



# Guide to Online Forex Trading

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Make Money Trading Forex



If this is your first time coming across the online Forex market, then you have come to the right place! This guide will provide you with the basic knowledge and tools and techniques a novice Forex trader should have as you take your first steps in the fascinating world of Forex

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## Introduction: Why Forex?

If you are reading this guide, you have most likely taken some sort of interest in the Forex market. But what does the Forex market have to offer you?

**Accessibility** – It's no wonder that the Forex market has the trading volume of 3 trillion a day – all anyone needs to take part in the action is a computer with an internet connection.

**24 hour Market** – The Forex market is open 24 hours a day, so that you can be right there trading whenever you hear a financial scoop. No need to bite your fingernails waiting for the opening bell.

**Narrow Focus** – Unlike the stock market, a smaller market with tens of thousands of stocks to choose from, the Forex market revolves around more or less eight major currencies. A narrow choice means no room for confusion, so even though the market is huge, it's quite easy to get a clear picture of what's happening.

**Liquidity** – The foreign exchange market is the largest financial market in the world with a daily turnover of just over \$3 trillion! Now apart from being a really cool statistic, the sheer massive scope of the Forex market is also one of its biggest advantages. The enormous volume of daily trades makes it the most liquid market in the world, which basically means that under normal market conditions you can buy and sell currency as you please. You can never be in a jam for currency to buy or stuck with currency that you cannot unload.

**The Market cannot be cornered** – The colossal size of the Forex market also makes sure that no one can corner the market. Even banks do not have enough pull to really control the market for a long period of time, which makes it a great place for the little guy to make a move.

[Click here](#) to open a free GCI practice account and join the Forex market today!

## Profitability

It doesn't take a financial genius to figure out that the biggest attraction of any market, or any financial venture for that matter, is the opportunity for profit. In the Forex market, profitability is expressed in a number of ways.

First of all, just to set the record straight, you do not have to be a millionaire to trade Forex. Unlike most financial markets, the Forex market allows you to start trading with relatively low initial capital. At GCI, you can start trading Forex with as little as \$500!

Right about now you're probably asking yourself: "what chance do I have of profiting with such a low initial investment?" The Forex market does not require large initial investments because it allows you to use leveraged trading. Leveraged trading lets you open positions for tens of thousands of dollars while investing sums as small as \$500. This means that Forex trading has the profit (and loss) potential of tens and even hundreds of percent a day!

What is also unique about the Forex market is that any sort of movement is an opportunity to trade. Whether a currency is crashing or soaring, there is always room for speculation, since you always have the option of buying or selling the currency of your choice. Unlike the stock market, you are not limited to speculating on rising stocks, and a falling market is just as good for business as a rising market.

Having said all that, it is important to remember that as profitable as the Forex market is, it still carries all the risks involved with financial trading. You should always be aware of the risk and never risk money that you cannot afford to lose.

## Cashing in on Price Movements

Trading Forex is exciting business. The market is always on the move, and every tiny shift in currency rates can mean profits and losses of hundreds and even thousands of dollars!

Let's demonstrate how that can happen:

In general, the eight most traded currencies on the Forex market are:

USD	US Dollar
EUR	European Euro
GBP	British Pound
JPY	Japanese Yen
CHF	Swiss Franc
CAD	Canadian Dollar
AUD	Australian Dollar
NZD	New Zealand Dollar

Forex trading is always done in pairs, since any trade involves the simultaneous buying of a currency and selling of another currency. The trading revolves around 14 main currency pairs. These pairs are:

EUR/USD	EUR/JPY
GBP/USD	EUR/GBP
USD/JPY	EUR/CHF
USD/CHF	GBP/JPY
USD/CAD	GBP/CHF
AUD/USD	CHF/JPY
NZD/USD	EUR/CAD

When buying or selling a currency pair, each pair has its own Bid/Ask rate, for example:



EUR/USD	
Bid	Ask
1.39 <b>61</b>	1.39 <b>63</b>

This means you could either:

**Sell the pair at the Bid rate of 1.3961 - or - Buy the pair at the Ask rate of 1.3963**

OK, but where's the opportunity for profit?

