TenTrade

The A to Z of Trading: a beginner's guide to trading financial markets

Before getting started:

Trading is not a guessing game or a gamble, it is a business, where individuals have every opportunity to succeed if they have the right information, knowledge and skill set.

Online trading is a business but, like any other, a trader needs information, work ethic, diligence and discipline.

Like many other professions, there is little talent and certainly no natural "gift" needed to succeed in online trading. Just as a doctor is not born with the ability to diagnose patients, a trader is not born with the ability to take winning trades. To trade correctly, you need to be taught. Technical traders must learn to look at a chart and know what it means, study past price movement to predict future prices, look at any set of price trackers known as candlesticks and identify the pattern, plan a calculated strategy and know when and how to use it, and of course, manage their money and practice risk management. Trading is a learned skill. With adequate training, practiced tactics and harnessed self-control, education gives traders the best possible chance for success and longevity in their trading career.

In this course, you will learn to approach the market in a calculated and conservative way. You will also learn risk management and how to control your money. The goal of this foundation course is to teach you to read a chart, identify trends, use select technical indicators and develop a trading strategy.

Course Guidelines:

1. Introduction to the Foreign Exchange Market
2. Fundamental vs. Technical Trading
3. Reading Candlestick Charts
4.Trends
5. Candlestick Patterns
6. Support and Resistance
7. Trading Strategies
8. Timeframes
9. Technical Indicators
10. Money Management
11. Psychology of Trading
12. Your Trading Plan – Setting Goals

1. Introduction to the Foreign Exchange Market

The forex market is NOT a physical market.

The forex market refers to banks all over the globe conducting interbank foreign exchange transactions with one another. These transactions are recorded, which results in traders having access to real-time, live price action 24hrs a day 5.5 days a week.

There are 3 trading sessions within each 24hr trading day:

SESSION	HOURS ACTIVE	ABOUT
Asian	10:00pm GMT – 8:00am GMT	This session is usually the slowest (least active) of the 3 regions. It is the first session and starts the trading day.
European	8:00am GMT – 4:00pm GMT	This is the second session. It goes by the working hours in London, UK.
North American	1:00pm GMT – 9:00PM GMT	Also known as the US Session, this session is the last of the three and is based on the banking hours in New York City.

Each session refers to a specific location and its working hours. The relevance, is that certain currencies will fluctuate in accordance with certain regions – the busiest times are generally at the start time of each session – banks open, news and data is released and business starts.

The busiest time is usually 1:00pm GMT when the US session starts, until 4:00pm GMT when the European session ends. This 3-hour overlap is known as the "power hours" and is usually very active, very volatile and the busiest time within the 24-hour trading day.

How currency trading works:

We cannot trade a currency on its own, the way we would trade a stock. It is always traded in pairs, one currency against another, eg. EUR/USD would be trading the euro against the USD, i.e. The value of the 2 currencies in relation to each other. How many USD would it take to buy one Euro?

Every trade involves the buying of one currency and selling of another, e.g.: EUR/USD at a price of 1.1900 means that it will cost USD $1.1900 to buy 1 euro. In this example, we are trading the Euro.

Sticking with the above example, the trader has the option of buying euro (which means we are selling USD) expecting the price of the euro to go up, meaning it will cost more US dollars to buy one euro. Or selling euro (which means buying USD) and expecting the price will go down, costing less US dollars to buy one euro.

How Currencies Move?

What makes the currencies move, go up or go down in value? It is the forces of supply and demand which govern the direction of the move.

There will always be both **supply** and **demand** in the Foreign Exchange Market

The direction of the market is dependent upon whether supply or demand dominates. That is, are there more buyers or sellers?

Where do traders come in?

As a trader, we are choosing a direction:

Up or down = increase or decrease in price = buy or sell

Up = buy; Down = sell

For example, if you are trading EUR/USD, buying would mean that you are buying Euros, since Euro is the base currency. The first currency listed in a currency pair is always the base currency. So, the price movement depicts how many US dollars it costs to buy one Euro. Conversely, if you were selling, this would mean you were selling Euros.

Money will be made when we pick the right direction and of course, money will be lost if we pick the wrong direction.

The amount of money won/lost depends on the differential between where we enter the market and where we exit and has nothing to do with the value of the currency.

The same amount of money would be made or lost from 1.1020 to 1.1030 as 1.2010 to 1.2020.

Also, bear in mind that it is a two-way market. This means that you can make or lose the same amount of money whether you expect the EUR/USD (or any other currency pair) to go up or down.

How do we measure movement?

We measure price movement in pips.

Pips are the smallest increment used to measure a currency's movement. The pips are how we measure the move, regardless of the direction. Each pip has a dollar value. Generally, there are 100 pips in a cent, so each pip is one hundredth of a cent. (This excludes the Yen).

If a currency moves 10pips, making a successful trade doesn't depend on whether the currency has gained or lost the 10pips. It depends on if the trader chose the right direction.

