

Getting Started in

# CURRENCY TRADING

*Winning in Today's  
Hottest Marketplace*

**Michael D. Archer**  
**Jim L. Bickford**



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**Getting Started in**

# **CURRENCY TRADING**

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# Introduction

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## About This Book

This book is intended to introduce the novice investor to the exciting, complex, and sometimes profitable realm of trading world currencies on the foreign exchange markets (FOREX). It also serves as a reference guide for stocks and futures traders who wish to branch out into new securities opportunities. Our primary focus is on the rapidly expanding and evolving online trading marketplace for spot currencies.

From the very beginning we must emphasize that currency trading may not be to everyone's disposition. The neophyte investor must be keenly aware of all the risks involved and should never trade on funds he or she deems necessary for survival. If you have some experience with leveraged markets such as futures or options, you owe yourself a look at FOREX. Those who have never traded will find it the "purest" of all speculative adventures.

## How This Book Is Organized

There are six main parts to this book:

### 1. Part 1—Then and Now

Getting Started; History of Currency Trading; Currency Futures and the IMM

We open the book with a questions-and-answer overview of the currency market in which we hope to dispel any myths the reader may have. We then proceed to a brief history and the current regulations surrounding the currencies market.

### 2. Part 2—What Every Trader Must Know

FOREX Terms; Selecting a FOREX Broker; Opening an Online Trading Account; Mechanics of FOREX Trading; The Calculating Trader

Every lucrative industry has its own gamut of highly specialized terms, and currency trading is no exception. You must thoroughly comprehend these terms before attempting to initiate any trades. With a little familiarization, the jargon of currency trading will become second nature.

We will assist the new trader in selecting a reputable online currency dealer and explain the steps involved in opening a trading account. The actual step-by-step processes of initiating and liquidating a live market order are examined in detail with a lengthy explanation of each order type.

Currency trading requires some minimal record keeping. The novice investor will be pleased to know that the mathematics of trading and calculating profit or loss involves nothing more than simple, four-function arithmetic—addition, subtraction, multiplication and division—and that we have kept division examples to a minimum.

This section must be understood before the reader proceeds to the later sections.

### 3. Part 3—How to Beat the Market (Maybe)

Fundamental Analysis; Technical Analysis

Once the trader understands the mechanics of trading, he or she must develop a trading strategy. In Part 3, we assist the trader in formulating his own personalized trading schemes and tactics. Historically, there have been two major schools of thought in this endeavor: fundamental analysis and technical analysis. We explore the advantages and disadvantages of both schools in the chapters in this section.

### 4. Part 4—The Business of Trading

Money Management and Psychology; Trading Tactics; What to Do If Things Go Wrong; Record Keeping.

In this section, we expose the trader to the psychology of trading and the stresses that may accompany same. We place much emphasis on money management and psychology—two key topics that are vital to success but are often neglected in the search for the holy grail of trading methods.

### 5. Part 5—Advanced Topics

A single chapter covers Rollovers, Hedging, Options Trading, Arbitrage, Adding Complexity, and Pros and Cons of Arbitrage.

This section is optional for the novice trader though investors with some trading experience will find it informative.

## **6. Appendices**

Our appendices section is very much a ready reference of FOREX-specific information.

We attempted to make *Getting Started in Currency Trading* an all-in-one introduction as well as a handy computer-side reference guide. Only you, the reader, may judge the level of our success therein.

## **Disclaimer**

Neither the publisher nor the authors are liable for any financial losses incurred while trading currencies.



# Part 1

## Then and Now



# Chapter 1

## Getting Started

### What Is FOREX?

Foreign exchange is the simultaneous buying of one currency and selling of another. Currencies are traded through a broker or dealer and are executed in currency pairs; for example, the Euro dollar and the US dollar (EUR/USD) or the British pound and the Japanese yen (GBP/JPY).

The Foreign Exchange Market (FOREX) is the largest financial market in the world, with a volume of over \$1.95 trillion daily. This is more than three times the total amount of the stocks and futures markets combined.

Unlike other financial markets, the FOREX spot market has neither a physical location nor a central exchange. It operates through an electronic network of banks, corporations, and individuals trading one currency for another. The lack of a physical exchange enables the FOREX market to operate on a 24-hour basis, spanning from one time zone to another across the major financial centers. This fact—that there is no centralized exchange—is important to keep in mind as it permeates all aspects of the FOREX experience.

### What Is a Spot Market?

A spot market is any market that deals in the current price of a financial instrument. Futures markets, such as the Chicago Board of Trade, offer commodity contracts whose delivery date may span several months into the future.