The currency pair rates are volatile and constantly changing.

One way to profit is by buying a pair, then selling it at a higher rate.

The second way is by selling the pair, then buying it at a lower rate.

As your positions become profitable, you will see your account Equity increase in real-time in the ActTrader Forex software. When you close a profitable position, the gains will be "realized" and added to your account Balance as well.

## The Trend is Your Friend

Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in the future. Although this may seem pretty basic, being able to identify when a pair is in a trend and when it isn't will help you to increase your chances to profit consistently in the Forex market.

When you can identify a trend, you can estimate what direction the rate of a currency pair is going to go in. You should exploit the direction of the trend you identify by placing a trade in that direction.

If it is an uptrend, meaning that the rate is increasing, buying the currency pair will give you a better probability for profit. If it is in a downtrend, meaning that the rate is decreasing, selling the currency pair will give you a better chance of making money.

### How do I identify a trend? What are the characteristics of a trend?

The simplest way to identify a trend is through the distinct patterns that the price forms. These can tell you if the market is moving in an uptrend or downtrend.

### Identifying a Forex Trend

When a trend is taking place in a Forex pair, the price movements start to form peaks and valleys in the chart of that pair, which are easily identified.

In an uptrend, the price movements form a series of higher peaks and higher valleys (Higher Highs and Higher Lows.) Since a picture is worth a thousand words, let's look at the following chart:



This chart suggests that the trader should buy the currency pair (and close the trade by selling at a profit after the rate rises).

In a down trend, the price movements form a series of lower peaks and lower valleys (Lower Highs and Lower Lows):



This chart suggests that the trader should sell the currency pair (and close the trade by buying at profit after the rate declines)

It is important to note that during some trading days the trend is hard to spot, some trading days show no trend (the price movements form a Range), and of course you're bound to run into the occasional reversal, so this is not a perfectly accurate or 100% reliable indicator for trading.

Here is what a trading Range looks like:





It is easier to make predictions with a trend than with a trading range. While you can still profit in trading ranges, you have to be more nimble on your feet, and ready to jump in and out of the markets at all times. Needless to say, this makes the trader's life a lot tougher and the risk for loss greater.

Trading ranges can be really messy and unpredictable, which is why you should always look for trading trends.

As a general strategy, it is best to trade with the trend rather than against it, meaning that if the general trend of the market is up, you should be very cautious about taking any positions that rely on the trend going in the opposite direction.

The trend spotting strategy assumes that the present direction of the price rate will continue into the future. It can be used in three main time-frames: short, intermediate and long-term, with the trends being different for each.

For example, here is a possible scenario in the Forex market:

Over the last 12 months the trend for EUR/USD is an uptrend, over the last 30 days the trend is a downtrend, and over the last 24 Hours (intra-day) the trend is an uptrend.

Regardless of the chosen time frame, traders will remain in their position until they believe the trend has reversed.

So the goal is to spot a trend that you believe in and trade according to it. Needless to say, you will need to monitor the trade, in case you were mistaken and the trend vanishes or reverses. Then it is time to cut your losses by closing the losing trade or by reversing – closing the trade and opening a following, opposite trade.

## Use of Leverage

If you have been at all exposed to the world of Forex, you have probably heard the word “Leverage” being tossed around. But what exactly is “Leverage”?

Leverage is a very important part of Forex trading, and it is critical that you know exactly how it works and how to use it. It is the term Forex traders use to refer to the ratio of invested amount relative to the trade’s actual value.

Forex brokers usually provide their customers with the option to trade on borrowed capital, so that traders do not have to invest tens of thousands of dollars for the chance to make any real profit. When you trade at a leverage of 100:1 (or “100 to 1”), it means that for every \$1 that you invest in the market, the broker invests \$100 for you. As a result, you can control an amount of \$50,000 by investing \$500. GCI provides traders with the opportunity of trading at up to 400:1 leverage.