The trader takes a trade by making a decision/choice as to which way or direction he believes the currency pair will move. He closes a trade based on when he feels the currency pair has peaked in the direction he chose. Or on the other hand, when the currency pair has gone too far in the "wrong" direction.

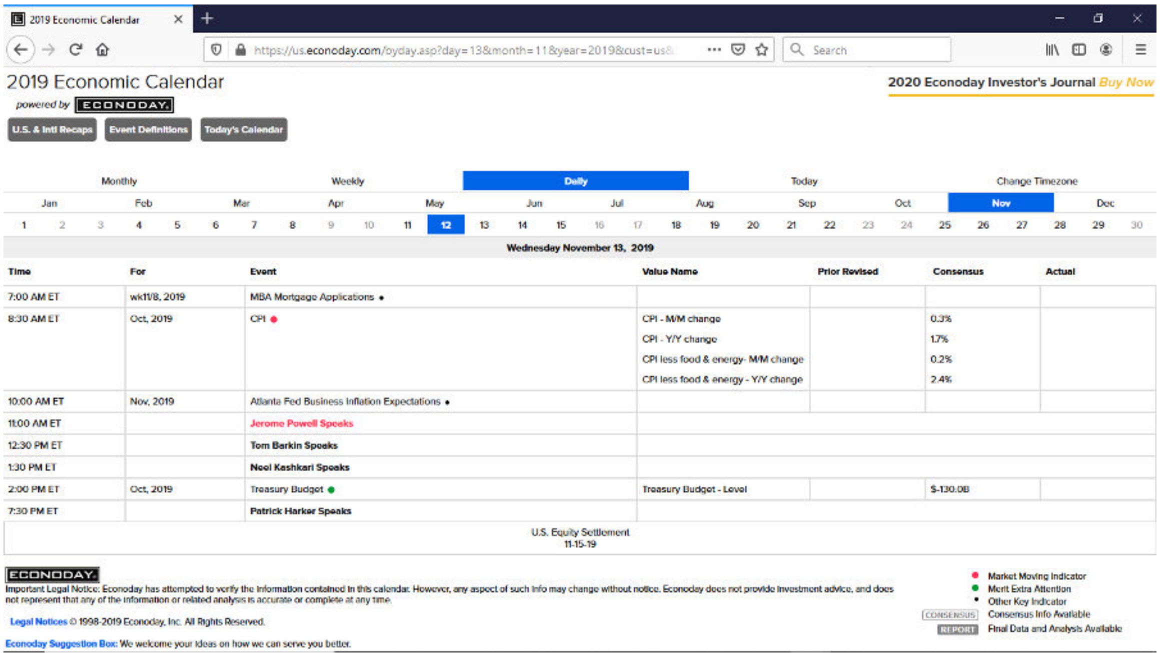
2. Fundamental vs. Technical Trading

Which style is right for you, and what is the difference?

Technicals give us the when, fundamentals give us why.

Fundamental Analysis refers to the method traders use to evaluate the factors affecting and influencing the market and decide whether there is a trading opportunity accordingly. Regardless of the instrument being traded, the objective is to find out the reason why the instrument is trading at a particular price and based on the information available, predict whether the price will rise or fall. Is the current price a fair value of the instrument? Fundamental forex traders will look at factors like interest rates, employment statistics, economic growth and geopolitical events. Equity traders will analyze a particular industry, an individual company and relevant data to determine whether a price is over or undervalued and then predict a future value based on the information at hand. By believing that prices may not reflect all the information learned, the fundamental trader aims to benefit on perceived price discrepancies. The core source of fundamental analysis is data relating to the instrument and commentaries relating to this data; in short, “why is the market moving, and how can I benefit from it?” The single most important factor that must be understood is that a big portion of fundamental analysis is subjective and opinions formed based on actual data can, and will differ, depending on the views of the analyst.

Here is an example of an economic calendar, one of the tools used in fundamental analysis:


2019 Economic Calendar
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U.S. & Intl Recaps | Event Definitions | Today's Calendar

Monthly | Weekly | Daily | Today | Change Timezone

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Wednesday November 13, 2019

Time	For	Event	Value Name	Prior Revised	Consensus	Actual
7:00 AM ET	wk11/8, 2019	MBA Mortgage Applications				
8:30 AM ET	Oct, 2019	CPI	CPI - M/M change		0.3%	
			CPI - Y/Y change		1.7%	
			CPI less food & energy- M/M change		0.2%	
			CPI less food & energy - Y/Y change		2.4%	
10:00 AM ET	Nov, 2019	Atlanta Fed Business Inflation Expectations				
11:00 AM ET		Jerome Powell Speaks				
12:30 PM ET		Tom Barkin Speaks				
1:30 PM ET		Neel Kashkari Speaks				
2:00 PM ET	Oct, 2019	Treasury Budget	Treasury Budget - Level		$-130.0B	
7:30 PM ET		Patrick Harker Speaks				

U.S. Equity Settlement
11-15-19

ECONODAY

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Econoday Suggestion Box: We welcome your ideas on how we can serve you better.

