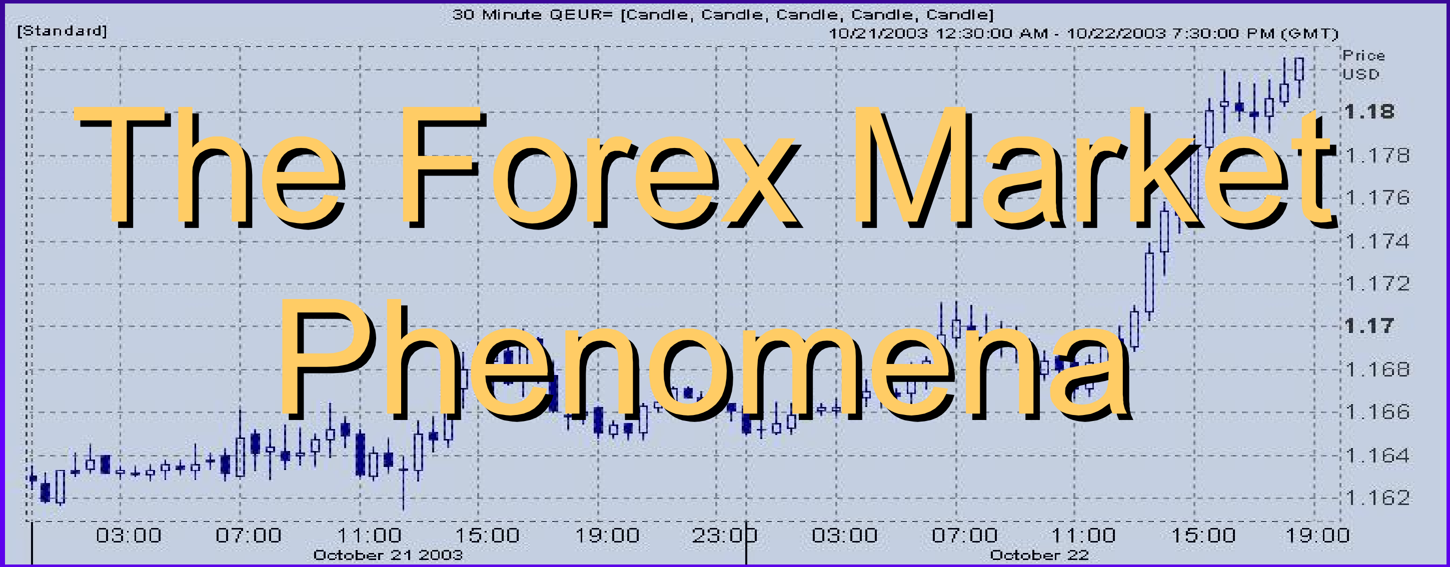
The Forex Market Phenomena



An Introduction to the Forex Market and How to Trade It.

Presented By:

Michael R. David

FRIEDBERG DIRECT

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Contents

Introduction

- The Inter-Bank Foreign Exchange Currency Market is known as the FOREX Market.
- The main participants have traditionally been the world's largest banks, financial institutions, insurance companies and governments; all of which must keep risk in their investment portfolios to an absolute minimum.
- The advent of the internet has made this exclusive market available to the individual investor.

Introduction

- The Forex Market offers:
  - A 24 Hour Market
  - Ease of Short Selling, no up-tick rules
  - No Limit Up, No Limit Down
  - Greater Leverage than traditional markets
  - More pronounced technical analysis correlations
  - Limited Risk

24 Hr. Market

- Since this market is virtual and does not have a single physical location, it is not limited by market location times.
- The Forex Market opens Sunday evening at about 7:00 pm EST, as trading begins in New Zealand, and continues round the clock until about 4:00 pm EST on Friday.

Ease of Short Selling

- In Equity (stock) markets or Futures markets, you often have to wait for the market to tick up before you are allowed to initiate a short sale. If the market continues to go down without ever ticking up, you might never be able to execute your order for a profitable trade.

- In the Forex Market, you simply enter an order to sell at the market or any desired price and your order will be executed at those prices. No need to wait for the price to tick up first.

No Limit Up, No Limit Down

- The Forex Market has a *daily* trading volume in excess of $2 Trillion, making it the largest and most liquid market in the world. Approximately 46 times larger than all the futures markets in the world combined.
- Due to this extraordinary volume and liquidity, traders never experience trading halts, Limit Up or Limit Down days in this market.

