FOREX TRADING FOR BEGINNERS

Tutorial from Guriforex.com

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This is a forex trading guide for beginners. I try to answer all questions about Forex trading. If you are new to trading or you traded stocks and want to learn more about Forex trading, then this guide is for you.

The goal of this guide is to give you practice knowledge so you can understand Forex trading basics and trade by yourself. If you don't understand some terms, go to sites like Investopedia, they covered all terms like margin, pip and many others.

PART 1.

How to understand forex trading

When you trade stocks, you can select how many stocks you want to buy or sell (if you plan to go short). With Forex you are trading a currency. You can't select that you want to sell 7523 euros. Starting point is 1 lot which is 100,000 units of base currency.

1 lot for EUR/USD = 100,000 euros
2 lots for EUR/USD = 200,000 euros
0.1 lot for EUR/USD = 10,000 euros

That way you can decide how much base currency you want to invest.

Of course, you do not have to have all that money in your account. Thanks to leverage you have only split of that amount.

In Forex, minimal movement is one pip. For standard basic 1 lot (100,000 units) move of 1 pip is equal to 10$ change.

Why people are losing money in Forex

It is because they do not understand leverage. It is very powerful, yet very dangerous perk that you get when you decide to trade Forex.

With only few hundred dollars you can open positions which are as big as 100,000 dollars or euros and larger. When you are right in your trade, then you make good money. When you are wrong… well, you can be out of funds very soon.

That is why new traders should start from lower sizes – micro lots or even nano lots. This is similar to stock market. It is a bad idea to start investing in stock market and learn how to invest with real 100,000 or 500,000$. The risk is too big. It is easier to learn on smaller capital. Same is with Forex.

Start small – Nano, micro lots

You won't get rich fast by trading micro and nano lots, but thanks to them you will stay in the game and you will have opportunity to learn from live trading. The reason why so many traders lose all their money in the Forex is because:

- their trading capital is too small
- they open too big positions, because they do not understand leverage

So yeah, it is like in many ads you could see in the past – "you can open account with just 100$. Leverage even 1:500". In the end, you need one or few positions of 1 lot size to blow up your account.

You should remember that 1 lot is a base for calculating size of your position.

1 lot = 100,000 units of a currency

In MetaTrader4 it will be on select list like:
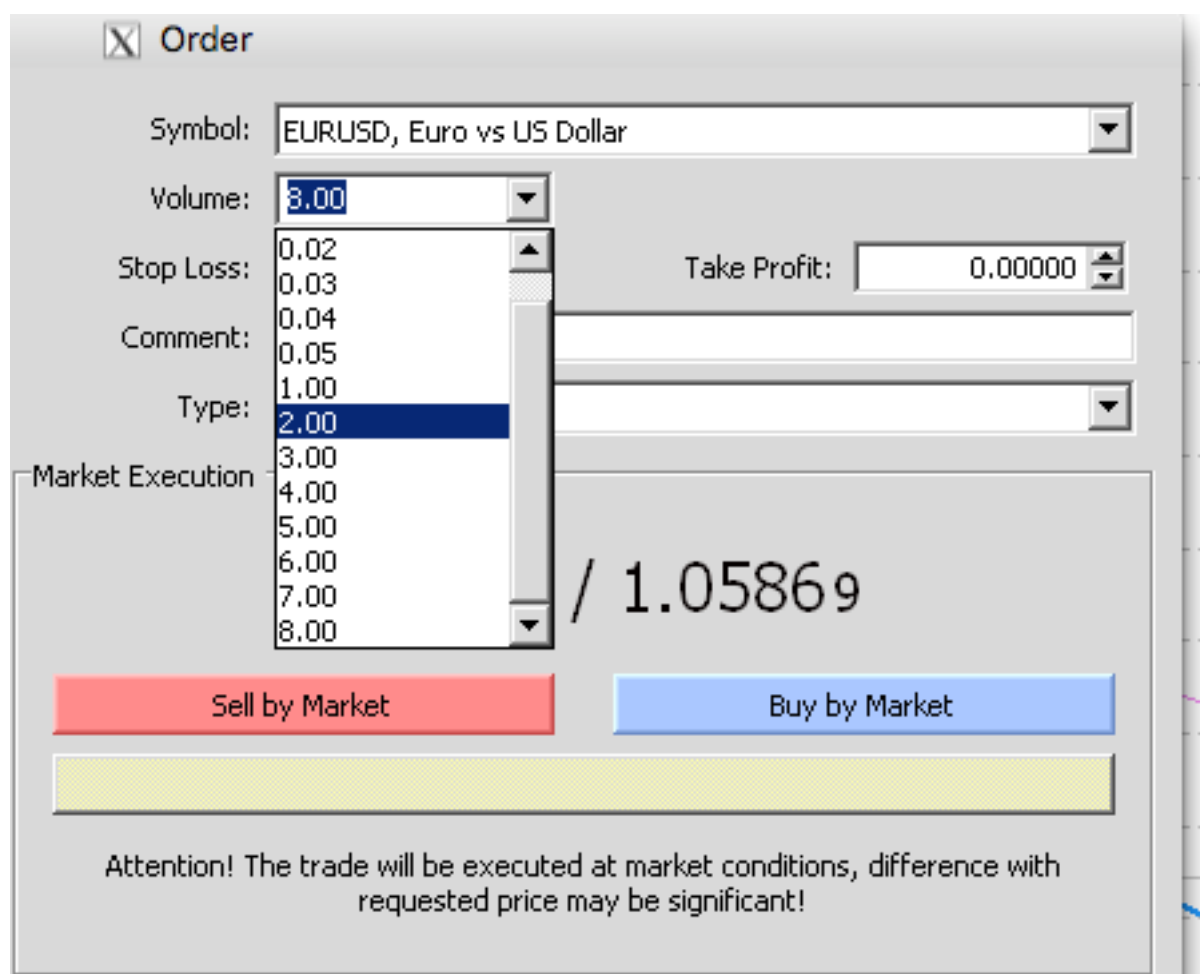
If you open short on EUR/USD of size 2 lots you will be shorting 200,000 euros. One pip will be around 20$. Magic of leverage (and the curse same time…).

