

CENTURY FINANCIAL BROKERS

FOREX TRADING

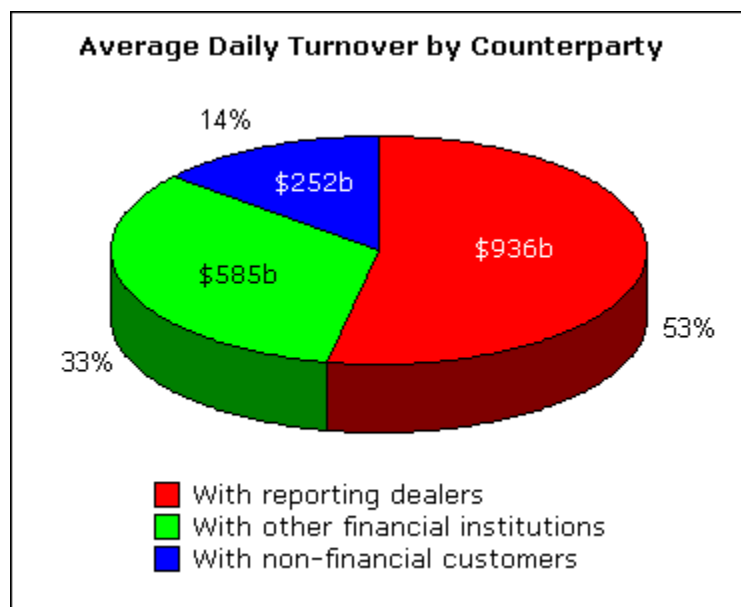
An Introduction to the Foreign Exchange Markets

INTRODUCTION

The following is a list of facts and figures relating to the foreign exchange market. Most of the information comes from the preliminary results of the Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity conducted by the Bank for International Settlements (BIS) in April 2004. 52 central banks and monetary authorities participated in the survey, collecting information from approximately 1200 market participants.

STRUCTURE

- Decentralised, over-the-counter market, also known as the 'interbank' market
- Main participants: Central Banks, commercial and investment banks, hedge funds, pension funds, corporations & private speculators
- The free-floating currency system began in 1973, and was officially mandated in 1978
- Online trading began in the mid to late 1990's



Source: BIS Triennial Survey 2005

TRADING HOURS

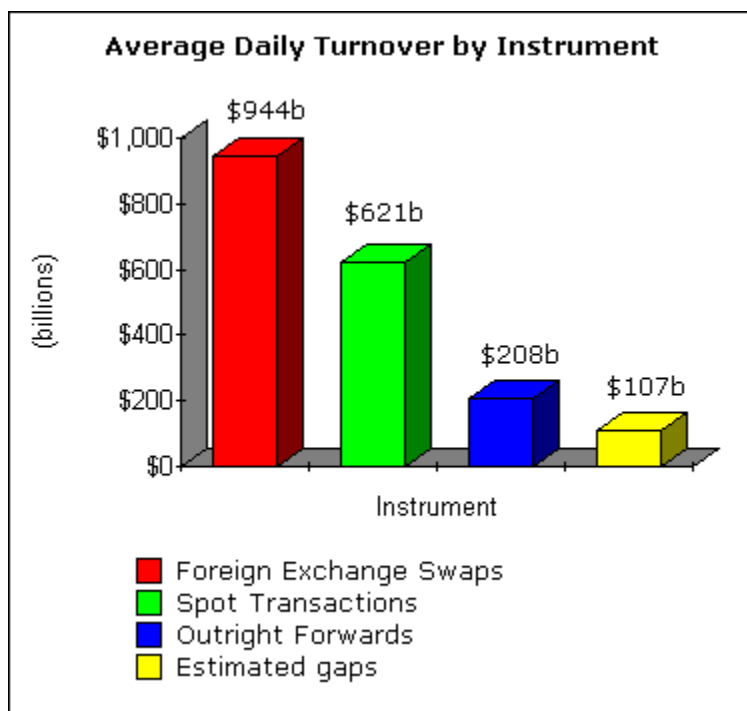
- 24 hour market
- Sunday 5pm EST through Friday 4pm EST.
- Trading begins in New Zealand, followed by Australia, Asia, the Middle East, Europe, and America

SIZE

- Largest market in the world
- \$1.9 trillion average daily turnover, equivalent to:
- 15 times the average daily turnover of global equity markets¹
- Nearly 50 times the average daily turnover of the NYSE²

- \$300 a day for every man, woman, and child on earth
- The spot market accounts for about one-third of daily turnover

1. About \$130 billion - World Federation of Exchanges aggregate 2005
2. About \$40 billion - NYSE 2005



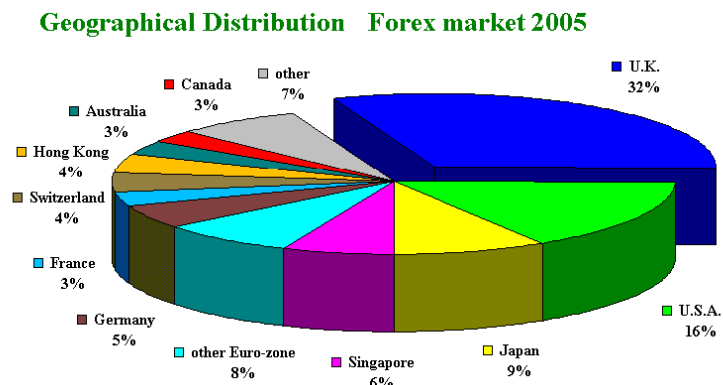
Source: BIS Triennial Survey 2005

Major Markets

- The US & UK account for more than 50% of turnover
- Major markets: London, New York, Tokyo
- Trading activity is heaviest when major markets overlap
- Nearly two-thirds of NY activity occurs in the morning hours while European markets are open³