Forex vs Other Markets

- The Forex (Foreign Exchange) Market is the largest, most liquid market in the world comprised of approximately 4,600 world banks.
- The daily volume on the Forex is more than in all other markets combined!
- There is always a Buyer and always a Seller

Forex vs Stocks

Stock Markets

Stock Markets create ownership (certificate / share) which are traded in round lots (100 shares) or blocks (1000 shares)

Stock market leverage is 2:1 (with credit approval)

Currency Markets

Forex is traded in currency lots (1 lot controls approximately $100,000 US per foreign currency pair)

Forex market leverage is often 100:1 ($1,000 US controls $100,000 US and without credit approval needed)

Forex vs Stocks

The Stock Market:

- 1000 shares of ABC Corp. @ $37.00/share
- Investment = $37,000
- Risk = $18,500 *
- Reward of 1 point move = $1,000
- Return on Investment = 1%

Forex Market:

- Buy 1 currency lot
- Investment = $1,000
- Risk = $1,000
- Reward of 1 point move = $1,000
- Return on Investment = 100%

* Based on 50% margin requirements and assuming no margin calls.

Leverage

- Through Friedberg Direct, you can have as much as 100:1 Leverage.
  - This means that you can trade 1 currency contract or Lot of $100,000 US for every $1,000 US equity in your margin account.
  - This type of leverage greatly magnifies your profit *and* loss potential when trading in this market.

NOTE: Initial Margin Requirements are 3% Per Contract

Leverage Example

- Currencies are traded on a PIP (Price Interest Point) system.
- Depending on the currency, a PIP can be worth $10 US per contract or Lot, as in the case of the Euro.
- Currencies can move 10 to 30 PIPs on any given day.
- Such a move could produce $100 - $300 per Lot traded.

Trade Example & Effects of Leverage

1: The Euro traded from 1.1580 to the US Dollar

Trade Example & Effects of Leverage

- In this example, the Euro moved 187 PIPs in about 10 hours.
- The profit on 1 Euro currency Lot traded would have been $1,870 US.
- If you traded 3 Lots, it would have been $5,610 US.
- Your return on investment would have been 187%

Note that if you were on the wrong side of the trade, your loss could be as much as 100% if you had not implemented any stop loss provisions.

Trade Example & Effects of Leverage

- While this example is more extreme than the average daily moves, it does offer a vivid example of the types of moves that may be experienced and the subsequent effects of the leverage available in the Forex Market.

- Lets look at another example in the Canadian Dollar.

Trade Example & Effects of Leverage

Here the Canadian $ moved

from 1: 1.3300 Cnd to US $

to 2: 1.3220 Cnd to US $

In about 5 hours!

That's a move of 80 PIPs.

On 1 Cnd $ Lot the profit would have been $600 US. (@$7.50 a PIP)

On 3 Lots it would have been $1,800.

The return on investment would have been 60%.

More Visual Examples of Oct. 14, 2003

Japanese Yen 156 PIPs

British Pound 224 PIPs

Swiss Franc 220 PIPs

New Zealand $ 52 PIPs

Australian $ 81 PIPs

Technical Analysis Correlation

- The Fundamentals of the Forex Market dictate the reasons why a particular market might be expected to move.
- The Technicals, on the other hand, attempt to determine when they might move and, potentially, how far.

Technical Analysis Correlation

- We look to Fundamental news announcements in order to identify a trading day.
- However, we focus on Technical Analysis in order to determine how we set ourselves up to trade on a “trading day”.

Technical Analysis Correlation

- In Technical Analysis we utilize historical and real-time price charts together with various indicators and calculation tools in order to attempt to identify entry and exit points for our trades.
- Due to the nature of the Forex Market, price movements tend to be more conventional and tend to stick to typical technical analysis patterns.

Technical Analysis Correlation

- Thus, due to the Forex Market's closer correlation to typical technical analysis chart patterns it is, in a sense, a simpler market to trade.
- This allows the trader to focus more easily on carrying out a trade than trying to determine what direction all the fundamental factors in a given stock are likely to move it in.

