Forex Trading

Index

Forex Advantages

The Foreign exchange market (also known as Forex, currency market or FX market) is, by far, the largest financial market in the world. It includes trading between large banks, central banks, currency speculators, multinational corporations, governments, and other financial markets and institutions.

The average daily trade in the global Forex and related markets is currently over US$ 3 trillion.

Lots of traders are starting to trade Forex due to the Forex market advantages. Here are **the most important Forex market advantages:**

1 – 24 hours a day market:

The Forex market is open 24 hours a day (except on weekends). So, no matter where you are based, you can trade Forex at your favorite time.

2 – High liquidity:

Forex market is the biggest financial market in the world averaging over 3 trillion USD daily.

3 – Leverage:

The leverage on Forex can be as high as 200:1 which means that you can trade up to $100K with just $500.

4 – Easy short selling:

On Forex it's as easy to buy a currency pair as to short sell it. There's no uptick rule like on Nasdaq.

5 – Free commission fees:

Commission fees are 0 on Forex. The only cost in buying a currency pair is the spread.

6 – Free trading platforms:

On Forex most brokers offer good trading platforms for free.

7 – Free Demo accounts:

Most Forex brokers offer free demo accounts which allow you to start practicing with virtual money. This way you can learn Forex without risking your money.

5 Myths about Forex Trading

1 – <u>If I know how to trade stocks, I know how to make money on Forex</u>:

If you have experience trading stocks and think you can simply apply your knowledge on Forex and make money, you're going to be disappointed. The Forex market is much more complex. Firstly, the Forex market is open 24 hours a day. This may not seem a big deal but it's a significant difference in relation to the stock market. As the Forex market is open 24 hours a day, this brings more complexity to a trader. If in the stock market you have periods of higher and lower volatility, in the Forex these differences are even higher.

Many stock traders think the Forex market is easy because it is open 24 hours a day. They think they can trade whenever they want and make their quick bucks. Truth is you can make money in Forex. But for that, you need to have a deep knowledge about this market.

The indicators that work in stocks don't always work in Forex. The Forex market is more complex and, this way, the indicators that you use on stocks don't work so well here.

Brokers are another huge difference between stocks and Forex. In the Forex market, due to the lack of regulation, a lot of Forex brokers don't act in their clients' best interest. It's a lot more difficult to find a good Forex broker than a stock broker.

2 – <u>Since the market is open 24 hours a day, you can make money anytime you want:</u>

Once again, this is not true. In order to make money, a trader needs volatility. Although this market is open 24 hours a day, in the majority of the time there isn't enough volatility to make good trades. This is a big challenge because volatility can appear at any time of the day and the trader can't be watching the market all the time. He has to adjust his strategy in order to trade only in high volatility periods.

3 – **Commission trades are free on Forex market:**

You don't pay a commission fee when you place an order. Although, you pay the spread, which is the difference between the bid and the ask.
This way, the more you trade, the harder it will be to make money in Forex because you'll have higher fees. In the Forex market, as in any other market, a trader must avoid the overtrading at all costs.

4 – **You need to predict what will happen in order to make money in forex:**

In order to make money in Forex, you need to react to what is happening. This is not the same thing as predict. A good trader simply reacts to whatever the market is telling him. He analyses charts, reads the news and all information he has at his disposal in order to react as fast as possible to market movements. A good trader is always looking to evolve and learn.

5 – **The more complicated my strategy, the best:**

This is another myth that has nothing to do with reality on Forex trading. The truth is that usually the simple strategies or systems outperform the complicated ones. So, there's no need to use plenty of different indicators at the same time. Study the market, find your favorite system or strategy, and stick with it.

How Can I Start Making Money on Forex?

Educate Yourself:

If you're just starting on Forex, you need to read everything you can about it. Start by reading free ebooks like this one and check some top Forex courses on the market. Think about your education as an investment on yourself, not as an expense. Some people argue that you can learn everything about Forex for free. Well, it's possible, but I seriously doubt anyone can become a good trader without investing in his education.

This is true for everything in life, so how could it be different on Forex? Can you imagine a doctor performing a surgery if he has not invested in his education?

The same happens in Forex. Forex is a business and as a business it needs time and investment on your part. If you don't treat it as a business you won't be able to earn money on it.

There's no holy grail out there that can make you money effortlessly but there are some courses and systems that can give you all the knowledge you need to succeed. Some good products that can give you good knowledge on Forex are Super Forex System, Forex Killer, Forex Hidden Systems, Supra Forex and 10 Minute Forex Wealth Builder. You can check the resources section at the end of this ebook to find more good options for you.

The only good education that comes for free is the experience. This is a value resource and since all Forex brokers offer you a demo account for free, you can gain experience without risking any money.

Plan How You Will Trade:

You need to decide how you would like to trade. Would you like to day trade? Would you like to swing trade? It all depends on your personality and on the time you have to trade. There's no such thing as the best trading style. The best trading style is simply the one that best suits your personality. If your personality is more suitable for day trading, you probably won't be a bright swing trader. If you prefer less stress and/or you don't have the time to stay in front of your screen all day, you will probably be better swing trading.

Develop Your Strategy:

This is the most important step to master the Forex market. You can use your technical analysis skills to define a trading strategy from scratch. Define it and test it deeply before you commit real money to it.

You can also visit some websites in order to learn their own strategies and techniques. Some good trading courses on the market are Super Forex System, 10 Minute Forex Wealth Builder, and Forex Hidden Systems. If you prefer to get a software you can look at Supra Forex, Forex Multiplier, Turbo Forex Trader or Forex Killer.

If you prefer to use an automatic trading system, you can start with Fap Turbo, Forex Autopilot or Forex Auto Run.

These are great products which can help you start trading Forex successfully.

Test Your Skills With Virtual Money:

Before you commit your hard earned money on a strategy or system, you should test it on a demo account. With this test, you will be able to know how good your strategy is and you won't risk a dime. Visit a Forex broker and open a demo account. It's 100% free and it will allow you to grow as a trader.

Keep a Trading Diary:

Keeping a detailed trading diary is what makes you grow as a trader. This is what allows you to learn from your experience. Good traders usually have great trading diaries while bad traders simply don't care about them.

On your trading diary, you should annotate all your trades as well as describe all the reasons that made you take the trade. You should also annotate your pace of mind when you entered the trade and during the trade. Was there any economic release while you were holding a trade? If so, annotate it on your trading diary. The technical indicator that you were using gave you an exit signal, and you ignored it? Well, don't be ashamed. Write it on your trading diary, and learn from your mistakes.

All traders make mistakes. The difference between winners and losers is that winners tend to learn from those mistakes. Losers prefer to forget about them…

If you want to be a winner, you'll need to build a great trading diary and make it as much detailed as you can. You can even take some chart snapshots at the moment you entered and exited the trade and post them on your trading diary so that, in the future, you can see the reasons why you made your decision about a trade. In the future you can read your trading diary and learn about some mistakes that you made. This will allow you to correct these mistakes on your future trades.

Improve Risk Management and Discipline:

Risk Management is extremely important for a trader. If you want to achieve success, you need to adopt a disciplined mind about trading and improve your risk management rules as much as you can. You shouldn't risk more than 2% of your account on a trade. This way you'll be more relaxed because you know that if you lose money on a trade that's not the end of the world. Besides this, if you have a good system or strategy, you need to have the discipline to stick to your rules.

Be Patient and Realistic:

You need to be patient and have realistic expectations about the Forex market.

The truth is that Forex is a difficult market, and unless you work hard on it, you won't achieve consistent results. You need to treat Forex trading as a business and you need to be patient. In order to become a professional trader, you'll need some time.

Don't set unrealistic goals. If you do so, you'll be frustrated when you realize that you weren't able to achieve them.

When you define your goals in Forex trading, define ambitious goals but, at the same time, goals that you can accomplish. If you're just starting in the Forex market, define as a goal achieving a profit at the end of the month. It doesn't matter if it's a big profit or not, but if you can start with a profit, you're on the right track.
If you're just starting and define goals like "I'll make $20K by the end of the month", you're just dreaming. This is the kind of unrealistic expectations that destroy most beginners in Forex. Since they define unrealistic goals, they start taking huge risks in order to believe that they will achieve their goal. The worst part is when the huge risks destroy their account, and they find out that Forex trading is not a get rich quick opportunity.

Patience and realistic goals are really important for a Forex trader. If you define good goals and you have the patience to work and improve your strategy, you're on the right track.

Automated Forex Trading:

If you use a 100% mechanical system you can literally put your computer doing all the work for you. An automated Forex system searches for trades, and places trades on your broker. So, if you feel comfortable with this kind of system, you just need to leave your computer turned on 24 hours a day, and he'll be trading for you.

If you intend to use a 100% mechanical trading system to trade for you, you can develop one in a platform like MT4 (http://www.metaquotes.net/). MT4 is a great platform and allows you to build virtually any kind of trading system.

If you're not a programmer, you can look for automated Forex systems. These systems can be back-tested, and trade for you. Usually, you can define the maximum amount you're comfortable to risk, and the system trades accordingly with your instructions. When you have everything in place, you just need to leave your computer on, and it'll do all the work.

