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Forex Trading Pro

By David Warner

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DAVID WARNER

David Warner started trading in College when he joined a stock trading club leading to a "healthy obsession" with the financial markets.

David's background in Finance and Economics landed him a job at FXCM, a major Forex brokerage, where he honed his trading skills managing relationships with top level traders and financial institutions.

He has been providing trading and investing education since 2012 matching individuals needs with solid market strategies.

David received his Bachelors in Finance at McMurry University where he was first in class and the winner of the first ever McMurry University Business Excellence Award.

A former Staff Sergeant in the United States Air Force, David understands how to apply that same discipline to the markets.

His experience and dedication to his craft has earned him such accolades as winner of a global "Top Broker" award and was consistently in the top 4 instructors out of 100+ at Online Trading Academy, where he taught for over 10 years.



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Lesson 1

Forex Basics

Introduction to the Forex Market, Its history and mechanics

Forex Characteristics

What makes Forex different from the other markets

Forex Language

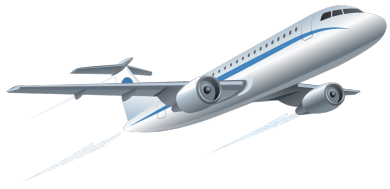
Terminology unique to the Forex market

Currency pairs

Introduction to the major, cross and exotic currency pairs



Forex in Everyday life



David is going on vacation to travel the world and needs to acquire some foreign currencies

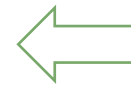


In order to buy Foreign Currency he needs to first sell his own



After David is back from his trip he converts his foreign currency back into his own

David notices he profited from some of the exchanges and lost some money on others



David receives more or less foreign currency depending on the exchange rate





Forex Basics

History of Money



X

BC to AD – Barter
Anything is Money



550 BC-Gold and Silver Coins
introduced

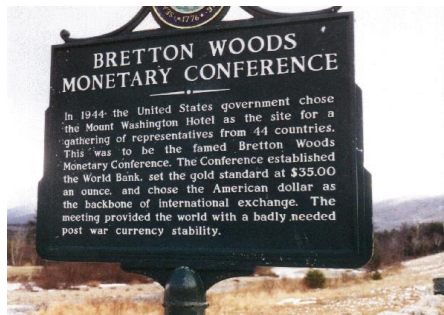
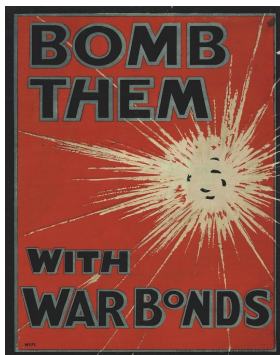


600 AD- China introduces
paper money

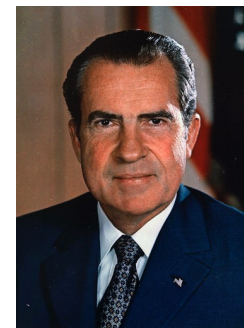


1850- UK establishes gold
standard central banking

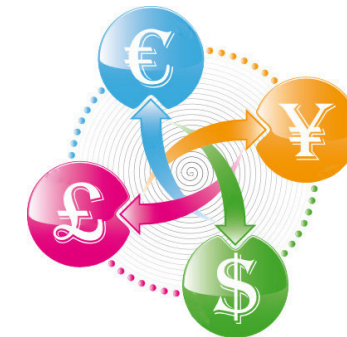
1933 – World War causes
the US to abandon the
Gold standard



1944- New Global Money
system built on USD: 1 ounce
of Gold= \$35



1971- Nixon suspends Gold
Standard due to Global
pressures



Today- Most exchange rates
adjust freely according to
perceived value

Why Trade Forex?





Forex Basics – Why Trade Forex?

Leverage!!
Leverage!!!
Leverage!!!!

- Forex can be considered one of the most conservative AND lucrative markets to trade in depending on how leverage is used
- Ample leverage control, low and adjustable margin requirements
- Leverage can greatly increase potential profits when used properly



Forex Basics - Why Trade Forex?



LOW trading costs and starting balances

- Tight spreads and low trading costs for Major Currency pairs
- Free trading platforms and demo accounts
- Very low (if any) starting balance requirements
- No \$25,000 minimum requirement for day trading as in US equities



Forex Basics - Why Trade Forex?

24 hours
a day with
Deep
liquidity



- Continuous trading 24 hours a day 5.5 days a week
- 3 Main trading sessions – Asia, Europe and US
- Strong liquidity- 5+ trillion dollars per day
- Low risk for slippage on fills and reduced gap risk during the trading week



Fantastic Risk on/ Risk off correlated trading opportunities

- Some currencies are correlated with Risk on assets and others with safe haven assets
- Considered by many as the ultimate chaos market – no circuit breakers in Forex
- Unrestricted selling short is as easy as buying long
- True portfolio diversification opportunities in up or down markets



Fewer trading Instruments and Macroeconomic

- Limited number of major and minor currency pairs – less time scanning
- Macroeconomic big picture themes- trading economies
- Trends can last months and years
- Excellent market for hedging





Forex Basics

Terminology



Forex Basics - Terminology

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Defined:

The Foreign Exchange market (Forex or FX for short) is a worldwide non-centralized financial market for the trading of Currencies

Key Note:

"Spot Forex" is the term used to describe where currencies are immediately exchanged at the current price



Major Forex Players:
Countries, Central banks,
Multinational companies,
Banks, Hedge funds,
Investors, brokers



What is the Forex Market?

- The purpose of the Forex market is to assist in international trade and investment
- Buying currency is like buying a share in particular country, much like people buy shares in a company's stock
- A Currency's value can be considered a direct reflection of the markets opinion on the current and future health of a country's economy
- Strong economies will typically attract buyers and weak economies will attract sellers



Currency Pair

Two currencies in Spot
Forex linked together to
form a single trading
instrument

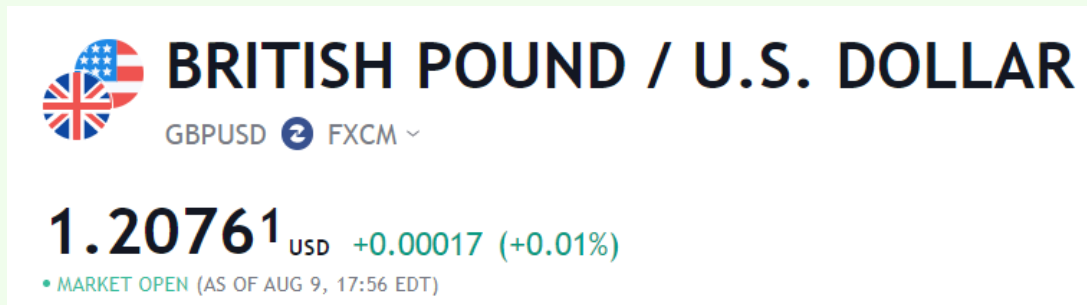





GBP / USD

Base currency, or the currency you are buying when you trade the forex pair

Quote currency, or the currency you are selling when you trade the forex pair

****Base currency is ALWAYS equal to 1****



 **BRITISH POUND / U.S. DOLLAR**
GBPUSD  FXCM 

1.20761 USD +0.00017 (+0.01%)

• MARKET OPEN (AS OF AUG 9, 17:56 EDT)

1.20761 US Dollars to buy 1 British Pound

OR

1 British Pound to buy 1.20761 US Dollars

Forex is traded in Lots which are units measuring a transaction amount

Lot Name	Lot Size
Standard Lot	100,000 Units of the Base
Mini Lot	10,000 Units of the Base
Micro Lot	1,000 Units of the Base
Nano Lot	100 Units of the Base

Note:

Some brokers size positions in these standardized lot sizes while other brokers allow you to trade a non standardized number of units. E.g. One broker may accept 10,000 and then 20,000 whereas another might accept 10,000 and then 10,001 allowing you more control over your risk management





Forex uses PIPs (Percentage in Point) to measure moves

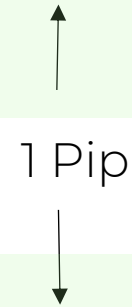
- Pips are the smallest increment most traders use to express the change in value between two currencies
- A smaller increment known as fractional pip or pipette are also quoted in a price
- Knowing the location of the pip is very important to understanding how far a currency pair has appreciated or depreciated
- All Currencies in general that does not involve the Japanese Yen will have the pip in the 4th decimal place
- The Japanese Yen Pairs will have the pip in the 2nd decimal place
- Pips are worth approximately 1/100th of a penny

PIP – Percentage in Point



GBP/USD 1.2175

Most Pairs



USD/JPY 135.5⁷

Yen Pairs

Pip Value



Lot Name	Pip Value per Lot Size
Standard Lot	100,000 Units of the Base = \$10
Mini Lot	10,000 Units of the Base = \$1
Micro Lot	1,000 Units of the Base = \$0.10
Nano Lot	100 Units of the Base = \$0.01

- Pip value is calculated by taking unit size multiplied by the price of the currency pair converted into trader's funded currency denomination
- Each currency has its own relative value and it is necessary to find the pip value for the currency pair being traded; Fortunately many trading platforms do this math for us

Approximate value for most major currency pairs

Pip Value Examples

David just opened a GBP/USD trade
His stop is located 25 pips away and his target is 75 pips away.
The position size is 1 micro lot (1000 units)
GBP/USD has a pip value of \$0.10 per micro lot
If David is stopped out his loss would be \$2.50
If David's trade hits target, he would profit \$7.50

Devon has just opened the same GBP/USD trade
Her account is larger so she decided to take a bigger position.
She decided to trade 1 mini lot (10,000 units)
GBP/USD has a pip value of \$1 per mini lot
If Devon is stopped out her loss would be \$25
If Devon's trade hits target, she would profit \$75

Jeff has just opened the same GBP/USD trade as David and Devon.
His account is larger so he decided to take a bigger position.
He decided to trade 1 standard lot (100,000 units)
GBP/USD has a pip value of \$10 per standard lot
If Jeff is stopped out his loss would be \$250
If Jeff's trade hits target, he would profit \$750



Currency Pairs

Currencies around the World



Classification

There are 180 currencies recognized by the United Nations with many of them are unavailable for retail trading

Classification	Characterization
Major Pair	The most liquid currency pairs on the planet traded against the USD: EUR/USD, GBP/USD, AUD/USD, NZD/USD, USD/JPY, USD/CHF, USD/CAD
Cross Pairs (Minor)	A currency pair only using the currencies above with USD removed- Example: EUR/JPY, GBP/AUD, NZD/CAD etc..
Exotic Pairs	Everything else



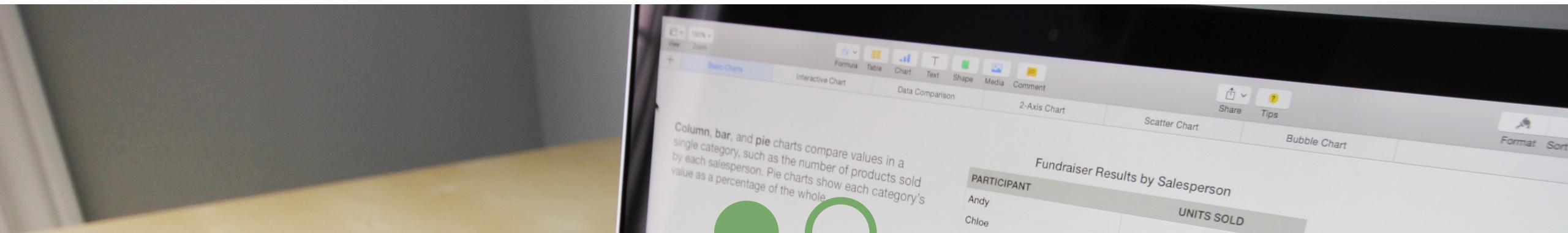
Currency Pairs

Classification	Characteristics
Major Pair	<ul style="list-style-type: none">• Greatest Liquidity (lowest trading costs)• Typically slowest (safest)• Most researched and discussed• Lowest overnight costs• Least volatility spikes
Cross Pairs (Minor)	<ul style="list-style-type: none">• Less Liquidity (higher trading costs)• Some VERY fast pairs (riskier)• Less research and discussion• Higher overnight cost• More prone to volatility spikes and rollover spread hikes
Exotic Pairs	<ul style="list-style-type: none">• Thinly Traded (highest trading costs)• Far more sensitive to economic or geopolitical events• High overnight costs• Very prone to volatility spikes and rollover spread hikes• Should probably be avoided by most traders



Notable Characteristics of Pairs

- In general, a currency is more liquid and active when its country is in normal business hours
- Cross pairs are great for non-correlated trading opportunities as well as deducing strength or weakness of individual currencies
- USD, JPY, & CHF are generally “safe haven” currencies and usually rise when there is global economic or socioeconomic risk
- Treat every currency pair as its own unique instrument. It has correlations to other pairs, but it will have its own identifiable personality. A good trader knows the characteristics of his currency pairs

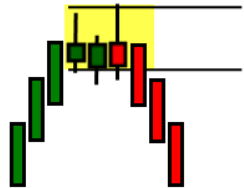

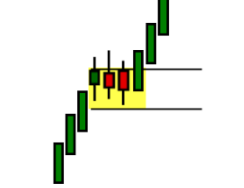
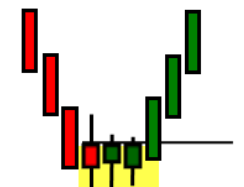


Currency Pairs Order Type Summary

Types	Used For	Positives	Negatives
Market Order	Entering and exiting a position immediately!	Immediate execution	Slippage (not getting the inside bid/ask)
Limit Order	Specifically planned entries and exits	No slippage. May get price improvement	May only get a partial fill or not get filled at all
Stop Market Order	Stop Loss to exit trade	Risk management, You will get out	Possible slippage
Stop Limit Order	Confirmation or breakout entries	You MAY get filled at a better price	Do not use as protective stop! There is <u>no</u> guarantee you will get filled!

