Trading Foreign Exchange(Part 2)

A Day in the Life of a Forex Trader

Are you looking into breaking into the field of professional foreign exchange trading? Or are you already a forex trader doing it regularly? Either way, this article may be of interest to you.

The forex trader is a different breed of human being. They utilize the markets to earn a living everyday. We have a look into the insight of a day in the life of a forex trader.

Any professional forex trader has the potential to make massive returns from their initial investment or on the nastier side any trader can make massive losses. It is not a game of chance, trading is a skill of emotional control and sound decision making. Traders have an understanding of market mechanics and their behavior as a response of economic trends.

Traders make their living from taking advantage of price differences between the buy and sell price of currency pairs and more importantly they make their money by following the market trend. If you yourself have studies forex charts you may notice how the price fluctuates - there are only three directions the price can do: rise, fall or stay the same. Currency prices only stay the same if the currency value is not floated and fixed to a certain value. Traders make their money on the difference on price so the trader can either buy long and hope the currency rises or sell short as the currency drops in price and still makes a profit.

The advanced forex trader waits for a new trade or rather waits for the right time to open a new trade by looking for the right indicators and signs to signal an entry into the foreign exchange market.

There are two things that the forex trader can do at home to watch out for an entry signal: look at charts or wait for news.

Traders watch for the right trending signals to enter a trade. And the primary rule for the trader is that the trend is your friend. Stick to the trend and you wont get hurt.

Secondly, traders also watch the news. They must know what economic data is coming out on which days and what that data means to the future of the economy of the respective countries. If they dont keep track of these facts and economic data and indicators they may find that some currencies are especially volatile during these news announcement events and see the market jump. The forex trader must be ready for these economic announcements to ensure they can anticipate the increased market activity.

Once the forex trader has successfully entered into a trade, a trade that is going well the trader then simply rides the trend to completion, implementing a trailing stop to lock in profits as the price trends the way the trader wanted the trend to go. But if the trade goes sour, the forex traders need to exit the trade with grace. The trader must cut their losses to succeed in the business of foreign exchange trading.

Hopefully this has given you an overview of what a professional forex trader does to make a living from simply taking advantage over the price difference. The technique is to enter a trade correctly using trend analysis or a news announcement and then follow the rules of "riding the trend" or the "trend is your friend" with "cutting your losses quickly."

Million Dollar Forex Investing Mistakes

Anytime that you are investing in the Forex market, you are going into the Market blind. You don’t know what point of the investing trend you are entering in at.

You might be investing in a Forex stock just before the trend changes. Smart investing means you need to protect your trading float and set up a stop loss.

This needs to be done before you enter a trade, so that there is no room for error, or last minute indecision.

A stop loss is simply a predefined point at which you exit the stock.

Effectively, it’s like drawing a line in the sand underneath the share price, saying, “If the share price falls below this line, then the stock hasn’t done what I thought it was going to do, and I’ll exit the position.”

This allows you to protect your investing trading plan, because it cuts your losses short, and guards against an all too human tendency to want to believe you must be right.

95% of investing in an entry Forex position means you are expecting to profit from the trade.

If, however, the share-investing price goes against you, you might feel the need to justify why you bought the stock by holding onto it until it turns a profit.

You might have heard the idea that all big investing losses once started as small losses. Well, while the share price continues to go in the wrong direction, those losses grow in lockstep.

This is why you need to have a stop loss in place – it’s like having an ejector seat that tells you when to abort the mission.

One of the most common question I’m asked when traders are introduced to a stop loss is “How wide should I set my stop?”

In other words, how much room should I give the stock to move? There are no definitive answers to this question because it depends on what time frame you’re investing in.

If you’re a shorter-term investing trader, you’re going to have a stop loss that’s set closer to the share price. If you’re a longer-term investing trader, you’ll give the share price a little bit more room to move and set your stop loss lower.

Once you’ve identified what time frame you’re looking at trading, you need to be able to remove the normal market noise (volatility) in that particular time frame.