Some of the most reputable mechanical systems on the market are Fap Turbo, Forex Autopilot, and Forex Auto Run. These are the only profitable automatic systems I came across so far.

Best Hours to Trade Forex

Since the Forex market is open 24 hours a day, a trader can't track every single movement on the market. It's crucial for a trader to know when he can expect high volatility, so that he can implement his strategy on the most effective way. If you're trading using daily charts, the best period to analyze Forex is around 5pm EST because that's the rollover period.

If you're trading on shorter time frames, you must know when you can expect more volatility.

The most important Sessions on Forex are:

The Asian Session (7pm – 4am EST) – During this period, you can successfully day trade especially if you trade the yen. USD/JPY is a good choice if you plan to trade on this session. This period is not as volatile as the US session or the European session, but it's possible to trade it and achieve a good performance;

The European Session (2am – 12pm EST) – This is one of the best periods to trade Forex. Since most of the dealing desks of large banks are located in London, the majority of major Forex transactions are completed during this session. During this period you can implement a successfully strategy on any currency pair.

The U.S. Session (8am – 5pm EST) – This is another great period to implement your forex strategies. Volatility is good, and you can expect good volatility on any currency pair.

The European and U.S sessions are the most important ones on Forex, so you can trade between 2am and 5 pm EST and get good intraday swings almost every single day.

Between **8am and 12pm EST** we have the U.S. session and the European session at the same time. This is the best time of the day to trade Forex. Volatility is good in all currency pairs. Some of the most important economic releases appear during this period, and this brings good opportunities for Forex traders almost every single day.

Economic Calendar

A good economic calendar is essential to keep you informed about the market. It allows you to know what economic indicators will be released and which expectations for those indicators are.

Since some economic indicators usually bring volatility to Forex, it's important to stay on top of these indicators, and know what you can expect.

There are 2 outstanding indicators on the market, and both of them are 100% free.

1. http://www.briefing.com/Investor/Public/Calendars/EconomicCalendar.htm

This calendar is extremely complete. When you visit this website you'll see a calendar like this one:

Updated: 15-Feb-08 16:40 ET

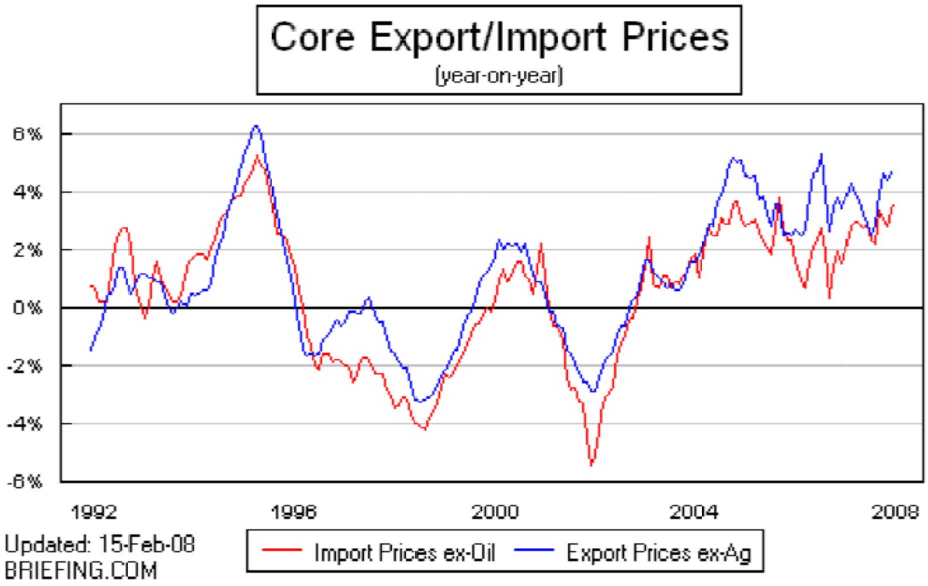
This Week's Calendar *Click on a "Release" for Insight*

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior	Revised From
Feb 15	08:30	Export Prices ex-ag.	Jan	0.8%	NA	NA	0.3%	
Feb 15	08:30	Import Prices ex-oil	Jan	0.6%	NA	NA	0.3%	
Feb 15	08:30	NY Empire State Index	Feb	-11.7	5.0	7.0	9.0	
Feb 15	09:00	Net Foreign Purchases	Dec	$56.5B	NA	NA	$90.9B	
Feb 15	09:15	Industrial Production	Jan	0.1%	0.2%	0.1%	0.1%	0.0%
Feb 15	09:15	Capacity Utilization	Jan	81.5%	81.5%	81.4%	81.5%	81.4%
Feb 15	10:00	Mich Sentiment-Prel.	Feb	69.6	78.0	76.5	78.4	

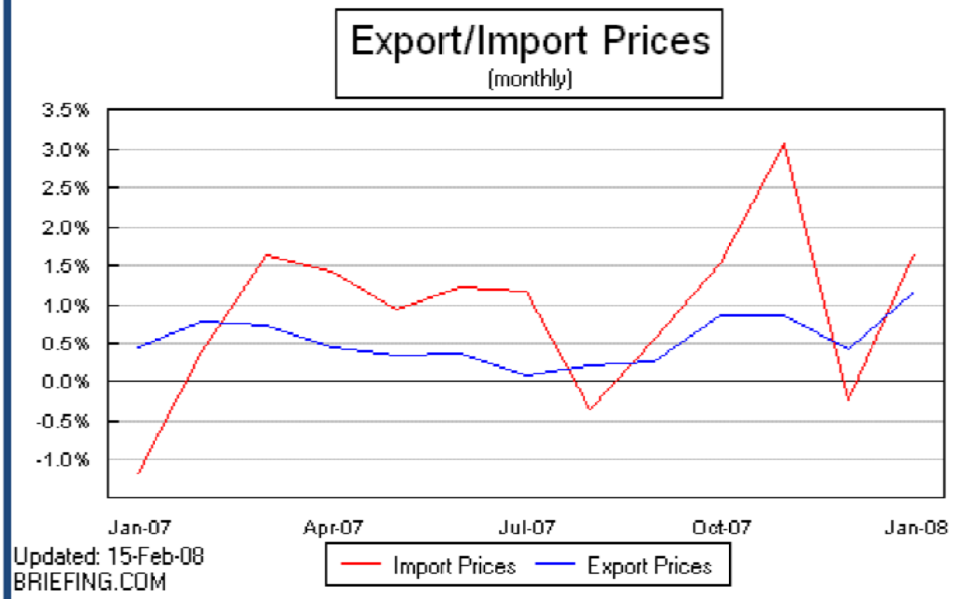
Week of February 18 - February 22

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior	Revised From
Feb 20	08:30	CPI	Jan		0.3%	0.3%	0.4%	
Feb 20	08:30	Core CPI	Jan		0.2%	0.2%	0.2%	
Feb 20	08:30	Housing Starts	Jan		1020K	1000K	1006K	
Feb 20	08:30	Building Permits	Jan		1005K	1035K	1068K	
Feb 20	10:30	Crude Inventories	02/16		NA	NA	1066K	
Feb 20	14:00	FOMC Minutes	Jan 30					
Feb 21	08:30	Initial Claims	02/16		355K	NA	348K	
Feb 21	10:00	Leading Indicators	Jan		-0.1%	-0.1%	-0.2%	
Feb 21	10:00	Philadelphia Fed	Feb		-10.0	-10.0	-20.9	

One of the advantages of this calendar is that you can see the indicators that will be released many weeks from now. Other advantage is that when you click on the economic release name, a new window opens with lots of details about that economic indicator. For example, if you click on "export prices", you'll see a chart that shows you the past indicator releases, the highlights, the key factors and much more:



Core Export/Import Prices
(year-on-year)
6%
4%
2%
0%
-2%
-4%
-6%
1992
1996
2000
2004
2008
Updated: 15-Feb-08
BRIEFING.COM
Import Prices ex-Oil
Export Prices ex-Ag



Export/Import Prices
(monthly)
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
-0.5%
-1.0%
Jan-07
Apr-07
Jul-07
Oct-07
Jan-08
Updated: 15-Feb-08
BRIEFING.COM
Import Prices
Export Prices

Highlights

- January import prices 1.7% (13.7% yoy), ex petroleum 0.6% (3.6% yoy).
- January export prices 1.2% (6.7% yoy), ex agriculture 0.8% (4.8% yoy).

Key Factors

- Petroleum import prices rose 5.5% and stand 67% higher than a year ago.
- Core import prices are running at a quarter of the overall pace.
- Agricultural export prices rose 5% and stand 29% higher from a year ago.
- Demand for bio fuels adds to the demand for food in developing countries.

Big Picture

- Core import and export prices are moderate compared to the strong pressures in food and energy prices. The strong 29% yoy rise in agricultural export prices reflect the increased demand for grains that are now being increasingly used as alternative fuels as well as larger underlying global demand. Petroleum import prices have shot 67% higher from a year ago.