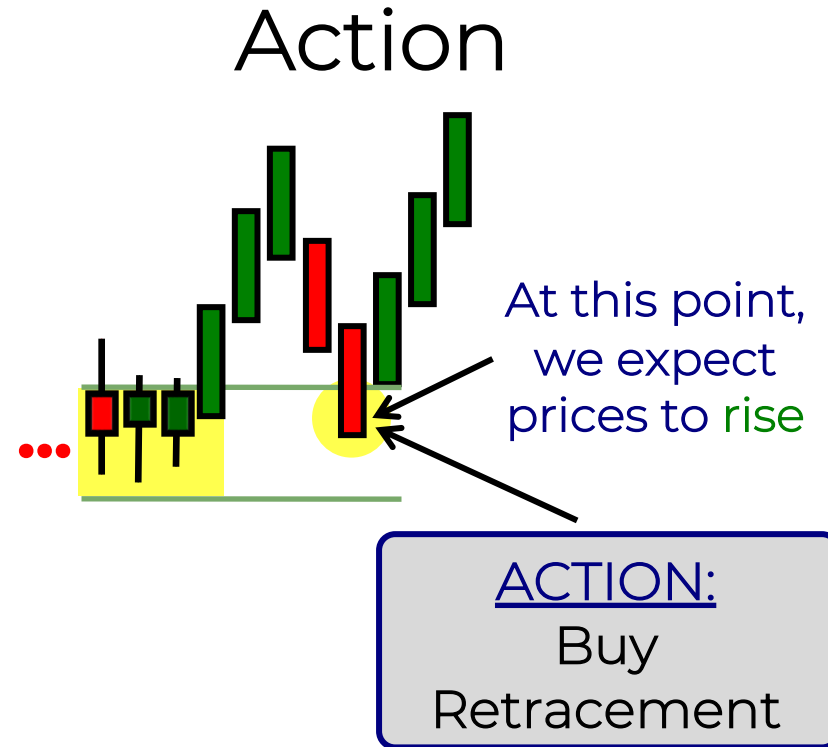
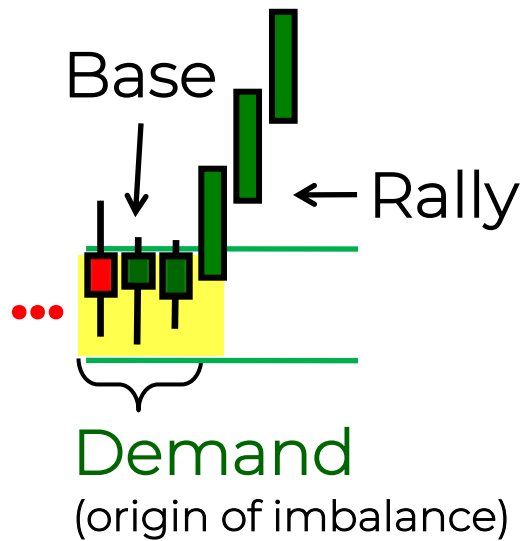


Currency Pairs Order Type Summary

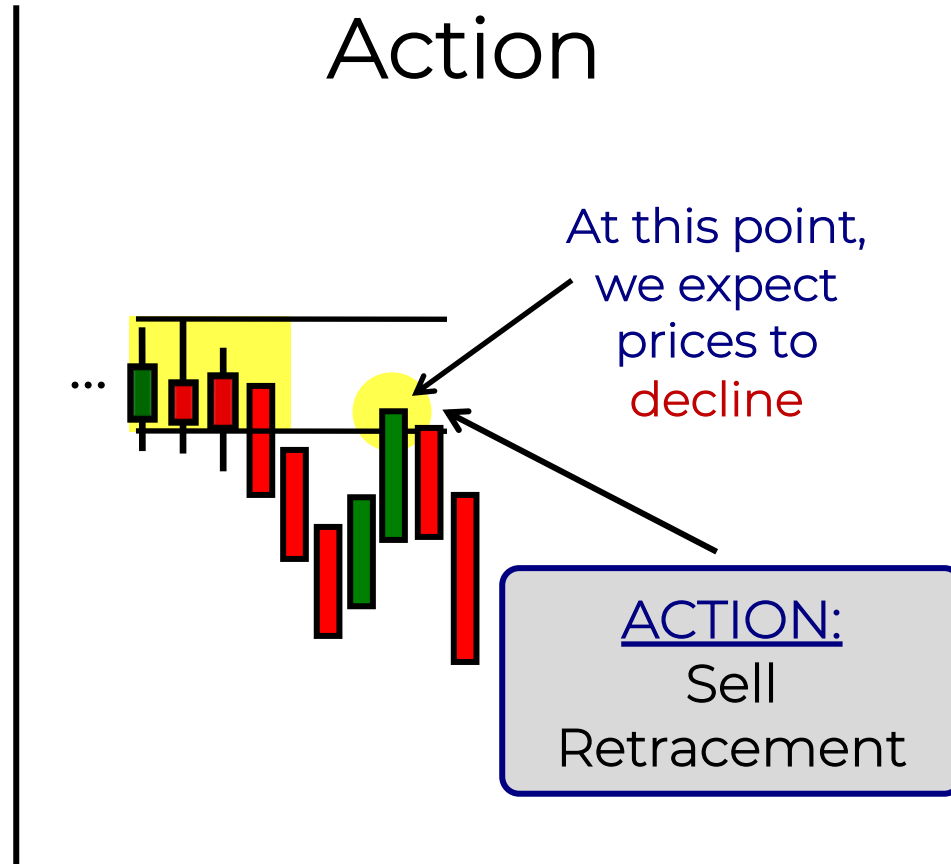
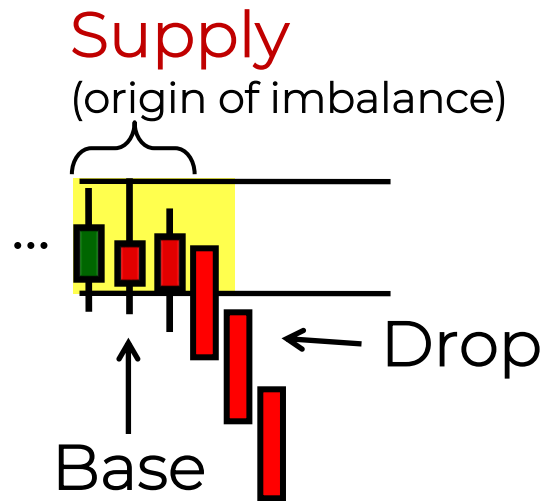
Name	Type	Picture	Action	Common Location
RBD	Supply		Sell	Further out higher in the curve
DBD	Supply		Sell	Middle of the curve
RBR	Demand		Buy	Middle of the curve
DBR	Demand		Buy	Further out lower in the curve



Action To Take With A **BUY SIGNAL**



Action To Take With A **SELL SIGNAL**



The Dollar Index





The US Dollar

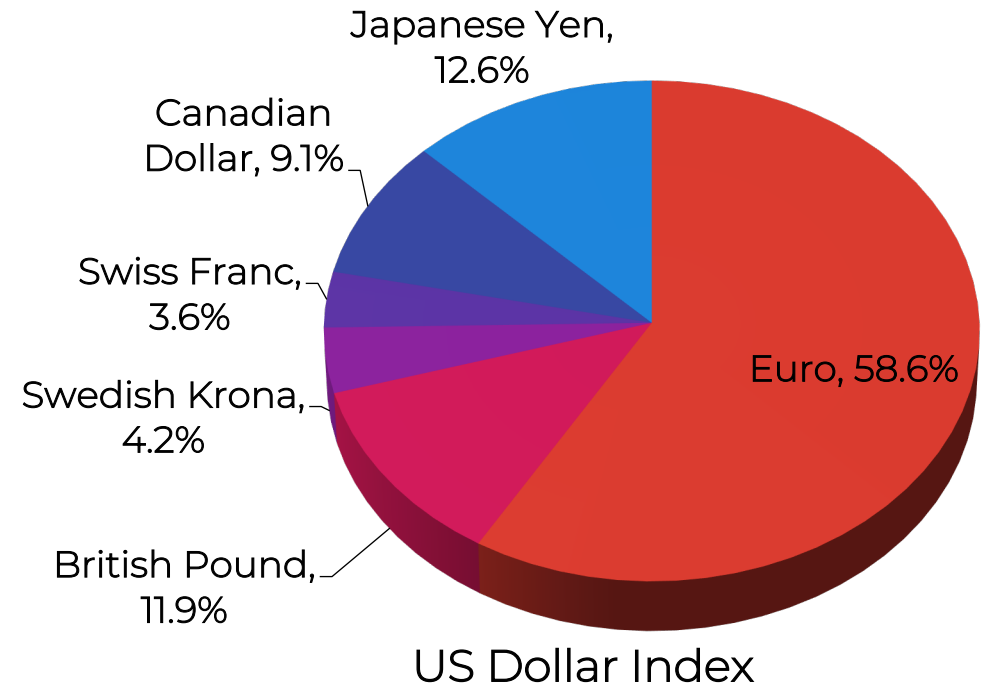
The most heavily traded single currency in the world is the US Dollar
It is the currency used most in international transactions and is widely held
as a reserve currency

The US Dollar is involved in approximately 80% of
transactions worldwide



The Dollar Index **US Dollar Index (\$DXY)**

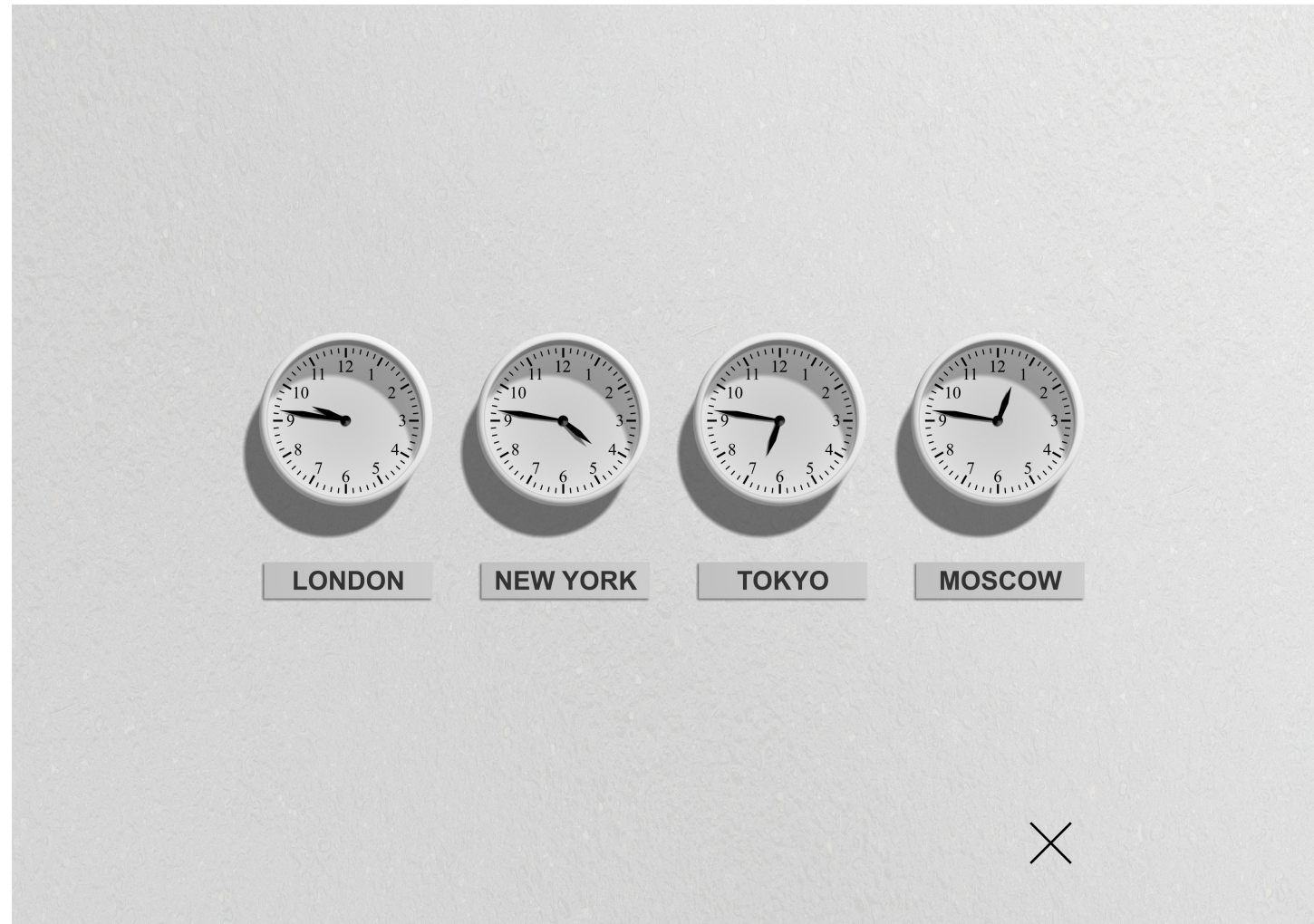
The US Dollar Index (\$DXY) is made of 6 Currencies against the US Dollar



6 Currencies against the USD

Currency	Weight
JPY	12.6%
CAD	9.1%
CHF	3.6%
SEK	4.2%
GBP	11.9%
EUR	58.6%

Trader Time Zones





Trader Time Zones

The market responds with high probability price behavior within certain time zones

Some time zones have higher liquidity and price movement than other time zones

It's our job as traders to be proactive and expect movement during these time zones





● ○ Trading Sessions





What Trading Sessions are Available?