You don’t want to have to close out of an investing position just because a share price moved a little bit due to its normal trading volatility.

In fact, there are some serious drawbacks to setting tight stops.

First, you’ll decrease the reliability of your system because you get stopped out more often.

Second, and probably a little bit more importantly, you dramatically increase your transaction costs, because you’re trading transaction costs make up a major proportion of your business expenses.

To give yourself a fighting chance, you want to trade a system that doesn’t chew through excessive brokerage fees.

This is one of the major reasons I steer my clients into developing a trading system that runs over a slightly longer time frame. With the correct system in place, and your investing risk minimized, you are well positioned to maximize your trading profits.

Forex Market Makers

The investor in the currency market takes for granted that a pair of currencies can be bought or sold at a moments notice. Once an order is placed with a broker, the trade is executed within seconds.

It is, of course, not as easy as that. Whenever a pair of currencies is bought or sold, there must be someone at the other end of the transaction.

It is very unlikely that the investor will always find someone who is interested in buying and selling the same two currencies at the same amount, and at the same time. Hence, the question remains, "How is it possible that the forex investor can buy or sell at any time?" This is where the forex market makers come in.

The forex market maker is a bank or brokerage company that stands ready, every second of the trading day with a firm bid and ask price.

This is good for the investor because when the investor chooses to buy and sell a pair of currencies, the market maker will purchase from and sell to the investor, even if they do not have a buyer and seller lined up. In doing so, they are literally "making a market" for the currencies.

Forex market makers ensure that the market is always functional and that the currencies in it will always fetch the market rate. Forex market makers do so by updating their prices at intervals of at least 30 seconds and undertaking to trade if this is requested.

Forex market makers must fulfill their obligations irrespective of whether the economic situation is favorable or unfavorable, or whether they lose or profit by doing so.

Typical forex market makers include Gain Capital, CMS Forex, Forex Capital Markets (FXCM), and Global Forex Trading, all of which are regulated by the Commodity Futures Trading Commission (CFTC) of the USA. Another prominent forex market maker is Saxo Bank, which is regulated by the Financial Services Authority (FSA) of Denmark.

Until recently, central banks, commercial banks and investment banks dominated the forex market. Due to the entry of forex market makers, other market players like international money brokers, large multinational companies, registered dealers, global money managers, and private speculators have entered the market in large numbers.

The Sneaky Way Managing Losses

One of the cardinal rules of Forex trading is to keep your losses small.

With small Forex trading losses, you can outlast those times the market moves against you, and be well positioned for when the trend turns around.

The proven method to keeping your losses small is to set your maximum loss before you even open a Forex trading position. The maximum loss is the greatest amount of capital that you are comfortable losing on any one trade.

With your maximum loss set as a small percentage of your Forex trading float, a string of losses won’t stop you from trading. Unlike the 95% of Forex traders out there who lose money because they haven’t applied good money management rules to their Forex trading system, you will be far down the road to success with this money management rule.

What happens if you don’t set a maximum loss? Let’s look at an example. If I had a Forex trading float of $1000, and I began trading with $100 a trade, it would be reasonable to experience three losses in a row. This would reduce my Forex trading capital to $700. What do you think those 95% of traders say at this time? They would reason, “Well, I’ve already had three losses in a row. So I’m really due for a win now.”

They would decide they’re going to bet $300 on the next trade because they think they have a higher chance of winning.

If that trader did bet $300 dollars on the next trade because they thought they were going to win, their capital could be reduced to $400 dollars. Their chances of making money now are very slim. They would need to make 150% on their next trade just to break even. If they had set their maximum loss, and stuck to that decision, they would not be in this position.

Here’s a perfect illustration why most people lose money in the Forex trading market. Let’s start out with another $1,000 float, and begin our Forex trading with $250. After only three losses in a row, we’ve lost $750, and our capital has been reduced to $250. Effectively, we must make 300% return on the next trade and that will allow us to break even.

