

Introduction to Forex Trading



The Leader in Rule-Based Trading™

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Introduction to Forex Trading with TradeStation.

Before we begin, let's review what is now being called the "Perfect" trading platform.

eToro Review

About Forex

The Forex market has quickly become the world's largest financial market, with an estimate daily turnover of \$3.2 trillion. It is a market that has great appeal to a financial trader because of its volume which guarantees liquidity. High liquidity means that a trader can trade whatever currencies he feels like at all times, since there will always be someone to buy and sell any currency he wants. Another outstanding feature of the forex market is that it is active 24 hours a day and is closed only on the weekends. This means that unlike the stock market for example, traders in the forex market don't need to wait for a bell to ring, but can make trading decisions around the clock.

Enter the internet into the equation. Now the forex market is literally at your fingertips. Most brokers offer online trading facilities which enable you to trade simply by clicking a button, instead of the traditional phone call. The internet has really revolutionized the industry, making the retail section of the market more dominant than ever.

About eToro

eToro is a forex trading platform developed to cater to the emerging retail segment of the forex market. With its simple style and exciting trade visualizations, eToro is the perfect platform for a novice trader to get his first forex trading experience. With its great array of professional forex trading and analysis tools, eToro is also the perfect platform for experts in the field who want to trade comfortably and reliably. eToro has developed a truly intuitive interface that lets traders concentrate on trading instead of messing around with bulky and overcomplicated software.

It's important to mention that eToro also offers an educational experience, so novices can gain knowledge of the forex market and eventually become pros if they're so inclined. eToro offers forex trading guides, forums and video tutorials to facilitate their traders' progress. eToro also offers an unlimited practice mode where both beginner and seasoned traders can sharpen their skills and test their strategies with real market rates.

Overall eToro have successfully designed a software that caters to a very wide segment of the forex trading public. eToro is bound to remain a leader in the forex industry for a long time to come.

eToro's features:

Visual representation of trades: Monitor your trades with ease by watching creative visualizations of your trading activity.

Practice mode: Test your skills and strategies by trading with live rates, without risking a cent.

Trading Challenges: Compete against fellow traders for cash prizes - with no entry fees.

Trade: Enjoy immediate and accurate execution with all your trades.

Low Spreads: Save a fortune on eToro's super low spreads - as low as 2 pips.

And soon to come:

Trade: Enjoy real time execution with all your trades.

eToro's Pro Insight: Get a look at what currency pairs eToro's top 100 traders are trading at the moment, and use the inside info to your advantage!

[Download](#) eToro for **FREE** and join a fast growing forex community.

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Market Overview

Forex or FX, is an abbreviation for Foreign Exchange. It is a way of trading exchange rates between two different currencies. Basically, you buy one currency and sell the other for the purpose of investment speculation. The goal is to make a profit when the value or exchange rates of the currencies traded move in your favor.

Forex has more daily volume than any other market in the world. Taking place in the major financial institutions across the globe, the Forex market is open 24 hours a day.

Over 90% of all currencies are traded against the US Dollar (USD). The next most-traded currencies are the Euro (EUR), Japanese Yen (JPY), Pound Sterling (GBP) and Swiss Franc (CHF).

The Players

There are four primary groups that trade the Forex market:

First, the Novice or Retail Traders – these are part-time, non-professional traders who are speculating on market direction – not hedging, that is, not using these markets as part of other international business dealings.

Second, the Dealers – these are the market makers, setting prices and putting together trades.

The third group, the Institutional Traders, work in banks or government agencies. They trade huge amounts of money and the size of their trades moves the markets. These traders are often trading to settle accounts for import/export and other actual international business dealings.

Last, are the Advanced Traders. This group comprises professional full-time traders, people from all across the world, sitting in smaller investment firms, offices, or even their homes. Again, these traders are generally speculating on market direction – not hedging.

Interbank

The term INTERBANK discussed in FX terminology simply means ‘between banks and large institutions’ where information is exchanged about the current rate at which their clients or they could buy or sell a currency. However, the term ‘Interbank’ today also means anybody who is prepared to buy or sell a currency. Interbank also implies that Forex is not traded on an exchange like equities and futures.

The quoted prices for a Forex are based on information from the top banks and large institutions.