3. NY Federal Reserve

Turnover by Country	
COUNTRY	SHARE
UK	31.3%
US	19.2%
Japan	8.3%
Singapore	5.2%
Germany	4.9%
Hong Kong	4.2%
Australia	3.4%
Other	23.5%
Total	100%



TRADING

- An estimated 95% of transactions are speculative
- More than 40% of trades last less than two days
- About 80% of trades last less than one week
- Brokers research: 90% of traders lose money, 5% break even, 5% make money

TECHNICAL ANALYSIS

Commonly used technical indicators:

- Moving averages
- RSI
- Fibonacci retracements
- Stochastics
- MACD
- Momentum
- Bollinger bands
- Pivot point
- Elliott Wave

CURRENCIES

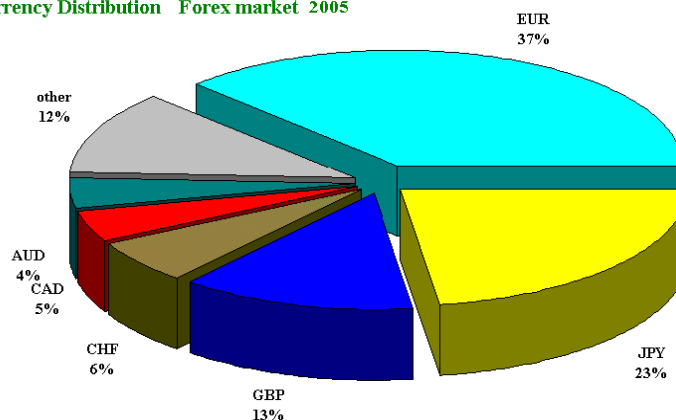
The US dollar is involved in approximately 90% of all foreign exchange transactions, equivalent to over \$ 2 trillion a day

CURRENCY CODES

- USD = US Dollar
- EUR = Euro
- JPY = Japanese Yen
- GBP = British Pound
- CHF = Swiss Franc
- CAD = Canadian Dollar
- AUD = Australian Dollar
- NZD = New Zealand Dollar

Turnover by Currency	
Currency	Share
USD	88.7%
EUR	37.2%
JPY	20.3%
GBP	16.9%
CHF	6.1%
AUD	5.5%
CAD	4.2%
Other	21.1%
Total	200%

Currency Distribution Forex market 2005



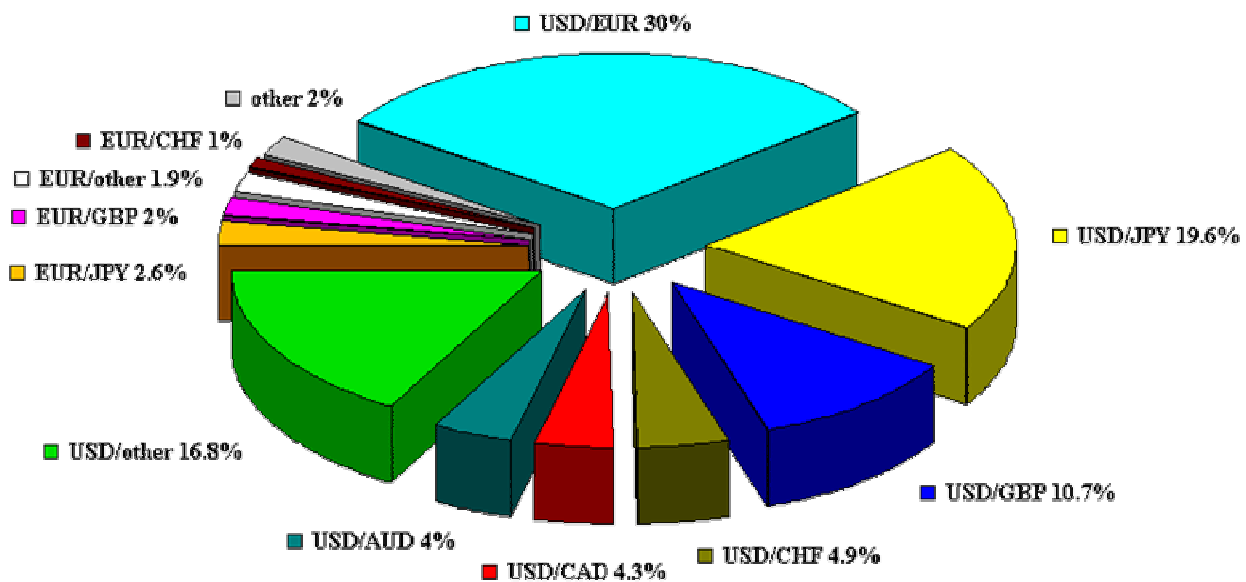
CURRENCY PAIRS

- Majors: EUR/USD, USD/JPY, GBP/USD, USD/CHF
- Dollar bloc: USD/CAD, AUD/USD, NZD/USD
- Major crosses: EUR/JPY, EUR/GBP, EUR/CHF, GBP/JPY, GBP/CHF

Turnover by Currency Pair	
Pair	Share
EUR/USD	28%
USD/JPY	17%
GBP/USD	14%
AUD/USD	5%
USD/CHF	4%
USD/CAD	4%
EUR/JPY	3%
Other	25%
Total	100%