In both of these cases, the reason for failure was because the trader risked too much, and didn’t apply good money management.

Remember, the goal here is to keep our losses as small as possible while also making sure that we open a large enough position to capitalize on profits.

With your money management rules in place, in your Forex trading system, you will always be able to do this.

What forex brokers offer automated services?
GFT Forex is an automated forex broker, whose DealBook FX 2 software offers the investor both a demo and a live forex trading tool in the currency market. This forex trading software offers the investor direct access to some of the tightest spreads, through a stable, standalone forex trading platform, 24 hours a day.
The DealBook FX 2 software shows live, dealable prices, real time data, free real time world and financial news, forex charts, more than 65 technical indicators, and the ability to build the investors own indicators.

GCI Financial Ltd., another automated forex broker, provides trading software that tracks real time prices in 20 major currencies, live charts, and real time profit and loss account tracking. The software is offered as a demo also. Market orders are confirmed within seconds at prices clicked on or accepted by the client.
The FX3K is an online automated dealing and trading platform used by automated forex brokers. The FX3K online trading environment includes real time quotes, charting, technical analysis tools, and news. FX3K integrates the client, dealer, back office and system administrator functions. Product features include high speed execution of client orders and the ability to monitor real time margin availability, net exposure and profit and loss on all open positions. FX3K has chat options to allow trader-dealer conversations.

The COESfx Level 1 Trading Platform is used by automated forex broker as an Electronic Currency Network for the execution of best prices for buyers and sellers of foreign exchange. It offers traders live and executable prices, thereby making each participant a market maker. Traders gain access to "best bid/best offer" quotes directly from price providers and other traders.

COESfx pricing is derived from a number of partners in the network such as banks, Futures Commission Merchants (FCMs), Introducing Brokers (IBs), fund managers and other traders on its Electronic Currency Network.
Fear and the Profitable Forex Trader
Forex trading is one of the most looked for occupations for many people these days. Around the world people are getting tired of fixed working hours and tight cubicles that limit their aspirations of a more relaxed and satisfying working life.
In order to start Forex trading the new trader doesn't need a fortune or good Wall Street contacts that will let him become part of the chosen ones. The only thing the new forex trader needs is some starting capital (as low as $100, but an amount around $5,000 would be more recommendable) and the free forex trading platform that will be provided by the Forex broker.
But it's one thing to start Forex trading; it's another thing to become a profitable Forex trader.
In order to become a profitable trader the new trader will immediately discover the imperative need of having an accurate knowledge of the markets and a good understanding of the forex technical indicators. Concepts as Moving Averages, Fibonacci levels, Bollinger Bands, etc., are the basic knowledge every trader must have.
This basic knowledge is indeed essential, but once in front of the trading station, with real money on the line and with an open trade subject to the currency markets oscillations, things will start to get tricky even if the basic technical concepts of Forex trading have been understood by the beginning and sometimes also by the experienced trader.
Knowledge will start to fade in front of one of the most basic instincts we humans beings have. Fear will ask for an entrance to the trader's mind and if let in by the inexperienced trader, it will turn the making of critical decisions difficult and many bad trading moves may follow.
It is very natural to be afraid and let fear invade us if we are not really sure of what we are doing or we cannot afford to lose even a cent in a bad trade; or seen in a different approach, the trader is so anxious and perfectionist that he won't let him lose anything and will take it very seriously if he loses a trade.