Trade Terminology

- **Ask** – the price at which a trader will buy from the dealer
- **Bid** – the price at which a trader will sell to the dealer
- **Open Position** – an active trade in the market
- **Open Order** – an order to buy or sell at a specific price that has not yet been filled
- **Buy/Sell Order** – an order to buy or sell into the market at a specific price
- **Market Order** - an order to buy or sell into the market at the current price
- **Stop (Loss) Order** – an order to get out of an open position at a specific price if the trades goes against you
- **Stop/Limit Order** - an order to get out of an open position at a specific price in order to take profits

Trade Terminology

- **Trailing Stop** – moving your Stop (Loss) Order to follow behind the market movement so as to begin locking in profits
- **Trend** – sustained price movement in a single direction
- **Resistance** - a level where the market is unable to penetrate further up
- **Support** – a level where the market is unable to penetrate further down
- **Band/Range/Bracketing** – tight price action, moving within a limited price range for a sustained period of time
- **Breakout** – when prices suddenly move away from the persistent price range

The Straddle Trade

The potential to double your equity every month

The 10 Step Straddle Trade

- 1. We identify a day in which a major news announcement is expected – one which is likely to move a specific currency.
- 2. We identify the time of the expected news release.
- 3. We observe the market activity as the date and time approach.

The Straddle Trade

Swiss Franc 30 Minute Chart

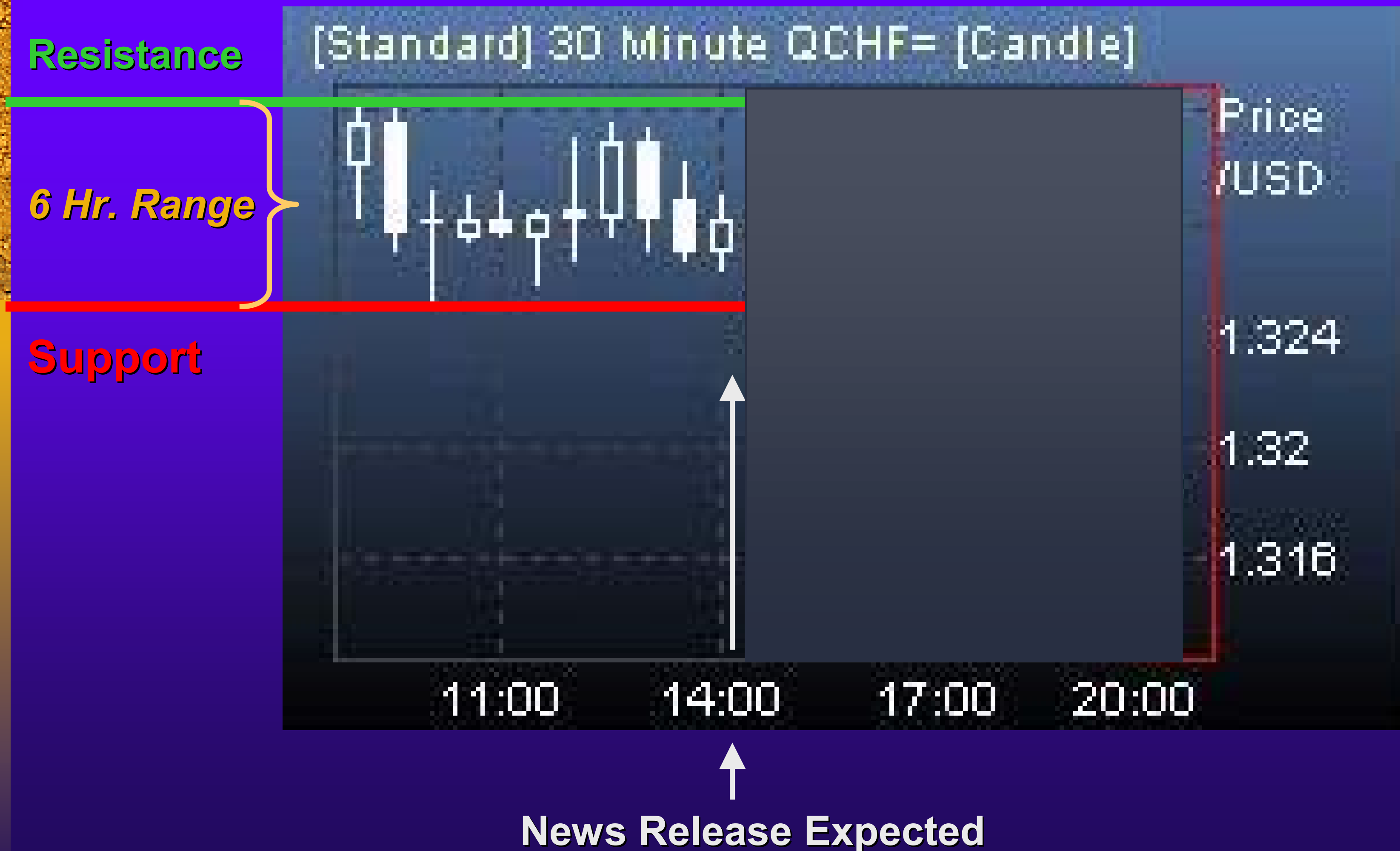
News Release Expected

The Straddle Trade

- *(We are looking for indications that the market is anticipating a serious move. This would be indicated by the prices moving within a tight range for <u>at least</u> 5 – 6 hours prior to the expected news release.)*

- **4. We take note of the upper and lower bands of the range and establish resistance and support price levels.**

The Straddle Trade



The Straddle Trade

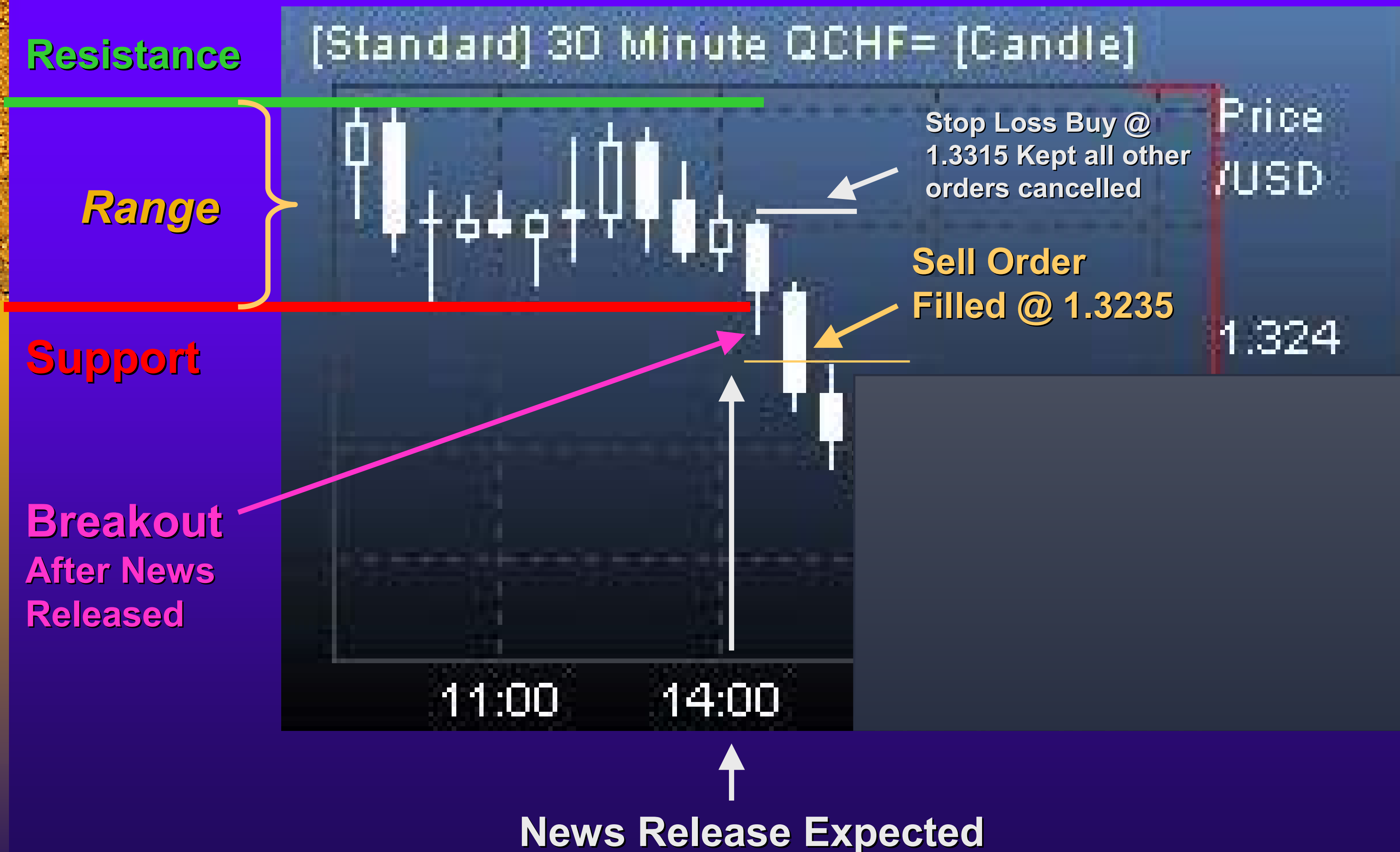
- 5. We enter buy and sell orders 15 – 20 PIPs away, on either side of the resistance and support levels, thereby "straddling" the market.
- 6. We enter stop loss orders for each of our opening orders to ensure proper equity management. Stop Loss orders should be no more than 5% of your equity on a trade, i.e. 25 PIPs on $5,000 in equity.