- Due to technology people all over the world are able to trade providing the markets are open, through a network of brokers connected to the markets via the internet
- Not all the Markets are open all the time though:
 - Forex Markets are open around the clock
 - Futures Markets are open almost 24h per day
 - The Stock Market regular Session is no more than 6.5 hours per day

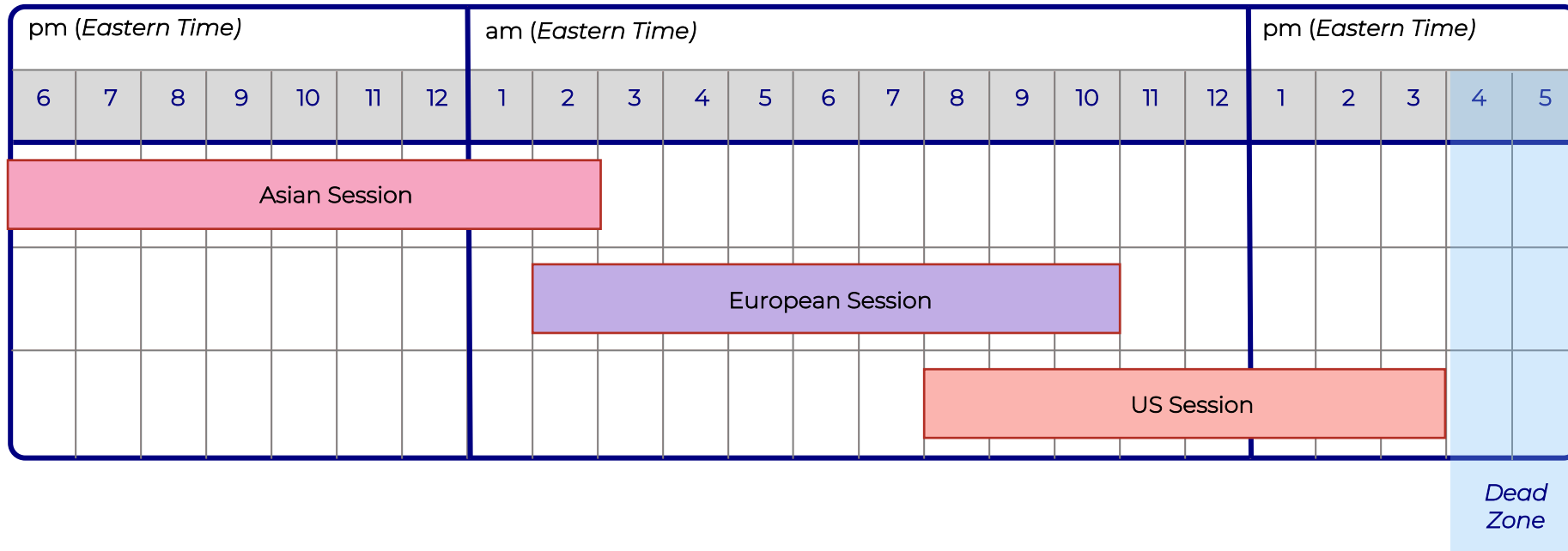
What Trading Sessions are Available?

Zone	Time Of Day	Description
1	6 pm – 3 am EST	Asian Session <ul style="list-style-type: none">• Sydney, Tokyo, etc...• Asian and European overlap
2	2 am – 11 am EST	European Session <ul style="list-style-type: none">• Frankfurt, London, etc...• Asian/European overlap• European/US overlap
3	8 am – 4 pm EST	US Session <ul style="list-style-type: none">• New York• European and US overlap
4	4 pm – 6 pm EST	Dead Zone <ul style="list-style-type: none">• Slowest time and smallest volume• No major markets open



Market Trading Sessions

The most active and volatile trading times will be when there is an overlap of sessions





Tips on Trading Times

- Look for trade setups when two sessions overlap
- Volatility can occur when a new zone starts or finishes its trading
- For Short Term Trading, try to avoid trading after European markets close on Friday or on bank holidays
- Although we get gaps Sunday the Volume is normally very light (thin) at the Open
- For Short Term Income trading always be aware of the times economic news announcements are expected
- Volume is normally very light (thin) after the US Close and the Asian session opens (Dead Zone)





Economic Reports



What are they?

- They are announcements that happen on a regular basis, normally weekly or monthly, where key figures are made public
- These figures typically represent the business environment and overall health of an economy

FOMC Meetings

Unemployment Rate

GDP - Gross Domestic Product

Trade Balance

Building Permits

Housing Starts

CPI & PPI

Consumer Confidence and more...

Most Important Reports

Importance			
High	Medium	Low	
<ul style="list-style-type: none"> • Federal Open Market Committee (FOMC) Meetings • Unemployment Rate • Unemployment Claims • Non-Farm Employment Change • ADP Non-Farm Employment Change • GDP – Gross Domestic Product • Trade Balance • Retail Sales • Durable Goods Orders • Building Permits 	<ul style="list-style-type: none"> • Housing Starts • New Home Sales • Consumer Price Index – CPI • Producer Price Index – PPI • Consumer Confidence • Consumer Sentiment • Manufacturing Purchasing Manager's Index (PMI) • Non-Manufacturing Purchasing Manager's Index (PMI) • Philly Fed Manufacturing Index 	<ul style="list-style-type: none"> • Average Hourly Earnings • Capacity Utilization Rate • Industrial Production • Factory Orders • Crude Oil Inventories • Natural Gas Storage • Business Inventories • Import Prices • Empire State Manufacturing Index • NAHB Housing Market Index • Existing Home Sales • Pending Home Sales • 10-y Bond Auction • 30-y Bond Auction 	<ul style="list-style-type: none"> • Construction Spending • ISM Manufacturing Prices • Total Vehicle Sales • Wholesale Inventories • Federal Budget Balance • Inflation Expectations • Consumer Credit • Personal Spending • Personal Income • Services Purchasing Managers' Index (PMI)

***this list is not exhaustive**



Economic Reports

Today: Mar 5				Up Next	Today			
Date	8:41am	Currency	Impact	Detail	Actual	Forecast	Previous	Graph
Thu Mar 5	2:00am	EUR	🔴	German Factory Orders m/m	-3.9%	-1.0%	4.4% ↘	
	2:58am	GBP	🔴	Halifax HPI m/m	-0.3%	-0.2%	1.9% ↘	
	4:10am	EUR	🟡	Retail PMI	46.4		46.6	
	4:59am	EUR	🟡	French 10-y Bond Auction	0.67 1.5		0.61 1.9	
	7:00am	GBP	🔴	Official Bank Rate	0.50%	0.50%	0.50%	
		GBP	🔴	Asset Purchase Facility	375B	375B	375B	
	7:30am	USD	🟡	Challenger Job Cuts y/y	20.9%		17.6%	
	7:45am	EUR	🔴	Minimum Bid Rate	0.05%	0.05%	0.05%	
	8:30am	EUR	🔴	ECB Press Conference				
		USD	🔴	Unemployment Claims	320K	293K	313K	
		USD	🔴	Revised Nonfarm Productivity q/q	-2.2%	-2.3%	-1.8%	
		USD	🟡	Revised Unit Labor Costs q/q	4.1%	3.3%	2.7%	
	10:00am	CAD	🔴	Ivey PMI		49.4	45.4	
		USD	🔴	FOMC Member Williams Speaks				
		USD	🔴	Factory Orders m/m		0.2%	-3.4%	
10:30am	USD	🟡	Natural Gas Storage		-224B	-219B		
5:30pm	AUD	🟡	AIG Construction Index			45.9		

↓ More

www.forexfactory.com



Are they Traps?

Think about the following:

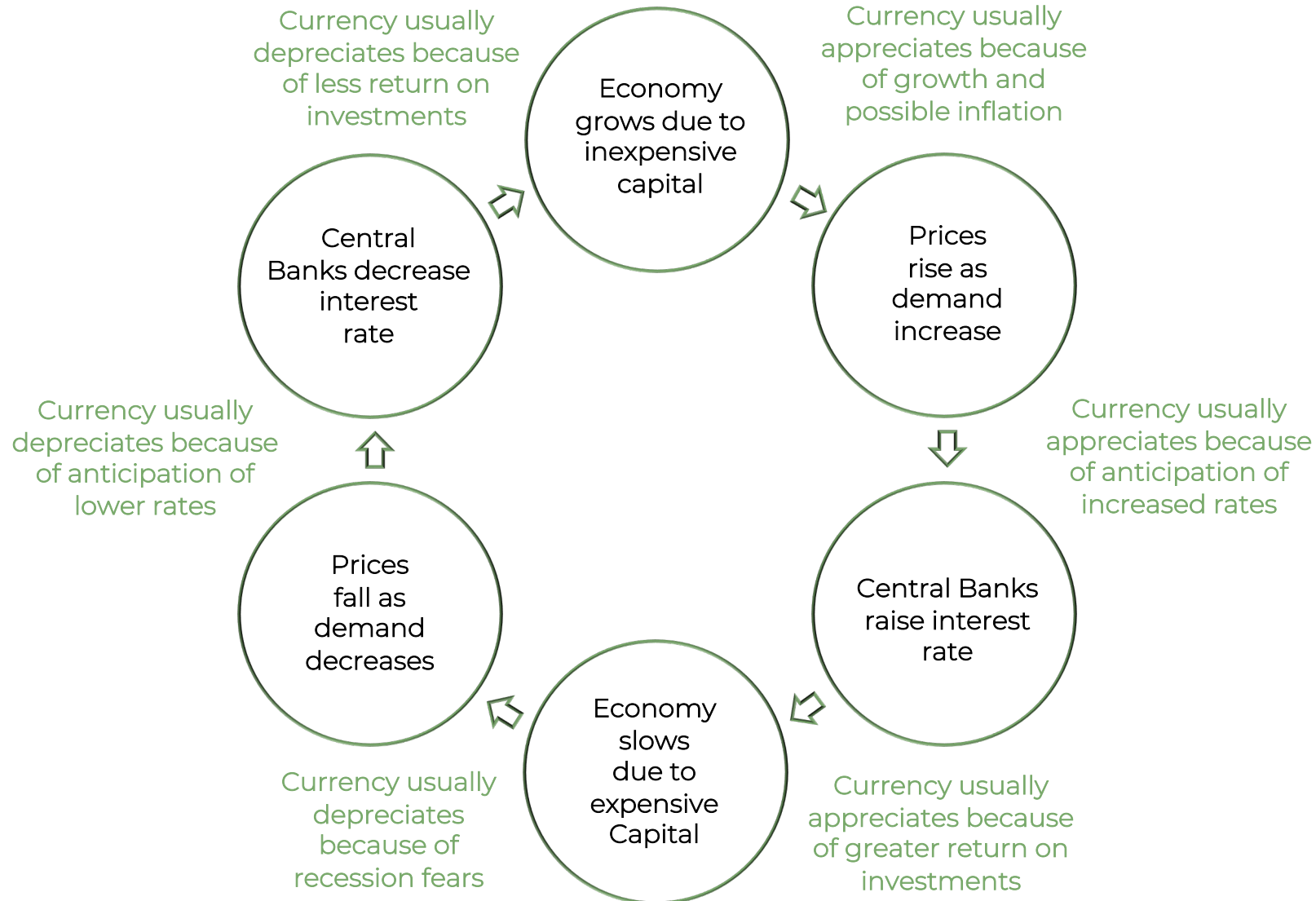
- Figures reported today refer to the prior week, month or quarter
- Sometimes Good numbers cause the market to go up, sometimes down...
- Sometimes Bad numbers cause the market to go down, sometimes up...
- Institutions have access to very expensive data feeds, therefore have the ability to initiate a move seconds or minutes before the number is released to the public via free websites





Forex Fundamentals

Interest Rates Economic Life Cycle



Major Central Banks



- Reserve Bank of New Zealand
- Reserve Bank of Australia
- The People's Bank of China
- Bank of Japan
- European Central Bank
- Swiss National Bank
- Bank of England
- Bank of Canada
- US Federal Reserve (FED)

Be aware of reports or statements released by these banks



The Federal Reserve

The Federal Reserve Bank is a private bank that controls the United States' monetary policy

Since the US Dollar is the world's primary reserve currency, Federal policies have a significant impact on currency valuations



China's Influence on Currencies

- China's GDP is one of the largest in the World
- Growth requires consumption of natural resources and finished goods, but also increases the demand for Chinese investments
- China has a strong economic influence
- Its economic reports can impact the Forex market even though its currency does not actively trade in the Forex market



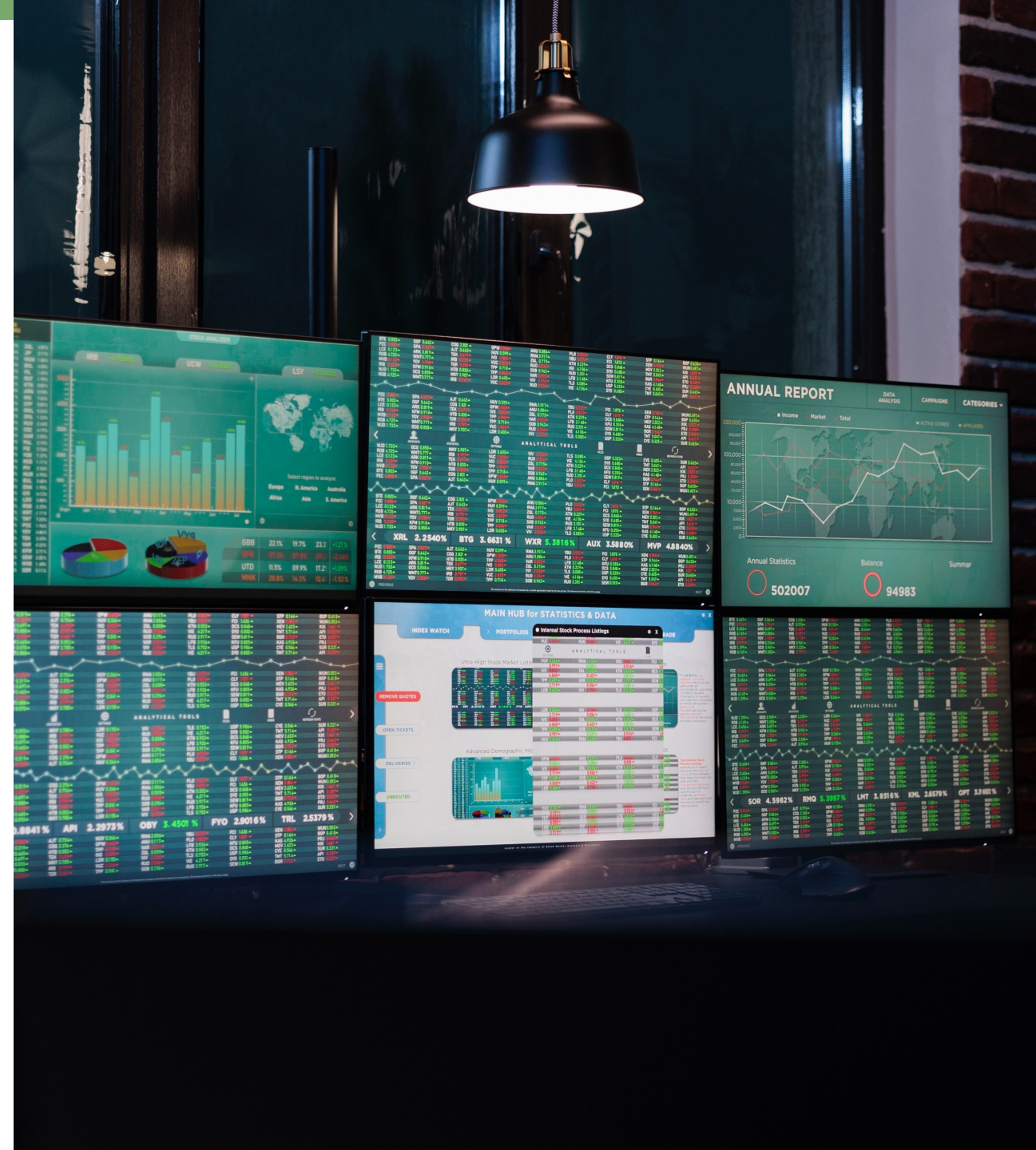
China's Currency

- China's currency is known as the Renminbi of which its principal unit is called the Yuan
- The Yuan is not freely traded as it was pegged to the US Dollar. Since 2005 however, China has allowed its value to float in a narrow range versus a basket of currencies including the US Dollar