Category	Jan	Dec	Nov	Oct	Sep
Imports	1.7%	-0.2	3.1	1.5	0.6
Imports, ex-petrol	0.6	0.3	0.6	0.6	-0.1
Imports, Petrol	5.5	-1.9	12.4	5.0	3.1
Exports	1.2%	0.4	0.9	0.8	0.3
Exports, ex-agricultural	0.8	0.3	0.8	0.5	0.0

The most important information is the “release Details” which tells you the importance of this indicator (rated from A-F). An “A” is an extremely important indicator that brings big volatility to Forex most of the times. An “F” is not usually an important indicator so it won’t bring much volatility to the market.

The “export prices” has the following “Release details”:

Release Details

Export/Import Prices

- **Importance (A-F):** This release merits an D.
- **Source:** Bureau of Labor Statistics, U.S. Department of Labor.
- **Release Time:** Typically in the second week of the month at 8:30 ET for the prior month
- **Raw Data Available At:** http://www.bls.gov/news.release/ximpim.nr0.htm.

Though not a market-moving release, export/import prices are a useful indication of inflation pressures created by changes in foreign exchange rates. For example, when the dollar is strong, import prices tend to be under downward pressure. If an item in Japan costs 500 yen and the exchange rate is 100 yen to the dollar, the US$ price $5. If the dollar then strengthens to Y120, the US$ price falls to $4.17. Because US exports must compete with foreign goods, there is also downward pressure on export prices when the dollar is strong.

Economists typically look at import prices excluding oil and export prices excluding agricultural. In each case, the category in question is excluded because prices for those items are volatile and the swings are unrelated to foreign exchange rates. Oil prices tend to swing in response to OPEC decisions, and agricultural prices are often affected by weather, neither of which say much about long-term trends in traded goods prices.

CLOSE WINDOW

Since this economic release is a D, you know you shouldn't expect much volatility on the Forex market due to this indicator.

For example, the Nonfarm Payrolls (which is the most important economic release for Forex traders) stands as an A, as you can see on the following image:

Release Details

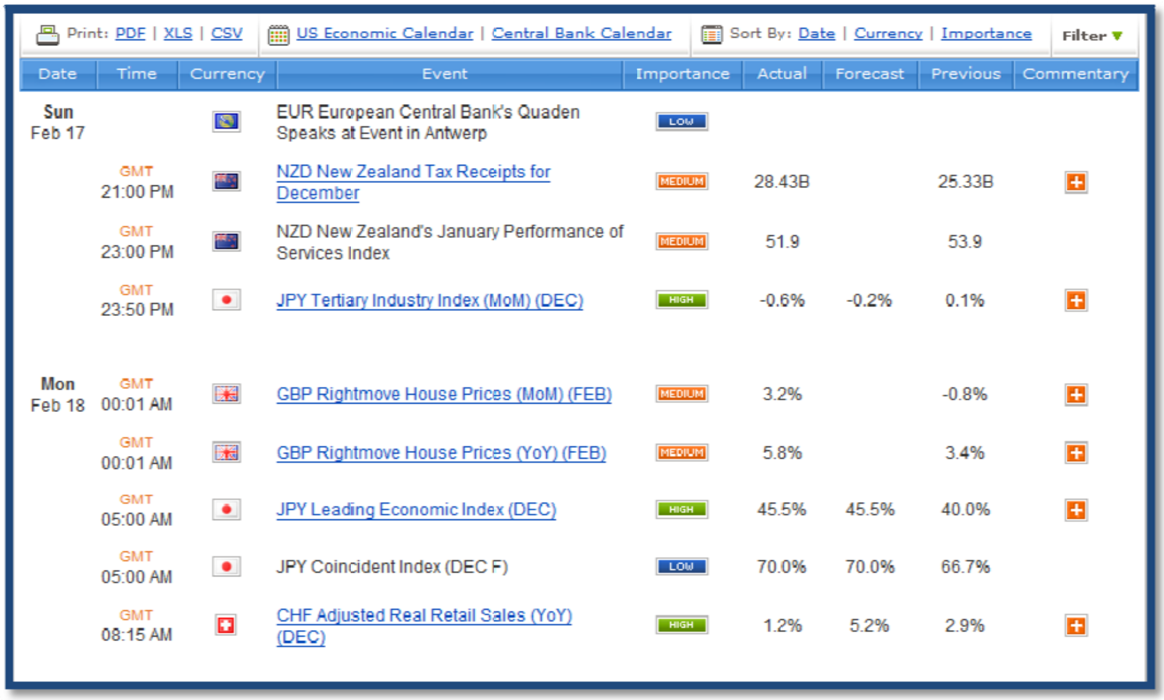
The Employment Report

- **Importance (A-F):** This release merits an **A**.
- **Source:** Bureau of Labor Statistics, U.S. Department of Labor.
- **Release Time:** First Friday of the month at 8:30 ET for the prior month
- **Raw Data Available At:** http://stats.bls.gov/news.release/empsit.toc.htm.

Knowing the importance of an economic release is extremely important so that you can predict the volatility you will face on a specific day.

2. Other great economic calendar is the DailyFx economic calendar. You can find it at http://www.dailyfx.com/calendar/

When you visit dailyfx calendar, you'll see this calendar:



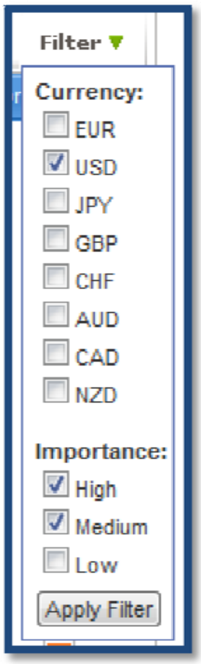
Print: PDF | XLS | CSV | US Economic Calendar | Central Bank Calendar | Sort By: Date | Currency | Importance | Filter

Date	Time	Currency	Event	Importance	Actual	Forecast	Previous	Commentary
Sun Feb 17			EUR European Central Bank's Quaden Speaks at Event in Antwerp	LOW				
	GMT 21:00 PM		NZD New Zealand Tax Receipts for December	MEDIUM	28.43B		25.33B	+
	GMT 23:00 PM		NZD New Zealand's January Performance of Services Index	MEDIUM	51.9		53.9	
	GMT 23:50 PM		JPY Tertiary Industry Index (MoM) (DEC)	HIGH	-0.6%	-0.2%	0.1%	+
Mon Feb 18	GMT 00:01 AM		GBP Rightmove House Prices (MoM) (FEB)	MEDIUM	3.2%		-0.8%	+
	GMT 00:01 AM		GBP Rightmove House Prices (YoY) (FEB)	MEDIUM	5.8%		3.4%	+
	GMT 05:00 AM		JPY Leading Economic Index (DEC)	HIGH	45.5%	45.5%	40.0%	+
	GMT 05:00 AM		JPY Coincident Index (DEC F)	LOW	70.0%	70.0%	66.7%	
	GMT 08:15 AM		CHF Adjusted Real Retail Sales (YoY) (DEC)	HIGH	1.2%	5.2%	2.9%	+

The best thing about this calendar is that it allows you to filter the calendar so that it only displays the indicators related with your favourite currency. You can also choose to see only important economic indicators.

In order to filter the economic calendar, press the filter button at the top right side of the calendar. You'll see the following option:

If you select to see, for example, only economic releases related with USD with medium and high importance, you just need to deselect the other options, and press apply filter:



Now, you can only see the most important indicators related with USD. This allows you to stay on top of the most important economic releases, and ignore the ones that usually don't bring anything important to the Forex market.

Print: PDF | XLS | CSV | US Economic Calendar | Central Bank Calendar | Sort By: Date | Currency | Importance | Filter

Date	Time	Currency	Event	Importance	Actual	Forecast	Previous	Commentary
Wed Feb 20	GMT 13:30 PM		USD Housing Starts (JAN)	HIGH		1010K	1006K	
	GMT 13:30 PM		USD Consumer Price Index n.s.a. (JAN)	HIGH		210.886	210.036	
	GMT 13:30 PM		USD Consumer Price Index (MoM) (JAN)	HIGH		0.3%	0.3%	
	GMT 13:30 PM		USD Consumer Price Index (YoY) (JAN)	HIGH		4.2%	4.1%	
	GMT 13:30 PM		USD Consumer Price Index Ex Food & Energy (MoM) (JAN)	HIGH		0.2%	0.2%	
	GMT 13:30 PM		USD Consumer Price Index Ex Food & Energy (YoY) (JAN)	HIGH		2.4%	2.4%	
	GMT 13:30 PM		USD Consumer Price Index Core Index s.a. (JAN)	HIGH			213.148	
	GMT 19:00 PM		USD Minutes of Jan. 29-30 FOMC Meeting	MEDIUM				
Thu Feb 21	GMT 13:30 PM		USD Initial Jobless Claims (FEB)	MEDIUM		345K	348K	
	GMT 13:30 PM		USD Continuing Claims (FEB)	MEDIUM		2760K	2761K	
	GMT 15:00 PM		USD Philadelphia Fed. (FEB)	MEDIUM		-10.0	-20.9	

Another good feature of this economic calendar is that if you click on the name of the economic event, it also shows you the definition and relevance on this indicator. This way you can usually understand what a specific economic release means, and what you can expect on Forex in terms of volatility.