There are also smaller base sizes like:

1 mini lot (0.1) = 10,000 units of base currency

If you open long position on EUR/USD of size 0.1 then you will be long with 10.000 euro.

In MetaTrader4 it will be as Volume list like:

- 0.1 (one mini lot)
- 0.2 (two mini lots)
- 0.3 …

One pip will be here around 1 euro.

1 micro lot (0.01) = 1000 units of base currency

In MetaTrader4 it will be as Volume list like:

- 0.01 (one micro lot)
- 0.02 (two micro lots)
- 0.03 (three micro lots)
- …

Going long with 0.01 lot on EUR/USD means that you are long 1000 euros. One pip is here around 0.1 euro.

1 nano lot (0.001) = 100 units of base currency

In MetaTrader4 it will be on select list like:

- 0.001 (one nano lot)
- 0.002 (two nano lots)
- …

Not every broker offer trade sizes as small as nano lots or micro lots. You should check it first in the offer.

Trading sizes are simple. First you may get confused, because it is different than trade sizes in stock trading. Try to do some operations on demo account, try different position sizes and you will understand quickly what it is all about with nano, micro, mini and full lots.

How can I start Forex trading?

Ok, you want to become a currency trader. You've read about pips, leverage and all that Forex trading. It is time to start practice. You are in luck, today it is very easy to start Forex trading.

Select a Forex Broker

To start trading forex, you need a Forex broker. There are many brokers and for new trader it may be hard to choose the best one. Remember, most of them offer a demo account, where you can test their trading platform. You can start with our Forex brokers section.

Usually, registration is quick, you need only some recent bills to prove your address is valid. That's it.

If you look at Forex broker offer, make sure that he allows to trade with lower sizes such as nano or at least micro.

Install trading software

OK, with selected broker you need to install trading software. This will be MetaTrader4 platform or other custom platform from broker.

Some brokers use their own trading platform like eTorro. Of course every custom platform is best in the world ;). There are brokers who only have their own platform and they do not offer Metatrader platform. I don't know why, but some very well-known brans miss MT4 in offer.

The big advantage of Metatrader is that you have many custom indicators, expert advisors. It is a good platform overall and I recommend brokers who offer MT4.

Trading from Mac

MetaTrader is a Windows application. If you have a Mac computer with Mac OS X system, then you must use software like Wine to run MetaTrader 4. Some brokers like XM or HotForex offer Metatrader for Mac Os X and they work very good. You don't need wine, setup is very quick. I tested Metatrader platforms from XM and HotForex on my Mac and they worked fine.