The Straddle Trade

The Straddle Trade

- 7. We wait for the news release to move the market to our order price. Once the market trades at our price, our order will be filled.
- 8. We now have to cancel the opening and stop loss orders that are no longer relevant and monitor our active trade.

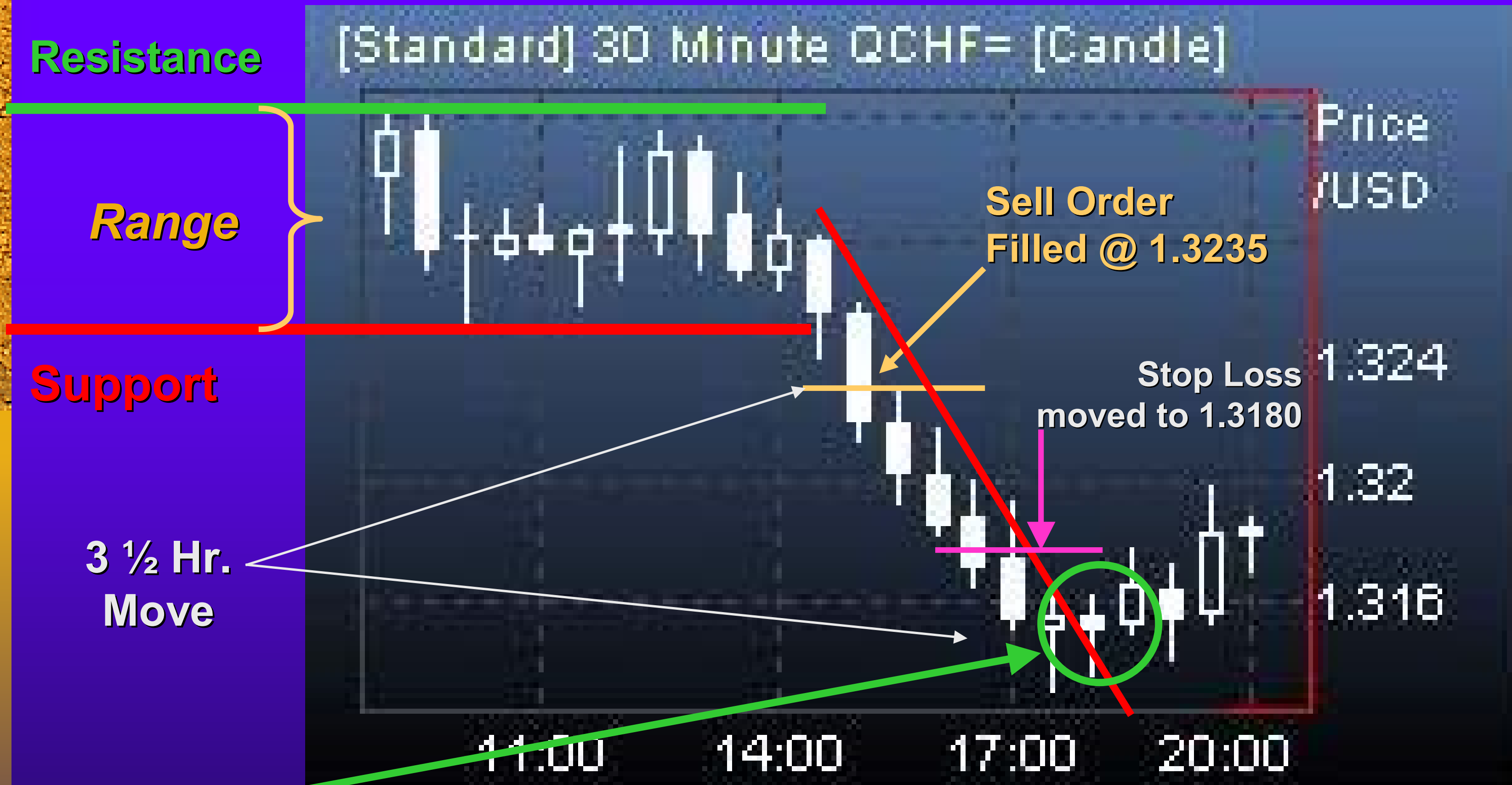
The Straddle Trade



The Straddle Trade

- 9. We may now begin to move our stop loss order on the active trade in order to lock in profits (“trail our stop”) – though not too closely lest the market take us out on a retracement wave.
- 10. When we reach our limit order, predetermined profit level or we notice the trend has broken, its time to take profits and close the trade. Remember to cancel the open stop loss order if it doesn’t automatically cancel.

The Straddle Trade



Down Trend broken, indication to take profits @ 1.3155 for 80 PIP profit = $600 US on 1 Lot

Swiss Franc PIP value = $7.50 US

Can this be done every month?
It is possible for a well educated and *very* disciplined trader to identify such opportunities on a monthly basis.

Euro

British Pound

Australian $

Euro

Canadian $

Australian $

Japanese Yen

British Pound

Risk

- The previous slides identify a Straddle Trade in 8 currencies on 3 different days – due to negative news affecting the US Dollar.
- However, discipline and patience will play a big role in how profitable *or not* any given trade will likely be.
- There are *no guarantees* and *any trader* can suffer sever losses on *any given trade*. The extent of those losses will likely be determined by your adherence to equity management rules.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Limited Risk

- While any kind of investing can be risky, often times requiring the deposit of further margin monies on margin calls, at Friedberg, we guaranty that your risk will be strictly limited to your margin on deposit.
- You will not be liable for further margin calls on your positions.