Market Moving Indicator
Merit Extra Attention
Other Key Indicator
CONSENSUS Consensus Info Available
REPORT Final Data and Analysis Available

Technical analysis is the study of price movement and is based on a supposition of pattern and predictability. The price of any instrument is not in any way subjective and there is no personal feeling or emotion involved. Here the trader will learn to use technical indicators like chart analysis, candlestick analysis and chart patterns to predict price changes based on trends. The underlying rationale is that “history repeats itself”, people always have and always will repeat their behaviour patterns and it is for this reason that the trader will use technical analysis to see how a particular price was reached, and then by using the very same analysis predict a future price change. Technical trading has grown tremendously within the Forex market and is used by traders of all levels, from beginners to advanced professionals, for one very good reason: it can be learned, practiced and applied in a relatively short period of time. Equity traders also very often prefer to use technical analysis as this levels the playing field with everyone having equal access to the same information.

Below is an example of the type of candlestick charts our traders use to trade technically. We have chosen a MACD indicator setup, ATR (average true range) and RSI (relative strength index) as examples, but we have a variety of other technical indicators available, and training on how to use and benefit from each one.

MACD

ATR (Average True Range)

RSI (Relative Strength Index)

So how does one choose whether to trade technically or fundamentally? Which is better? The simple answer is that both methods work and there is no one method that will work 100% all the time. The ultimate trader will use a combination of both to achieve the best results.

This course will focus further on Technical Trading, as we believe that the best way to learn to trade successfully is to develop a calculated strategy and have a thorough understanding of how the market is moving and thereby, how it is likely to move in the future

3. Reading Candlestick Charts

Charts are a graphic display of price action. Learning to read a chart is the basis of technical analysis.

The basis for reading charts is that they show technical traders all the information they need in order to decide what instrument (currency pair, commodity, etc.) to trade and when to get in and out of trades; develop a trading strategy.

Technical traders are concerned with price and price movement, which is reflected on the charts.

Although there are different types of charts (bar, line, etc.) candlestick charts are the accepted norm in the currency trading industry.

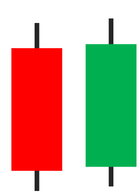
The way a trader decides to get in and out of trades is based on patterns, called trends that the charts show us. As traders, we must learn to use the charts to predict future prices based on past price activity.

At any given time, each instrument is at a particular given price. By looking at a chart we are looking at the price over a specific period of time. We see what the price is in relation to this period of time we are looking at and we can visually see how it got to be at the price.

So, we are looking at the history of the price over a period of time and watching the price move, predicting which way it will go.

Essentially, the charts are illustrating the constant price movement and fluctuation so the trader can visualize the fluctuation, rather than just reading or hearing the price in an isolated context.

Candlestick charts display price movement using a side-by-side series of candlesticks (vertical rectangular shapes with a line or “wick” through the centre). The body of the candle is the difference in price between the open price and close price. The high or low price is displayed as the wick (thin line) on the top or bottom of the body.



The candlestick closest to the right side of the chart indicates the current price, the one that is moving “now”. The open price indicates the price at the start of the time frame (you can choose 5 minutes, 30 minutes, 1 hour, 1 day, etc.) and the close price indicates the current price. On previous candles, the close indicates the price at the end of the indicated time frame.

Most charts display “down” candles, those where the price dropped during the time period, in red. Red candlesticks mean that the price opened higher than it closed. Blue or green candlesticks indicate “up” movement, meaning the price opened lower than it closed, an increase in price since the time period began.

Using candlesticks to predict future price is all about patterns and trends.

4. Trends

There are 3 types of trends:

Uptrend: is when the high point is at the top of a succession of candles and the high point is higher than the previous candle. Higher highs and higher lows = the price is going up. There are more buyers than sellers.

Downtrend: when the low point is at the bottom of a succession of candles and the low point is lower than the previous candle. Lower highs and lower lows in sequence. The price is going down. There are more sellers than buyers.

Sideways: the high points and low points are at the same levels as previous candles and the candles are not moving higher or lower, but basically trading within a sideways range.

The trend will be sideways when the buyers and sellers are the same and there aren't more buyers or sellers to make an uptrend or downtrend. There are always buyers and sellers in each currency pair. E.g. in the EUR/USD pair, there are people buying the euro and selling the USD; at the same time, there are people buying the USD and selling the EUR. The trend will be determined by which is dominating. If neither dominates, the trend is sideways.

The channel is the area between the resistance and support and the area in which the recent price activity has taken place. There is an upper band, a lower band and the channel shows the recent activity in the form of price patterns.

Candlestick patterns either signal trend reversals or trend continuations. To identify the pattern, we look at the preceding trend/direction leading up to the pattern. This determines whether the formation is signaling that the pre-existing trend will continue or reverse and change directions.