Print: PDF | XLS | CSV | US Economic Calendar | Central Bank Calendar | Sort By: Date | Currency | Importance | Filter

Date	Time	Currency	Event	Importance	Actual	Forecast	Previous	Commentary
Wed Feb 20	GMT 13:30 PM		USD Housing Starts (JAN)	HIGH		1010K	1006K	

Commentary

Definition

Because high outlays are needed to start construction projects, an increase in Housing Starts implies an increase in investment and business optimism. Finally, the Housing Starts figure gives insight into consumer activity, since new home purchases typically require a large investment for consumers. Given such connections to consumer and corporate sentiment, real estate generally leads economic developments. A sharp drop in new home construction is a warning signal of economic slowdown. Conversely, a rebound in the Housing Starts paves the way for economic recovery.

Housing Starts data is differentiated by building types (single family houses, 2 to 4 residence units and 5 or more residence units). The single family housing starts is a more reliable economic indicator than multi family housing starts, as single family house building is driven by demand and consumer confidence, whereas multi family house building is more often motivated by speculative real estate investors. The report headline is expressed in volume of houses built. The figures are in the thousands of units.

Relevance: ★★★ Tends to move markets on release
Release schedule : 8:30 AM (EST); monthly, two or three weeks after the reporting month
Source of report : U.S. Census Bureau
Web Address : www.census.gov
Address of release : www.census.gov/const/www/newresconstindex.html

View Article: http://www.fxwords.com/h/housing-starts-united-states.html

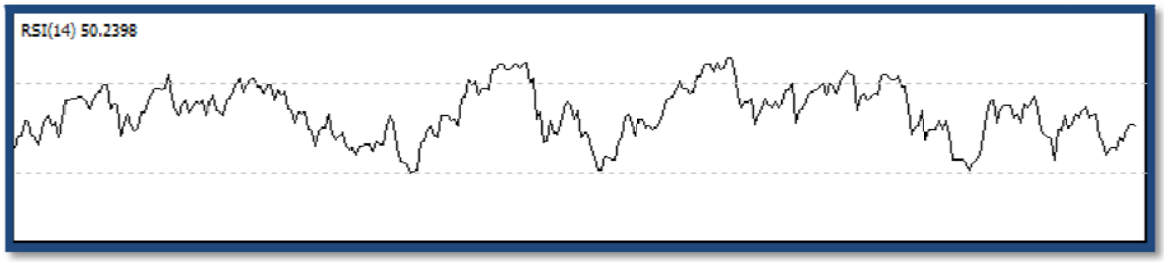
Date	Time	Currency	Event	Importance	Actual	Forecast	Previous	Commentary
	GMT 13:30 PM		USD Consumer Price Index n.s.a. (JAN)	HIGH		210.886	210.036	

The Most Useful Indicators on Forex

In this chapter you'll learn how to use the most effective indicators on Forex.

RSI (Relative Strength Index):

The Relative Strength Index (RSI) is an extremely useful and popular momentum oscillator. The RSI compares the magnitude of recent gains to the magnitude of recent losses and turns that information into a number that ranges from 0 to 100.



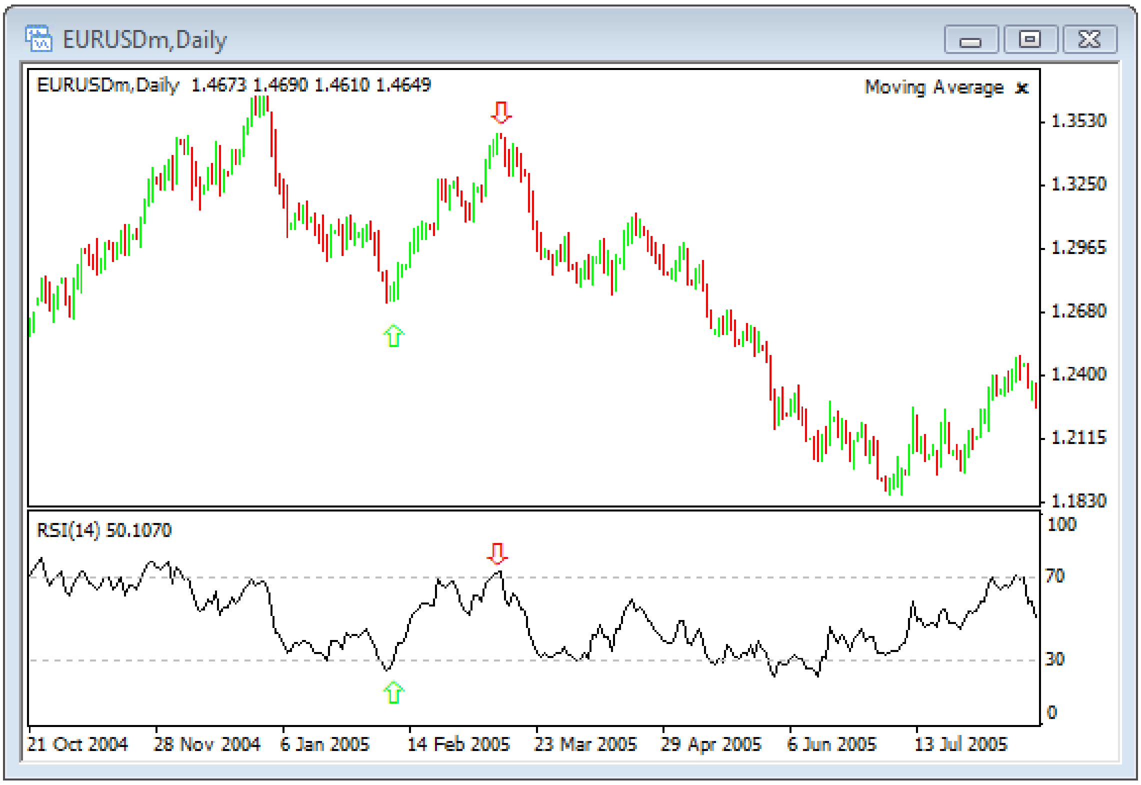
There are multiple ways that you can use the RSI. You can use it to spot Overbought/Oversold levels, to spot divergences that show you a trend is losing steam, or you can use it to confirm a trend.

A - Overbought / Oversold

RSI above 70 usually means the currency pair is overbought, so a top might be near. RSI below 30 means the currency pair is oversold so a bottom might be near.

Generally, if the RSI rises above 30 it is considered a bullish signal. If the RSI falls below 70, it is a bearish signal.

Some traders identify the long-term trend and then use extreme readings for entry points. If the long-term trend is bullish, then oversold readings could mark potential entry points.



B - <u>Divergences</u>

Buy and sell signals can also be generated by looking for positive and negative divergences between the RSI and the currency pair price.

If the price reaches a higher high but RSI isn't able to reach a new high, there's a bearish divergence. If prices reach a new low, and RSI can't reach a new low, there's a bullish divergence.

Divergences that occur after an overbought or oversold reading usually provide more reliable signals.

<u>Here's an example of a bearish divergence</u>:

On point 2, EUR/USD was at an higher level while the RSI was at a lower level comparing to point 1. This is a clear bearish divergence on RSI. On this example, EUR/USD went from 0.9265 to 0.8635 which represents a 630 pips downtrend.

You can also see that around 0.8635 the RSI reached the oversold level for the first time, and this represented the exact bottom for EUR/USD.

Let's take a look at another example. This time we're looking at a <u>bullish divergence on RSI</u>:

As you can easily see, at point 2 the EUR/USD was at a new low, while RSI was at an higher value. This was a clear bullish divergence that pointed to the upside.

EUR/USD started a rally of almost 1000 pips until it reached a top when the RSI clearly marked an overbought point. Once again, RSI was able to spot top and bottoms like few indicators can.

On this example you can notice that at point 2, the price is around the same level as at point 1. However, RSI is clearly above. RSI is pointing for a rally in price due to this bullish divergence.

If you had purchased GBP/USD on this bullish divergence and sold it once the RSI signaled an overbought market, you would have bought around 1.7475 and exited the trade around 1.8200 with 725 pips profit.

C - <u>Centerline Crossover</u>

A reading above 50 indicates that average gains are higher than average losses and a reading below 50 indicates that losses are winning the battle.

Some traders look for a move above 50 to confirm bullish signals or a move below 50 to confirm bearish signals.

In this chart you can see a strong uptrend on EUR/USD confirmed by an RSI above 50. When RSI crossed below 50, the trend was starting to lose some strength. RSI let you know this in advance.

MACD (Moving Average Convergence / Divergence):

Moving Average Convergence/Divergence (MACD) is one of the simplest and most reliable indicators on Forex. With MACD you'll be able to spot bull divergences and bear divergences which are rare and effective patterns on Forex.