Source: BIS Triennial Survey 2005

Distribution by Currency Pair -2005



ADVANTAGES OF TRADING IN FOREX MARKETS

FX Currency Market

- ☑ *Active trading 24 hours per day*
- ☑ *World's largest, most liquid market*
- ☑ *1% margin (\$1,000) controls \$100,000*
- ☑ *Instant order execution and fills - the FX market is all-electronic*
- ☑ *Guaranteed fills on stops and limits - no slippage or partial fills*
- ☑ *Free, real-time streaming quotes for all traders*
- ☑ *Guaranteed limited risk - no debits*
- ☑ *Low commissions*

Futures Market

- ☑ *Active trading 7 hours or less per day*
- ☑ *Limited liquidity, particularly after-hours*
- ☑ *Stricter margins - usually 5% to 8%*
- ☑ *Delayed fill reports are common in busy open-outcry markets*
- ☑ *Inefficient order execution - slippage and partial fills are routine*
- ☑ *Expensive exchange fees for real-time streaming quotes*
- ☑ *Gaps in the market mean debits are always possible*
- ☑ *Commission and exchange fees are charged on a per-lot basis*

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- ☑ *Instant order execution and fills - the FX market is all-electronic*
- ☑ *Profit in up or down markets - no restrictions on short selling*

Stock Market

- ☑ *Active trading only 7 hours per day*
- ☑ *Limited liquidity, particularly after-hours*
- ☑ *50% required to trade stock on margin*
- ☑ *Fills are not as quick on NYSE-listed stocks*
- ☑ *Commissions and exchange fees charged per ticket or per-share*

EXCHANGE RATES AND SPREADS

All currencies are assigned an International Standards Organization (ISO) code abbreviation. In currency trading, these codes are often used to express which specific currencies make up a currency pair. For example, EUR/USD refers to two currencies: the Euro Dollar and the US Dollar.

EXCHANGE RATE: An exchange rate is simply the ratio of one currency valued against another. The first currency is referred to as the **base currency** and the second as the counter or **quote currency**. If buying, an exchange rate specifies how much you have to pay in the counter or quote currency to obtain one unit of the base currency. If selling, the exchange rate specifies how much you get in the counter or quote currency when selling one unit of the base currency.

EUR/USD

base currency/quote currency

BID/ASK PRICE: A currency exchange rate is typically given as a bid price and an ask price. The **bid price** is always lower than the ask price. The bid price represents what will be obtained in the quote currency when selling one unit of the base currency. The **ask price** represents what has to be paid in the quote currency to obtain one unit of the base currency. The following EUR/USD price quote is an example of bid/ask notation:

EUR/USD: .9726 / .9731

EXAMPLE: The first component (before the slash) refers to the **BID** price (what you obtain in USD when you sell EUR). In this example, the **BID** price is .9726. The second component (after the slash) is used to obtain the **ASK** price (what you have to pay in EUR if you buy USD). In this example, the **ASK** price is .9731.

SPREAD: The difference between the bid and the ask price is referred to as the **spread**. In the example above, the spread is .05 or 5 pips. Unlike the EUR/USD, some currency pair quotes are carried out to the 2nd decimal place (i.e. USD/JPY may be quoted at 119.45/50), in which case 5 pips represents a difference of .05. Although a pip may seem small, a movement of one pip in either direction can translate into thousands of dollars in gains or losses in the inter-bank market.

When trading amounts of \$1M or higher, the spread obtained in a quote is typically 5 pips. When trading smaller amounts, the spread is typically larger. For example, when trading less than \$100,000, spreads of 50-200 pips are common. Credit card companies typically apply a spread of 200-300 pips. Banks and exchange bureaus typically use a spread in the range of 200-1000 pips (in addition to charging a commission). For investors and speculators, a lower or tighter spread translates into easier profit taking due to movements in exchange rates.

BUYING AND SELLING

All trades result in the buying of one currency and the selling of another, simultaneously.

Buying ("going long") the currency pair implies buying the first, base currency and selling an equivalent amount of the second, quote currency (to pay for the base currency). It is not necessary to own the quote currency prior to selling, as it is sold short. A trader buys a currency pair if he/she believes the base currency will go up relative to the quote currency, or equivalently that the corresponding exchange rate will go up.

Selling ("going short") the currency pair implies selling the first, base currency, and buying the second, quote currency. A trader sells a currency pair if he/she believes the base currency will go down relative to the quote currency, or equivalently, that the quote currency will go up relative to the base currency.

An open trade or position is one in which a trader has either bought or sold one currency pair and has not sold or bought back an adequate amount of that currency pair to effectively **close the trade**. When a trader has an open trade or position, he/she stands to profit or lose from fluctuations in the price of that currency pair.

FX CURRENCY TRADING BASICS - PART 2

SUPPLY & DEMAND FUNDAMENTALS

BUYING/SELLING CURRENCY:

Cardinal Rule: All trades result in the buying of one currency and the selling of another, simultaneously.

The objective of currency trading is to exchange one currency for another with the expectation that the market rate or price will change such that the currency pair you have bought has appreciated in value relative to the currency you have sold. If the currency you have bought appreciates in value and you close your open position by selling this currency, or effectively buying the currency that you originally sold, then you are locking in a profit. If the currency depreciates in value and you close your open position by selling this currency, or effectively buying the currency you have sold, then you are realizing a loss.

Basic Entry & Exit Rules:

- 1) Buying a currency is equivalent with taking a long position in that currency.
- 2) Selling a currency is equivalent with selling short that currency.