Forex Correlations



Correlations Between Currencies

Some Currency Pairs have a strong correlation

Understanding these correlations can give an edge to the trader

The correlation should ideally be looked at on Higher Time Frames

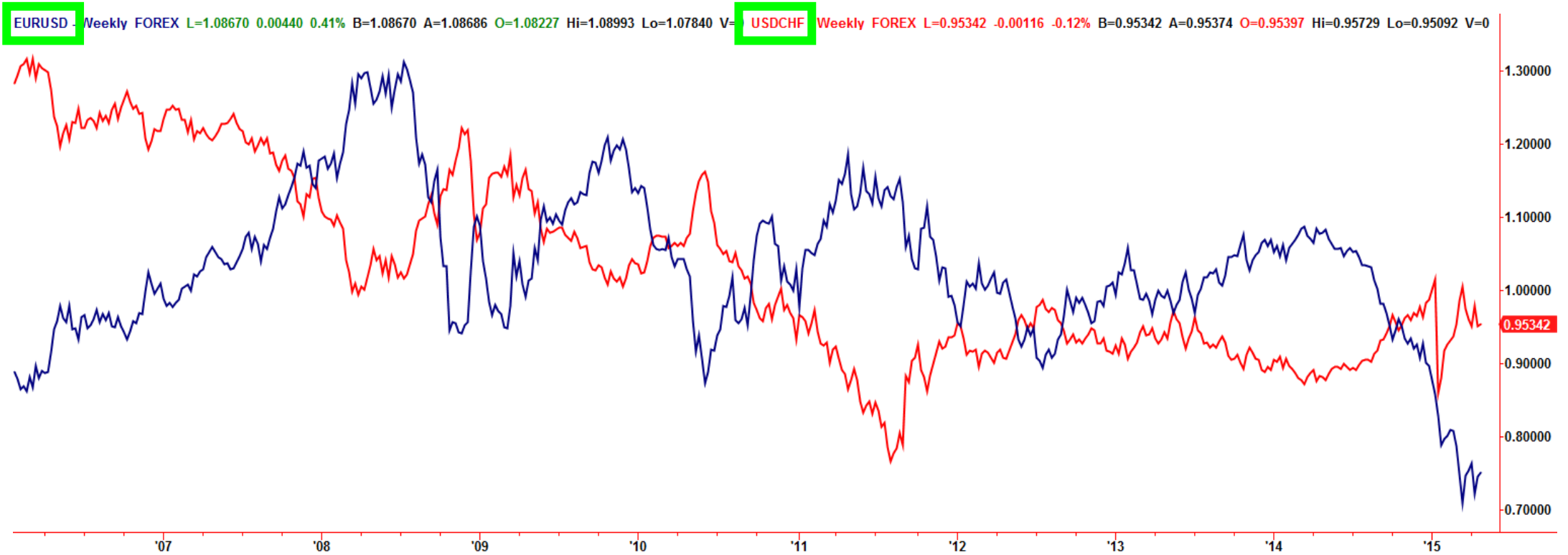
On smaller time frames, these correlations may not be very accurate nor reliable



EURUSD & USDCHF



EURUSD and USDCHF have a very strong Correlation
The Correlation is **INVERSE**

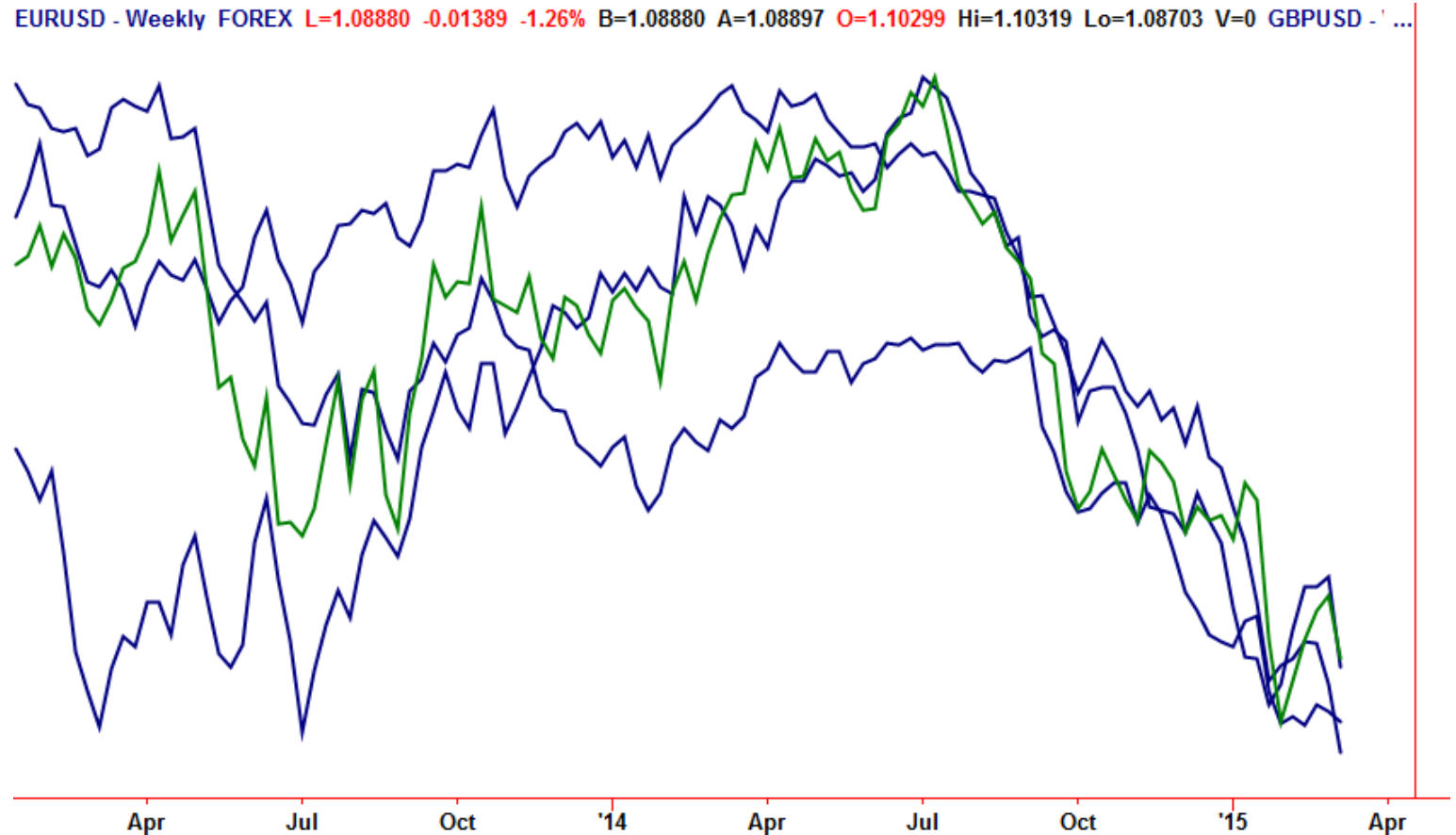


USD-quoted Currency Pairs



**The only 4
Currency pairs
that use USD as
their Quote
Currency have a
very strong
POSITIVE
Correlation:**

EURUSD /
GBPUSD /
AUDUSD /
NZDUSD

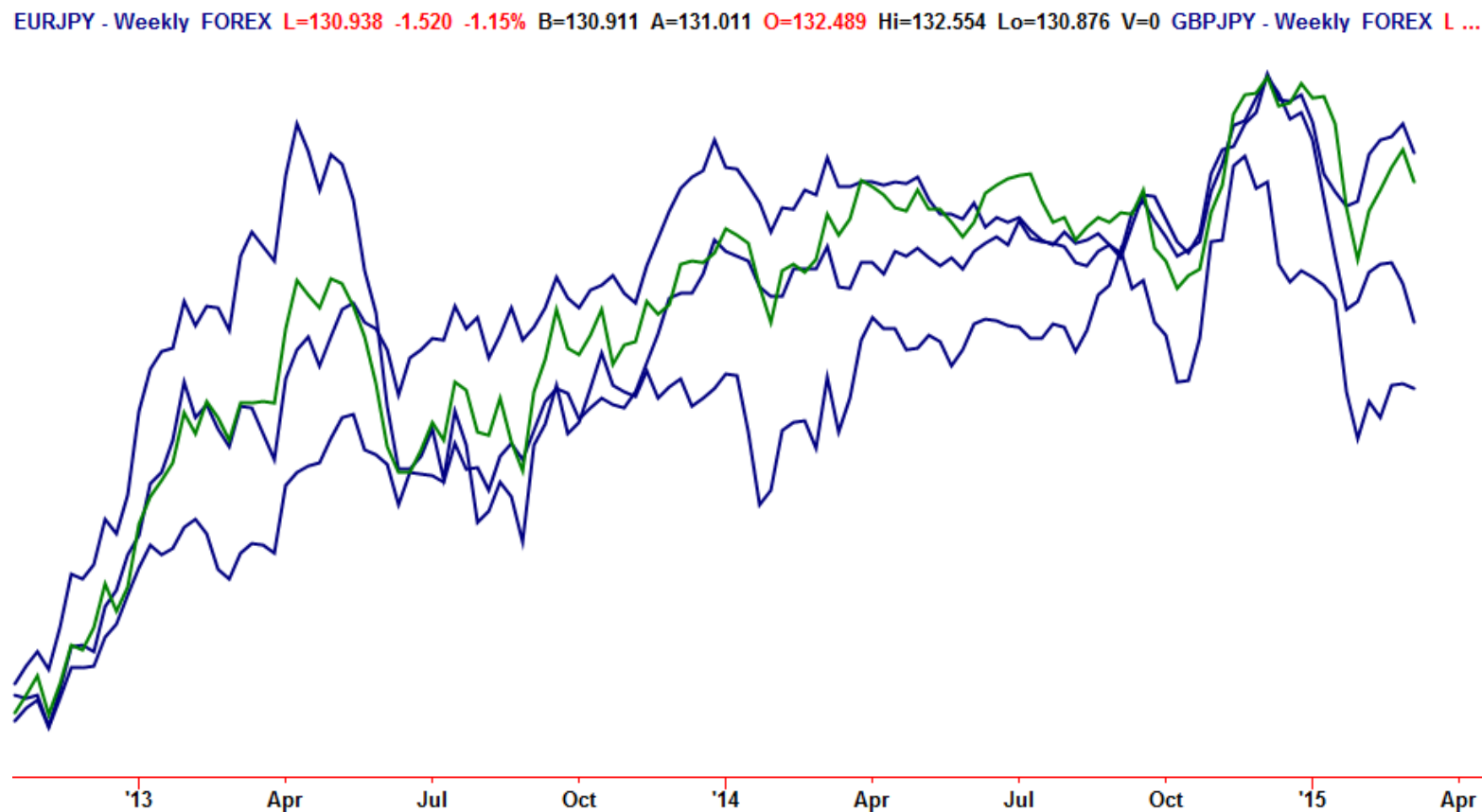


JPY-quoted Currency Pairs



The Currency pairs that use JPY as their Quote Currency have a very strong **POSITIVE Correlation:**

EURJPY / GBPJPY
/ AUDJPY /
NZDJPY / etc...



Commodities and Forex

Global commodities such as Gold, Silver, Oil, Steel, and Copper play a large role in the flow of global capital and international trade

The changes in the supply and demand for these commodities impact currencies. Why?