Limited Risk

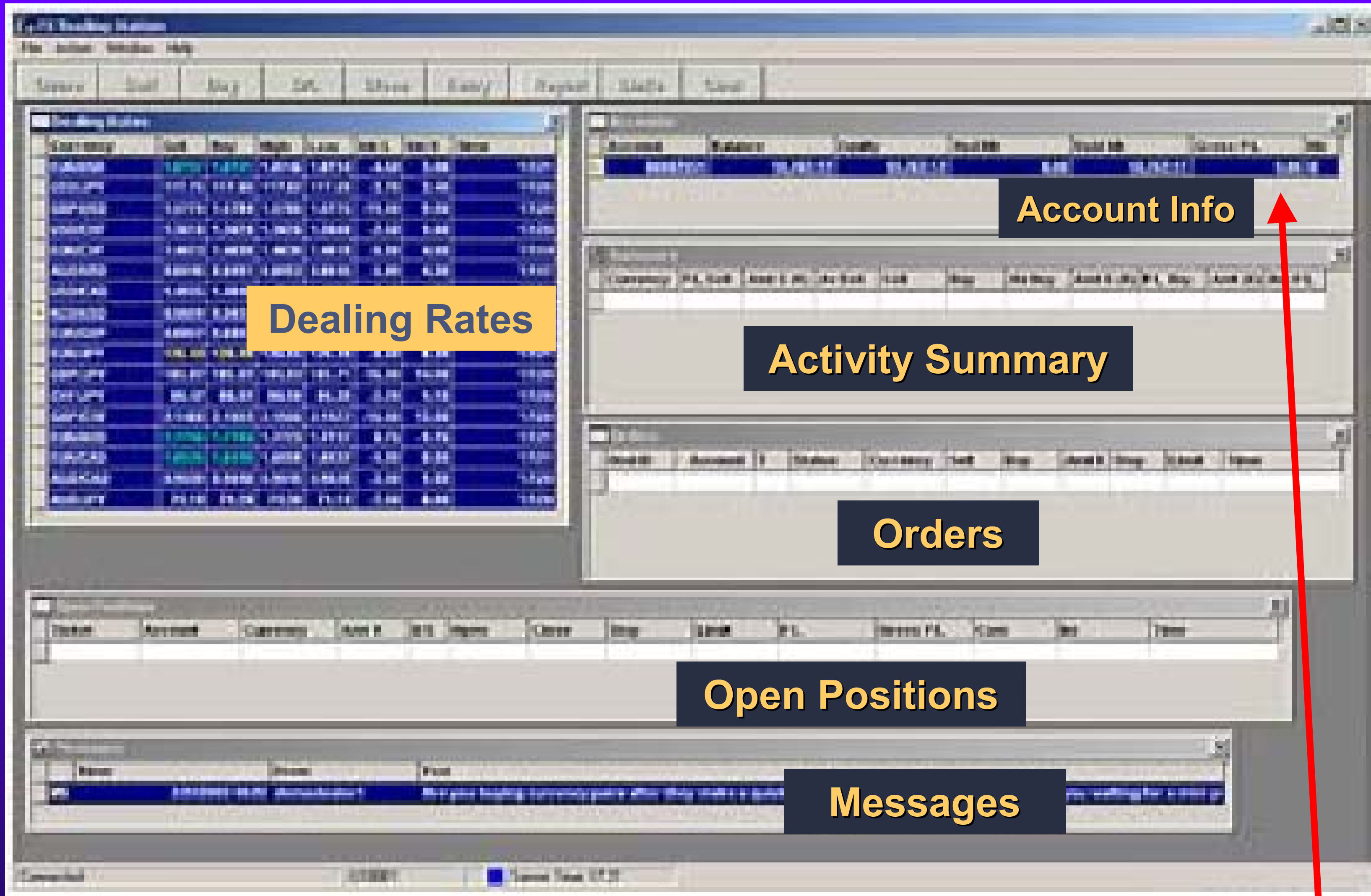
Our online trading platform performs an automatic pre-trade check for margin availability, and will only execute a trade if you have sufficient margin funds in your account. The system also calculates the funds needed for current positions and displays this information so you can see it in real time.

In the event that funds in your account fall below margin requirements, the Friedberg Dealing Desk will close all open positions. That means that, even if you are dead wrong and there is a catastrophic market move against you, you can never lose more than the amount of money you have in your account. In this respect, forex positions are like buying options in that there is a substantial, but strictly and predetermined limited, risk.