A - <u>Bullish Divergence</u>

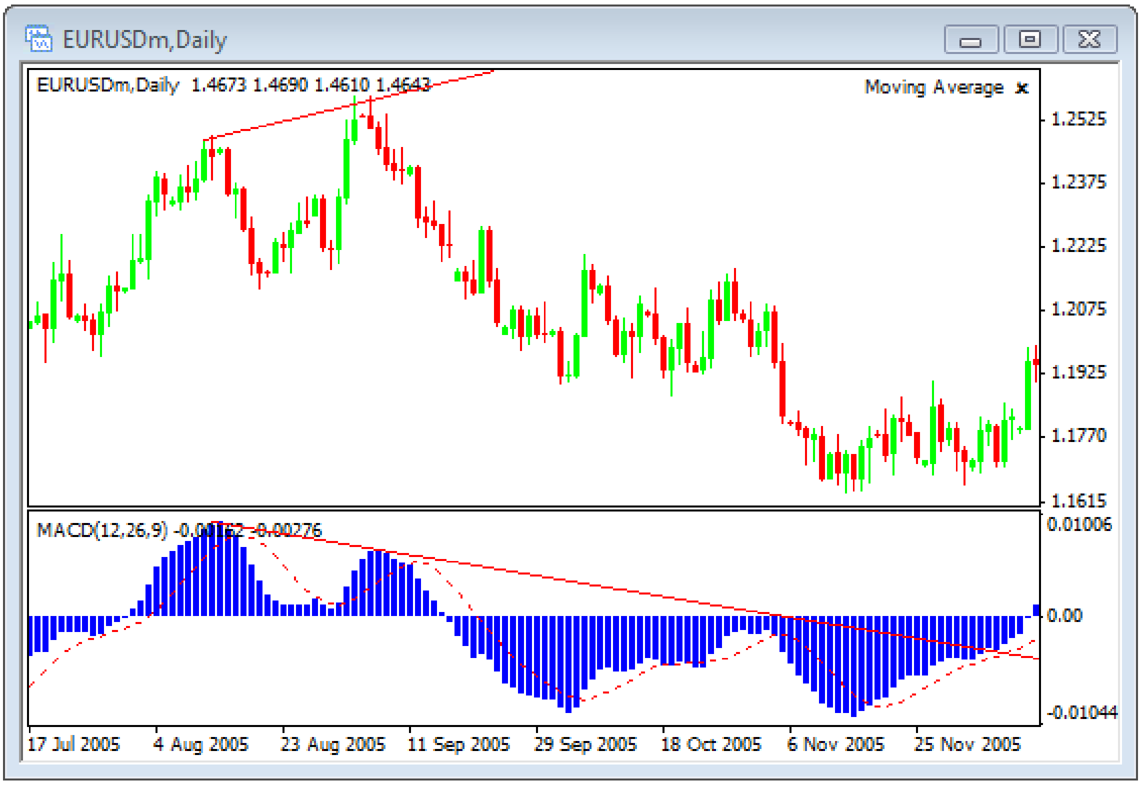
When the price reaches a new low, and MACD can't reach a new low, there's a bullish divergence which shows that the downtrend is losing steam and an uptrend might be near. Here is an example:

In this chart you can see an example similar to one I showed you when I talked about RSI. The price was at the same point as on the previous bottom, while MACD was at an higher point.

After this bullish divergence, EUR/USD started an uptrend of more than 1200 pips.

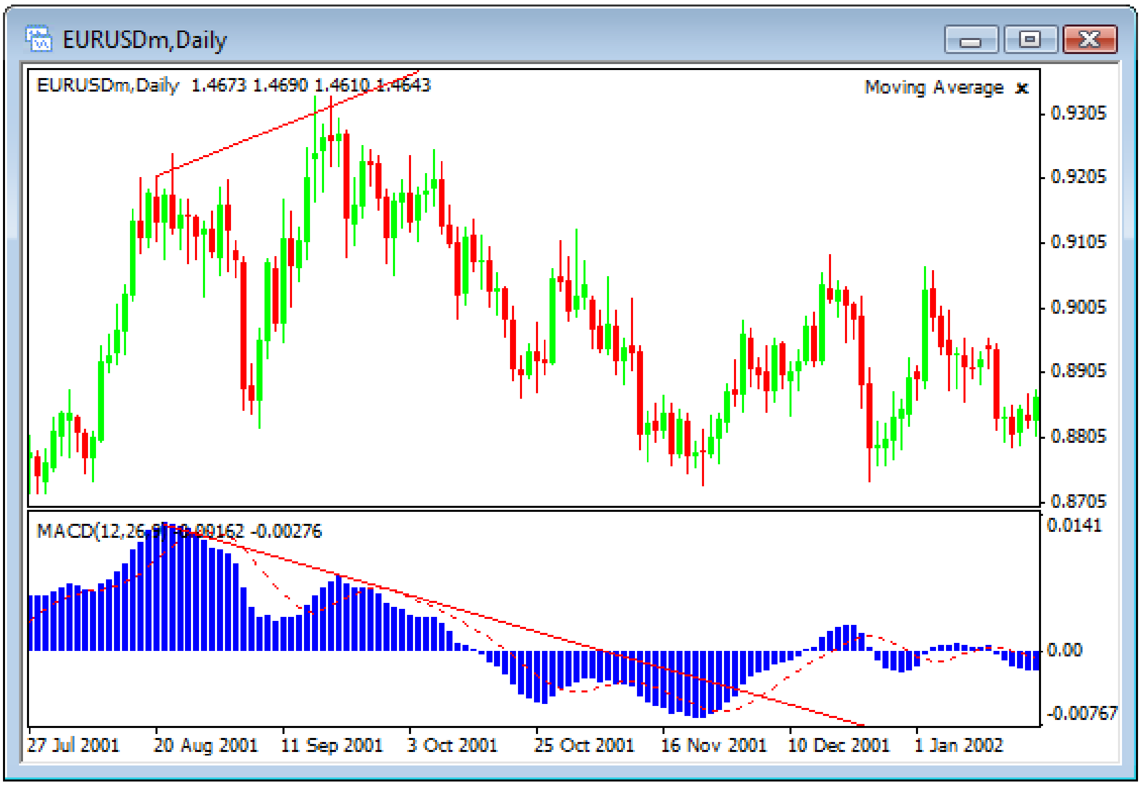
B - **Bearish Divergences**

When the price reaches a new high, and MACD can't reach a new high, there's a bearish divergence which shows that the uptrend is losing steam and a downtrend might be near. Here are some examples:



On this chart the EUR/USD reached a new high while MACD is below the level it achieved on the previous top. This is a clear bearish divergence.

This bearish divergence resulted in a strong downtrend of more than 700 pips.



Here is another bearish divergence. There's a new high on EUR/USD and MACD is at a lower level. As a result, EUR/USD started a nice downtrend that lasted for 2 months.

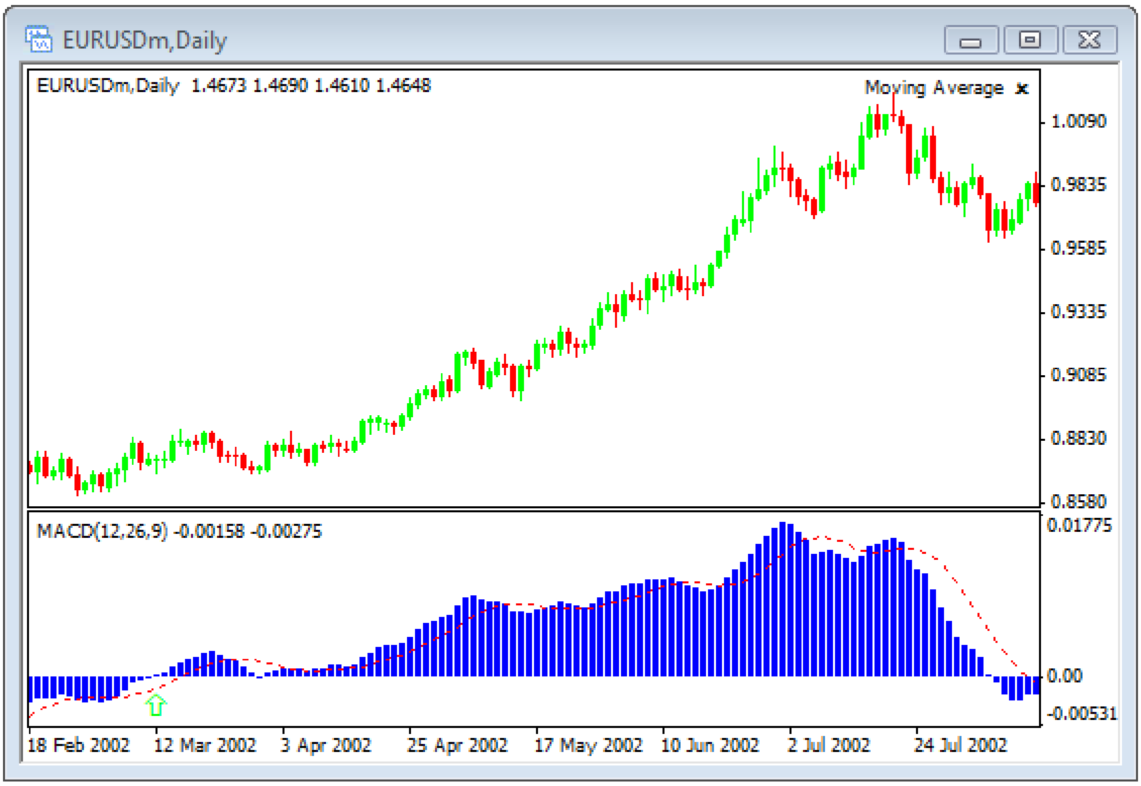
MACD is not particularly good identifying overbought and oversold levels. Even though it is possible to identify levels that historically represent overbought and oversold levels, MACD doesn't have any upper or lower limits to bind its movement. MACD can continue to overextend beyond historical extremes.