OPEN TRADE: An open trade or position is one in which a trader has either bought or sold one currency pair and has not sold or bought back an adequate amount of that currency pair to effectively close the trade. When a trader has an open trade or position, he/she stands to profit or lose from fluctuations in the price of that currency pair.

CURRENCY SPREAD & DEALING RATES:

A currency exchange rate is always quoted for a currency pair. For example, EUR/USD refers to two currencies: the Euro Dollar and the US Dollar.

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DIRECT RATES: Most currencies are traded directly against the US Dollar. The market rates that are expressed for such currency pairs are called direct rates. In most cases, the US Dollar is the base currency pair whereby the quote currency is expressed as a certain number of units per 1 US Dollar. For example, the following rate USD/CAD=1.4500 indicates that 1 USD (US Dollars)= 1.4500 CAD (Canadian Dollars).

INDIRECT RATES: For some currency pairs, the US Dollar is not the base currency but the counter or quote currency. The market rates that are expressed for such currency pairs are called indirect rates. This is the case with GBP (British Pound or "Cable"), NZD (New Zealand Dollar), EUR (Eurodollar), and AUD (Australian Dollar). For example, the following rate GBP/USD=1.5800 indicates that 1 GBP (British Pound)= 1.5800 USD (US Dollars).

CROSS RATES: When one currency is traded against any currency other than the USD, the market rate for this currency pair is called a **cross rate**. Cross rate is the exchange rate between two currencies not involving the US Dollar. Although the US dollar rates do not appear in the final cross rate, they are usually used in the calculation and so must be known. Trading between two non-US Dollar currencies usually occurs by first trading one against the US Dollar and then trading the US Dollar against the second non-US Dollar currency. There are a few non-US Dollar currencies that are traded directly, such as GBP/EUR or EUR/CHF.

BASE CURRENCY: The base currency for the following currency pairs is the Euro (EUR): EUR/GBP, EUR/JPY, EUR/CHF, EUR/CAD. The base currency used when GBP is traded against the JPY (Japanese Yen) is GBP, hence the quotation GBP/JPY.

Spot Deal / Market

A spot deal consists of a bilateral contract between a party delivering a specified amount of a given currency to a counter party and receiving a specified amount of another currency in return, based on an agreed upon exchange rate. Delivery for spot deals occurs within two business days of the deal date, which is referred to as the settlement date. (The settlement date for USD/CAD is one business day after the deal date.)

Market Orders:

Market orders are orders that are executed immediately at the market rate.

Limit Orders:

Limit orders are orders that a trade should be executed (in the future) when certain market conditions occur. There are three types of limit orders:

1) New Positions:

- **Limit orders:** specify that a currency pair should be traded when it reaches a certain exchange rate. Applied when entering into a trade or position, limit orders do not offset a current position.

2) Current / Open Positions:

- **Take-Profit orders:** are used to clear a position by buying (or selling) the currency pair of the position when the exchange rate reaches a specified level. Take-Profit orders are typically used to lock in a profit. For instance, if you are long USD/JPY at 117.42 and believe the price will continue to rise until it reaches 120.00 but are unsure what it will do past 120.00, placing a take-profit at 120.00 will automatically close your position allowing you to lock in your profit.
- **Stop-Loss orders:** are used to clear a position by buying (or selling) the currency pair of the position when the exchange rate reaches a specified level. Stop-Loss orders are typically used to limit any losses that might occur. For instance, if you are long USD/JPY at 117.42 and set a stop-loss at 117.32, your position will automatically be closed at 117.32 and you will be protected from a further price decline. Stop-Loss orders are particularly beneficial because they allow you insurance comfort when leaving a position open while you are no longer actively following the markets allowing you to do other things than watch your computer monitor all day or night.

CALCULATING YOUR PROFIT OR LOSS ON A TRADE

Example 1:

You see that the rate for EUR/USD is 0.8517/22 and decide to sell 10,000 EUR. Your trade is executed at 0.9527.

$$10,000 \text{ EUR} * 0.8517 = 8,517.00 \text{ USD}$$

You sold 10,000 EUR and bought 8,517.00 USD

After you trade, the market rate of EUR/USD decreases to EUR/USD=0.8500/05. You then buy back 10,000 EUR at 0.8505.

$$10,000 \text{ EUR} * 0.8505 = 8,505.00 \text{ USD}$$

You sold 10,000 EUR for 8,517 USD and bought 10,000 back for 8,505. The difference is your profit:

$$9,517.00 - 9,505.00 = \$12.00 \text{ USD}$$

Example 2:

You see that the rate for USD/JPY is 116.00/05 and decide to buy 10,000 USD. Your trade is executed at 116.05.

$$10,000 \text{ USD} * 116.05 = 1,116,050 \text{ JPY}$$

You bought 10,000 USD and sold 1,116,050 JPY.

The market rate of USD/JPY falls to 115.45/50. You decide to sell back 10,000 USD at 115.50.

$$10,000 \text{ USD} * 115.50 = 1,155,000 \text{ JPY}$$

You bought 10,000 USD for 116,050 JPY and sold 10,000 USD back for 1,155,000 JPY. The difference is your loss and is calculated as follows: $1,160,500 - 1,155,000 = 5,500 \text{ JPY}$. Note that your loss is in JPY and must be converted back to dollars.