Purchases of commodities not only show strength and growth of an economy but also drive prices higher (Inflation/Interest Rates)



Gold-Forex Correlations

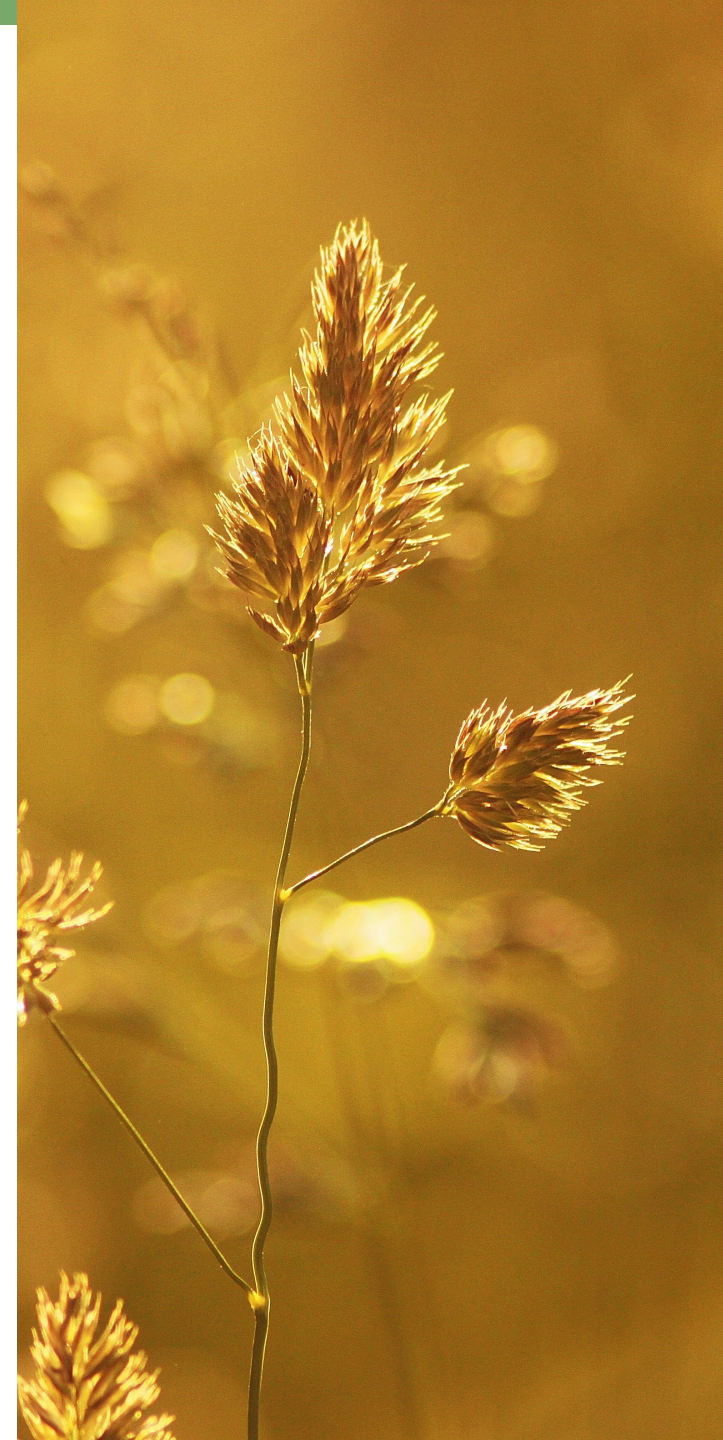
Gold is the ultimate safe haven in times of economic uncertainty. Gold also enjoys the attribute of being a speculative commodity

Causes of Fluctuation - Economic uncertainty, speculation, hedging, lack of faith in paper currencies

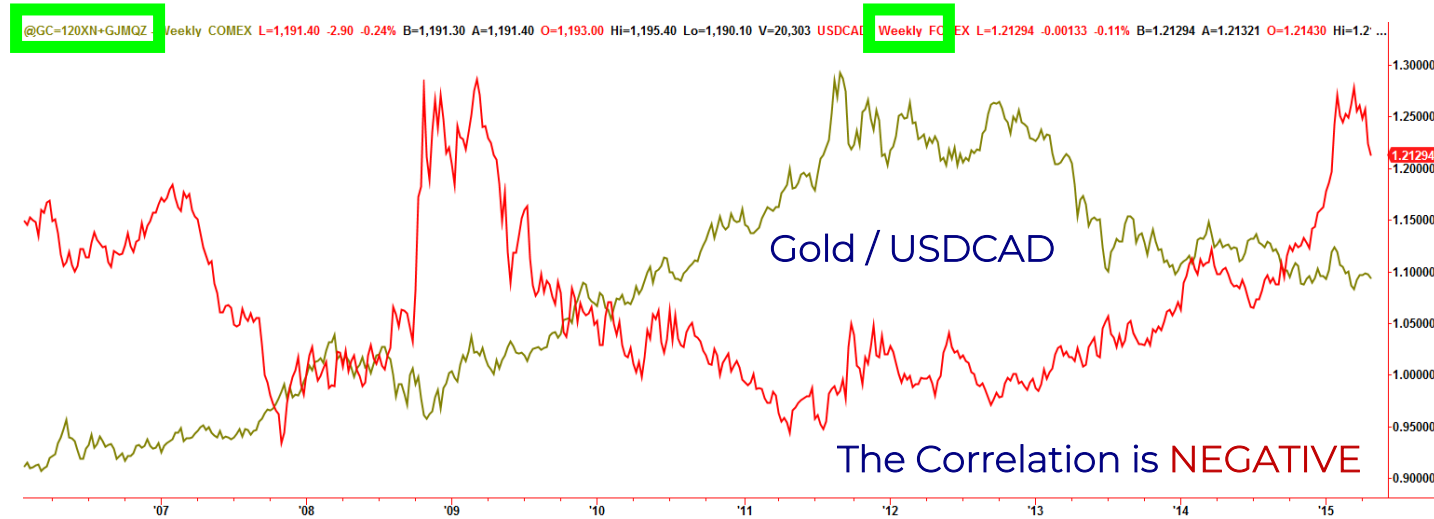
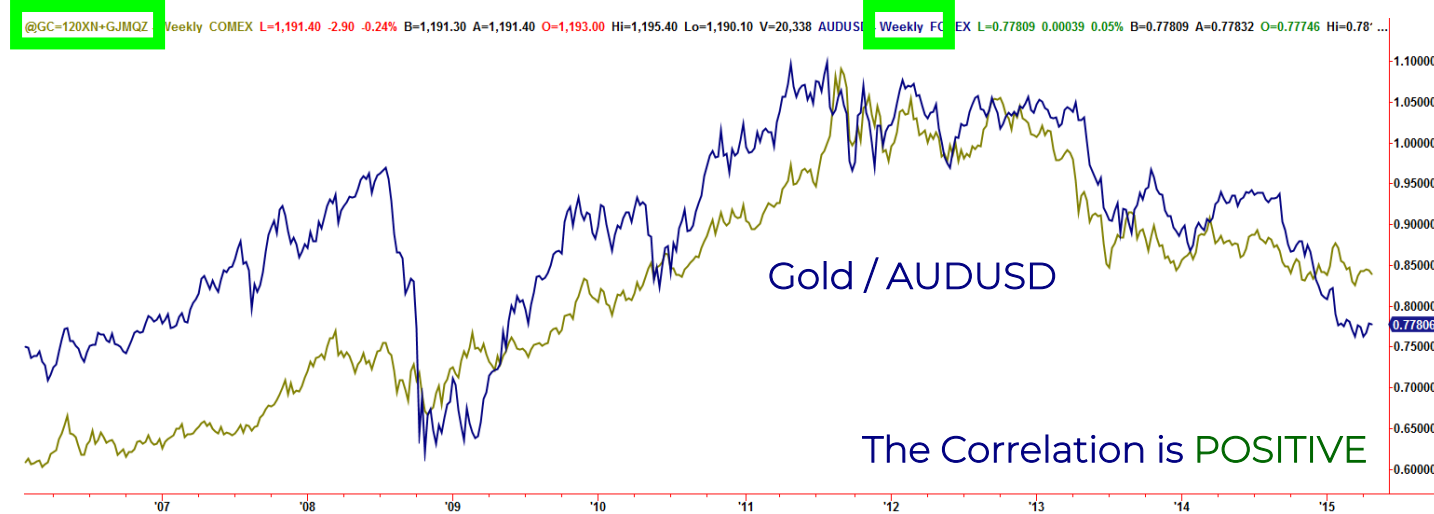
Usual Effect - When gold prices rise, it usually represents a lack of faith in currencies

Examples - Australia and New Zealand are major exporters of gold. Their currencies usually increase with greater demand

The Swiss Franc used to be backed by gold and it is a “safe haven” currency. It usually enjoys a positive correlation to gold



Gold-Forex Correlations



Oil-Forex Correlations

Oil is the lifeblood of most economies. Nearly every economy is impacted in some way by oil

Causes of Fluctuation - Demand by economies, speculation, hedging, supply by producers

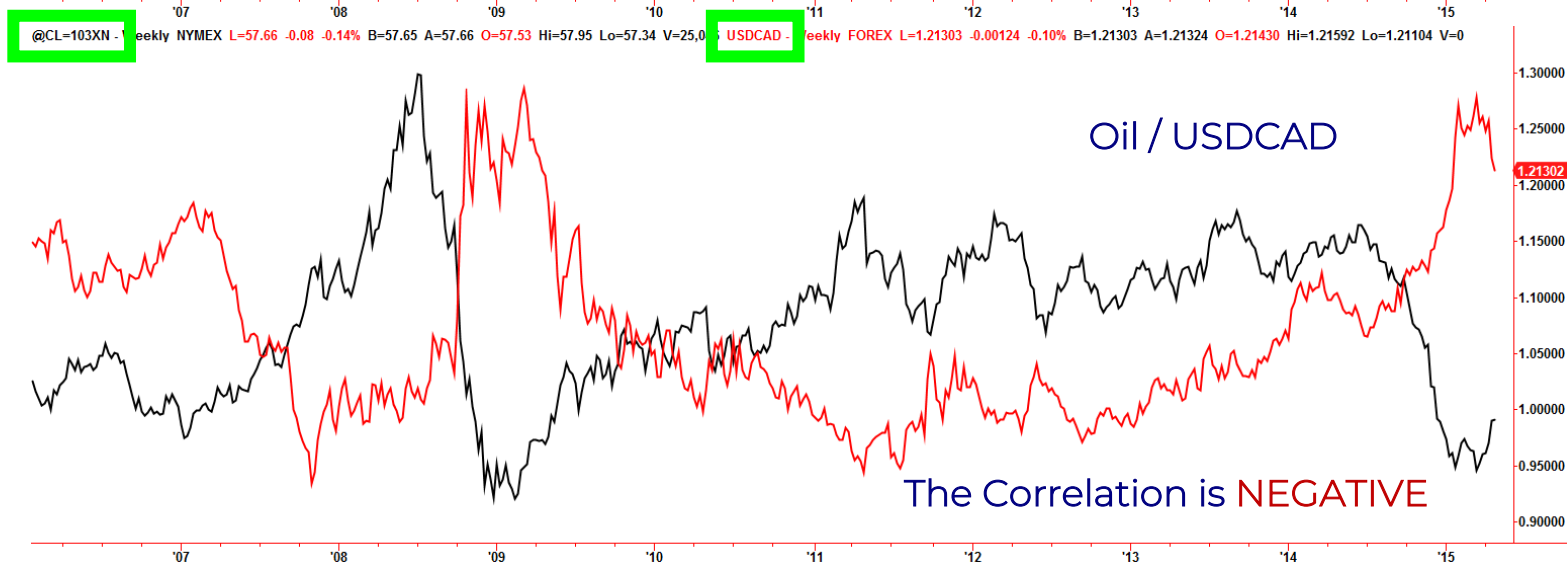
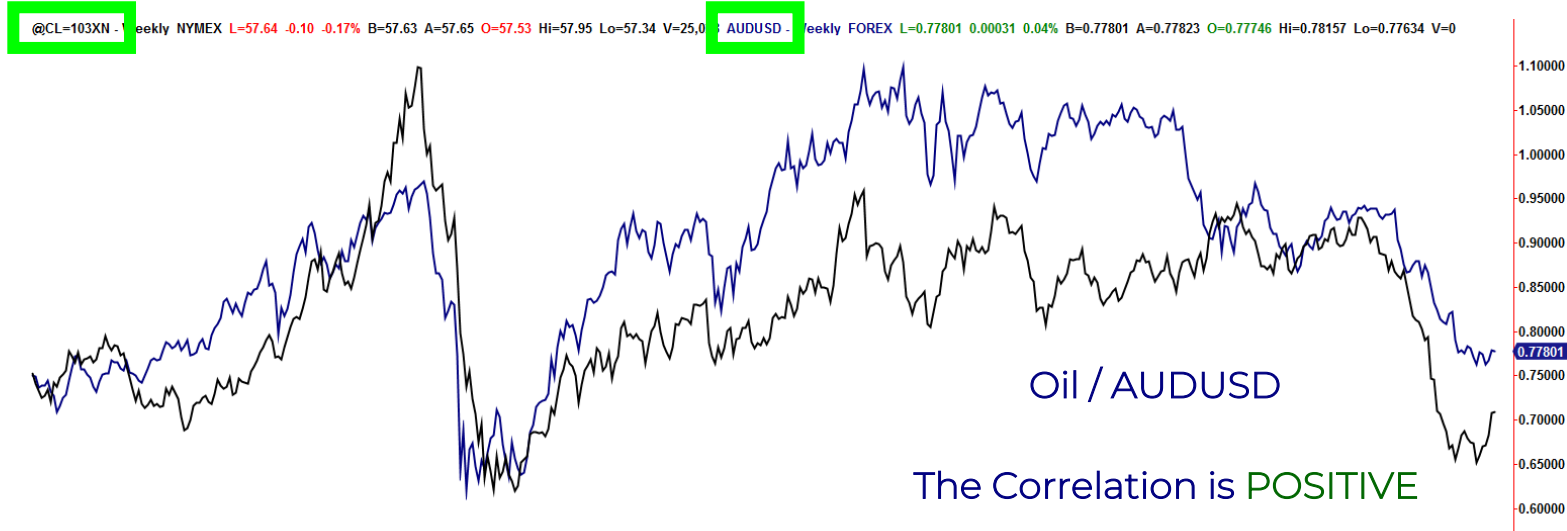
Usual Effect - When oil prices rise most economies are hurt, however, rising prices are usually synonymous with growth

Examples - Canada is a major producer of crude oil. Strong demand for crude oil means strong demand for Canadian Dollars

The US is a major importer of crude oil. Higher crude oil prices can stifle economic activity



Oil-Forex Correlations





Carry Trade











What is it?