Fear is one of the worst enemies of the Forex trader. In order to become a profitable trader it is essential that the person involved in trading understands that he must leave fear aside and stick to the trading plan he has constructed and arranged before, always understanding that losing trades happen to everyone and they are always part of a profitable trading career.
A Forex trader must learn how to profitably use his stops without heavily compromising the capital in his trading account, i.e., he must play safe but realize that a calculated risk must be undertaken in order to maximize profits.
In short, fear is a natural emotion we all have, given the right environment; therefore it is the trader's obligation not to arrange a "fear environment" around him and be psychologically prepared for the ups and downs of the trade. No one is prefect and that's an even deeper truth in Forex trading.
Forex Brokers - Helping to Maximize Your Success
Forex Brokers--Your Ultimate Partners in Success
A Forex broker is a broker dealing in foreign exchange, just like real estate broker who deals in real estate and properties. Simply, a Forex broker is an advisor who advises you about the forex market. However, the Forex market is not the perfect place to play with as a novice and beginner as there are many criticalities involved along with much risk bearing capacities.
Novices can very quickly get their fingers badly burnt. But inexperience is not the only reason to consider using a Forex broker to trade in the high-risk

international currencies market.
So, the Forex broker is an advisor who advises you about the forex market and allows you to work for 24 hours a day with major currencies like EUR, JPY, GBP, CHF etc against the US dollar on the spot, i.e. according to the current prices on the forex international exchange market.
But the level of profits depends only on your abilities as well as your timely decision.
Although the role of the Forex broker is relatively redundant as a result of technological advancement and increased awareness, we cannot completely underestimate his role.
The new paradigm shift has had something of a democratizing effect on the financial markets, and in the years that have followed a plethora of banks and brokerages have extended the range of their services to a new market by packaging up their online trading systems for the retail market, enabling the more modest investor to trade from their own computer screen - even on the previously out-of-reach currency markets. This is where the real role of Forex broker starts.
PIP is nothing special but Price Interest Points. In the forex market, currencies are always priced in pairs. The quoted price is the level where we, acting as the market maker, are willing to buy/sell the currency pair. In the wholesale market, currencies are quoted out to four decimal places, with the last placeholder called a point or a pip. A pip in most currencies is one /10,000th of an exchange rate (in USD/JPY, it is one /100th, likewise you can find for others).
Let's see some more information about Spread. As with all financial products, forex quotes include terms like bid and ask". The bid, in its simplest terms is the price at which a dealer is willing to buy (and clients can sell) the base currency in exchange for the counter currency. The ask is the price at which dealer will sell (and clients can buy) the base currency in exchange for the counter currency. The difference between the bid and the ask price is referred to as the spread. The spread defines the traders cost, which can be recovered with a favorable currency move in the market. The value of a pip is determined by the pair of currencies being traded, the rate at which the currency pair is trading and the size of the position being traded.
There are many great Forex brokers, like COESfx, who maintains tight, competitive spreads in the four major currencies against the Dollar, and a total of 17 currency pairs including USD/CAD and AUD/USD. Some of the major features of COESfx are:
• Real-time streaming prices
• Price certainty on market orders Competitive pricing
• Fixed 3-5 pip spreads
Forex Scams: How to Spot Them a Mile Away
In recent years, investors have witnessed increased numbers of investment opportunities and offerings. While the complexity and success of these investment products vary, technological innovation has made the Forex market one of the fastest growth areas.
Many of the leading Forex brokers reported up to 500% rise in the number of new retail customers.
However, the growth of the Forex market has been accompanied by a sharp rise in foreign currency trading scams.
Many of these Forex scams are promoted on the radio, television, newspapers and the Internet. Investors who fall victim to these schemes, often lose all of their money.
As an illustration, let's examine the facts of a recent case involving Forex fraud and its consequences. W learned of a foreign currency trading opportunity through an infomercial on the radio. K, the owner of a Forex asset management firm, spoke during the infomercial, promising viewers significant profits with minimum risk. After seeing the infomercial, W contacted K, and later attended a seminar presented by K and his firm.
The seminar was so convincing that W wrote a check to K for $100,000. Several months later, W received statements (which were false) from K's firm reflecting significant returns on his initial $100,000 investment. Thereafter, W attended another seminar and decided to invest more money. W took a loan and invested another $800,000 in K's Forex trading operation.
A short while after W's second investment, the Securities and Exchange Commission filed a complaint against K and his firm for engaging in a scheme to defraud investors. K's firm's assets were frozen, including the $900,000 invested by W. A receiver was appointed to distribute the remaining assets of K's firm to defrauded investors. The assets were distributed on pro-rata basis with no legal preference given to any of the victims.
Since K's firms assets were not enough to satisfy all of the defrauded investors claims, W received only about $22,000 of the $900,000 he invested.
Since a whole book can be written on the various tactics and methods used by Forex scam artists, in this article, I will focus on the major warning signs that one needs to identify to avoid falling victim to Forex swindlers.
1. Promises of Little or No Risk
If you encounter a Forex firm that claims to have developed a foreign currency trading strategy that carries very little or no risk, stay away. The reason Forex trading can be very profitable is because it also carries a very high risk of loss. The Forex market is very volatile, and, without good money management, an investor can lose most if not all her capital within few days. Thus, individuals and firms who make claims that are far from market realities, as is riskless Forex trading, are really after your money.
2. Guarantees of Large Profits
Beware of firms that guarantee large profits in Forex trading. These so called "guarantees" are mere ploys to entice investors and make them believe that their money is safe and that they will definitely make large profits. Such claims are simply untrue, because even the best professional traders cannot guarantee that they will make a profit any given day. The Forex market, as most financial markets, is very unpredictable. Hence, be suspicious of such claims and those who make them.

