Avoiding mistakes in forex trading

By Abe Cofnas

A difficult challenge facing a trader, and particularly those trading e-forex, is finding perspective. Achieving that in markets with regular hours is hard enough, but with forex, where prices are moving 24 hours a day, seven days a week, it is exceptionally laborious.

When inundated with constantly shifting market information, it is hard to separate yourself from the action and avoid personal responses to the market. The market doesn't care about your feelings.

Traders have heard it in many different ways — the only thing you can control is when you buy and when you sell. In response to that, it is easier to know how not to trade then how to trade. Along those lines, here are some tips on avoiding common pitfalls when trading forex.

1) Don't read the news — analyze the news. Many times, seemingly straightforward news releases from government agencies are really public relation vehicles to advance a particular point of view or policy. Such "news," in the forex markets more than any other, is used as a tool to affect the investment psychology of the crowd. Such media manipulation is not inherently a negative. Governments and traders try to do that all the time. The new forex trader must realize that it is important to read the news to assess the message behind the drums.

For example, Japan's Prime Minister Masajuro Shiokowa was quoted in a news report on Dec. 13 that "an excessive depreciation of the yen should be avoided. But we should make efforts and give consideration to guide the yen lower if it is relatively overvalued."

When a government official is asking, in effect, if traders would please slow down the weakening of his currency, then we must wonder whether there is fear the opposite will happen. In this case, that was the outcome as on Dec. 14 the dollar vs. the yen surged to a three-year high. The Prime Minister's statement acted as a contrarian indicator. This is what "fade the news" means.

Often, a bank analyst or trader will be quoted with a public statement on a bank forecast of a currency's move. When this occurs, they are signaling they hope it will go that way. Why put your reputation on the line, saying the currency is going to break out, if you don't benefit by that move? A cynical position, yes, but traders in the forex markets always need to be on guard. Read the news with the perspective that, in forex, how the event is reported can be as important as the event itself.

2) Don't trade surges. A price surge is a signature of panic or surprise. In these events, professional traders take cover and see what happens. The retail trader also should let the market digest such shocks.

Trading during an announcement or right before, or amid some turmoil, minimizes the odds of predicting the probable direction. Technical indicators during surge periods will be distorted. You should wait for a confirmation of the new direction and remember that price action will tend to revert to pre-surge ranges providing nothing fundamental has occurred.

An example is the Nov. 12 crash of the airplane in Queens, N.Y. Instantly, all currencies reacted. But within a short period of time, the surge that reflected the tendency to panic retraced.

3) Simple is better. The desire to achieve great gains in forex trading can drive us to keep adding indicators in a never-ending quest for the impossible dream.

Similarly, trading with a dozen indicators is not necessary. Many indicators just add redundant information. Indicators should be used that give clues to: 1) trend direction, 2) resistance, 3) support and 4) buying and selling pressure. One tool helpful with all of these factors is the point-and-figure chart (see "Getting the point").

Point-and-figure charts are one of the earliest forms of technical analysis. Now, with technology, they are easier for traders to use than ever before. While point-and-figure analysis is available on several stand-alone programs, most online platforms do not offer these charts. A few that do are www.quotespeed.com, www.chartanalytics.com and www.dorseywright.com. **FM**

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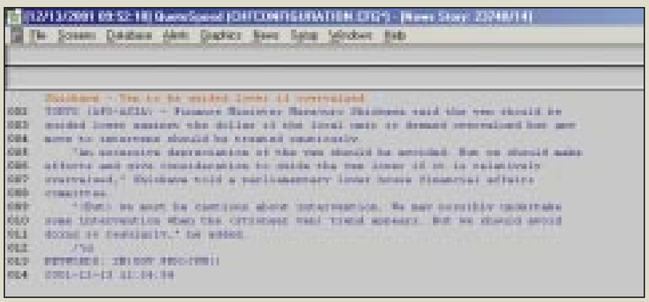
NEWS YOU (DON'T) USE

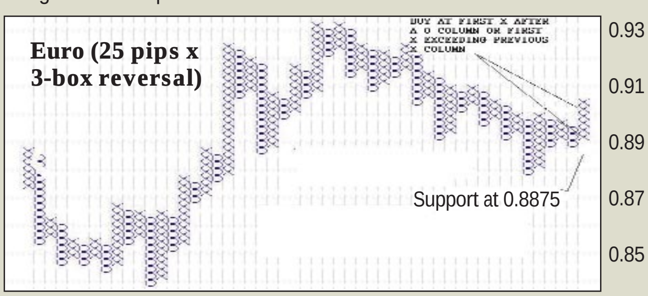
Often, news that might seem definitively bullish to someone new to the forex market might be as bearish as you can get.



Source: Quote Spread

GETTING THE POINT

Market analysis should be kept simple, particularly in a fast-moving environment such as forex trading. Point-and-figure charts are an elegant tool that provides much of the market information a trader needs.



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