It probably will not surprise you when we say that with greater opportunity for profit comes greater risk. Just like slight fluctuations in currency rates can make you significant amounts of money, it can also cause you to lose your money very quickly. The higher the leverage, the larger the profit that you stand to make and the quicker you might lose your investment. A leverage of 400:1 can make you more money than a leverage of 100:1, but it also puts your initial investment at more risk.

If you trade with a leverage of 100:1, the market would have to move 100 pips against you for your position to be wiped out. On the other hand, if you trade with a leverage of 400:1, the market would only have to move 25 points against you for your position to be wiped out.

### **The Ratio between Lot Size, Trade Size and Leverage**

The lot size for a trade on ActTrader Forex is 10,000 currency units. The advantage of trading with Leverage is that your profit potential is virtually infinite. At GCI, any losses are limited to the amount of your initial deposit. Once the rate drops below the rate covered by your investment - that is, the “Usable Margin” in ActTrader Forex reaches zero - the trade is automatically closed.

Remember, Leverage can be a trader’s best friend when used carefully, and his worst enemy when used recklessly. It is a great tool for increasing profits, in fact private traders rarely trade without it. But you should always keep in mind that the higher the leverage is, the higher the risk level is.

Now that you are equipped with most of the basic tools, you can make your first trade!

## A Simple Trade Example

Are you ready? It's time to trade!

**If you do not already have an ActTrader Demo Account, get one now for free at [www.gcitradings.com/demo](http://www.gcitradings.com/demo).**

You will get a Username and Password and be prompted to download the software. Go ahead and Login. Here is a to-do list of actions to be taken as you place a trade:

- Identify the pair to buy or sell
- Decide on the initial trade size (in Lots)
- Consider applying Stops or Limits (covered in the next chapter)
- Open the trade

Let's say that after spending some quality time looking at the charts of several currencies, you've concluded that EUR/USD is trending up. Now what is the reasonable decision based on this conclusion?

Clearly you can profit by buying EUR/USD (buying EUR/selling USD)

**Reminder – buying is done at the “Ask” price, while selling is done at the “Bid” price.**

Imagine that you bought 1 lot of EUR/USD on your GCI ActTrader account. The details of your trade are:

**Margin used: \$25**

**Transaction size: 1 lot or 10,000 Euros**

**Leverage: 400:1 (10,000/25 = 400)**

**EUR/USD (Ask): 1.3956**

In plain English, what you have just done is bought 10,000 units of EUR/USD, which at that specific rate represents 1.3956 USD per 1 EUR.

Now, let's assume that at the end of the day, or possibly even a few minutes later, the EUR/USD rate has risen to 1.4066. You sell those 10,000 Euro/USD Units at the new rate of 1.4066 and get \$110 back.

This means that this seemingly insignificant fluctuation in the rate allows you to cash in \$110 on an initial Used Margin or investment of only \$25.

In other words, you just made 440% profit on your investment, thanks to the movement in the exchange rate and the use of leverage.

On the example trade that we have just seen, your reward was unlimited, and the risk was limited to your deposited funds.

## Hedging Risks and Rewards

Forex trading can be a risky business. This chapter will explain the usage of Stop Loss (“Stop”) and Limit (Sometimes called “Take Profit”) orders. These are used for hedging your risks and rewards, realizing your profits and minimizing your losses.

GCI will automatically close out your trades at certain levels to prevent you from losing more than you have invested (called a Margin Call or “MC” on your account statement). If the rate on your open position drops below what is covered by your Used Margin (or “investment”), the position is automatically closed out. This means that the maximum amount you can lose on a trade is always limited to the initial investment of the trade.

Still, there is no reason why you should wait until you lose your entire investment to close the trade. By setting a Stop order you make sure that the value of your position does not drop below a certain level. This way you control the maximum amount that you are willing to lose on a trade, without having to monitor each trade around the clock.

Having some losing trades is inevitable for any trader. One of the most critical keys to successful trading is to limit losses on these losing trades, using Stops and controlling risk.