Candlesticks often reflect the sentiment of traders and the patterns, which they form, will signal the direction we expect the trend to move in.

5. Support and Resistance

Understanding support and resistance is the key to understanding how to take a trade properly. This is because, price activity is dependent on buyers and sellers, currencies becoming stronger and weaker and of course, predicting this before it happens. The way to properly make this prediction, starts with understanding support and resistance.

Resistance, the high point, is the price level where the supply starts to become greater than the demand. Sellers step in and resist the rise in prices. Essentially, the sellers are taking over from the buyers. Demand will drive the price higher until a certain point. This point in which the price cannot seem to go higher is called resistance.

Support is the price level where demand starts to become greater than the supply. Buyers step in and support the price from going lower. Here there are more buyers than sellers. Supply will drive the price lower until it ends the downward run and stops going lower. This level is support.

Basically, resistance is the recent high price, relative to the current price. The support is the recent low price relative to the current price.

How far back to look for support or resistance must depend on the time frame. So, when looking at a 5-minute chart then look back to the start of the session, Asian, European or North American session. When looking at the hourly chart, you can go back to the start of the trading day, i.e. the recent 10pm GMT.

How to draw support and resistance lines effectively:

Find the clear/obvious price levels, which were previous turning points. Either high points (resistance) or low points (support).

Majority rules – if you’re not sure, neither will anyone else be.

The most important lines to note are those where support becomes resistance (or resistance becomes support).

Include the wicks (the high and low) when drawing in resistance and support levels. If the price could not go higher than a certain price previously then we assume that it will not go higher than that same level when it is approached again. The same would apply at a support level and if a price could not go below that price on it’s previous attempt, it will not go below when tested again. When a resistance has been a previous support, or a support has been a previous resistance, these levels will usually prove to be significant and therefore effective when using these levels in your strategy.

6. Candlestick Patterns

Candlestick patterns are a series of candlesticks on a chart, which display previous price action and are used to predict future price movements.

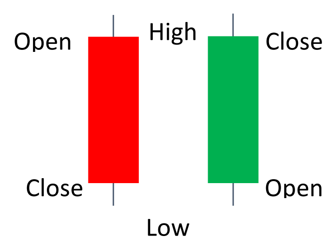
A candlestick pattern either signals a trend reversal or trend continuation. This means that based on a series of candlesticks, the trader can tell if the current trend is likely to continue or reverse (change direction).

To identify the pattern we must be familiar with the trend we are looking at. Studying candlestick patterns will help a trader to decide whether to buy or sell a currency pair.

For example, when looking at a EUR/USD candlestick chart and seeing a clear pattern in which the Euro is strengthening, a continuation pattern would advise the trader to buy whereas a reversal pattern would signal the trader to sell the Euro.

The premise for understanding candlestick patterns is that history does tend to repeat itself, so future price movement is best predicted by understanding past price movement.

Remember, the body of the candlestick is the difference between the open price and the close price of a currency pair in a given timeframe. The high and low price is displayed as the wick (thin line) on the top or bottom of the candle. Red candlesticks indicate a decrease in price (price opened higher than it closed) while blue or green candlesticks are an increase in price, the current or close price is greater than the open price.



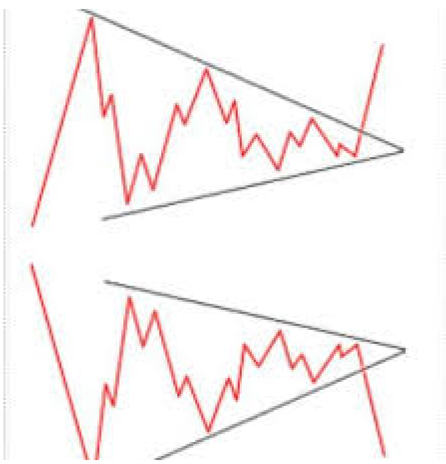
Trend Continuations

Triangle patterns are examples of trend continuations

As opposed to a regular uptrend which is a sequence of higher highs and higher lows, an ascending triangle is made up of higher lows, with highs that cannot seem to break a certain point (the resistance level). This sequence is a continuation, because the series is representative of buyers continuously trying to break the resistance level. With all of this pressure, the price is expected to eventually break resistance and continue to increase, continuing the uptrend.

In the same way, a descending triangle represents a series of lower highs with the lows remaining stuck at support. Eventually, the price is expected to break support and continue to be driven lower – a continued downtrend.