C – <u>Confirmation Indicator</u>

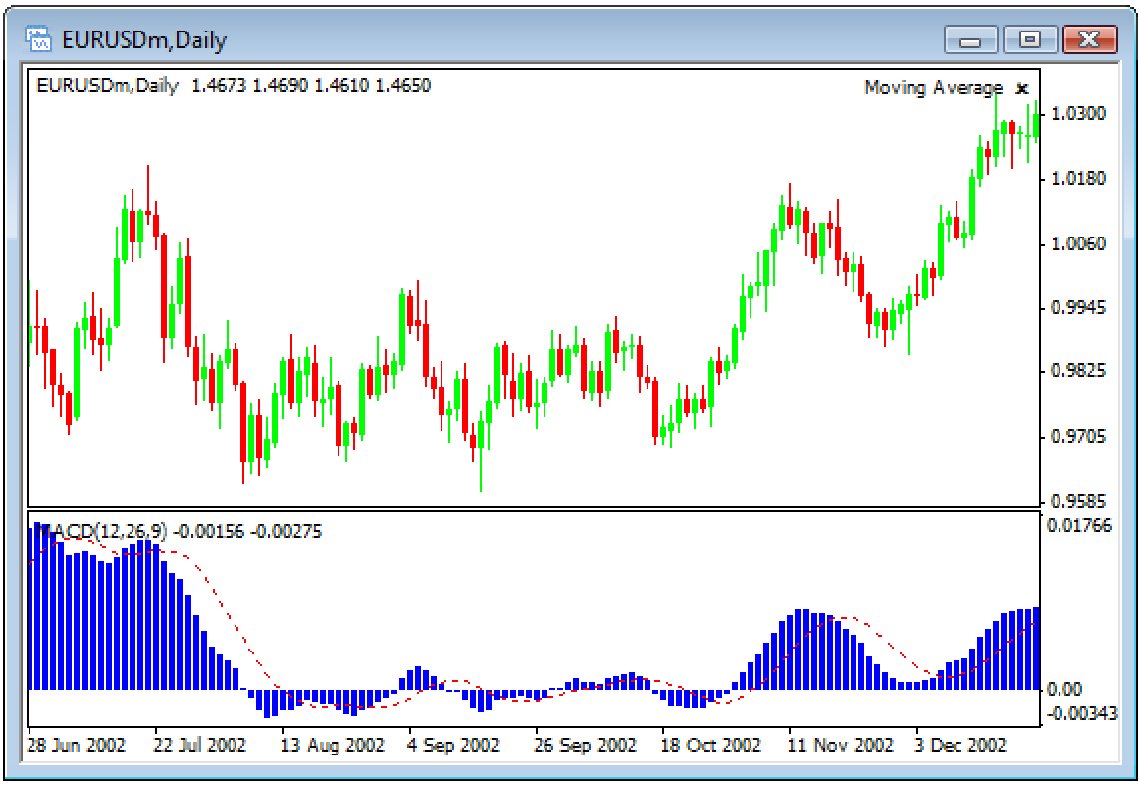
You can also use MACD as a confirmation indicator.

If MACD Histogram is above 0 this means we're in an uptrend. If MACD Histogram is below 0, we're in a downtrend.

Using a cross above 0 or below 0 as a buy or sell signal respectively, works well during strong trends, but when the market is choppy, this technique gives too much false signals. So, I only recommend using MACD histogram above 0 or below 0 as a confirmation of other indicators buy and sell signals.



In this chart you can see that a cross above 0 signaled a strong trend that lasted 4 months and caught more than 700 pips profit. This kind of signal works well during strong trends.



Unfortunately, during choppy markets, MACD gives too much false signals as you can see on the above chart. That's why I just use MACD to spot divergences and to confirm trades. That's the best way to use MACD on any kind of market.

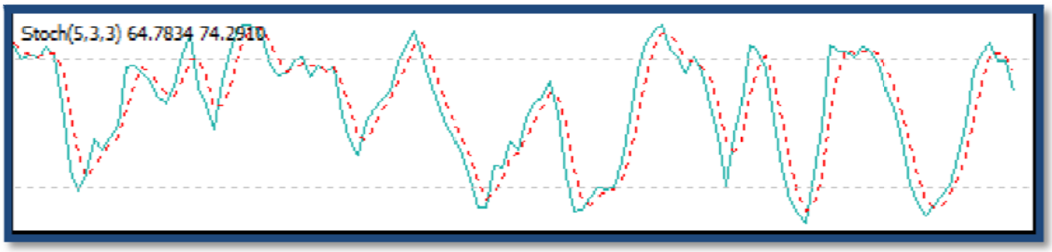
Stochastic Oscillator:

The Stochastic Oscillator is a momentum indicator that shows the location of the current close relative to the high/low range over a set number of periods. Closing levels that are consistently near the top of the range indicate accumulation (buying pressure) and those near the bottom of the range indicate distribution (selling pressure).

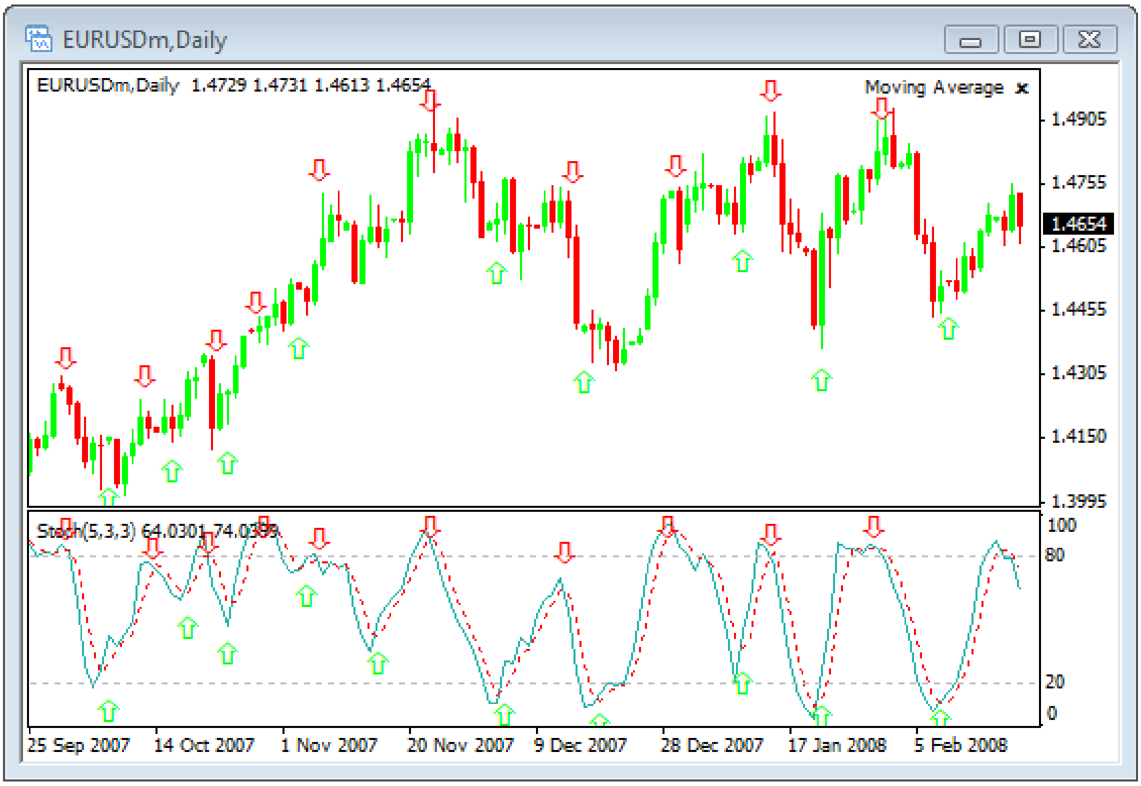
Readings below 20 are considered oversold and readings above 80 are considered overbought.

Buy and sell signals can also be given when %K crosses above or below %D. However, crossover signals are quite frequent and can result in a lot of false signals.

One of the most reliable Stochastic signals is to wait for a divergence to develop from overbought or oversold levels. Once the oscillator reaches overbought levels, wait for a negative divergence to develop and then a cross below 80. For a buy signal, wait for a positive divergence to develop after the indicator moves below 20.