Limit orders, sometimes called “Take Profit” or “T/P” are similar to stop loss orders, only referring to profits. Limit orders ensure that once your trade reaches a certain level of profit, it will be closed and the profit locked-in.

For instance, imagine that you have opened a long (that is, you bought) EUR/USD trade at the rate of 1.3950. After a few hours, the rate rises to 1.4050, but an hour later drops to 1.3900. Without a Limit order, you might miss the rise in the rate, and end up with a loss on your hands.

If you had set a Limit order, the potential profit of the trade would have been realized, without your having to monitor the trade around the clock.

Remember, Stop and Limit orders are very simple tools that can make the difference between a successful trading career and a big hole in your pocket. Consider using these orders with every trade that you make.

***For more on using Stop and Limit orders in ActTrader, [click here](#) for a video tutorial.***

## The Quest for Volatility

The Forex market is open 24 hours a day, but what are the best times to make a profit?

Even though the Forex market is open 24 hours a day with the exception of weekends, not all hours are as equally good for trading. The reason that the Forex market is open 24 hours a day is that it is made up of different sessions around the globe that between them cover 24 hours.

The more markets are active at the same time, the more trades are being executed, and the more action for you to cash in on.

Trading Sessions (“GMT” – Global Market Time):

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24						
							London																						
												New York																	
						Sydney																							
			Tokyo																										

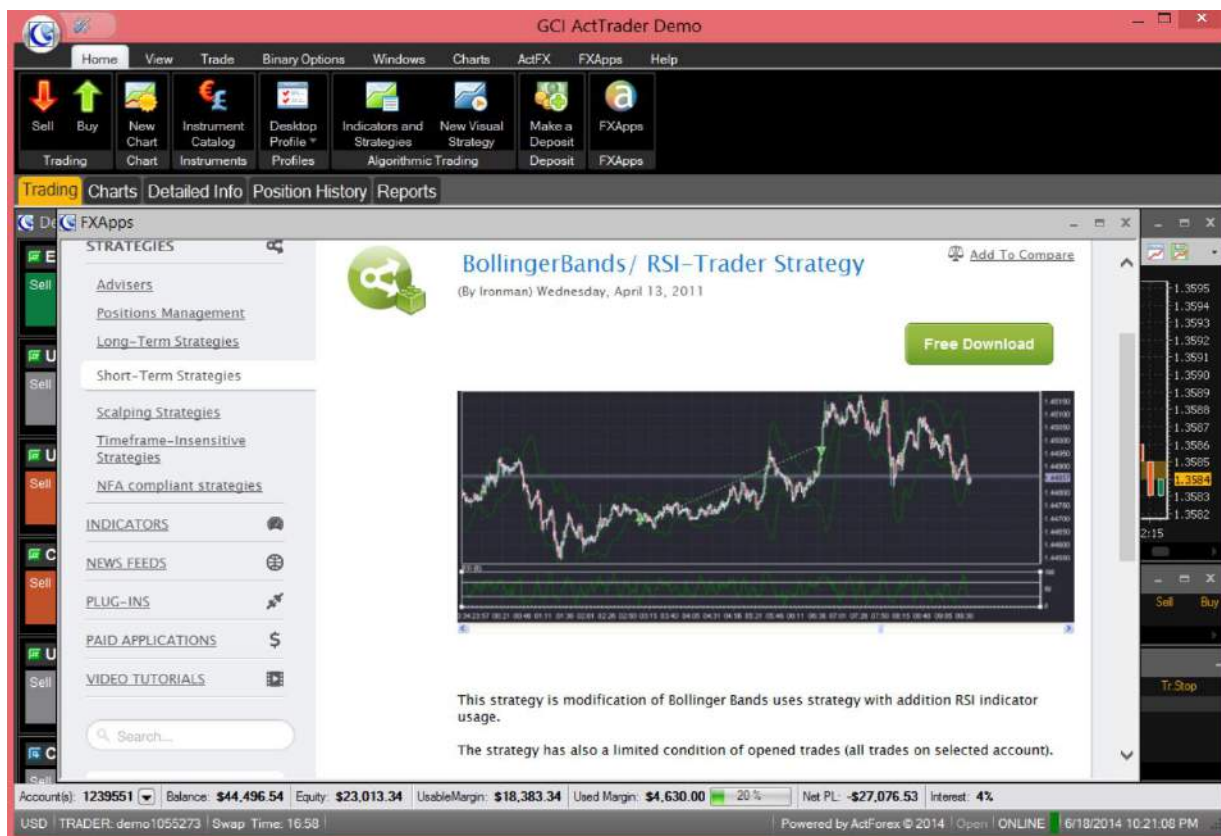
Since the London session is the busiest out of the four, the best times for trading are 8AM-9AM (GMT) and 13PM-17PM (GMT), because that is when the London session overlaps with other sessions.