- A Carry Trade is a trading strategy in which we **Buy** a high-yield Currency and **Sell** a low-yield Currency
- The aim is to capture Price appreciation or depreciation in a Currency, while profiting from the interest differential
- The most popular Carry Trades involves buying the Currency Pairs with the greatest interest rate differential between them

AUDJPY/NZDJPY are typical examples:

- If you were Long the Pair Interest would be credited to you
- For those shorting AUDJPY/NZDJPY, the Interest would be paid by you every day you hold the position

 NZD	3.50%
 AUD	2.50%
 CAD	1.00%
 GBP	0.50%
 USD	<0.25%
 JPY	<0.10%
 EUR	0.05%
 CHF	-0.25%



What is it?

- The Carry Trade is a Long Term Wealth strategy
- Positions are normally held for months (if not years) at a time. The cornerstone of the Carry Trade strategy is to get paid while you wait
- Short Term Income traders can also take advantage of the Carry Trade as trends in these Currency Pairs remain healthy for longer periods of time. We would look to **Buy** retracements into **Demand** or **Sell** retracements into Supply in the direction of the Carry Trade, take profits and re-engage in the next retracement back to Demand or Supply













Rollover

- Forex Brokers typically extend the settlement date of a currency position — this is known as Rollover
- The Rollover allows a trader to hold a position without taking delivery of the actual currency
- The currency position is simultaneously closed at the end of the trading day and reopened at the beginning of the new trading day (this occurs at 5 PM EST)
- Very few brokers may shutdown for a short time period at the end of the trading day. Please check with your broker



Rollover and Interest Rates

- Interest is either credited to or deducted from your account by holding positions into the next trading day
- **Central Banks set specific rates for their Currencies:**
 - As long as the Interest Rate is positive, Buying and holding a Currency into the next trading day provides a payment (it is like Buying a Currency and having that capital allocated into a local Government Bond which pays a local Interest Rate set by its Central Bank)
 - If the Interest Rate is negative the opposite is true and Buying a currency implies a cost

 NZD	3.50%
 AUD	2.50%
 CAD	0.75%
 GBP	0.50%
 USD	<0.25%
 JPY	<0.10%
 EUR	0.05%
 CHF	-0.75%



Rollover and Brokers

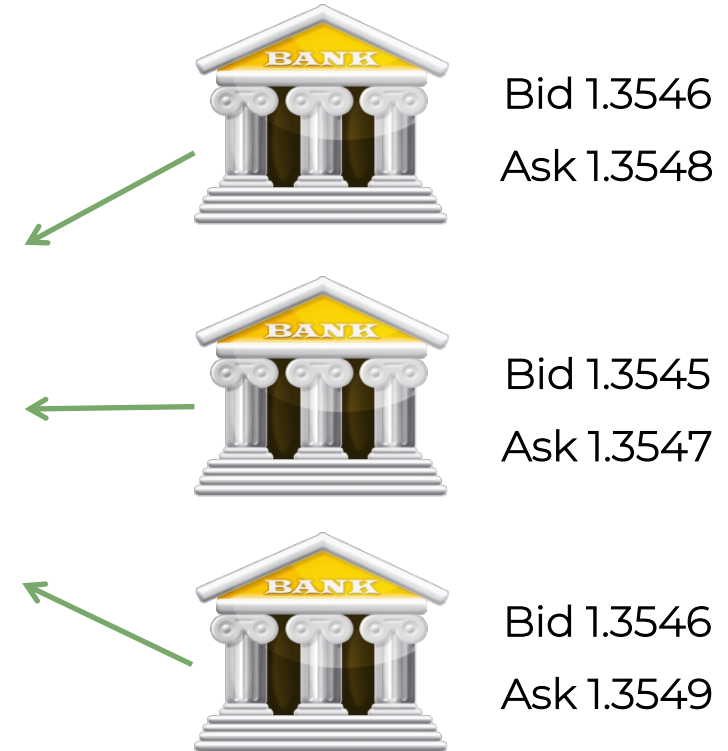
- Brokers always keep some profit out of the Rollover process in the form of arbitrage
- Islamic Brokers may allow to trade Forex without Interest Rates debited nor credited in “swap-free” Accounts
- Some Brokers refer to rollover as “financing” and will start crediting or debiting your account as soon as you open your position

TICKET	TYPE	/	MARKET	UNITS	PRICE	PROFIT (USD)
69	Financing					-0.0149
63	Financing					-0.0080
63	Financing					-0.0003

●○ How Traditional Forex Brokers Operate



Bid 1.3545
Ask 1.3549
←
→
Buy Order



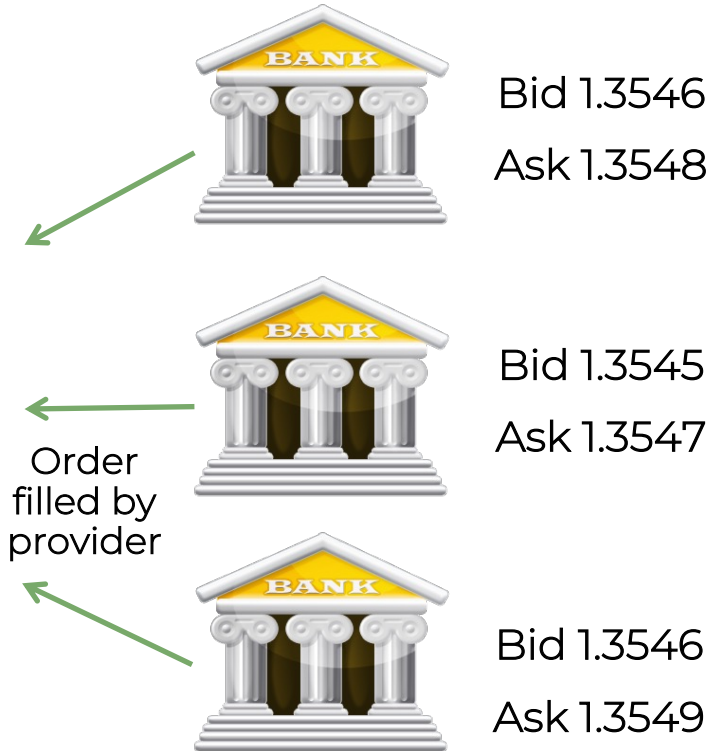
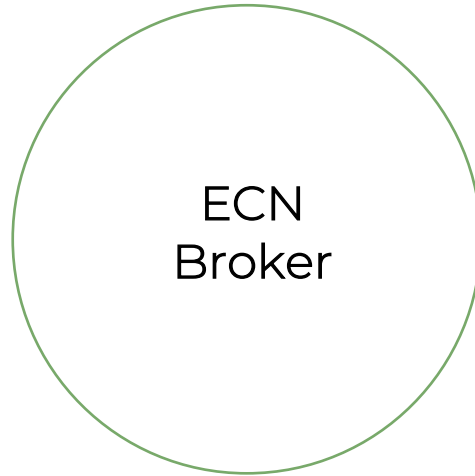
Most Brokers take the quotes from multiple banks, widen the spread, and set the market. The trader's order is typically filled by the RFED



Electronic Communications Network (ECN) Brokers



Bid 1.3545
Ask 1.3547
←
→
Buy Order



An ECN Broker simply matches the trader's order to an opposing order within its liquidity pool. The Order is typically filled by the price provider



Decimal Break Forex Trading

What is it?

Why is it important?

Decimal break structure

What is it?



Trade analysis will focus on the major decimal breaks of the US Dollar

- Pennies
- Nickels
- Dimes
- Quarters

The goal is to trade Forex within a very strict structure that does not change

Major Focus will be put on price analysis over time frame analysis



Why is it important?

Potential buy/sell areas do not change from currency pair to currency pair

More structure can lead to less emotion

Potential buy/sell areas have built in fixed risk/reward outcomes

- No guessing how much you could potentially make or lose when trade is executed
- Trading becomes a "numbers game"



Decimal Break Structure

There are 4 chart structures
for each pair traded

1. Dimes
2. Big Quarters
3. Pennies
4. Small Quarters



1.20546 1.1 1.20557

Structure #1 Dimes



Step 1: Find current price (1.2054) and locate the two closest dimes above current price and two closest dimes below current price

*****THESE WILL BE THE MOST IMPORTANT PRICES ON THIS CHART*****

1.20541 0.7 1.20548

Structure #1 Dimes



Step 2: Add and subtract 250 pips from these levels and mark them with a different color horizontal line. These new lines will be referred to as the "bodyguards"

The area between these new lines and the previous drawn line will be referred to as the "pause areas." The other space between your new lines will be referred to as the "butter."

1.20550 0.9 1.20559

Structure #1 Dimes

1.46000
1.44000
1.42500
1.40000
1.38000
1.37500
1.36000
1.35000
1.34000
1.32500
1.30000
1.28000
1.27500
1.26000
1.25000
1.24000
1.22500
1.20550
1.20000
1.18000
1.17500
1.16000
1.15000
1.14000
1.12500

Wild Card

Wild Card

Wild Card

Step 3: Draw a different color final line in between your first lines. This line will line up on the Nickels. This level will be referred to as the "Wild Card"

8 2020 Jul 2021 Jul 2022 Jul 2023 Jul 2024 Jul 2025



British Pound / U.S. Dollar - 1W - FXCM - TradingView 19 H 1.21482 L 1.20500 C 1.20540 -0.00779 (-0.64%) USD ~



1.20537

1.5

1.20552

1.42500

1.42000

Potential buy with break above

1.40000

Potential sell with break below

1.38000

1.37500

Butter- Path of least Resistance

1.36000

1.34000

1.32500

1.32000

Potential buy with break above

1.30000

Potential sell with break below

1.28000

1.27500

Red line to Red line is the Main Focus
Break (close) above top green is buy signal
Break (close) above bottom green is sell signal
ULTIMATE target is opposing red (reset)

Butter- Path of least Resistance

1.26000

1.24000

1.22500

1.22000

Potential buy with break above

1.20537

1.20000

Potential sell with break below

1.18000

1.17500

May

Sep

2021

May

Sep

2022

May

Sep

2023

May

Sep

2024



1.20559 1.0 1.20569

Trade analysis for potential short

No close above - No Buy signal

Close below - sell signal- lower bodyguard is limit price targeting group below

No close below - no signal

Target area for short



British Pound / U.S. Dollar - 1W - FXCM - TradingView ● O1.21319 H1.21482 L1.20500 C1.20559 -0.01

1.20559

1.0

1.20569

Trade analysis for potential long



1.17619 2.2 1.17641

Structure #2 Big Quarters



Step 1: Find current price (1.1768) and locate the two closest Big Quarters above current price and two closest Big Quarters below current price

THESE WILL BE THE MOST IMPORTANT PRICES ON THIS CHART

1.17623

2.5

1.17648

Structure #2 Big Quarters



Step 2: Add and subtract 75 pips from these levels and mark them with a different color horizontal line. These new lines will be referred to as the "bodyguards"

The area between these new lines and the previous drawn line will be referred to as the "pause areas." The other space between your new lines will be referred to as the "butter."

18

25

Aug

8

15

22

26

Sep

12

19

⚙️

British Pound / U.S. Dollar - 4h - FXCM - TradingView ● O1.18207 H1.18286 L1.18179 C1.18278 +0.00071 (+0.06%) USD ~

1.18275 0.9 1.18284



Green: Go (execute here)
Red: Reset (stop or Take profit)
Butter: No nothing- No trade



1.18319

0.7

1.18326



Red line to Red line is the Main Focus
 Break (close) above top green is buy signal
 Break (close) above bottom green is sell signal
 ULTIMATE target is opposing red (reset)

25

Aug

8

15

22

26

Sep

12

19



1.23500

1.23250

1.23000

1.22500

1.22000

1.21750

1.21500

1.21000

1.20750

1.20500

1.20000

1.19500

1.19250

1.19000

1.18500

1.18319

1.18250

1.17500

1.17000

1.16750

1.16500

A close-up photograph of a person's hands holding a pair of tortoiseshell glasses. The person is wearing a silver ring on their left hand. A green square graphic is overlaid on the right side of the image, with four white lines extending from its corners towards the center of the glasses. The background is blurred, showing a white shirt and a dark jacket.

Effective Leverage

Determining
the appropriate
position size

Discussion Topics

- What is effective leverage?
- Calculating effective leverage
- How much effective leverage should I use?
- Is my position size appropriate for my defined zone?
- Considerations for determining position value
- Effective Leverage and profitability statistics



What is Leverage?