Symmetrical Triangles



Trend Reversals:

Double Tops/Double Bottoms, Engulfing and Dojis are examples of trend reversals, seeing any of these three patterns, indicates the trend may reverse:

Double Top

Double Bottom

Bullish Engulfing

Bearish Engulfing

Doji

7. Trading Strategies

Range Trading

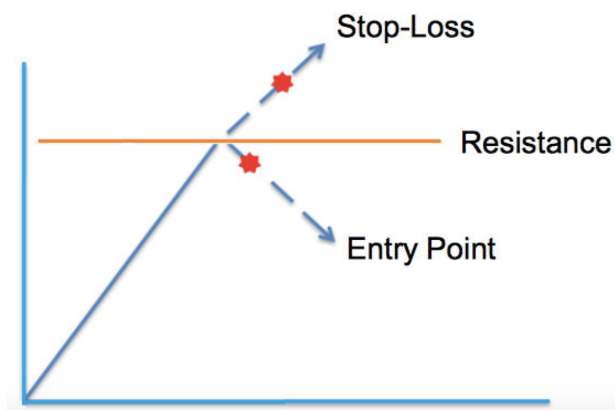
These trades are taken when the price is at or near a support or resistance level. The assumption is that the trend will reverse its direction.

Stop loss levels are placed close to the entry point.

Range trading is applied in a sideways market and expecting a continuation of the same pattern. For example, buying when the price reaches support and selling when it reaches resistance.

This could be an intraday strategy.

The principal is that the trader is waiting for reversals when resistance or support levels are reached with a stop loss placed outside the range.



Breakout Trading

These trades are taken when the price is at or near a support or resistance level

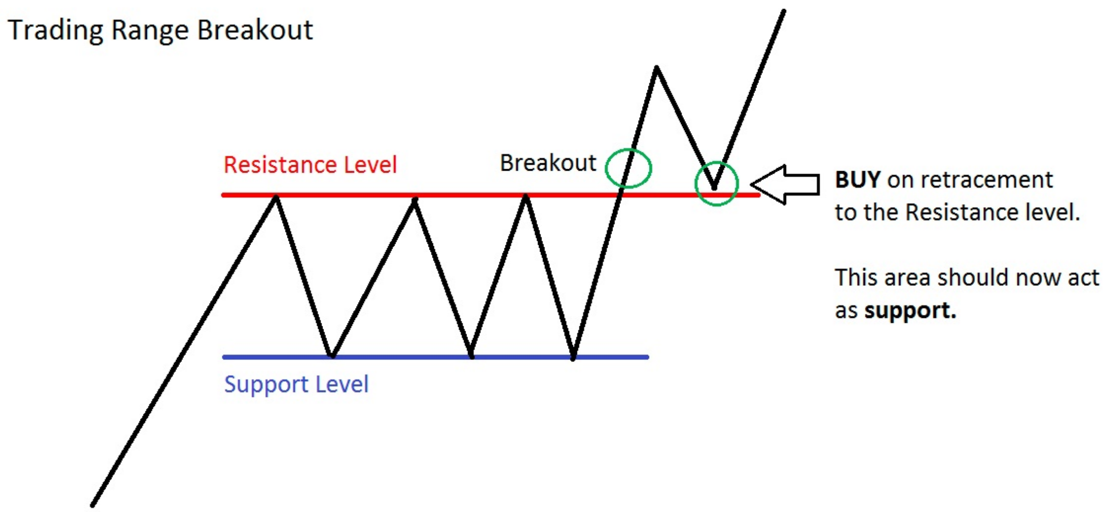
The assumption is that the trend will continue its direction

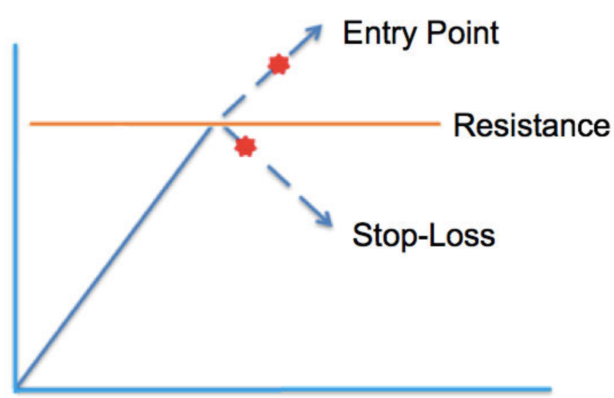
Stop loss levels are placed close to the entry point

Here the trader is looking for a continuation of a trend rather than a bounce/reversal when resistance or support levels are reached.

When the resistance is broken, a buy trade is taken with the expectation that the uptrend will continue. Alternatively, a sell trade is taken when support is broken on the downside.

Once the trade is taken, a stop-loss is placed inside the previous level broken. So, below the resistance or above the support.





Fibonacci Based Trading

This is a forward-looking strategy as opposed to working with the past

Every time a trend comes to an end we must decide whether there is an upcoming retracement or reversal

The fib levels are anticipating either a retracement (continuation of previous trend) or a break (continuation of the reversal.

There must be a preceding trend before one can use the Fibonacci retracement tool.

The most difficult part of trading is making a decision when a trend ends and starts reversing (going in the opposite direction).

This is where traders use the Fibonacci retracement tool to help with their decision.