Friedberg Direct

- Division of Friedberg Mercantile Group Ltd.
- Canada's Oldest Foreign Exchange and Commodity Futures Dealers
- Member of CIPF (Canadian Investor Protection Fund)
- Member of the IDA (Investment Dealer's Association)
- Member of All Canadian Exchanges
- Industry Leading Software, Processing Over $20 Billion in Monthly Trades for Over 20,000 Clients
- Invaluable Technical and Fundamental Analysis Tools
- Unsurpassed Trader Education
- 24 Hour Technical and Dealer Support
- Easy to Understand, Real-Time Account Activity Statements Right on the Trading Station

Friedberg Direct Trading Station



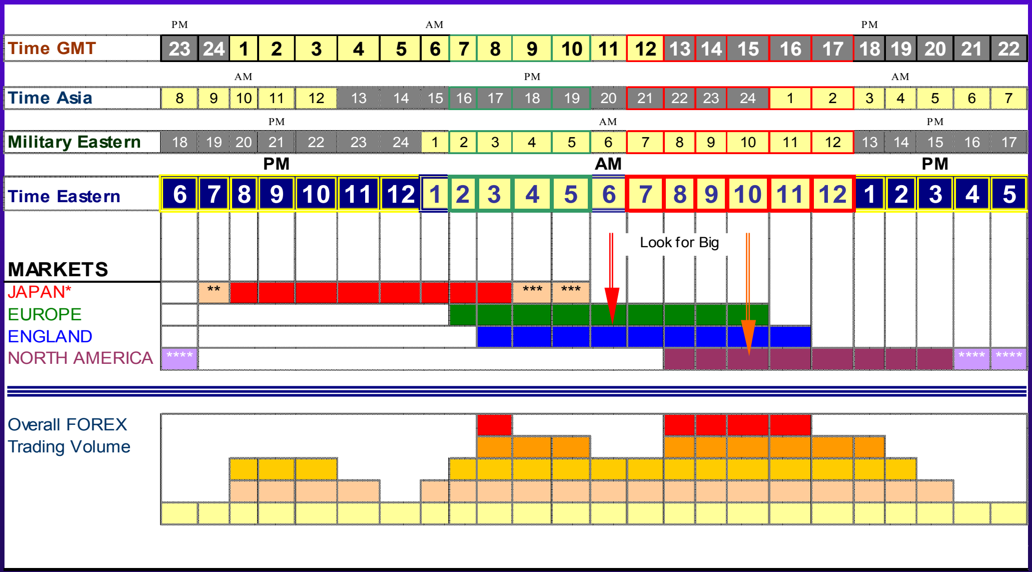
All margin information is displayed in the Account window.
All windows can be repositioned and resized at will.