Benefits of Trading Forex

ZERO Commissions

When trading Forex with TradeStation, you pay NO commissions and NO data exchange fees. The cost of trading Forex is determined by the amount derived by the dealers and other third parties from the Bid-Ask spread.

24 Hour Market Action

The Forex currency market is a seamless 24-hour market.

Leverage

Forex trading often allows borrowing leverage up to 100 times your account value. Remember that while leverage can help build profits quickly, it can also produce large, catastrophic losses.

High Liquidity

The Forex market, with an average trading volume of over \$1.3 trillion per day, is the most liquid market in the world. This means that a trader can usually enter or exit the market at will in almost any market condition usually without regard to trade size limitations.

Placing a Trade

Placing a trade in the Forex market is simple. The mechanics of a trade are virtually identical to those found in the markets you are trading now.

A Forex trade is a trade in which one currency is valued against another.

Symbols to Trade

<u>Forex Symbol</u>	<u>Currency Pairs</u>	<u>Terminology</u>
EURUSD	Euro / U.S. Dollar	Euro
USDJPY	U.S. Dollar / Japanese Yen	Dollar-Yen
GBPUSD	British Pound / U.S. Dollar	Sterling
USDCHF	U.S. Dollar / Swiss Franc	Dollar-Swiss
USDCAD	U.S. Dollar / Canadian Dollar	Dollar-Canada
AUDUSD	Australian Dollar / U.S. Dollar	Aussie
EURGBP	Euro / British Pound	Euro-Sterling
EURJPY	Euro / Japanese Yen	Euro-Yen
EURCHF	Euro / Swiss Franc	Euro-Swiss
GBPJPY	British Pound / Japanese Yen	Sterling-Yen

The symbol for each Forex contract is based on the two currencies:

EURUSD = Euro Dollar vs. US Dollar.

Also, each Forex contract is a price for the first currency in the symbol name, quoted in the second currency in the symbol name. In the case of the Euro vs. US Dollar, where the exchange rate is approximately \$1.30, it would take USD 1.30 to purchase 1.00 Euro.

Each Forex contract covers a fixed number of units of the first symbol in the symbol name, usually 100,000.

Forex exchange rate prices move in fixed minimum price movements called pips. A pip is the minimum price move an exchange rate can make.

Closing out a Position

An open position is one that is live and ongoing. As long as the position is open, its value will fluctuate in accordance with the exchange rate in the market. Any profits and losses will exist on paper only and will be reflected in your margin account.

To close out your position, you conduct an equal and opposite trade in the same currency pair. For example, if you have bought ("gone long") one lot of EURUSD (at the prevailing offer price) you can close out that position by subsequently selling one EURUSD lot (at the prevailing bid price).

Understanding Bid & Ask

A Bid is what someone is willing to pay for an asset. The Ask, or offer, is what someone is willing to accept to sell an asset. As a Forex trader, you can Buy at the Ask and Sell at the Bid.



	Symbol	Net Chg	Net %C...	Bid	Ask	High	Low
1	EURUSD	-0.0070	-0.53%	1.3085	1.3088	1.3224	1.3053

TradeStation Forex Quote from RadarScreen.

Understanding the Forex exchange quote system is essential to Forex trading. You need to remember that the first currency listed in the symbol is the base currency, and the quote is the base currency in terms of the second currency in the symbol.

Major currency pairs are EUR/USD, GBP/USD, USD/JPY, and USD/CHF.

For example:

- 1.) A price quote of EURUSD at 1.3085 means that one Euro is equal to 1.3085 U.S. Dollars. When that number increases, it means the Euro is appreciating while the U.S. Dollar is depreciating and vice versa.
- 2.) USDJPY is trading at 124.00. It means 1 U.S. Dollar is equal to 124 Japanese Yen. An increase in the number means that the U.S. Dollar is appreciating while the Japanese Yen is depreciating, and vice versa.

Again, if a currency quote goes higher, that increases the value of the base currency. A lower quote means the base currency is weakening.

Cross currency pairs are currency pairs that do not involve the U.S. dollar.

For example:

- 3.) With EURJPY at a price of 126.34, it means that 1 Euro is equal to 126.34 Japanese Yen.

The Costs of Trading

There is no commission when you trade the Forex markets with TradeStation. However, there are transactional costs incurred each time you make a trade.