To calculate this amount in USD:

$$5,500 \text{ JPY} / 115.50 = \$48.04 \text{ USD or}$$
$$5,500 * 1/115.50 = \$48.04$$
$$(0.0087)$$

UNDERSTANDING HOW FUNDAMENTALS CAN HELP YOUR OVERALL MARKET OUTLOOK:

If EUR/USD = 0.9617, and you sell 10,000:

- Your base currency position is $10,000 * 1/0.9617 = 10,398.25 \text{ EUR}$
- Your quote or counter currency position is $10,000 * 0.9617 = 9,617.00 \text{ USD}$

Now let's put this terms we can all understand and absorb. Suppose you turn on the television or read the newspaper and you read or see that there is some political unrest in Japan due to the lack of strong leadership in that country. If you believe that the Yen will depreciate as a result of this turmoil, you will have the following bias:

You will be analyzing your real time charts with the bias that you are looking for and uptrend in the USD and a downtrend in the JPY. Therefore you will be bullish the US Dollar and Bearish the Japanese Yen.

Remember this is just added sentiment to help you put the trading odds in your favor. We at Currencytradingsystem.com do not believe in basing all of our entry and exit decisions on purely Fundamental analysis. After all, the charts do not lie and any instability or negative reaction to a specific currency will be shown on the chart thru price and volume.

FOREX TRADING - MARKET MECHANICS

So now we know that the FX market is the largest in the world and that your broker or institution that you are trading with is collecting quotes from a centralized feed or individual quotes comprising of interbank rates.

So how are these quotes made up? Well, as we previously mentioned currencies are traded in pairs and are each assigned a symbol. For the Japanese Yen it is JPY, for the Pounds Sterling it is GBP, for Euro it is EUR and for the Swiss Franc it is CHF. So, EUR/USD would be Euro-Dollar pair. GBP/USD would be pounds Sterling-Dollar pair and USD/CHF would be Dollar-Swiss Franc pair and so on.

You will always see the USD quoted first with few exceptions such as Pounds Sterling, Euro Dollar, Australia Dollar and New Zealand Dollar. The first currency quoted is called the base currency. Have a look below for some example.

CURRENCY SYMBOL	CURRENCY PAIR
EUR/USD	Euro / US Dollar
GBP/USD	Pounds Sterling/ US Dollar
USD/JPY	US Dollar / Japanese Yen
USD/CHF	US Dollar / Swiss Franc
USD/CAD	US Dollar / Canadian Dollar
AUD/USD	Australian Dollar / US Dollar
NZD/USD	New Zealand Dollar / US Dollar

When you see FX quotes you will actually see two numbers. The first number is called the bid and the second number is called the offer (sometimes called the ASK).

If we use the EUR/USD as an example you might see 0.9950/0.9955 the first number 0.9950 is the bid price and is the price traders are prepared to buy Euros against the USD Dollar. The second number 0.9955 is the offer price and is the price traders are prepared to sell the Euro against the US Dollar.

These quotes are sometimes abbreviated to the last two digits of the currency such as 50/55. Each broker has its own convention and some will quote the full number and others will show only the last two.

You will also notice that there is a difference between the bid and the offer price and that is called the spread. For the four major currencies the spread is normally 5 give or take a pip (will explain pips later)

To carry on from the symbol conventions and using our previous EUR quote of 0.9950 bid, that means that 1 Euro = 0.9950 US Dollars. In another example if we used the USD/CAD 1.4500 that would mean that 1 US Dollar = 1.4500 Canadian Dollars.

The most common increment of currencies is the PIP. If the EUR/USD moves from 0.9550 to 0.9551 that is one pip. A pip is the last decimal place of a quotation. The pip or POINT as it is sometimes referred to depending on context is how we will measure our profit or loss.

As each currency has its own value, it is necessary to calculate the value of a pip for that particular currency. We also want a constant so we will assume that we want to convert everything to US Dollars. In currencies where the US Dollar is quoted first the calculation would be as follows.

Example JPY rate of 116.73 (notice the JPY only goes to two decimal places, most of the other currencies have four decimal places)

In the case of the JPY 1 pip would be .01 therefore

USD/JPY:

(.01 divided by exchange rate = pip value) so $.01/116.73=0.0000856$. It looks like a big number but later we will discuss lot (contract) size later.

USD/CHF:

(.0001 divided by exchange rate = pip value) so $.0001/1.4840 = 0.0000673$

USD/CAD:

(.0001 divided by exchange rate = pip value) so $.0001/1.5223 = 0.0001522$

In the case where the US Dollar is not quoted first and we want to get to the US Dollar value we have to add one more step.

EUR/USD:

(0.0001 divided by exchange rate = pip value) so $.0001/0.9887 = \text{EUR } 0.0001011$ but we want to get back to US Dollars so we add another little calculation which is EUR X Exchange rate so $0.0001011 \times 0.9887 = 0.0000999$ when rounded up it would be 0.0001.

GBP/USD:

(0.0001 divided by exchange rate = pip value) so $0.0001/1.5506 = \text{GBP } 0.0000644$ but we want to get back to US Dollars so we add another little calculation which is GBP X Exchange rate so $0.0000644 \times 1.5506 = 0.0000998$ when rounded up it would be 0.0001.

INTRODUCTION TO FUNDAMENTAL ANALYSIS

Fundamental analysis refers to the study of the core underlying elements that influence the economy of a particular entity. It is a method of study that attempts to predict price action and market trends by analyzing economic indicators, government policy and societal factors (to name just a few elements) within a business cycle framework. If you think of the financial markets as a big clock, the fundamentals are the gears and springs that move the hands around the face. Anyone walking down the street can look at this clock and tell you what time it is now, but the fundamentalist can tell you how it came to be this time and more importantly, what time (or more precisely, what price) it will be in the future.