3. Employment Ads for Forex Traders

Many Forex trading firms use employment ads to attract individuals with capital to trade using their systems. The employment ads, which often appear in newspapers and on the Internet, state that a foreign currency trading firm is looking for individuals to teach them how to trade the foreign currency market using firm capital. Those who reply to the ad are convinced by the firm that they will make a fortune trading currencies if they participate in the firms training program.

During the training process, which often occurs on a demo system, the novice traders are encouraged and told that their demo trading records show that have made significant profits, that they are ready to make real money and would very successful. Despite the firms' assessment of the novice trader as a brilliant newcomer, no firm capital is provided to the trader, instead the excited novice is told to use her own capital to trade using the firms' platform. In addition to various fees imposed on traders using the firms' platform, the Forex firm makes money as an introducing broker. Each time the novice trader trades through the firms system, a good part of the spread charged by the broker is shared and goes into the firms coffers.

After few months, the novice trader loses all of her capital and leaves. The Forex firm, having made money during the novice traders' short stint, moves on to new traders eager to become rich trading foreign currencies.

4. Is the Forex Firm a CFTC or NFA Member?

Before you sign a check and give your capital to a Forex company, make sure you investigate the entity. Check to see whether the Forex firm, with which you want to do business, is registered with the United States Commodity Futures Trading Commission or the National Futures Association. Many scam artists falsely claim that their firms are registered with the CFTC or the NFA to gain a perspective investors trust.

Do not trust anyone, research the firm and the background of the individuals involved before parting with your hard earned money.

The Internet has paved the way for many new opportunities for retail investors. The Forex market is both exciting and fast paced. Investors who are careful and diligent are likely to avoid the perils of this market, and will profit from the growth and opportunities of foreign currency trading.

Forex Signal, Forex Signals Advice

There are lots of Forex signals providers out there. New Forex traders might be thinking of looking for a reliable Forex signals provider. Are there any reliable Forex signals providers available?

Personally, I will say do not pay for Forex signals. Think about it - if a Forex signals provider sells Forex signals for living, you can doubt their Forex trading skills?

Or else if they are pretty good in Forex trading and making lots of profit, I am wondering why do they still bother to sell Forex signals for money. Thus, what would be the value of such Forex signals providers? The answer is ZERO.

There are Forex traders who have been relying on Forex signals arguing those Forex signals providers really help them making money in Forex trading. These Forex traders can even show their Forex trading logs as evidence.