Remember – even though you are able to trade 24 hours a day, it is better to plan your trading activity in order to catch the best action for a chance to maximize your profits and minimize your losses.

## Using FXApps for Automated Trading and Indicators

From the “Home” tab of your ActTrader software, click on “FXApps.” This will launch a window which allows you to register for an FXApps account. Registering is free and instant, and will give you access to downloads for automated trading programs, indicators, and other scripts which integrate automatically with your ActTrader Software. Many of these Apps are free, some are available for a small fee.

For example, you can click on “Short-Term Strategies” and then click on the text “Bollinger Strategy.” You then get more details of this strategy and how it works. If you want to test it on your Demo account, click “Free Download.”

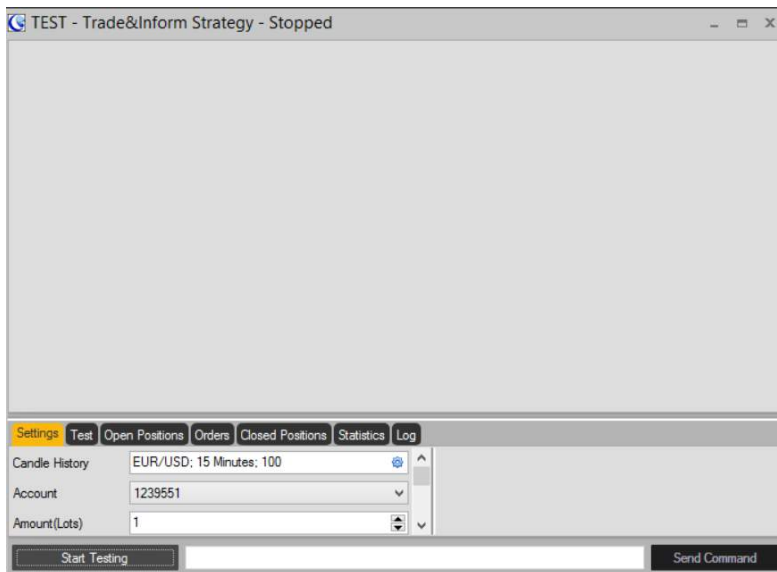


The screenshot shows the GCI ActTrader Demo software interface. The main window displays the "FXApps" section, specifically the "BollingerBands/ RSI-Trader Strategy" by Ironman, dated Wednesday, April 13, 2011. A "Free Download" button is visible. The interface includes a menu on the left with categories like STRATEGIES, INDICATORS, and NEWS FEEDS. A central chart shows price movement with Bollinger Bands and an RSI indicator. The bottom status bar shows account details: Account(s): 1239551, Balance: \$44,496.54, Equity: \$23,013.34, UsableMargin: \$18,383.34, Used Margin: \$4,630.00, Net PL: -\$27,076.53, Interest: 4%.

To run the Strategy, select the “FXApps” tab on your ActTrader software, and click “Indicators and Strategies.” You will then see a list of all the FXApps you have downloaded. Select the one you want and click on the green capital “T” in to action bar across the top (“Test Strategy”):



You will then be presented with another window in which you can input Lot size and other variables, and can then click “Start Testing.”



All of these FXApps are available for Live Trading as well.