There is a tendency to pigeonhole traders into two distinct schools of market analysis - fundamental and technical. Indeed, the first question posed to you after you tell someone that you are a trader is generally "Are you a technician or a fundamentalist?" The reality is that it has become increasingly difficult to be a purist of either persuasion. Fundamentalists need to keep an eye on the various signals derived from the price action on charts, while few technicians can afford to completely ignore impending economic data, critical political decisions or the myriad of societal issues that influence prices.

Bearing in mind that the financial underpinnings of any country, trading bloc or multinational industry takes into account many factors, including social, political and economic influences, staying on top of an extremely fluid fundamental picture can be challenging. At the same time, you'll find that your knowledge and understanding of a dynamic global market will increase immeasurably as you delve further and further into the complexities and subtleties of the fundamentals of the markets.

Fundamental analysis is a very effective way to forecast economic conditions, but not necessarily exact market prices. For example, when analyzing an economist's forecast of the upcoming GDP or employment report, you begin to get a fairly clear picture of the general health of the economy and the forces at work behind it. However, you'll need to come up with a precise method as to how best to translate this information into entry and exit points for a particular trading strategy.

A trader who studies the markets using fundamental analysis will generally create models to formulate a trading strategy. These models typically utilize a host of empirical data and attempt to forecast market behavior and estimate future values or prices by using past values of core economic indicators. This information is then used to derive specific trades that best exploit this information.

Forecasting models are as numerous and varied as the traders and market buffs that create them. Two people can look at the exact same data and come up with two completely different conclusions about how the market will be influenced by it. Therefore is it important that before casting yourself into a particular mold regarding any aspect of market analysis, you study the fundamentals and see how they best fit your trading style and expectations.

Don't succumb to 'paralysis by analysis.' Given the multitude of factors that fall under the heading of "The Fundamentals," there is a distinct danger of information overload. Sometimes traders fall into this trap and are unable to pull the trigger on a trade. This is one of the reasons why many traders turn to technical analysis. To some, technical analysis is seen as a way to transform all of the fundamental factors that influence the markets into one simple tool, prices. However, trading a particular market without knowing a great deal about the exact nature of its underlying elements is like fishing without bait. You might get lucky and snare a few on occasion but it's not the best approach over the long haul.

For forex traders, the fundamentals are everything that makes a country tick. From interest rates and central bank policy to natural disasters, the fundamentals are a dynamic mix of distinct plans, erratic behaviors and unforeseen events. Therefore, it is best to get a handle on the most influential contributors to this diverse mix than it is to formulate a comprehensive list of all "The Fundamentals."

INTRODUCTION TO TECHNICAL ANALYSIS

Technical analysis is a method of forecasting price movements by looking at purely market-generated data. Price data from a particular market is most commonly the type of information analyzed by a technician, though most will also keep a close watch on volume and open interest in futures contracts. The bottom line when utilizing any type of analytical method, technical or otherwise, is to stick to the basics, which are methodologies with a proven track record over a long period. After finding a trading system that works for you, the more esoteric fields of study can then be incorporated into your trading toolbox.

Almost every trader uses some form of technical analysis. Even the most reverent follower of market fundamentals is likely to glance at price charts before executing a trade. At their most basic level, these charts help traders determine ideal entry and exit points for a trade. They provide a visual representation of the historical price action of whatever is being studied. As such, traders can look at a chart and know if they are buying at a fair price (based on the price history of a particular market), selling at a cyclical top or perhaps throwing their capital into a choppy, sideways market. These are just a few market conditions that charts identify for a trader. Depending on their level of sophistication, charts can also help much more advanced studies of the markets.

On the surface, it might appear that technicians ignore the fundamentals of the market while surrounding themselves with charts and data tables. However, a technical trader will tell you that all of the fundamentals are already represented in the price. They are not so much concerned that a natural disaster or an awful inflation number caused a recent spike in prices as much as how that price action fits into a pattern or trend. And much more to the point, how that pattern can be used to predict future prices.

Technical analysis assumes that:

- **All market fundamentals are depicted in the actual market data.** So the actual market fundamentals and various factors, such as the differing opinions, hopes, fears, and moods of market participants, need not be studied.
- **History repeats itself and therefore markets move in fairly predictable, or at least quantifiable, patterns.** These patterns, generated by price movement, are called signals. The goal in technical analysis is to uncover the signals given off in a current market by examining past market signals.
- **Prices move in trends.** Technicians typically do not believe that price fluctuations are random and unpredictable. Prices can move in one of three directions, up, down or sideways. Once a trend in any of these directions is established, it usually will continue for some period.

The building blocks of any technical analysis system include price charts, volume charts, and a host of other mathematical representations of market patterns and behaviors. Most often called studies, these mathematical manipulations of various types of market data are used to determine the strength and sustainability of a particular trend. So, rather than simply relying on price charts to forecast future market values, technicians will also use a variety of other technical tools before entering a trade.

As in all other aspects of trading, be very disciplined when using technical analysis. Too often, a trader will fail to sell or buy into a market even after it has reached a price that his or her technical studies identified as an entry or exit point. This is because it is hard to screen out the fundamental realities that led to the price movement in the first place.

As an example, let's assume you are long USD vs. euro and have established your stop/loss 30 pips away from your entry point. However, if some unforeseen factor is responsible for pushing the USD through your stop/loss level you might be inclined to hold this position just a bit longer in the hopes that it turns back into a winner. It is very hard to make the decision to cut your losses and even harder to resist the temptation to book profits too early on a winning trade. This is called leaving money on the table. A common mistake is to ride a loser too long in the hopes it comes back and to cut a winner way too early. If you use technical analysis to establish entry and exit levels, be very disciplined in following through on your original trading plan.