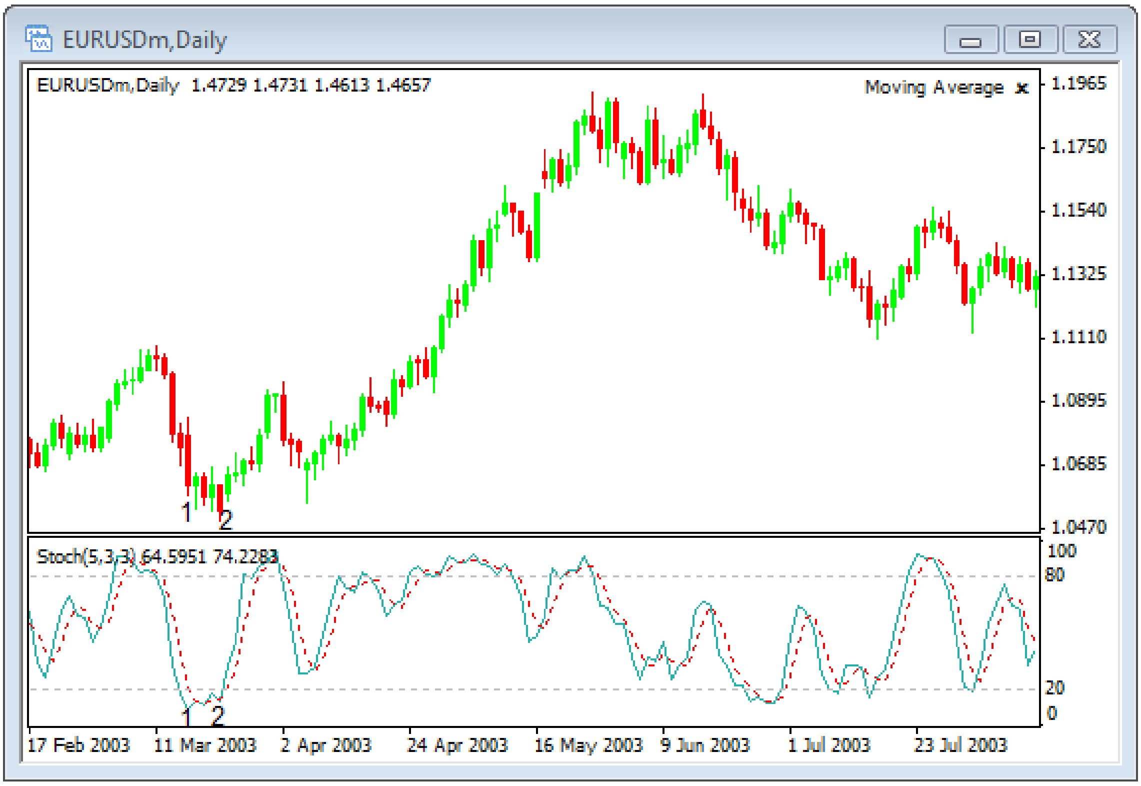


The blue line represents the %K line. The red dotted line represents the %D line.



On this chart you see that a simple Stochastic cross gives too much signals, and most of them are false signals. So, this isn't a good way to use Stochastics.

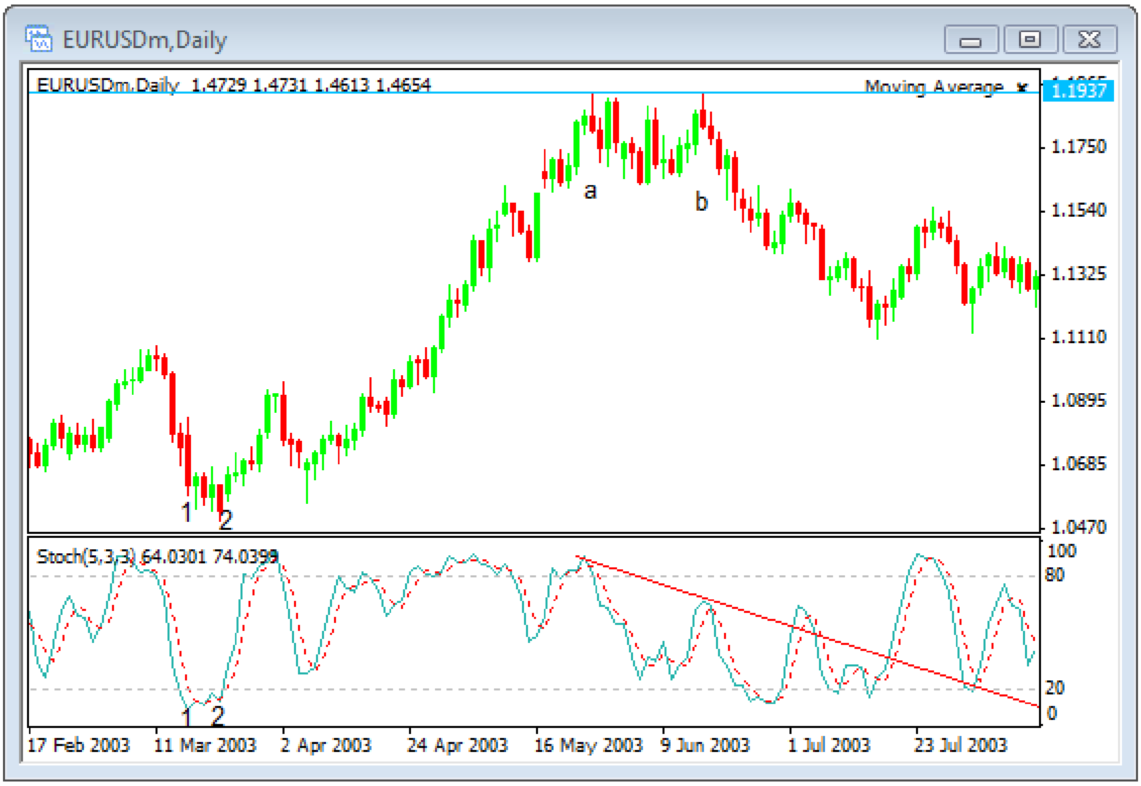
Let’s see a good way to use Stochastics:



On this chart you can see a good example of how you can use Stochastics. At point 2, the EUR/USD is slightly below point 1 and Stochastics are slightly above. This is a bullish divergence on Stochastics.

Once Stochastics cross above 20, that’s a good entry point.

A bearish divergence will tell you when you should exit the trade.



Here is a great exit point for this trade. Points “a” and “b” represent a double top on EUR/USD. That’s a bearish signal.

To confirm this double top you can see that there is a bearish divergence on the Stochastics. So, this is a good place to enter in a short sell trade or, at least, to exit your long position.

Moving Averages:

Moving Averages are one of the most popular and easy to use indicators available in Forex. They smooth a data series and make it easier to spot trends, something that is especially helpful in volatile markets. They also form the building blocks for many other technical indicators and overlays.

The two most popular types of moving averages are the **Simple Moving Average (SMA)** and the **Exponential Moving Average (EMA)**.

A Simple Moving Average (SMA) is formed by computing the average (mean) price of a security over a specified number of periods. While it is possible to create moving averages from the Open, the High, and the Low data points, most moving averages are created using the closing price. For example: a 20-day simple moving average is calculated by adding the closing prices for the last 20 days and dividing the total by 20.

In order to reduce the lag in Simple Moving Averages (SMAs), technicians often use Exponential Moving Averages (EMAs). EMAs reduce the lag by applying more weight to recent prices relative to older prices. The shorter the EMAs period is the more weight will be applied to the most recent price.

The Simple Moving Average (SMA) is represented in black and the EMA is the blue line.

Which moving average you use will depend on your trading and investing style and preferences.

The simple moving average obviously has a lag, but the exponential moving average may be prone to quicker breaks. Some traders prefer to use exponential moving averages for shorter time periods to capture changes quicker. Some investors prefer simple moving averages over long time periods to identify long-term trend changes.

Shorter moving averages will be more sensitive and generate more signals. The EMA, which is generally more sensitive than the SMA, will also be likely to generate more signals. However, there will also be an increase in the number of false signals. Longer moving averages will move slower and generate fewer signals. These signals will likely prove more reliable, but they also may come late.

Each investor or trader should experiment with different moving average lengths and types to examine the trade-off between sensitivity and signal reliability.