Trading Courses

Learn to use a technical analysis charting software that produces concise entry and exit points

Training Courses

- FX Power Trading Course
  - A 5 part Interactive CD Course with accompanying Text Book
- Forex Trading Times & Volume Chart



FX Power Course Content

- **Part 1: The FX Market**
  - What Makes a Good Trading Market?
  - Superior Liquidity
  - Transparency of Market Information
  - Perfect Market for Technical Analysis
  - Unrivalled Leverage Capabilities
  - Review: Forex Vs Equities
  - Review: Forex Vs Futures

- **The FX Structure**
  - Hierarchy of Participants
  - Market Participants
  - A Closer Look at the Key Participants
  - A Brief History of Electronic Trading in Foreign Exchange
  - Overview of the Major Central Banks
  - Market Hours
  - Review: FX A Brief History

- **Part 2: Currency Trading Basics**
  - ISO Codes
  - How an FX Trade Works
  - Calculating Profit and Loss
  - Other Key Components in Currency Trading
  - Calculating and Approximation of Interest Rollover
  - Types of Orders
  - Phone Etiquette

- **Part 3: What Moves the Market**
  - What Moves the Market
  - Key Factors in Fundamental Analysis
  - Other Fundamental Factors That Impact Currency Movements
  - How to Use Fundamental Analysis in Trading
  - Candlesticks
  - Fibonacci Retracement Levels
  - Moving Averages, Bollinger Bands, Oscillators, Stochastics
  - Moving Average Convergence / Divergence (MACD)

- **Part 4: Currency Profiles and Outlook**
  - Important Economic Indicators
  - Important Currency Characteristics
  - Monetary and Fiscal Policy Makers
  - The Above Provided for the US, Canadian, European, Australian and New Zealand Dollars As Well As the Japanese Yen, Swiss Franc and British Pound
- **Part 5: Trading Rules to Live By**
  - Trading Rules to Live by
  - Money Management and Psychology

Your Mission As A Trader

A trader's mission is to become a financially successful and consistent trader. This can only be achieved when a trader accepts the basics of the Twenty Trading Guidelines. Included at the back of your handout. (also, see our website)

A Trader must commit to trade by three disciplines that create a successful trader.

First, you must believe in the basics of the Twenty Trading Guidelines and adapt your trading style to them. Your success is dependent on creating a trading plan, and maintaining the discipline to Trade That Plan!

Second, you must commit yourself to constantly learn as much as you can about your chosen markets and the psychology of successful trading. You must learn to use your logic in trading and not your emotions.

Third, you must develop a plan for equity management to ensure a return on your investment. A successful plan is to only trade 20% of your margin account, and risk no more than 5% of your equity on any single trade.

Level	Objective
Level 1 Beginner Trader:	To demo trade for a minimum of one month, not losing money while gaining experience.
Level 2 Intermediate Trader:	To establish a track record of making money while trading with the Mini Trading account and to begin full fledged trading with 1 or 2 contracts.
Level 3 Consistent Trader:	To consistently receive a financial return on your investment.
Level 4 Professional Trader:	To efficiently trade your own system in several markets without emotion.

Get Started Today!

- Log on to **www.friedbergdirect.ca**
- Register for a Demo Trading Account and Begin Trading With Zero Risk, Real-time, Live Streaming Quotes and $50,000 in Virtual Money
- Register for one of our Trading Courses or open a Live, Real Trading Account

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For more information on Forex Trading, visit us on the web.

www.friedbergdirect.ca