Three skills you need to become a **forex trader**



A FOREX.COM EDUCATIONAL GUIDE

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Anticipating, planning and analyzing: three skills you need to become a forex trader

Making a **forex** trade can be extremely risky. However, you can take precautions to try to minimize those risks and their impact. In forex, there are three skills you can develop to help you manage your trading risk: anticipating, planning and analyzing.

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ANTICIPATING: HOW DO I HANDLE RISK?



Even the best forex traders have losing positions.

You can't be right every single time, so a large part of trading successfully is to plan how to handle risk. Fortunately, there are lots of tools at your disposal.

1 PROTECT YOUR POSITION WITH STOPS, LIMITS AND OTHER ORDER TYPES.

Stops close your position if it hits a set level of loss; limits close it if it hits a set level of profit.

These two order types can be crucial to your risk management strategy, helping your minimize loss and protect profits.

2 SET PROPER LEVELS.

Setting a stop is a delicate balancing act.

Your position needs some room to breath, after all – you don't want it to close before it has the potential of earning a profit. However, you also don't want to lose too much if the trade has failed.

Before entering a position, take some time to consider the best place for your stop and your limit.

3 CHECK YOUR EMOTIONS.

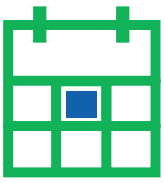
Sometimes, the factor that determines how successful your position will be isn't the amount of research you did, but your mindset at the time. As you trade, try to stay objective and calm. Even if you have a losing position, resist the urge to enter another one outside of your trading plan in an attempt to win your earnings back.

4 CREATE A TRADING PLAN AND STICK TO IT.

A good trading plan is crucial to your trading success. Not only will it help you meet some of your goals, it will define the way you trade, what you're willing to risk and how you will protect yourself when a trade doesn't go your way.e best place for your stop and your limit.

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PLANNING: HOW DO I CREATE A TRADING PLAN?



Face it. Without a plan and a rules-based approach, you are simply trading by the seat of your pants. It may seem to work for a while, but emotion will ultimately get in the way of success.

A trading plan serves as a steady anchor in chaotic markets, helping you forecast when to enter and exit the market. Best of all, it's fairly **easy to create**. The following steps should help you get started.

1 WHEN CONSTRUCTING A TRADING PLAN, ASK YOURSELF:

- **A** Will I trade only one specific currency pair or many?
- **B** Will I trade on a daily basis or hold my positions for days or longer?
- **C** How much do I want to make?
- **D** How much am I willing to lose per trade?
- **E** If I trade on a daily basis, how many consecutive losses will I tolerate before I stop for the day?
- **F** How will I analyze the markets? Will I look at news and other events? Will I examine charts and price movements?
- **G** How will I use stops to control my risk?
- **H** Will I have one profit target or multiple targets?
- **I** What kind of profit can I reasonably expect to gain?

2 USING YOUR ANSWERS, WRITE OUT A SHORT BUT DETAILED PLAN OF ACTION.

3 NOW COMES THE HARDEST PART: STICKING TO YOUR PLAN. TRY KEEPING A LOG OF EVERY ONE OF YOUR TRADES. IT WILL FORCE YOU TO FOLLOW YOUR RULES AND HELP AVOID IMPULSIVE TRADING.



DID YOU KNOW?

Creating your own trading plan for the first time can be confusing, but don't worry: **FOREX.com** is here to help. Give us a call at **877.367.3646** or chat with us online to set up a personalized trading plan consultation.

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ANALYZING: HOW WILL I ANALYZE THE MARKETS?

You may have found making your trading plan fairly easy.

But one question may have had you scratching your head: "How will I analyze the markets?" One of the most common ways is through the use of price charts.

WHAT ARE PRICE CHARTS?

Price charts plot the recent prices of a currency pair on a graph and provide a snapshot of market movements over a particular period of time.

LINE CHARTS

Line charts are one of three common chart types that most traders use. They provide a quick way to view the changes in price movements over a period of time.



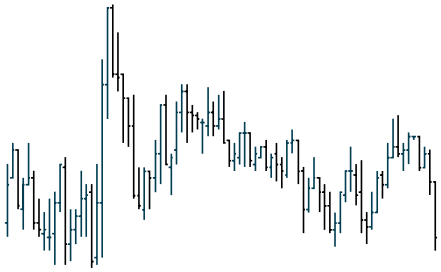
BAR & CANDLESTICK CHARTS

Bar and candlestick charts provide an easy-to-analyze appearance that displays detailed information about the price movements of a currency pair.