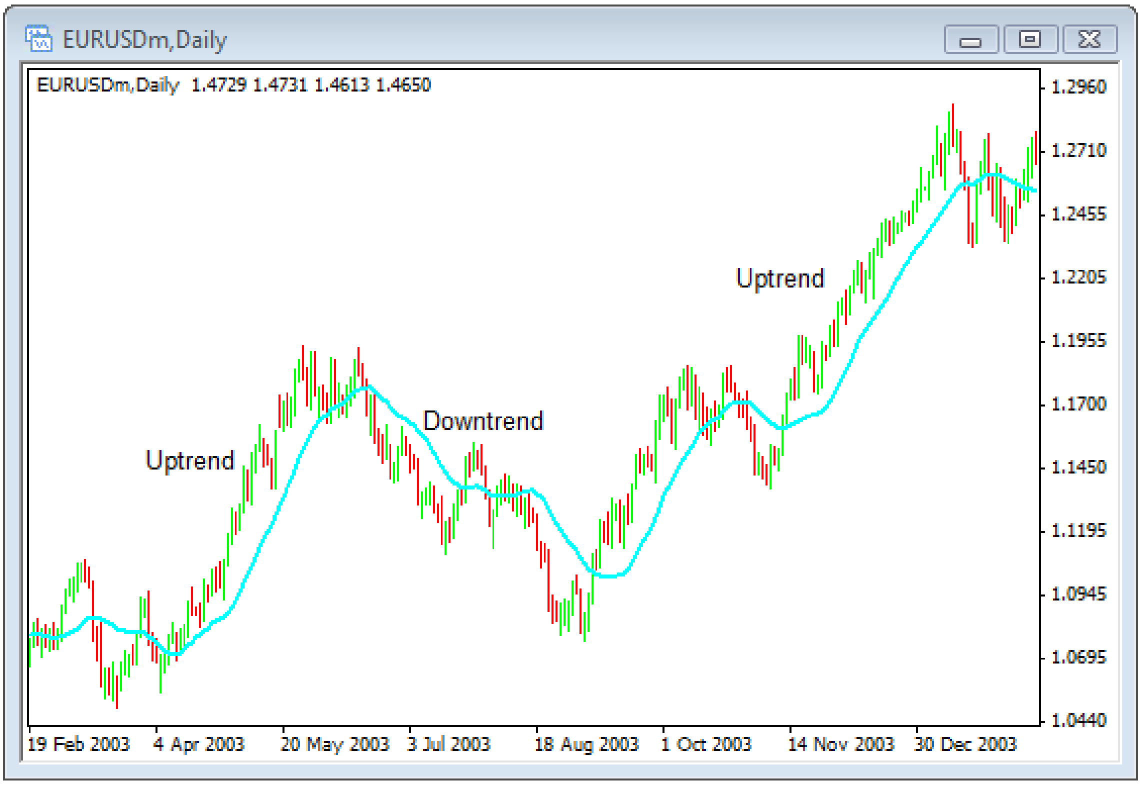
Because moving averages follow the trend, they work better when a currency pair is trending and are ineffective when a currency pair moves in a trading range.

A - <u>Trend Identification and Confirmation</u>

If the price is above a moving average and this moving average is moving up, we're in an uptrend.

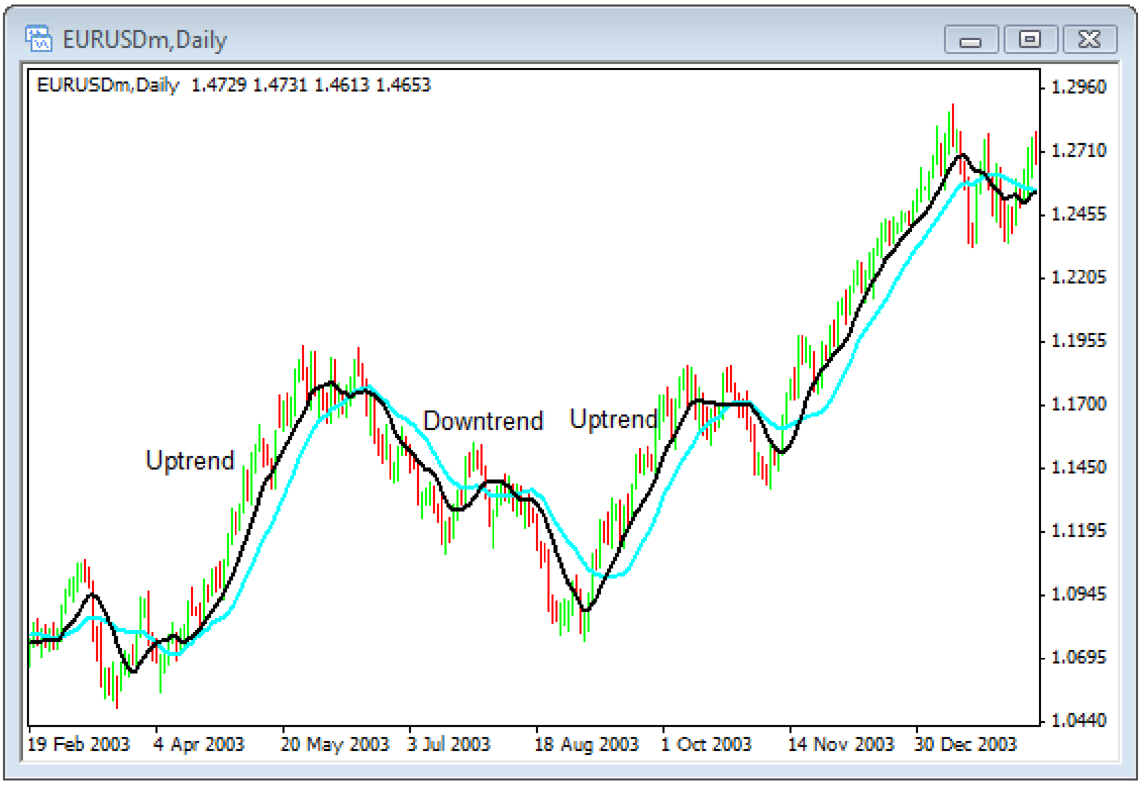
If the moving average is moving down and the price is below the moving average, we're in a downtrend.

Here is an example using a 20 days Simple Moving Average:



This chart shows you that moving averages help you spot the current trend easily.

You can also use 2 different Moving Averages to spot the trend. For example, if you use a 10 and a 20 moving averages. If the SMA10 is above the SMA20, you're in an uptrend. If the SMA10 is below the SMA20 you're on a downtrend.

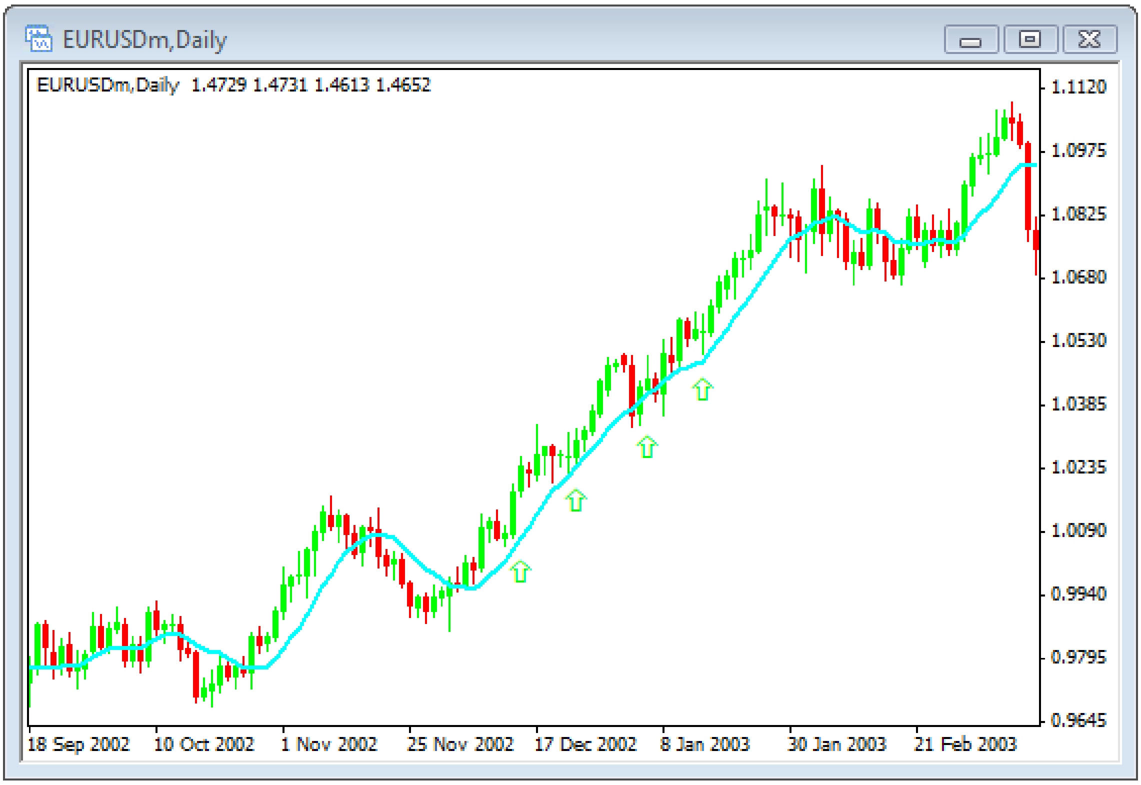


Here is another example that shows you that you can also spot a trend using 2 different moving averages.

B - Support and Resistance Levels

Another use of moving averages is to identify support and resistance levels. This is usually accomplished with one moving average and is based on historical precedent.

As with trend identification, support and resistance level identification through moving averages works best in trending markets.



This example shows you how a moving average works on a strong uptrend. The moving average was a good support area during this uptrend. This strong support area can be used as an entry point.

There are even some trading systems build solely on moving averages. On this kind of systems, when the price crosses the moving average to the upside is a buy and when it crosses below the moving average is a sell. On strong trends, this kind of trading systems work well. However, during choppy markets, there are plenty of false signals for this kind of systems.

Recommended Resources

Automated Forex Systems:

Fap Turbo

Forex Auto Run

Forex Autopilot

Forex software:

Supra Forex

Forex Multiplier

Turbo Forex Trader

Forex Killer

Forex Trading Courses:

Super Forex System

Forex Hidden Systems

10 minute Forex Wealth Builder

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