

# *Forex Online Trading*

---

## Index

1. What is Forex ? .....	3
2. Technical and Fundamental Analysis .....	4
3. Psychology of Trading .....	5
4. Forex vs Equities and Futures .....	6
5. The 8 most important trading recommendations .....	7
6. Why trade Forex with Realtime Forex SA ? .....	8

## **1. What is Forex ?**

The Foreign Exchange market, also referred to as the "Forex" or "FX" market, is the largest financial market in the world, with a daily average turnover of well over US\$1 trillion -- 30 times larger than the combined volume of all U.S. equity markets. Unlike other financial markets, the forex market has no physical location or central exchange. It is an over-the-counter market where buyers and sellers including banks, corporations, and private investors conduct business. A true 24-hour market, Forex trading begins each day in Sydney, and moves around the globe as the business day begins in each financial center, first to Tokyo, London, and New York. Unlike any other financial market, investors can respond to currency fluctuations caused by economic, social and political events at the time they occur - day or night. The huge number and diversity of players involved make it difficult for even governments to control the direction of the market. The unmatched liquidity and around-the-clock global activity make forex the ideal market for active traders.

Traditionally the forex market was only available to larger entities trading currencies for commercial and investment purposes through banks. Now trading platforms, such as the RF2000TM, allow smaller financial institutions and retail investors access to a similar level of liquidity as the major foreign exchange banks, by offering a gateway to the primary (Interbank) market.

In the forex market currencies are always priced in pairs; therefore all trades result in the simultaneous buying of one currency and the selling of another. The objective of currency trading is to exchange one currency for another in the expectation that the market rate or price will change so that the currency you bought has increased its value relative to the one you sold. If you have bought a currency and the price appreciates in value, the trader must sell the currency back in order to lock in the profit. An open trade or position is one in which a trader has either bought/sold one currency pair and has not sold/bought back the equivalent amount to effectively close the position.

The first currency in the pair is referred to as the base currency, and the second currency is the counter or quote currency. This means that quotes are expressed as a unit of 1 of the first currency quoted per the other currency quoted in the pair.

As with all financial products, FX quotes include a "bid" and "ask". The bid is the price at which a market maker (Realtime Forex) is willing to buy (and clients can sell) the base currency in exchange for the counter currency. The ask is the price at which a market maker (Realtime Forex) will sell (and clients can buy) the base currency in exchange for the counter currency. The difference between the bid and the ask price is referred to as the spread.

## **2. Technical and Fundamental Analysis**

There are two basic approaches to analyzing the currency market, fundamental analysis and technical analysis. The fundamental analyst concentrates on the underlying causes of price movements, while the technical analyst studies the price movements themselves.

### **a. Technical analysis**

A Technical Analysis is what one uses to attempt to predict future price movements, based on past time framed analysis and the reading / understanding of graphics. Although within a Technical Analysis various thought patterns exist, generally all are based on historical graphics of a currency. As long as one realizes the various differences of Fundamental and Technical Analysis, both can be used to parallel one another, even though both may present different conclusions.

### **b. Fundamental Analysis**

The study of specific factors, such as wars, discoveries, and changes in Government policies, which influence supply and demand, and consequently prices in the market place.

Fundamental analysis comprises the examination of macroeconomic indicators, asset markets and political considerations when evaluating a nation's currency in terms of another. Macroeconomic indicators include figures such as growth rates; as measured by Gross Domestic Product, interest rates, inflation, unemployment, money supply, foreign exchange reserves and productivity. Asset markets comprise stocks, bonds and real estate. Political considerations impact the level of confidence in a nation's government, the climate of stability and level of certainty.

Sometimes governments stand in the way of market forces impacting their currencies, and hence, intervene to keep currencies from deviating markedly from undesired levels. Currency interventions are conducted by central banks and usually have a notable, albeit a temporary impact on FX markets. A central bank could undertake unilateral purchases/sales of its currency against another currency; or engage in concerted intervention in which it collaborates with other central banks for a much more pronounced effect. Alternatively, some countries can manage to move their currencies, merely by hinting, or threatening to intervene.

### Technical Analysis or Fundamental Analysis ?

One of the dominant debates in financial market analysis is the relative validity of the two major tiers of analysis: Fundamental and technical. In Forex, several studies concluded that fundamental analysis was more effective in predicting trends for the long-term (longer than one year), while technical analysis was more appropriate for shorter time horizons (0-90 days). Combining both approaches was suggested to be best suited for periods between 3 months and one year. Nonetheless, further empirical evidence reveals that technical analysis of long-term

trends helps identify longer-term technical "waves", and that fundamental factors do trigger short-term developments.

But most traders abide by technical analysis because it does not require hours of study. Technical analysts can follow many currencies at one time. Fundamental analysts, however, tend to specialize due to the overwhelming amount of data in the market. Technical analysis works well because the currency market tends to develop strong trends. Once technical analysis is mastered, it can be applied with equal ease to any time frame or currency traded.

