed that Janet Yellen, Chair of the Board of Governors of the Federal Reserve was going to unexpectedly announce a new round of Quantitative Easing, the result would probably mean a weakening of the US dollar against the Euro and other currencies as there would suddenly be a greater supply of US dollars on offer. You could short the US dollar against the Euro and profit from any fall in the price by buying it back at a lower price.

Technical analysis is the use of past price data, in the form of charts, to predict future price movements. It is the financial markets equivalent of 'history repeats.' Proponents of technical analysis believe that the patterns represented on charts of a financial asset have a history of repeating – and base their buy and sell decisions on what occurred when similar patterns appeared in the past.

Technical analysts may base their investment decision solely on charts, not caring about any fundamental analysis. Many traders trade according to technical analysis, so it may be useful to have at least a cursory knowledge of technical analysis so that the actions of some of the other market participants are evident.

NSFX provides comprehensive charting capabilities on all its platforms to satisfy every type of technical analyst, from the amateur to the professional.

How Can You Sell Something You Don't Own?

In the trading example mentioned above, we talked about 'shorting' the USD. But how can you sell something you don't already own?

If you believe that a currency will appreciate against another currency – for example, the USD against the EUR; you can purchase or go 'long' a USD/EUR contract. If you believe the USD will depreciate against the USD, then you can sell or go 'short a USD/EUR contract to profit from the fall in the USD.

'Shorting' involves selling a contract at a given price with the anticipation of buying it back at a lower price and profiting from the move. It is the opposite of going 'long', where you buy low looking to sell high just in the reverse order.

It is this ability to trade from both sides – long and short; that enables you to profit from Forex movements irrespective of the direction of the market.

What Do All Those Acronyms and Numbers Mean?

Trading Forex is a quick vocation – flashing lights on your screen, different colors, constantly changing numbers; the excitement is ever present. And since the Forex Market can move so quickly, everything is designed for speed.

Currencies are quoted as pairs and as 3 letter acronyms. For example, when trading the US dollar, what are you trading it against? If it's against the Euro, then you are looking to trade the EUR/USD pair. And if the quote on the screen may be **EUR/USD 1.1385.** This means that 1 Euro buys 1.1385 US dollars (or $1 and 13.85 cents). The first currency listed is known as the **Base Currency** and the second as the **Counter Currency.**

Each currency has its own abbreviated symbol and they are intuitive and easy to learn. For example, **AUD** stands for Australian Dollars, **JPY** is Japanese Yen. **CHF,** the Swiss Franc is not as intuitive. CHF stands for Centime (as in cent) Helvetia (the female national personification of Switzerland) Franc. However, you will quickly pick up the abbreviations, the jargon and the trading techniques.

About Time You Finally Got to the Trading Part

As mentioned previously, you can profit by trading Forex irrespective of whether a currency is going up or down by going long (first buying then selling) or going short (first selling then buying).

If you want to go long, you are basically following the old adage of **'buy low, sell high'.** If you want to go short, you are looking to **'sell high, buy low'.** Same, same, different!

In the example above, if you believe that according to your fundamental analysis, technical analysis or combination of the two **the EUR will strengthen against the dollar, then you will want to buy the EUR at 1.1385** hoping that it will rise to 1.14 and above. If you believe **the EUR will weaken against the USD, you can sell the EUR at 1.1385** hoping it will fall in the direction of 1.13. You will cover your buy position by selling the contract and cover your sell position by buying the contract back.

Simply:

- Decide which currencies you believe are going up or down
- Buy the currency that you believe will go up; or
- Sell the currency you believe will go down
- Select the optimal pair for making the trade

For what it's worth, approximately 80% of Forex transactions are executed in the **6 major currency pairs: EUR/USD, USD/JPY, GBP/USD, USD/CAD, USD/CHF, AUD/USD.**

Once you start trading Forex, it will become second nature.

Profit, Loss and Leverage

The greatest attraction of Forex trading – other than the excitement; is the ability to make profits quickly. This is due to the leverage afforded traders where in some instances you only need to deposit 0.5% of the amount of currency you control. This means you have 200 times leverage, and a $1,000 margin can give you control of $200,000 of currency exposing you to enormous potential gains.

However, leverage is a double-edged sword.

Leverage can work in your favour when you pick the correct direction of the trade but it can also work against you when your trade is unsuccessful.

An integral part of **NSFX's** proprietary technology is focused on risk-management for our clients. At N**SFX Ltd.** we've developed both the systems and procedures to automate monitoring of every transaction and risk-management process. **NSFX's negative balance protection** was implemented is done in order to guarantee that **client account balances always remain in credit, while open positions are protected from losses beyond the original investment.**

Calculating Profits and Losses

Forex profits and losses are calculated using pips. The pip is the last number of the Forex quote. In our earlier example of EUR/USD 1.1385, the 'pip' is the number '5'. So if you bought EUR/USD at 1.1385 and sold at 1.1423, you will have made 38 pips before costs (1.1423 – 1.1385).

Depending on the size of the contract you trade and the pair you trade, each pip has a different value. For example, in our EUR/USD example, a Micro Lot pip is worth $0.10, a Mini Lot pip is worth $1 and a Standard Lot pip is worth $10. So if you traded 3 standard lots and made 38 pips, your profit would've been $1,140 (3 X 38 X $10) before costs.

Even the best traders don't always make a profit.However, what is most important is how much profit you make when you are right and how little you lose when wrong. Your capital management, trade size, use of stop loss orders and discipline in following a trading plan that works for you are your secrets to Forex trading success.

So What Are You Waiting For?

If you want to be a successful Forex trader, there are numerous 'rules of the game' which you should learn and assimilate to your trading behaviour. There are also trading techniques that you will develop over time that you find suit your unique personality and risk profile and work for you.

Forex trading isn't easy. It's a lifetime challenge where you are constantly trying to put together a giant jigsaw puzzle where the picture is constantly changing and so are the pieces. Add to this the complexity of having to do this in real-time with incomplete information against some of the sharpest minds on the planet. The challenge is enormous but so are the potential rewards. Are you up for it?

To see if Forex trading is really for you, open a Demo Account now. The demo account features all the functionality of a real account but without the risk. It's a kind of 'try before you buy' – or perhaps 'your passport to short'. Once you feel comfortable trading Forex on the demo account, it is just a short and free step to opening a real Live Account where you will have access to all the features and functionality that can help empower you to change your life.