Price charts

Chart patterns

There are a variety of charts that show price action. The most common are bar charts. Each bar will represent one period of time and that period can be anything from one minute to one month to several years. These charts will show distinct price patterns that develop over time.

Candlestick patterns

Like bar charts patterns, candlestick patterns can be used to forecast the market. Because of their colored bodies, candlesticks provide greater visual detail in their chart patterns than bar charts.

Point & figure patterns

Point and figure patterns are essentially the same patterns found in bar charts but Xs and Os are used to market changes in price direction. In addition, point and figure charts make no use of time scales to indicate the particular day associated with certain price action.

Technical Indicators

Here are a few of the more common types of indicators used in technical analysis:

Trend indicators

Trend is a term used to describe the persistence of price movement in one direction over time. Trends move in three directions: up, down and sideways. Trend indicators smooth variable price data to create a composite of market direction. (Example: Moving Averages, Trend lines)

Strength indicators

Market strength describes the intensity of market opinion with reference to a price by examining the market positions taken by various market participants. Volume or open interest are the basic ingredients of this indicator. Their signals are coincident or leading the market. (Example: Volume)

Volatility indicators

Volatility is a general term used to describe the magnitude, or size, of day-to-day price fluctuations independent of their direction. Generally, changes in volatility tend to lead changes in prices. (Example: Bollinger Bands)

Cycle indicators

A cycle is a term to indicate repeating patterns of market movement, specific to recurrent events, such as seasons, elections, etc. Many markets have a tendency to move in cyclical patterns. Cycle indicators determine the timing of a particular market patterns. (Example: Elliott Wave)

Support/resistance indicators

Support and resistance describes the price levels where markets repeatedly rise or fall and then reverse. This phenomenon is attributed to basic supply and demand. (Example: Trend Lines)

Momentum indicators

Momentum is a general term used to describe the speed at which prices move over a given time period. Momentum indicators determine the strength or weakness of a trend as it progresses over time. Momentum is highest at the beginning of a trend and lowest at trend turning points. Any divergence of directions in price and momentum is a warning of weakness; if price extremes occur with weak momentum, it signals an end of movement in that direction. If momentum is trending strongly and prices are flat, it signals a potential change in price direction. (Example: Stochastic, MACD, RSI)

For detailed information on Technical Analysis, please refer to [Glossary of Technical Analysis](#)

The Basis of Technical Analysis explains trend analysis and how to use basic trend following techniques.

Altera Corp. (NSD:ALTR)