## Money Management

Is there a secret to becoming a successful trader?

There is a method that all successful traders use, and it is not secret. It is called money management.

Money management is not some vague industry lingo – it simply means the knowledge and skill of managing your Forex trading account. As simple as that may seem, it is the key to a long and successful trading career. And yet it is often forgotten or neglected in the thrill of the trade. We would like to take this opportunity to lay out some ground rules by which you can effectively manage your account.

Do not go looking for the Big Win; it will most likely result in a big loss. Successful trading means consistent trading, where small wins amount to large long term profits. Never assume that all your trades will be profitable, and plan on losses.

You should only risk a small percentage of your total account balance on each trade. This simply minimizes your risk, so that even if you end up losing your entire investment on a trade, it does not have a critical effect on your account balance. The recommended amount is 2% of your account balance per trade. More aggressive traders go as high as 5%, but never higher than that. It is a very important rule to keep, since the lower your account balance drops, the harder it is to rebuild it.

### Using Limit Orders

Learn to use the Stop and Limit orders effectively. These orders protect your investment and realize your profits. They are very simple tools that can make all the difference to your account balance.

### Size of Trades

You are advised to open small trades, because in the case of a losing trade, you can then open the opposite trade with a bigger investment or higher leverage, thus compensating for losses.

### Practice trading with a free GCI practice account

Use a free practice account to practice trading. GCI offers a full featured demonstration version of a live trading account with a starting balance of virtual money. Everything works exactly the same as in a Live account, but no real funds are at risk. We recommend using the practice account to get to know the platform and gain Forex trading experience.

And even after you have begun trading on a Live account, a Practice Account is the perfect place to try out new trading strategies. There is no point in risking your money to test out a possible theory, when



you can do so with the same success minus the risk. After seeing that your strategy is consistently successful in a Practice Account, you can try it out on a Live account.

Remember – money management is very simple to master, but not as simple to keep up. Once you have developed the money management system that works for you, make sure to stick with it and do not let your emotions get in the way of long term profit, even if it means absorbing short-term losses.

Now that you are equipped for trading, take your time practicing your trading skills. When you are ready for real trading, go to [www.gcitrading.com/account](http://www.gcitrading.com/account) to open a Live account and start profiting from the Forex market!

## Glossary

**Ask:** Price at which broker/dealer is willing to sell. Same as "Offer".

**Balance:** The value of your account not including unrealized gains or losses on open positions.

**Bid:** Price at which broker/dealer is willing to buy.

**Bid/Ask Spread (or "Spread"):** The distance, usually in pips, between the Bid and Ask price. A tighter spread is better for the trader.

**Cost of Carry (also "Interest" or "Premium"):** The cost, often quoted in terms of dollars or pips per day, of holding an open position.

**Currency Futures:** Futures contracts traded on an exchange, most typically the Chicago Mercantile Exchange ("CME"). Always quoted in terms of the currency value with respect to the US Dollar. Parameters of the futures contract are standardized by the exchange.

**Drawdown:** The magnitude of a decline in account value, either in percentage or dollar terms, as measured from peak to subsequent trough. For example, if a trader's account increased in value from \$10,000 to \$20,000, then dropped to \$15,000, then increased again to \$25,000, that trader would have had a maximum drawdown of \$5,000 (incurred when the account declined from \$20,000 to \$15,000) even though that trader's account was never in a loss position from inception.

**Equity:** This represents the current market value of your account.  $Equity = Balance + (\text{unrealized profit/loss on open positions})$ .

**Forex:** Short for "Foreign Exchange". Refers generally to the Foreign Exchange trading industry and/or to the currencies themselves.

**Fundamental Analysis:** Macro or strategic assessments of where a currency should be trading based on any criteria but the price action itself. These criteria often include the economic condition of the country that the currency represents, monetary policy, and other "fundamental" elements.

**Leverage:** The amount, expressed as a multiple, by which the notional amount traded exceeds the margin required to trade. For example, if the notional amount traded (also referred to as "lot size" or "contract value") is \$100,000 dollars and the required margin is \$2,000, the trader can trade with 50 times leverage ( $\$100,000/\$2,000$ ).