You will notice that there are two exchange rates for each currency pair: the Bid, which is the rate at which you can Sell; and the Ask, which is the rate at which you can Buy. The difference is known as the spread, and determines the transactional cost of the trade. Each currency pair has its own fixed Bid-Ask spread.

<u>Forex Symbol</u>	<u>Currency Pairs</u>	<u>Typical Spread</u>
EURUSD	Euro / U.S. Dollar	3 Pips
USDJPY	U.S. Dollar / Japanese Yen	3 Pips
GBPUSD	British Pound / U.S. Dollar	4 Pips
USDCHF	U.S. Dollar / Swiss Franc	5 Pips
USDCAD	U.S. Dollar / Canadian Dollar	5 Pips
AUDUSD	Australian Dollar / U.S. Dollar	5 Pips
EURGBP	Euro / British Pound	5 Pips
EURJPY	Euro / Japanese Yen	5 Pips
EURCHF	Euro / Swiss Franc	5 Pips
GBPJPY	British Pound / Japanese Yen	10 Pips



Forex Order Entry Interface, clicking on the price button places the trade.

Cost Example: EURUSD

Based on a 100,000 unit contract trade of EURUSD, the total transactional cost of 3 pips would be \$30.00.

$$\text{Spread} = \text{Ask} - \text{Bid} (1.2960 - 1.2957 = .0003)$$

$$\text{Cost} = .0003 * 100,000 = \$30.00$$

A pip is the minimum movement for a currency pair.

Initial Margin

The margin for each dollar-based currency pair, where USD is the first part of the symbol, is generally \$1000.00 (100,000 units/100 margin rate). The margin required for each non-dollar based currency pair will be converted to U.S. Dollars, in real-time, at the prevailing market price for that pair. Margin rates are subject to change.

Example: EURUSD

Initial Margin = $(1.2960 * 100,000) / 100 = \$1,296.00$

Leverage

Leverage is the mechanism by which a trader can control a market position much larger than the initial investment. TradeStation enables you to take positions up to 100 times the value of the initial investment. However, some recommend that your open positions not exceed more than 10 times your total account value at any one time. Solely you are responsible for the risks you take and the consequences of those risks, positive or negative.

Even when market conditions are relatively calm, leverage can create both large gains and large losses very quickly. In the case where a trader surpasses the maximum leverage allowed (which can happen when account equity falls as a result of trading losses), TradeStation will close all open positions in the account. Also, TradeStation may, at any time, close open positions or implement other risk-management actions, solely at its discretion, with or without notice to you.

Rollover

For positions held open after 3 pm ET there is a daily rollover interest payment that is charged to your account if you are long the currency. If you are short the currency your account is credited the interest payment. If you do not want to earn or pay interest on your positions, make sure your positions are closed prior to 3 pm ET. Interest rate charges are set on a daily basis, and are currently approximately \$5.00 per \$100,000 contract.

Forex Math

Calculating Profit & Loss

Although the trading platform automatically does the profit and loss calculation for you in real time, it is important to understand how these equations are derived.

Profit & Loss Examples:

Based on one 100,000 unit contract trade, buying EURUSD with an initial exchange rate of \$1.3088, the initial margin is \$1,308.00.

<u>Initial Exchange Rate</u>	<u>Closing Exchange Rate</u>	<u>Profit / Loss</u>
\$1.3088	\$1.3245	\$ 1,570.00
\$1.3088	\$1.2997	-\$ 910.00
\$1.3088	\$1.3085	-\$ 30.00

Equations for calculating the major currency pairs:

The equation for EUR/USD, GBP/USD, and AUD/USD (direct US currency pairs) is:

$$P/L = (\text{Closing Price} - \text{Opening Rate}) \times (\text{Lot Size}) \times (\text{Number of Lots})$$

The equation for USD/JPY, USD/CHF and USD/CAD (indirect US currency pairs) is:

$$P/L = ((\text{Closing Price} - \text{Opening Rate}) / \text{Closing Price}) \times (\text{Lot Size}) \times (\text{Number of Lots})$$

Note: In a 100,000 units/contract size account, 1 pip results in a \$10 profit/loss in EUR/USD, GBP/USD, AUD/USD, and approximately \$9 for USD/JPY, and \$8 for USD/CHF, based on recent prices.