This indicator will set up 3 levels when the retracement has started and we can use these levels to signal to us whether the retracement is just that, or a complete reversal.

The Fibonacci levels are 38.2%, 50% and 61.8%.

This means that when the trend has retraced to these levels we expect them to reverse direction again and continue in the original direction.

First fib level 38.2%

Stop-Loss

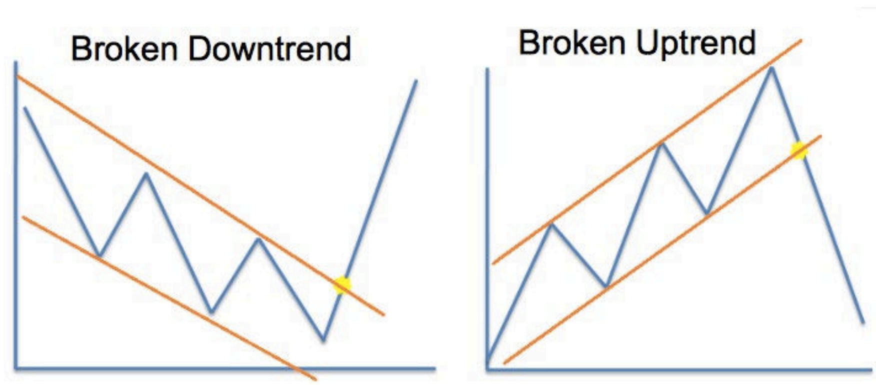
Simply put, never ever trade without a stop-loss. It is so important to that the potential loss of your trade is calculated before you take it.

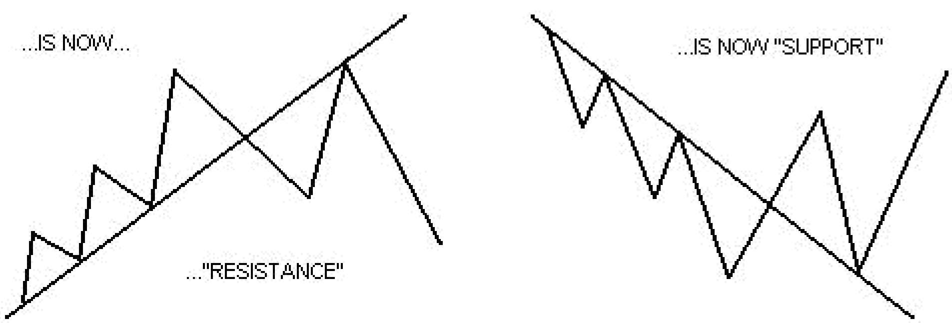
A stop loss is the maximum amount of money you are willing to lose on a specific trade. So, if you enter a trade and choose the wrong direction, the platform will automatically close the trade, whether you are watching it or not, when you have lost the allotted amount.

The general rule for placing a stop-loss is that it should be the point where the current trend is broken.

Of course, as a trader, you are opening a trade expecting a trend to develop – an uptrend with higher lows being formed or a downtrend with lower highs. When this pattern is broken, the trend is broken and a stop-loss is placed to close the trade.

Of course, the trend can break briefly and then continue, which is why traders are often hesitant to place a stop loss, because they want to think that eventually the trend will come back. In the long run, it is better to take a small loss when a trend is broken because staying in a losing trade hoping the trend will reverse often results in a bigger loss than leaving the trade earlier would have.





Analyze your Trades

There is a difference between losing when the market has beaten you as opposed to losing because you have not followed your strategy.

It is important to track your trading and develop your strategy for future trades by finding common threads in your winning trades as well as in your losing trades.

Examples of things to look for when establishing commonalities between trades are: Currency pairs, time frames, times of trades, pre-market conditions and position size

Successful traders analyze their trades and learn from them. Make the commonalities in your winning trades part of your trading plan. Implement a strategy based on what works, always trade smart. It is equally important to look for common threads in your losing trades so that you know what time frames, currency pairs, etc. do not work with your trading style.

This way of trading (recording and analyzing each trade and building a strategy accordingly) will result in you, as a trader, taking less trading and being more selective about the types of trades you take. Trading more does NOT equal profiting more, in fact, the opposite is usually true. Remember, there are no prizes for taking the most trades, but there is a huge potential for "prizes" for taking the right trades.

8. Timeframes

Time frames are the time periods that candlesticks are broken up into on a candlestick chart.

For example, if you are trading on a daily chart, you will see a series of candles that open in the morning and close in the evening but if you are looking at a 30-minute chart, each candle will represent 30 minutes of price activity.

Mixing up or confusing time frames is probably the single biggest and most common mistake of all traders

Although the live price will be the same on all time frames, the trends will differ from time frame to time frame

The shorter time frames will pick up all the "noise" while the longer time frames will show the "bigger picture".

There is no more important lesson for traders to learn than to stick to the time frame which signaled the trade they have taken; don't look at all different time frames for a specific currency pair once you have already taken the trade.