### **3. Psychology of Trading**

#### Expectation and Sentiment

Fundamental and technical factors are undeniably essential in determining foreign exchange dynamics. There are, however, two additional factors that are paramount to understanding short-term movements in the market. These are expectations and sentiment. They may sound similar, but remain distinct.

Expectations are formed ahead of the release of economic statistics and financial data. Solely paying attention to the figures released does not suffice in grasping the future course of a currency.

If, for example, US GDP came out at 7.0% from 5% in the previous quarter, then the dollar may not necessarily move as you would expect it to. If market forecasts had expected an 8% growth, then the 7.0% reading might come as a disappointment, thus causing a very different market reaction from the one you were expecting had you not been aware of the forecast.

Nonetheless, expectations could be superseded by market sentiment. This is the prevailing market attitude vis-à-vis an exchange rate; which could be a result of the overall economic assessment towards the country in question, general market emphasis, or other exogenous factors. Using the above example on US GDP; even if the resulting figure of 7.0% undershot forecasts by a full percentage point, markets may show no reaction. A possible reason is that sentiment could be dollar positive regardless of the actual and forecasted figures. This might be due to solid US asset markets, or poor fundamentals in the counter currency (euro, yen or sterling).

A term that is commonly interchanged with "sentiment" is "psychology". During the first two months of 2000, the euro underwent fierce selling pressure against the dollar despite persistently improving fundamentals in the Eurozone. That is because market psychology had decidedly favoured US dollar assets due to continuous signs of non-inflationary growth, and sentiment that further increases in US interest rates will work in the advantage of US yield differentials, without derailing the economic expansion.

## **4. Forex vs Equities and Futures**

### **Commission Free Trading**

We are able to provide this level of service to our clients because Realtime Forex SA is a market maker, not a broker. There are, therefore, no mark ups, commissions or charges to pay. Our profitability, as our clients', depends solely on our trading ability

### **20 : 1 Leverage (or even greater)**

Realtime Forex SA allows greater leverage than the equities, futures or options market. Traders can utilize 20:1 leverage (or even greater) without risking a margin call situation. Leverage is a double-edged sword. Without proper risk management this high degree of leverage can lead to large losses as well as gains.

### **24-Hour Market**

The Forex market is a seamless 24-hour market. As a trader, this allows you to react to favorable/unfavorable events by trading immediately. It also gives traders the added flexibility of determining their trading day.

### **Ability to Profit in Up or Down Market**

Unlike the equity market, there is no restriction on short selling. Profit potential exists in the currency market regardless of whether a trader is long or short, or which way the market is moving. Since currency trading always involves buying one currency and selling another, there is no structural bias to the market. This means a trader has an equal potential to profit in a rising, or falling market

### **Superior liquidity**

With a daily trading volume that is 50x larger than the New York Stock Exchange, there are always broker/dealers willing to buy or sell currencies in the FX markets. The liquidity of this market, especially that of the major currencies, helps ensure price stability. Traders can almost always open or close a position at a fair market price.

---

## **5. The 8 most important trading recommendations**

1. The Trend is your friend
2. In up-trends, buy the dips; in downtrends, sell bounces
3. Let profits run, cut losses short. Always use protective stops to limit losses and move them only to reduce potential losses or protect newly achieved profits
4. Set up your plan before entering the market; don't trade impulsively
5. Employ at least a 3 to 1 reward-to-risk ratio
6. When pyramiding, follow these guidelines:
  - a) Each successive layer should be smaller than the preceding one
  - b) Add only to winning positions
  - c) Never add to a losing position
  - d) Adjust protective stops to the break-even point (or better)
- 7 Learn to be comfortable being in the minority, if you are right on the market, most people will disagree with you
8. Keep it simple; more complicated isn't always better

## **6. Why trade Forex with Realtime Forex SA ?**

### **Realtime, competitive prices**

On screen prices are updated constantly to reflect current market prices and all clients receive the same price irrespective of deal size

### **Commission FREE**

We are able to provide this level of service to our clients because Realtime Forex SA is a market maker, not a broker. There are, therefore, no mark ups, commissions or charges to pay. Our profitability, as our clients', depends solely on our trading ability

### **Quick and efficient trading**

Clients are able to trade in a matter of seconds via the Internet on the prices quoted to them on RF2000tm. There is no need to call for a price or to call to place an order

### **Secure transactions**

All clients transactions are secured and client accounts protected by a state-of-art encryption system.

### **Professional back-office services**

Clients receive immediate deal confirmation, realtime accounting, and online position and margin monitoring

### **Market Information**

Clients are provided with the latest market information and 24H access to Realtime Forex SA's experienced group of traders

### **Margin**

The initial deposit is EUR 20'000.-- someone can already be engaging the foreign exchange market from anywhere, 24 hours a day with possibility to have 2.5 % leverages, i.e 40 times the initial deposit, and prices are quoted with a small spread.