**Limit:** Also called "Take Profit" or "T/P". An order to buy at a specified price when the market moves down to that price, or to sell at a specified price when the market moves up to that price.

**Liquidity:** A function of volume and activity in a market. It is the efficiency and cost effectiveness with which positions can be traded and orders executed. A more liquid market will provide more frequent price quotes at a smaller bid/ask spread.

**Margin:** The amount of funds required in a clients account in order to open a position or to maintain an open position. For example, 1% margin means that \$1,000 of funds on deposit are required for a \$100,000 position.

**Margin Call:** A requirement by the broker to deposit more funds in order to maintain an open position. Sometimes a "margin call" means that the position which does not have sufficient funds on deposit will simply be closed out by the broker. This procedure allows the client to avoid further losses or a debit account balance.

**Market Order:** An order to buy at the current Ask price.

**Offer:** Price at which broker/dealer is willing to sell. Same as "Ask".

**Pip:** The smallest price increment in a currency. Often referred to as "ticks" in the futures markets. For example, in EURUSD, a move from .9015 to .9016 is one pip. In USDJPY, a move from 128.51 to 128.52 is one pip.

**Premium (also "Swap" or "Cost of Carry"):** The cost, often quoted in terms of dollars or pips per day, of holding an open position.

**Roll over:** Is the changing of futures when they expire to the new contract.

**Spot Foreign Exchange:** Often referred to as the "interbank" market. Refers to currencies traded between two counterparties, often major banks. Spot Foreign Exchange is generally traded on margin and is the primary market that this website is focused on. Generally more liquid and widely traded than currency futures, particularly by institutions and professional money managers.

**Stop:** Also called "Stop Loss" or "S/L". An order to buy at the market only when the market moves up to a specific price, or to sell at the market only when the market moves down to a specific price.

**Technical Analysis:** Analysis applied to the price action of the market to develop trading decisions, irrespective of fundamental factors.

**Tick:** The smallest price increment in a futures or CFD price. Often referred to as a "pip" in the currency markets. For example, in Dow Jones Industrials, a move from 8845 to 8846 is one tick. In S&P 500, a move from 902.50 to 902.51 is one tick.

**Usable Margin:** The amount in your account available as margin for new positions. Usable Margin = Equity - Used Margin

**Used Margin:** The amount that is needed in your account as margin for open positions. Margin requirements on ActTrader are \$25 per lot. For example, if you have 3 lots of open positions, your Used Margin is 3 x \$25 = \$75. Note that margin is not a "charge" and is not deducted from your account in any way.

### CURRENCY PAIRS:

<u>Symbol</u>	<u>Currency Pair</u>	<u>Trading Terminology</u>
GBPUSD	British Pound / US Dollar	"Cable"
EURUSD	Euro / US Dollar	"Euro"
USDJPY	US Dollar / Japanese Yen	"Dollar Yen"
USDCHE	US Dollar / Swiss Franc	"Dollar Swiss", or "Swissy"

USDCAD	US Dollar / Canadian Dollar	"Dollar Canada"
AUDUSD	Australian Dollar / US Dollar	"Aussie Dollar"
EURGBP	Euro / British Pound	"Euro Sterling"
EURJPY	Euro / Japanese Yen	"Euro Yen"
EURCHF	Euro / Swiss Franc	"Euro Swiss"
GBPCHF	British Pound / Swiss Franc	"Sterling Swiss"
GBPJPY	British Pound / Japanese Yen	"Sterling Yen"
CHFJPY	Swiss Franc / Japanese Yen	"Swiss Yen"
NZDUZD	New Zealand Dollar / US Dollar	"New Zealand Dollar" or "Kiwi"
USDZAR	US Dollar / South African Rand	"Dollar Zar" or "South African Rand"
Gold	Spot Gold (XAU)	"Gold"
Silver	Spot Silver (XAG)	"Silver"

**GCI Financial**

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