After some though, I came out with the assumption that assuming I am the owner of a Forex signals provider, in order for my business to be in black, obviously I need some satisfying customers. If I have 100 new customers this month, I send out buy signal for the 50 of my new customers while the another half with sell signal. At the end, I will able to have "some satisfying customers".

Finally, free advertising and testimonial will be made available.

If you are really new into Forex trading, its better for you to sign up a demo Forex trading account from any Forex brokers and try some practice trades for a few months. This will give you insight into how the forex market behaves. Then only deposit a small amount of money to get a real feel.

There are great differences between demo trading and real trading due to personal trading psychology.

Final words, if you really wish to buy Forex signals from a Forex signal provider, make sure they have got an audited result and do provide a free trial over a substantial period.

Trading Foreign Exchange the Black Box Way

There's an ongoing debate among financial experts about the determinants of portfolio returns. Some maintain that asset allocation accounts for up to 90 percent of long-term gains. Others are convinced that low costs are the magic bullet. Probably the best course of action is to keep your eye on both.

What this means is that investors with a high, or even moderate, tolerance for risk might consider allocating a tiny portion of their portfolio to commodities, including foreign exchange, commonly called forex.

Indeed, lackluster returns in the fixed income and equity markets over the past few years have sent investors in search of alternative investments like real estate and commodities. So not surprisingly, experts in foreign exchange trading have stepped up the marketing of their wares to savvy and neophyte investors alike.

Among these experts are forex black box traders. These professionals have a proven track record of success in trading foreign exchange. Their services are especially attractive to people with little knowledge of the vast and idiosyncratic foreign exchange market – those who are comfortable relying on forex trading experts to lead the way.

The black box approach refers to a computerized system that automatically executes trades based on an algorithm or strategy. A forex black box trader develops a proprietary model through historical analysis of trading patterns. The trader then applies the model in real time to a computer program that generates buys and sells 24/7 in the global foreign exchange markets – hopefully at a profit but, of course, there's no guarantee.

There are three types of black box trading models: fully disclosed, gray and undisclosed. A fully-disclosed model reveals all about the technical indicators that trigger trades and the relationships among various indicators – so investors know exactly what prompted a trade.

The gray box approach discloses only some of the indicators that spark trades. And with undisclosed black box trading, nothing about the model's logic is known – so either the investor has a lot of confidence in it or so little money at risk that this leap of faith won't keep him or her awake at night.

It may seem counterintuitive, but there are good reasons for forex black box traders to operate on an undisclosed basis. To do otherwise could invite other traders to replicate the strategy. So for the average investor, the most relevant consideration is the profitability of a particular black box model.

Proponents of black box trading think that this quantitative approach is the only way to make money over the long term – and that taking emotion out of the equation in this way is key. In a volatile market, even seasoned forex traders react emotionally and sometimes change course. Black box trading is probably a good solution for investors who can let go and let the model's discipline prevail.

Besides removing the human emotional component, there are other practical reasons for developing computer models to capture profits in foreign exchange trading. For one, it's a 24/7 market – and the computer never sleeps. So whenever the optimal conditions specified in the model present themselves, you're virtually guaranteed an execution.

And, unlike the equities markets, the forex market is very fragmented. There are scores of banks that make markets in currencies. Combine this with the explosion in available trading data (quotes, bids and offers) and the need to make split-second decisions – and it becomes clear why working with a forex black box expert is a practical way to participate in this market.

If you're considering forex black box trading, be sure to use a trading system that features a demo account you can easily download and use without providing a lot of personal information. This will give you a chance to trade on a trial basis before you allocate a larger sum to the foreign exchange portion of your portfolio. Also, make sure the system has a track record of profitability.

Be wary of systems that require significant up-front fees to get started. This could be a red flag that the system is locking in its returns right away – but you may end up struggling to turn a profit. Most reputable systems offer a money-back guarantee if you're dissatisfied.

The bottom line: If you're an investor with a medium to high tolerance for risk, foreign exchange black box trading could add a new dimension to your diversified portfolio.

About the Author