The amount of time to stay in a trade should match with the time frame that was on the chart when you took the trade. A good guideline is about 6 candles in the time frame you are working with.

For example, if the trade was taken based on a 5m chart, stay in the trade for about 6, 5min candlesticks, which equals about 30 minutes. On an hourly chart, you could consequently stay in the trade for about 6 hours (6 one hour candles).

A position trade means that the trade will be longer term.

The trade will continue over night and will usually last a few days.

Intraday trades on the other hand, will close on the same day they are opened. The type of trade you choose depends on the timeframe you are working with.

Although its good to look at shorter time frames when looking for entry points, remember to stick to one time-frame when applying a strategy.

It is useful to look at multiple time frames when applying stop-loss and take-profit levels.

Once the strategy has been applied don't jump from time frame to time frame during the trade and change your strategy.

Test strategies on different time frames to see which works best for your personality and dollar amount in your trading account

General rule: the longer the time frame the safer the trade, the shorter the time frame, the riskier the trade

Also, note that trends and strategies on the same currency pair will be different depending on the time frame you are working on.

The reason most traders make the mistake of confusing time frames is because once money is involved, it is easy to forget your strategy and become consumed with doubt about the trade you have taken.

Instead, you will have the best chance of success in your trading business by remembering that your trade is based on a specific timeframe. Thus, closing a trade based on activity in another time frame is a mistake and can limit your potential for profit.

Technology today is so great that we can watch the market minute by minute, but those minute by minute moves are not what a trader takes a trade, or should leave a trade based on. Rather, remember the “6 candlesticks in your timeframe” rule and set a stop loss and take profit based on support and resistance.

9. Technical Indicators

Remember that technical analysis is concerned only with price and is grounded in the use and analysis of graphs/charts.

Technical trading is based on several key assumptions:

- Price action incorporates all information
- Prices move in trends or consistent patterns
- History repeats itself – the market has a memory

This being said, technical indicators are the tools given to us on a candlestick chart that we use to identify past activity and therefore predict future trends.

Simply put, they are a visual indication of price movement. The indicator you choose is dependent on your strategy.

At any given time, all currency pairs will be trading at a certain price. The question is, “how did the pair get to this price?”

The logic behind technical trading using indicators is that if the technical indicators picked up the previous patterns or trends, then using the same indicators will pick up future trends, thereby predicting future price moves.

Essentially, as a trader you will need to learn how to use indicators to understand price movement. That way, you can easily know what a “good” trade looks like and when to take it, just by looking at a chart.

There are literally hundreds of different technical indicators. There is no right or wrong indicator and more importantly, no one indicator will work all the time. So, each trader must find the indicator, which suits his or her own trading style and personality.

It is important to use an indicator that you understand and is logical and makes sense to you. This will help you to understand why you’re using it and to stick with it rather than trying to keep using new ones each time you have a losing trade.

In this course, we will cover Moving Averages as our favoured indicator of choice. However, learning about and using/exploring other technical indicators is a good way to broaden your trading knowledge and skill set later.

Moving Averages

"Moving Averages" is a lagging indicator that is probably the single most used technical indicator for several reasons: It is logical, easy to apply and most important, easy to understand.

The basic premise is that we measure different prices from the past, average out the price, and compare the average past price with the current live price.

So, if we are on an hour chart and we put in a parameter of 10 into the MA – it will mean that we are looking at the average price over the past 10 hours. If we are on a 5min chart and put in a 10, it will give us the average price over the past 10, 5mins, therefore the average price over the past 50 mins.

One way to use Moving Averages is "Entry Points/Exit Points" When the candle crosses the line.

- Single moving average (above = buy; below = sell)
- Crossover moving averages (leading indicator crosses lagging indicator) - When using two moving averages, shorter and longer, the crossover is the signal that the previous trend has ended and new/opposite trend is starting. The shorter time-frame leads the way and gives us the direction. E.g. if using 10 and 20 as our MAs, then when the 10 line crosses above the 20 line we buy, when 10 crosses below we sell.

The second way to use Moving Averages is to determine Support or Resistance Levels

- There will be a correlation between the moving average perimeter and the volatility/noise

Single Moving Averages

Cross Over Moving Averages

Simple Moving Average (SMA) vs. Exponential Moving Average (EMA):

SMA = Simple Moving Average

With a simple moving average, each period carries the same importance

EMA = Exponential Moving Average

With EMA, more relevance is put on the more recent data

Which to use will depend on your trading style and risk tolerance

Using EMA means you can pick up on a price movement quickly as it is happening and act on an immediate price movement. EMAs will pick up recent data with relevance on the more current price.

However, some traders prefer to know a true average over a period rather than emphasizing the current price, thus an SMA would be their moving average of choice.

SMAs are slower to respond to price action. They give a smooth price as it is averaged over several candles evenly.

Try each type with your trading strategy and see which works best for you.