Each bar or candle on the chart is defined by four price points (high, low, open and close). The length of the bar or candle represents the level of trading activity for a specified period. For example, on a chart with a ten-minute time scale, a bar or candle would represent all of the trading activity on the market in a ten-minute period. When the price of a currency pair rises, the bar or candle appears one color (usually green) and when the price of a currency pair drops, the bar or candle appears another (usually red).

Most traders switch between different time frames so that they can compare market movements and verify trends.

BAR CHARTS



CANDLESTICK CHARTS



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ANALYZING: WHAT IS TECHNICAL ANALYSIS?

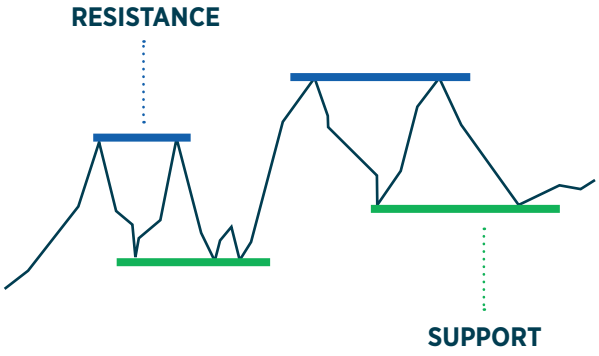
Technical analysis is the study of repeating patterns and movements in the market caused by the pattern-like behavior of traders. Traders use technical analysis to monitor the current and historical price movements of a currency pair, help determine market trends and forecast potential entry and exit points for their trades.

Because no two traders are alike, there are hundreds of technical analysis tools and methods to choose from. Some of the most common are:

SUPPORT AND RESISTANCE LEVELS

These levels are price points that the market consistently hits and then reverses direction.

Support refers to points that the price drops to but then bounces up off. Resistance refers to points that the price rises to but can't move beyond. Both levels can be useful for planning your entries and exits, helping you predict where a trend might reverse.

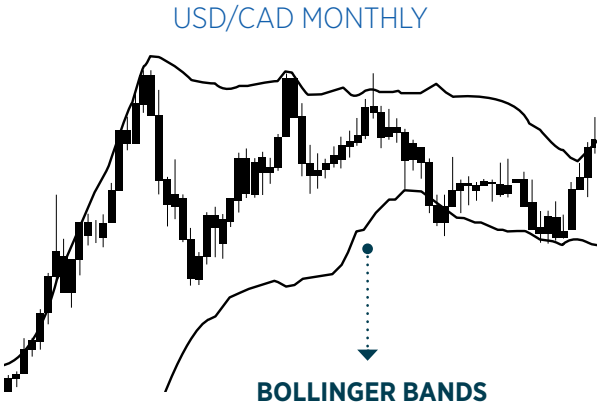


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INDICATORS

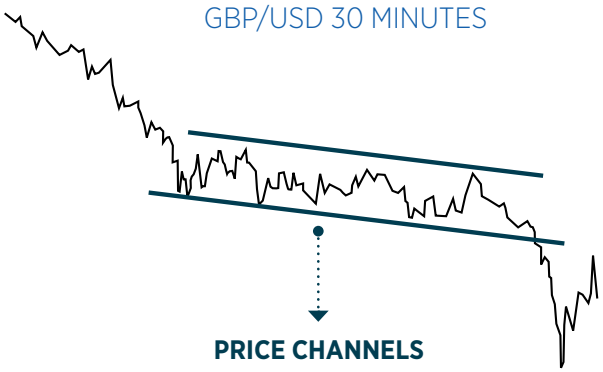
Indicators are tools that use calculations to tell you a bit more about a market's price action. Examples include Bollinger Bands, the Average Directional Index and Moving Averages.

Indicators can either be lagging (these analyze past price movements) or leading (these forecast future price movements).



PATTERNS

A chart pattern is a series of price points that move in a particular arrangement and, once completed, forecast market movements. Some common patterns are flags, channels and triangles. You can also plot more complex patterns, such as ABCD patterns or Fibonacci levels.



Learn more about technical analysis in the FOREX.com Academy.