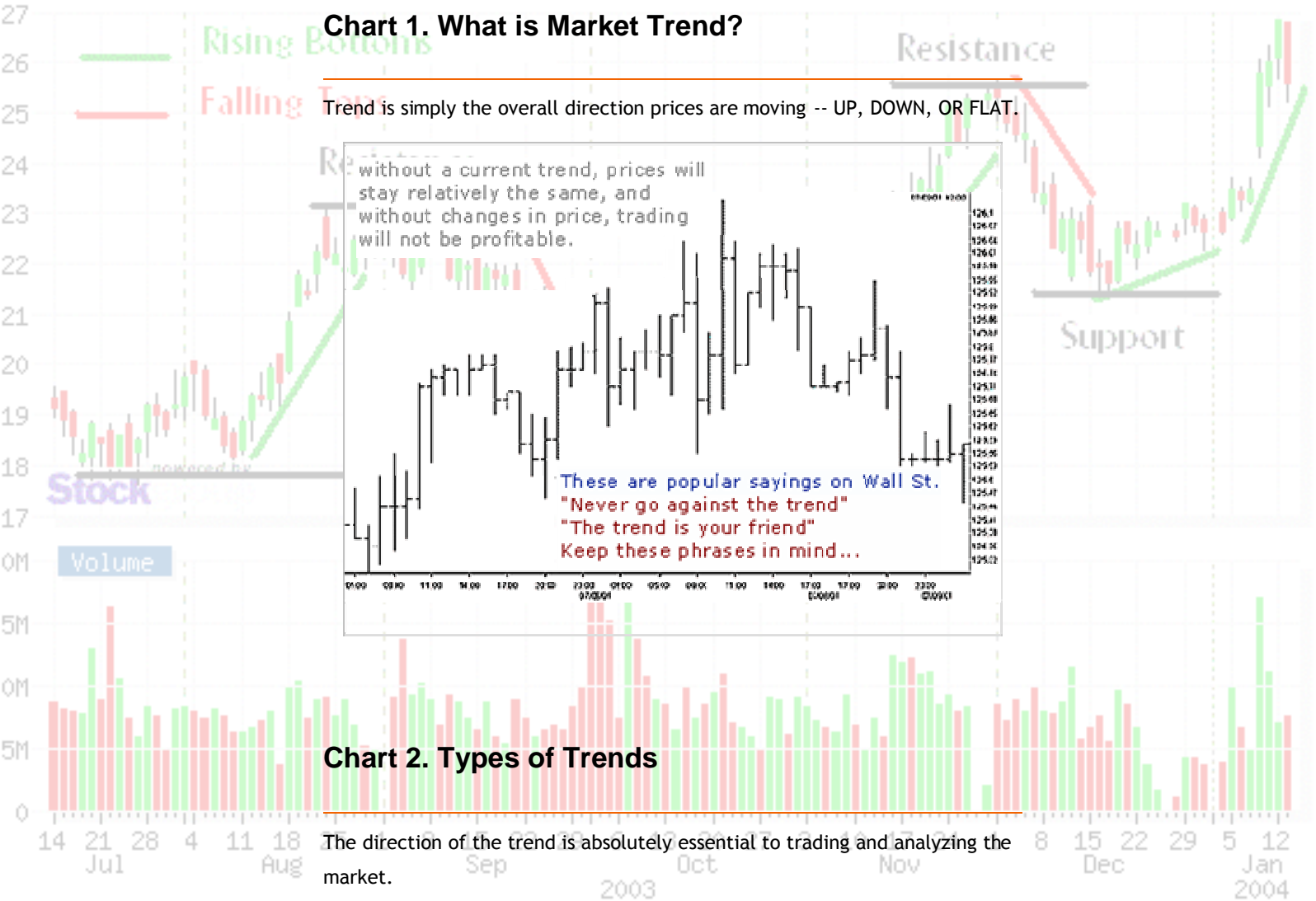
Jan 13, 2004
Time: 16:00

Open: 26.790
Last: 25.600

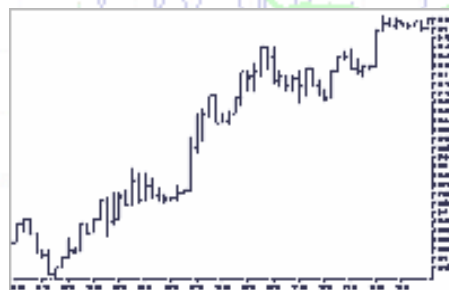
High: 26.800
Low: 25.220

Vol: 7,464,700

Chart 1. What is Market Trend?



In the Foreign Exchange (FX) Market, it is possible to profit from UP and Down movements, because of the buying and selling of one currency and against the other currency e.g. Buy US Dollar Sell Japanese Yen ex. Up Trend chart.



Up Trend

As the trend moves upwards the US Dollar is appreciating in value.

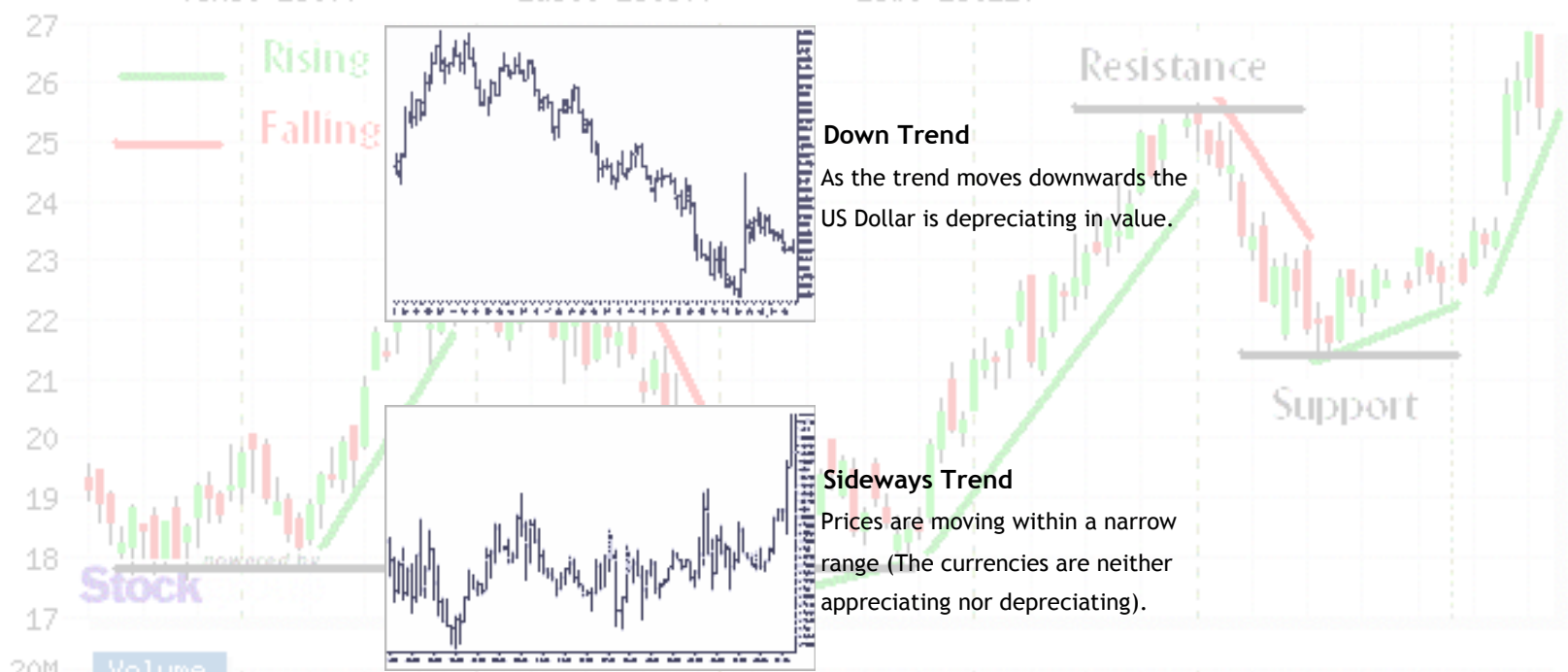


Chart 3. Trend Classifications



Want to learn more about the Forex Markets ?

Send an email to cfbinfo@centurybrokers.com and we will get you on the right track to Investing and trading in Forex markets.