Leverage refers to using a small amount of one thing to control a larger amount of something else

Effective leverage in financial markets refers to how many times you are ACTUALLY leveraging your money when opening trading positions

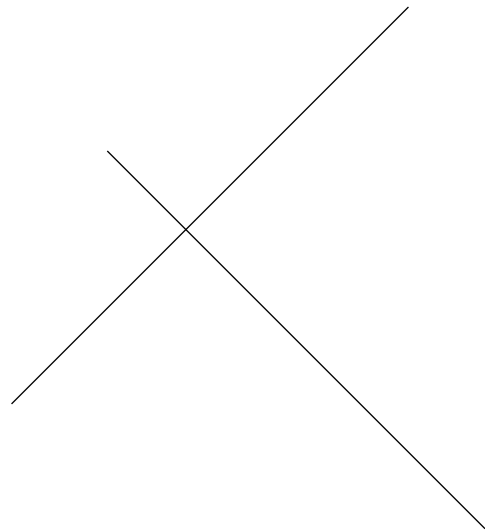
Effective leverage is a double-edged sword. It allows for strong potential returns, but can also result in significant losses when not used properly

Calculating Effective Leverage



2 factors that impact your effective leverage:

1. Value of your positions
2. Account equity



There are 2 equations to determine effective leverage:

1. What is my position value?

Value of position = Price (exchange rate USD) x position size

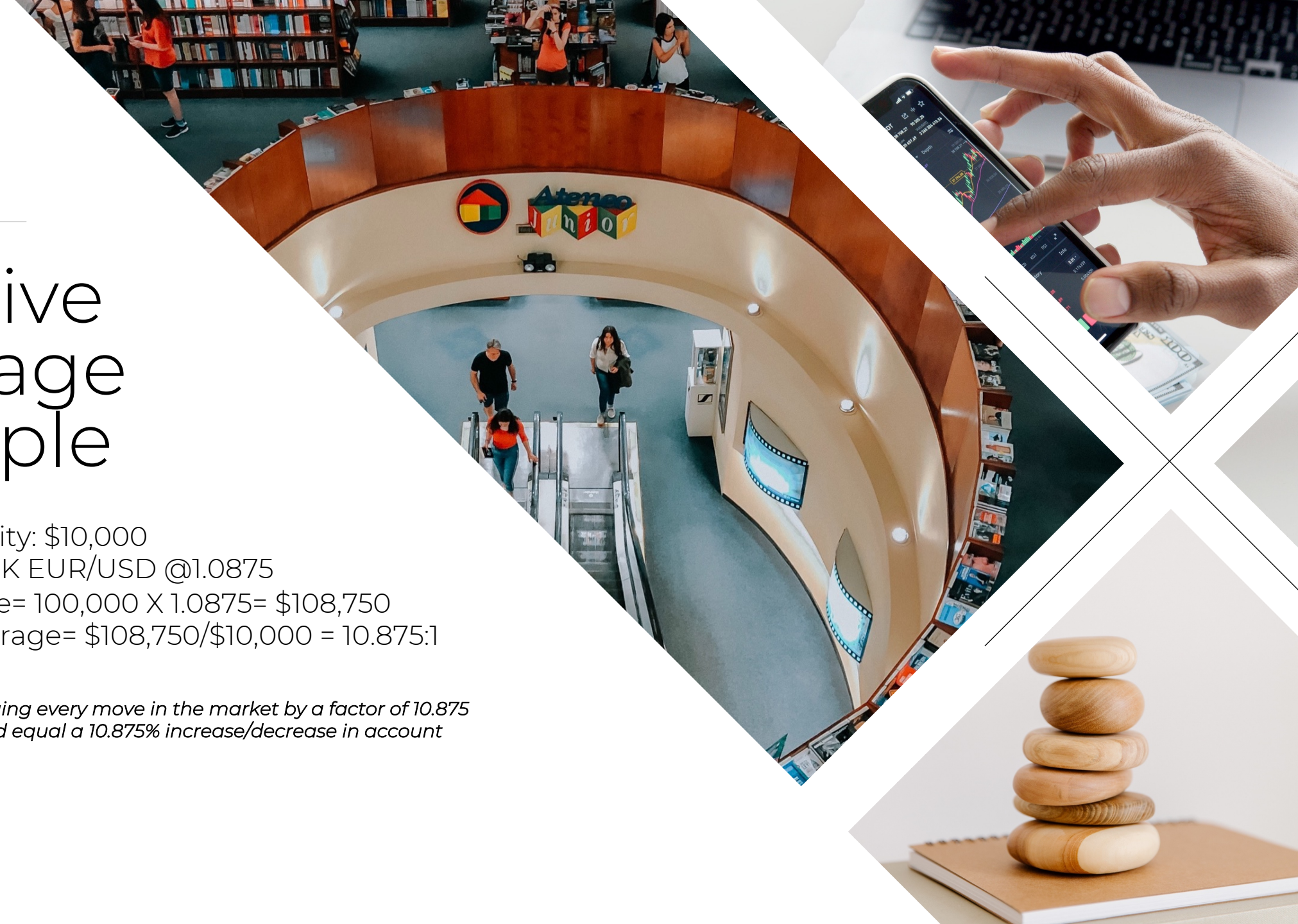
2. What is my Effective leverage?

Effective leverage = Total position value / account equity


Effective Leverage Example

- Account Equity: \$10,000
- Buy/Sell \$100K EUR/USD @1.0875
- Position value= $100,000 \times 1.0875 = \$108,750$
- Effective leverage= $\$108,750 / \$10,000 = 10.875:1$

This means I'm leveraging every move in the market by a factor of 10.875 times. A 1% move would equal a 10.875% increase/decrease in account equity!!!



Excessive Leverage can Lead to Outsized Losses



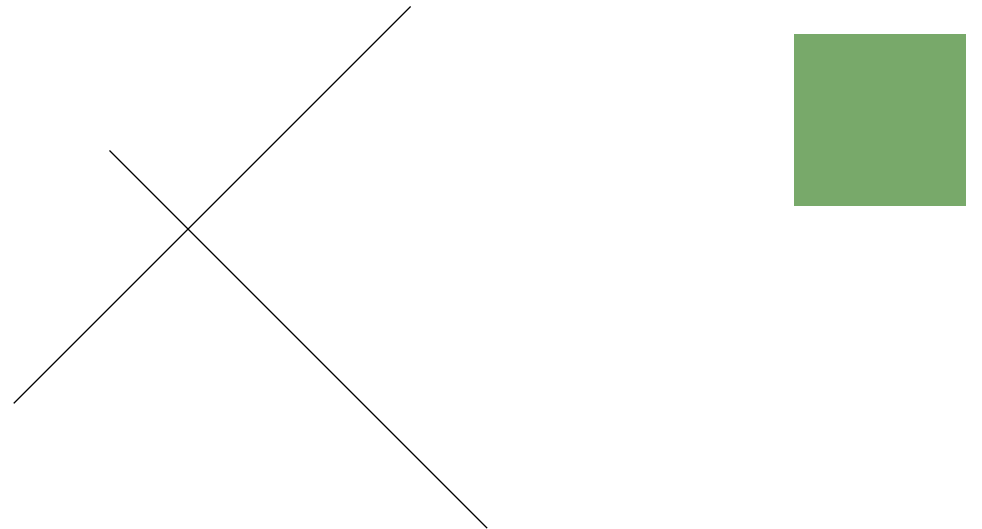
	TRADER A	TRADER B
Account Equity	\$10,000	\$10,000
Position Value	\$500,000 (Buys 500K Worth of EUR/USD)	\$50,000 (Buys 50K Worth of EUR/USD)
Leverage Used	50:1 (50 times)	5:1 (5 times)
100 Pip Loss in Dollars	-\$5,000	-\$500
% Loss of Equity	50.0%	5.0%
% of Equity Remaining	50.0%	95.0%

Big gains are nice but big losers can be difficult to recover from and take time!



- There is a strong relationship between leverage and its impact on trader profitability
- Greater leverage= greater swings (up and down) to your account equity
- Smaller leverage= smaller swings (up and down) to your account equity
- Access to a higher amount of leverage does not mean you want to use a lot of it!

How do
I know how
much leverage
to use?





How much effective leverage should I use?

- The appropriate amount of leverage for you will be based on your risk appetite. Every trader is different
- More conservative traders may utilize 3 to 1 or less.
- An aggressive trader may utilize effective leverage amounts closer to 3-5 range
- Very aggressive traders may utilize effective leverage amounts in the 5-10 range
- Leveraging over 10:1 should typically be avoided as it can lead to quick and large drawdowns in account equity!

Is my position Size appropriate for my zone?

Example (cont):

- Account equity: \$10,000
- Max risk per trade (2%)= \$200
- Hypothetical zone for trade: 25 pips
Position size= $\$200 / .0025 = 80,000$ (number of units)

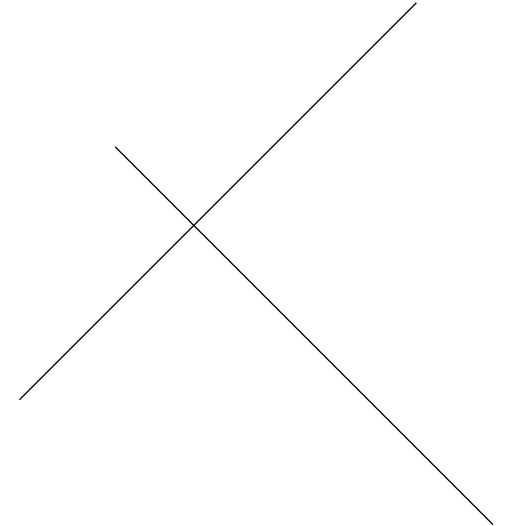
Position value = $80,000 \times 1.0875$ (EUR/USD exchange rate)= \$87,000

Effective leverage= $\$87,000 / \$10,000 = 8.7:1$

This leverage would magnify the move in the market 8.71 times and could be considered very risky for a zone of 25 pips. Less \$ risked would be the appropriate action for a zone of this size

Remember, the smaller a zone is, the better chance you have of being stopped out. It would not take too many of these stop outs to cause significant drawdowns to your account equity.

What would my effective leverage be if I wanted to risk the same \$200 over 75 pips?



Is my position Size appropriate for my zone?

Example (cont):

- Account equity: \$10,000
- Max risk per trade (2%)= \$200
- Hypothetical zone for trade: 75 pips
Position size= $\$200 / .0075 = 26,666$ (number of units)

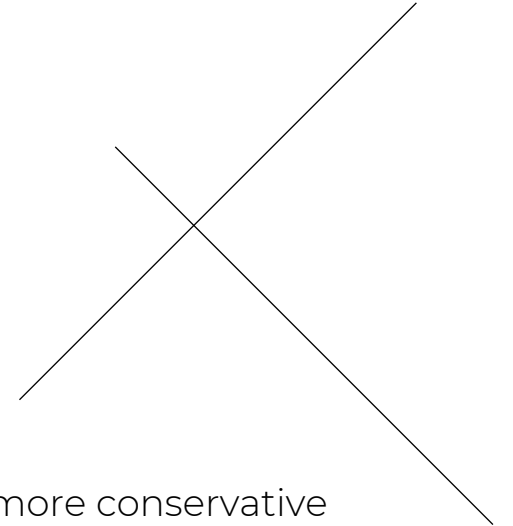
Position value = $26,666 \times 1.0875$ (EUR/USD exchange rate)= \$29,000

Effective leverage= $\$29,000 / \$10,000 = 2.9:1$

This leverage would magnify the move in the market 2.9 times and could be considered a more conservative leverage for your trade

Remember, the bigger a zone is, the better chance you are giving your trade to work out

The lower the effective leverage is, the safer you are trading!!!!!!!



Not all Forex pairs can be treated as equals

- The Forex pair you choose to trade will have a major impact on the effective leverage you are using in your account
- The more valuable a currency is relative to the USD, the more effective leverage you will be using and there is greater potential for bigger and faster moves (GBP, EUR)
- The cheaper a currency is relative to the USD, the less effective leverage you will be using and moves may be slower and take longer to complete (NZD,CAD,AUD)
- The more valuable a currency is relative to the USD, the more difficult it can be to trade smaller zones



Forex Pair Comparison example

Account equity: \$10,000

Buy/Sell GBP/USD 50K @1.2925

Position value: $50,000 \times 1.2925 = \$64,625$

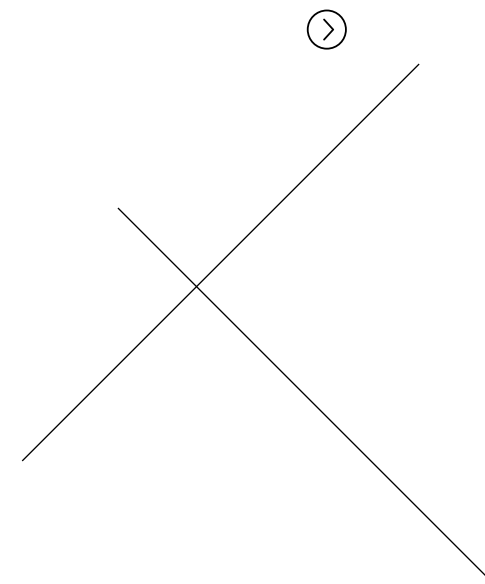
Effective leverage: $\$64,625 / 10,000 = 6.46:1$

Buy/Sell NZD/USD 50K @.6824

Position value: $50,000 \times .6824 = \$34,120$

Effective leverage: $\$34,120 / \$10,000 = 3.4:1$

Even though both these position sizes are the same, the GBP offers greater effective leverage and an increased risk of a trade not working out if both the GBP/USD and NZD/USD zones were the same size. Greater effective leverage can lead to greater losses, faster moves, and more stop outs.





Considerations Concerning Position Value

All position values MUST be calculated to USD (assuming your account equity is USD). Our goal is to find out how much our trades are worth in the currency our account is denominated in

- Any pair that USD is the quote currency: EUR/USD, GBP/USD, AUD/USD, NZD/USD does not need to be converted. Use spot price for position value formula
- Any pair that has USD as the base currency: USD/JPY, USD/CAD, USD/CHF will have an exchange rate = \$1

What is the position value of a buy/sell of \$30K USD/JPY?