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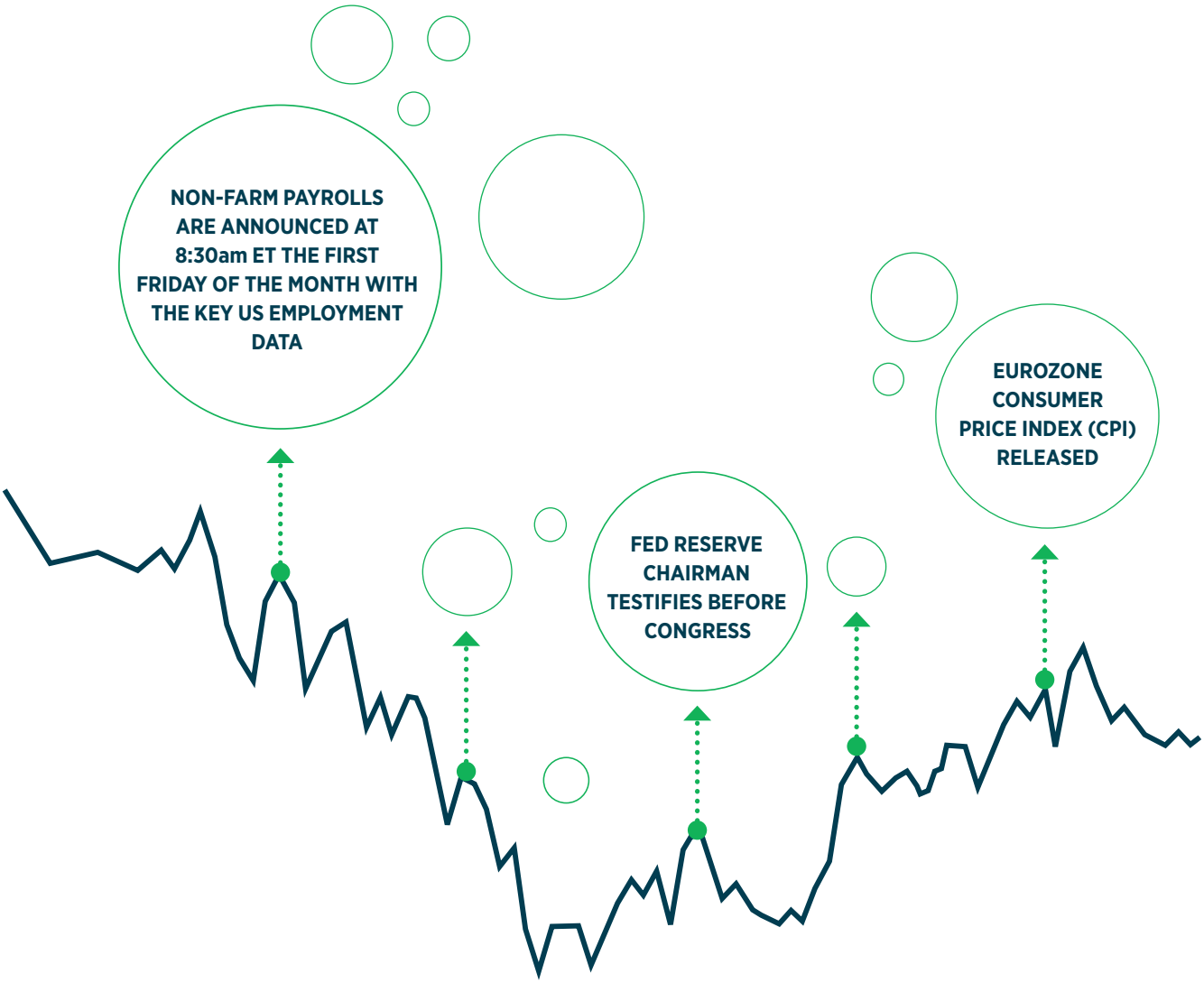
Fundamental analysis is tracking political, social and economic forces and forecasting how they will affect the value of the currencies you're trading.

Earlier in this guide, you learned that the value of a currency pair **changes** in response to news, interest rate changes, government decisions and other events. As you watch the charts, you'll notice that events and news on the state of a particular country's or region's economy can cause currency markets to shoot up or down **dramatically**.

Many new traders will develop their fundamental analysis skills by following news events and **scheduled economic announcements**. But there will be times when the price movements of a currency pair won't behave as you believe it should based on your fundamental analysis. That's when it becomes important to incorporate technical analysis into your strategy as well.

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EXAMPLES OF MARKET-MOVING EVENTS:



DID YOU KNOW?

FOREX.com's Global Research Team publishes streaming commentary and research on upcoming fundamental events and market trends to help you know what's driving the markets and plan your strategies. Read the latest research.

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