FOREX
Trading for Beginners

An Introduction to the World of Dreams and Tragedies...

Owen Jones

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by

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Table of Contents

1: Introduction to Forex Trading: Understanding the Basics
2: Essential Tools for Forex Trading: A Beginner’s Guide
3: How To Be Successful At Forex Day Trading
4: Five Easy Steps For Creating Profitable Forex Trading Systems
5: How To Educate Yourself In Forex Trading
6: How to Read a Forex Chart
7: Choosing an Online Forex Trading System
8: How to Find a Forex Broker
9: Reading Forex Charts: A Comprehensive Beginner’s Guide
10: Forex Trading Strategies
11 Common Forex Trading Strategies: Which One is Right for You?
12: Important Facts about the Forex Trading System
13: The Internet And Forex Trading
14: The Advantages Of Forex Trading Training
15: Practising in the Forex Market
16: Top 20 Terms You Need To Know To Trade Forex
17: Market Indicators For Forex Trading
18: The Major Components Of A Forex Trading Strategy
19: The Importance of Forex Trading Courses
20: What is a Forex Robot?
21: Who Are the Big Players on the Forex Currency Market?
22: Managing Risk in Forex Trading: Protecting Your Investment
23: The First Truth of Forex

1: Introduction to Forex Trading: Understanding the Basics

Forex trading, also known as foreign exchange trading or simply FX trading, is the exchange of one currency for another at an agreed exchange price on the over-the-counter (OTC) market. Forex trading takes place in a decentralised network of banks, corporations, and individuals, which makes it the largest and most liquid financial market in the world, with daily trading volumes exceeding $5 trillion.

If you are new to Forex trading, it's important to understand the basics before you start trading. In this article, we'll introduce you to some key concepts and terminology related to Forex trading.

Currency Pairs: Forex trading involves the buying of one currency while selling another currency simultaneously. These currencies are always traded in pairs, such as EUR/USD, GBP/JPY, or AUD/NZD. The first currency in the pair is the base currency, while the second currency is the quote currency. The exchange rate represents the value of the base currency relative to the quote currency.

Market Participants: The Forex market is made up of a variety of participants, including central banks, commercial banks, hedge funds, investment firms, retail Forex brokers, and individual investors. These participants trade currencies for various reasons, such as hedging, speculation, and commercial purposes.

Market Hours: Forex trading is a 24-hour market that operates five days a week. The market opens in Sydney, Australia on Monday morning (Sunday night in New York) and closes in New York on Friday afternoon (late Friday night in Sydney). However, trading hours can vary depending on the currency pair and the local market hours.

Leverage and Margin: Forex trading involves the use of leverage, which allows you to trade larger positions with a smaller amount of capital. Leverage is expressed as a ratio, such as 50:1 or 100:1, which means that for every dollar of capital you have, you can trade up to 50 or 100 dollars in the market. However, leverage can also increase your losses if the market moves against you.

Margin: is the amount of money you need to have in your account to open and maintain a trading position. Margin requirements depend on the leverage ratio, the currency pair, and the size of the trade.

Pip and Spread: Pip is short for “percentage in point” and is the smallest price movement that a currency pair can make. Most currency pairs are quoted to four decimal places, so a pip is 0.0001 or 1/100th of 1%. The value of a pip depends on the currency pair and the lot size.
Spread: is the difference between the bid price and the ask price of a currency pair. The bid price is the highest price that a buyer is willing to pay for a currency, while the ask price is the lowest price that a seller is willing to accept. The spread is the transaction cost that a trader incurs when entering and exiting a position.
Forex trading is a complex and dynamic market that requires knowledge, experience, and disciplined risk management. As a beginner, it’s important to educate yourself and practice trading with a demo account before investing real money. Always remember to use leverage and margin responsibly and to manage your risk effectively.

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