Position value = $30,000 \times \$1 = \$30,000$

Think about it? We want to know how much our trade is worth in USD and the base currency of our trade is already USD





Considerations Concerning Position Value

All position values MUST be calculated to USD (assuming your account equity is USD). Our goal is to find out how much our trades are worth in the currency our account is denominated in

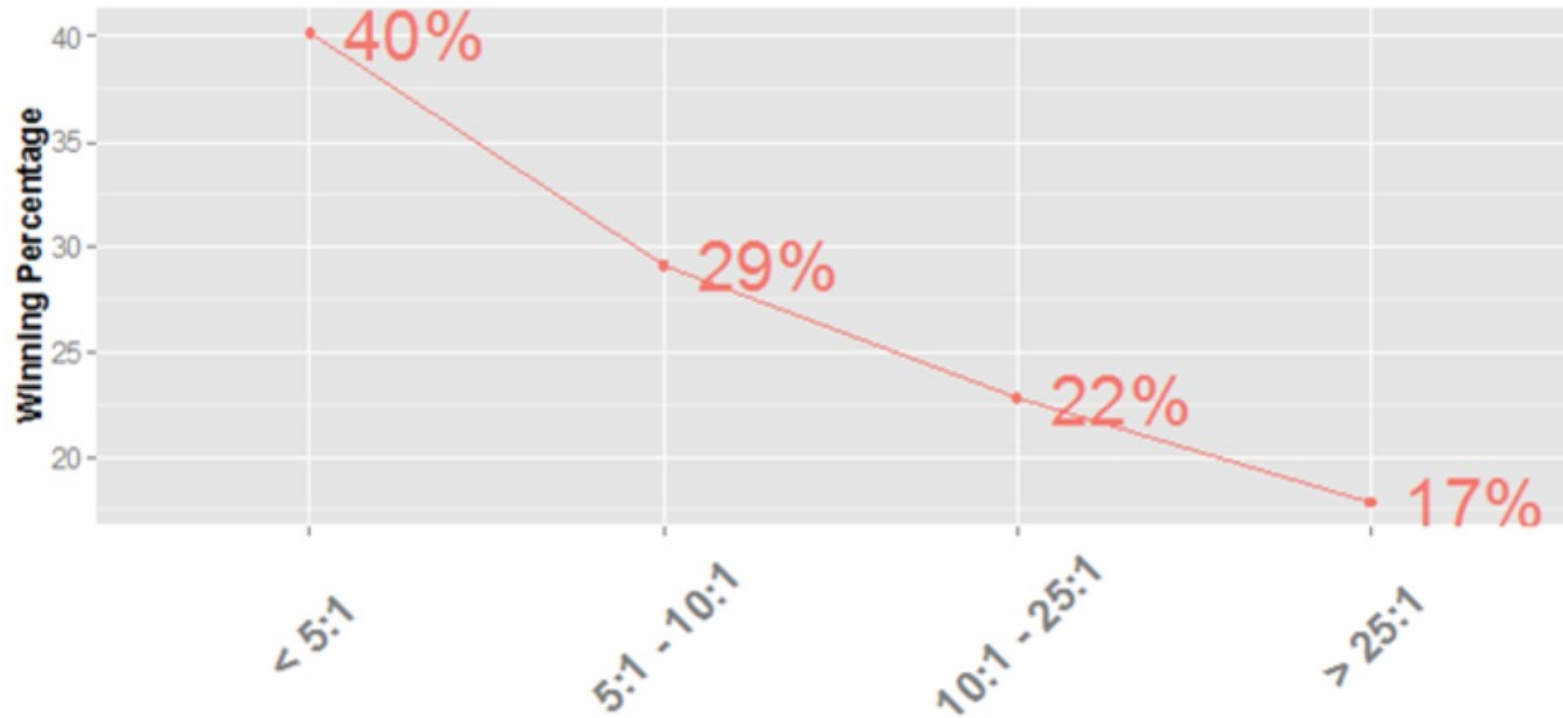
- Any pair that is NOT involving the USD will need to have the trade value converted to USD. VERY IMPORTANT. Think cross pairs!
- To find the value of a cross pair position we must focus on the base of the currency pair we are trading.
 - Ex. If I was trading EUR/AUD, I would need to use the EUR/USD exchange rate for my position value equation.

Think about it - I don't need to know what Euros are worth in Australia if my account is denominated in USD.

Any EUR cross pair (EUR/GBP, EUR/AUD, EUR/NZD etc.) would use the EUR/USD for our equation.

Effective Leverage and trader profitability

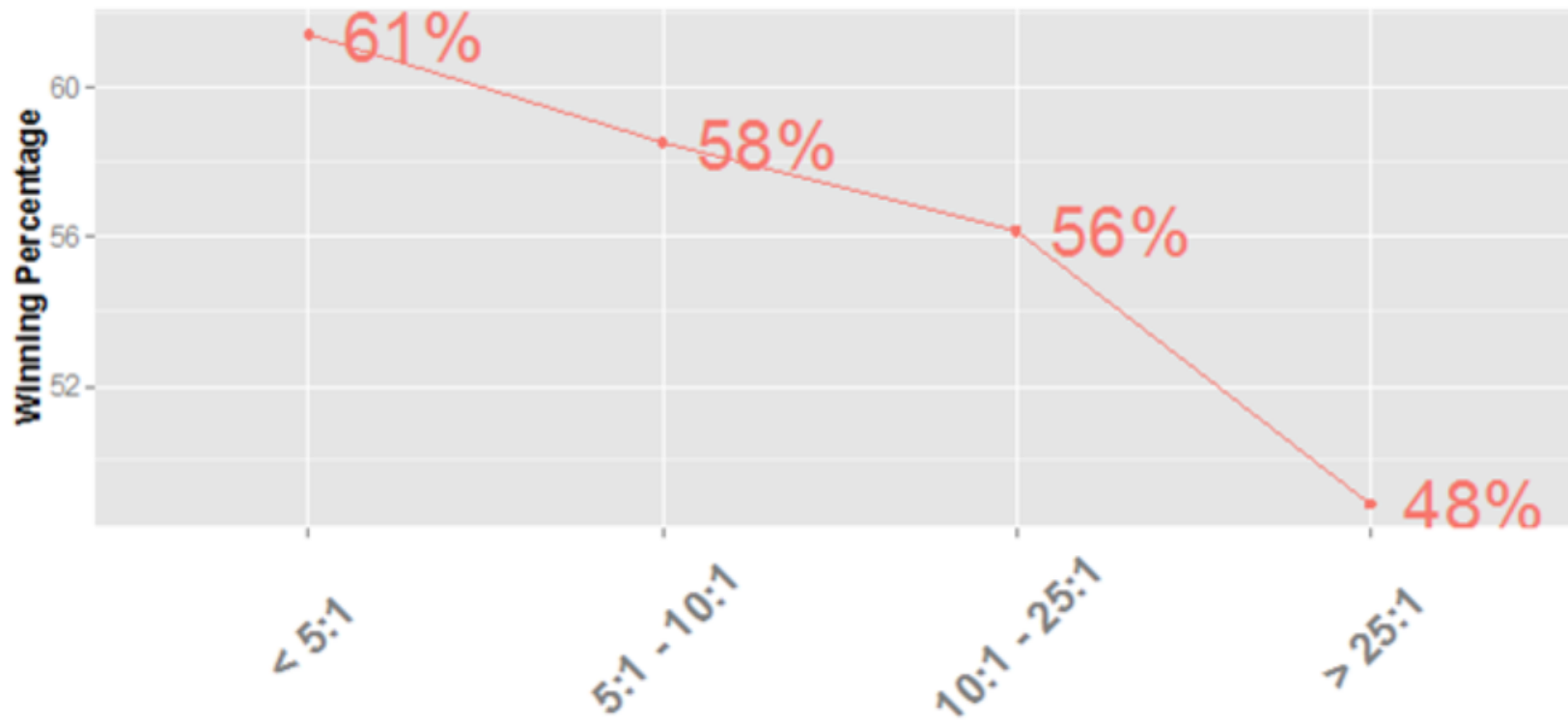
Percentage of Profitable Traders Grouped by Average Effective Leverage Used



**Data derived from DailyFX's "Traits of a Successful Trader"

Effective Leverage and trader profitability

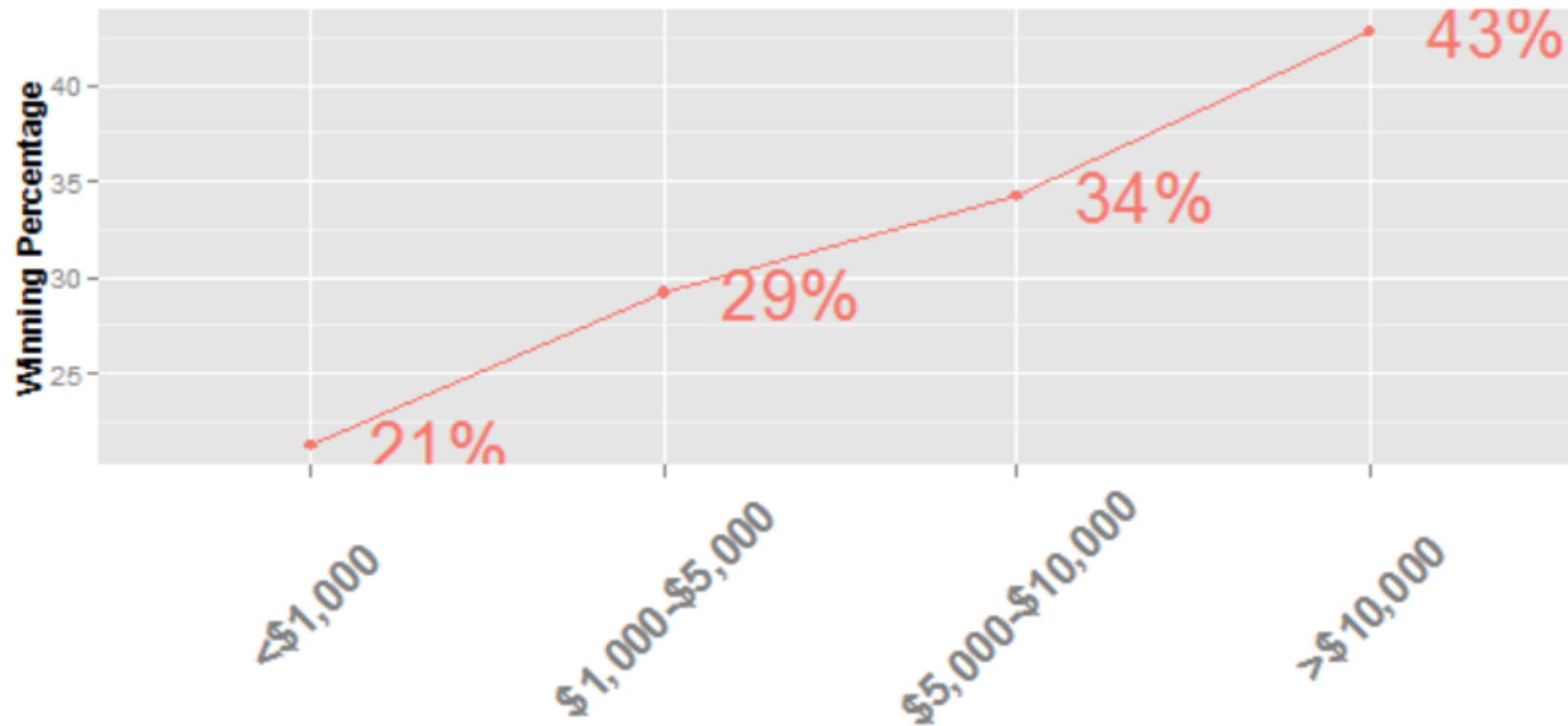
Individual Trade Winning Percentage Became Worse as Leverage Increased



**Data derived from DailyFX's "Traits of a Successful Trader"

Effective Leverage and trader profitability

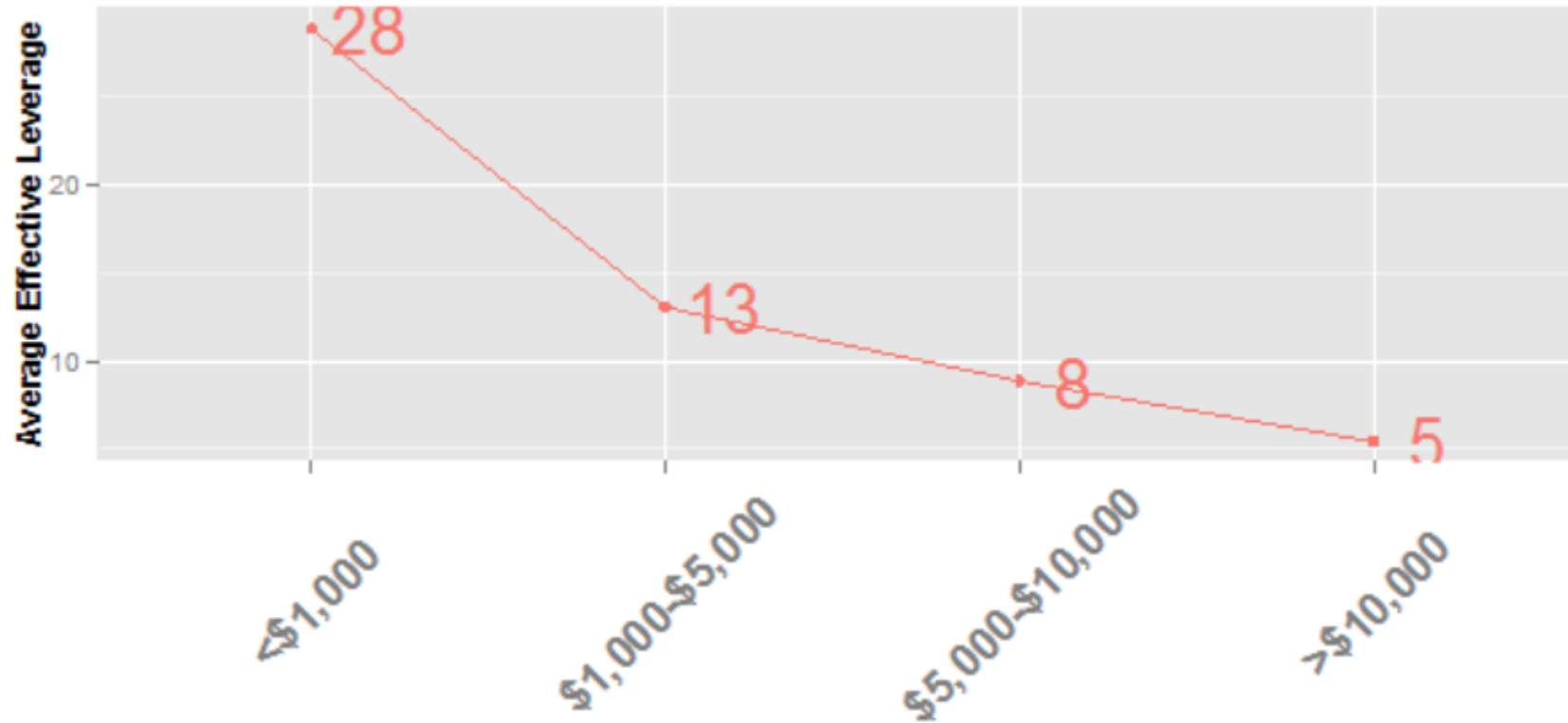
Percentage of Profitable Traders Grouped by Average Trading Equity



**Data derived from DailyFX's "Traits of a Successful Trader"

Effective Leverage and trader profitability

Average Effective Leverage Used by Average Trading Equity



**Data derived from DailyFX's "Traits of a Successful Trader"

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