Don’t forget that the average is always relevant to the time frame you are using. Meaning that using a parameter of 10 on an hourly chart will give us the average price over the past 10 hours. On a 5-minute chart, it would be the average of the past 10 candlesticks (50 minutes)

10. Money Management

The ability to manage your money/control your risk, is the essence of what will make your trading venture a successful one. Even once you have learned the ins and outs and perfected your trading strategy you will quickly learn that the best strategies mean nothing without risk management.

Risk refers to the measurable probability of loss. As a trader, your number one objective is to preserve capital. Thus, it is vital that traders only trade with the amount they can afford to lose.

When a trader is losing at their financial “comfort level”, they can deal with the loss and continue following their strategy. When a trader is winning, it becomes frustrating to be winning less, knowing that more money could have been made if more risk had been taken.

There are rules associated with money management that traders must understand:

Professional: 3% risk of working capital

Practical: 10% max of working capital

Determine risk/reward ratio

Objective - 2:1 ratio - need to win 4 out of every 10 trades

Wins	Losses	Net
	- 50	
	- 50	
+ 100	- 50	+ 100
+ 100	- 50	
+ 100	- 50	
+ 100	- 50	
+ 400	- 300	

Understand the concept of fear and greed.

Greed = Desire to make money

Fear = Scared to lose money

The will to "get rich quick" should never be a motivator to throw the rules out the window.

Learn to think/trade in terms of pips rather than dollars and cents

Losing is part of trading

When it comes to managing money, real traders put more focus on losing trades, than winning ones. When you are winning, it is easy to record your winning strategy, keep it up, set your stop-losses and take profits, etc. But when you are losing, it is important that you LEARN from it. More importantly, it is important that you are already aware of the impact on your capital, caused by the loss. Because as a trader, you must think one step ahead, you must already be prepared for the loss.

Here are some real numbers, to explain a trader's plan, once they have lost:

Loss of Capital (%)	Profit to Recover (%)
5	5.3
10	11.1
20	25
25	33.3
35	53.8
50	100
95	1,900

11. Psychology of Trading

Patience, diligence, discipline, determination and humility are all qualities that a good trader must possess.

The ability to handle losses and move on is what separates winning traders from losing traders.

You cannot expect to take consistent winning trades right off the bat without putting in any work, time and practice. Lawyers, electricians, doctors, etc. all learn and practice their skill. Why does one think they can be a profitable trader without practice and knowledge?

Traders must be humble and prepared to learn and practice. Treat your trading as the professional business that it is, whether you trade multiple hours a day or only a few hours a week.

When you become a trader, it is vital to be able to manage your fears as well as your greed. Once you have managed both and understood that trading is a learned and practiced skill involving wins and losses, you will have mastered the psychology of trading.

Fear and greed are the two most difficult emotions for a trader to deal with. Fear – being just that – the fear of losing, and greed – wanting to make as much money as possible. These emotions are completely natural and normal, and they will always be there. There is no way to eliminate these emotions; the answer is to learn how to control them. There is only one way to control these emotions and that is with knowledge. When a trader understands their business and their trades, they will be able to control these emotions. As traders, we are dealing with money and we know that nothing brings about more emotion than this, whether it's winning money or losing money.

When a trader understands their strategy and thereby understands the result of a particular trade, their emotions will be under control. Following a winning trade, an educated trader will analyze the trade and learn from it. Why did you take the trade? What strategy did you use? How did the open position fluctuate through the course of the trade? How was the trade closed out? After this kind of analysis, the trader will be able to look for a situation where the process can be repeated for a similar outcome. This type of behavior is the mark of an educated, knowledgeable trader who is running their trading business properly. After analyzing all your winning trades, you will see that there is a common thread running through all winning trades and you will understand what to look for when looking for the right trading opportunity.

Conversely, the same analysis is essential when assessing your losing trades. Why did you lose? Did you follow the rules and your strategy? Losing when you followed all the rules is different from losing when you didn't follow the rules of your strategy. Did the market beat you (which is natural) or did you break the rules? (which doesn't mean that your strategy did not work). Unfortunately, we often tend to forget and cast aside losing trades and just move on. This is wrong – learn why you lost and learn from it so you don't repeat the same mistakes.

Knowledge and education is what separates winning traders from losing traders. Understanding your trades will allow you to control your emotions and not allow fear and greed to control your trades.

12. Your Trading Plan

Create your own personalized trading plan

What goes in your trading Journal:

- Date
- Currency Pair
- Time in
- Entry Price
- Time out
- Exit Price
- Time Frame
- Strategy
- Reason

Date	Time In	Entry Price	Time Out	Exit Price	Time Frame	Strategy	Reason

Just as any business has a set of books which reflect its business activity, trading is also a business and all trading activity must be recorded so that you can learn from past trades. Make a trading journal with details of trades taken so that as a trader you can check past trades to learn from both winning and losing trades. Thinking that we will remember all the information is foolish and wrong and disrespectful to your business. Be professional.