Below screen of demo MT4 platform from XM, running on MAC OS X:
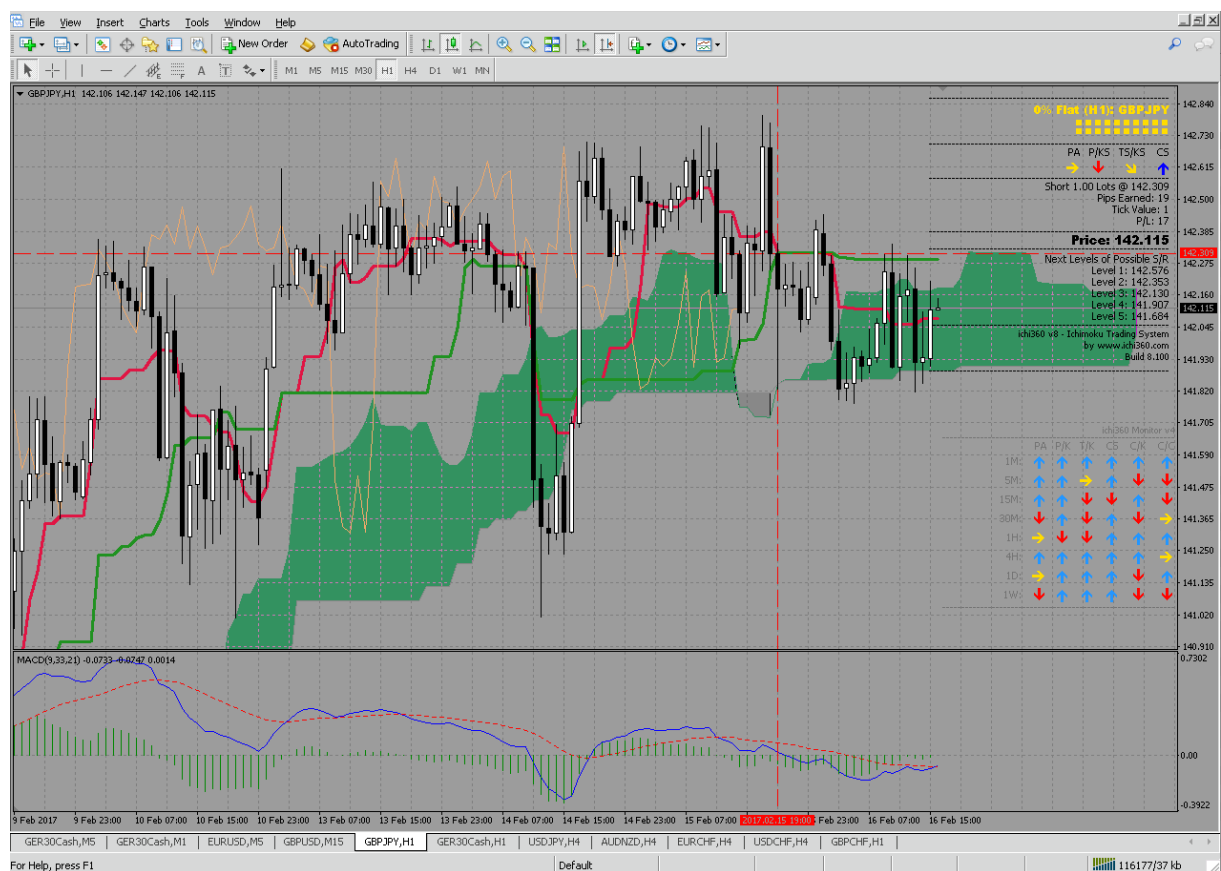
It's all the same as on Windows machine.

Fund your Forex account

When you have registered an account, you can add funds. It is very easy. You can start with few hundred dollars on mini account. Minimum amount is different for each broker.

Test platform on demo

Before you decide to open real account, test a platform on demo (especially if you are new to Forex trading). You will have some virtual 10k or 100k to play with on demo. Test how order placing works, how to place stop loss etc. You do not want to learn these things with your real cash.

Practice forex trading – demo accounts

It is hard to make profit in Forex that is why practice is so important. You have now many options to practice your trading skills and learn to trade.

OK, but what is best? Do you need trading simulator? Paper trading is a good way to start – not real paper but with help of demo account of course.

We talk about paper trading when you are trading with virtual money. Years before simulators you simply put trades on a piece of paper. When you felt ready to trade on real account, you made a switch. In 1930's it wasn't that easy to open brokerage account, besides fees for opening and closing trades were also high. Paper trades were good solution – you could learn how to trade without losing real money.

Demo trading in Forex

Now when we are talking about paper trading, we mean trading on simulators. Of course, you can use pencil and paper, but trading on simulator is much better way to go. You can easily open a demo account and get access to trading platform so you can test it. Your demo account is funded with virtual money and you can place orders.

The main advantages of Forex demo trading

- you do not put at risk real money – yours loses and gains are virtual, so there is no risk that you will lose all you trading capital
- you can test your trading system and different trading strategies
- you can see how to use leverage
- if you are using mechanical system, you can test it in practice

The main disadvantages of demo trading

- you do not put at risk real money – you react different when it is real money you are losing
- you make trades that you normally wouldn't make with real money

Is paper trading a good way to learn how to trade?

Generally, yes. If trading Forex is something new for you or you want to test totally new strategy then yes, it is ok.

I would say that demo trading is very important when you want to start trade on Forex. As you know, on currency market we use leverage. There are different position sizes. The basic one is 1 lot. You can open position as big as couple lots (for example 5 lots), or position smaller then 1 lot – this will be micro lot or nano lot. If it sounds not familiar, then you have to test it on demo account. Thing is, with leverage it is very easy to blew whole account in matters of few minutes. It is crucial to master how to manage position size and understand well how it works. Leverage can be your best friend or the worst enemy.

When you are building mechanical trading system, then it is also great possibility to test it on demo account. So again, demo trading in that case is not that bad.

In a long term, demo trading is not the way to learn how to trade. You should switch to real account with small funds. Why? Because of…

Trading and psychology

When you are on demo and you switch to real money trading, you will notice difference. Now you care. When you are losing money, you feel fear. You hesitate to close losing position "because it may turn around" (yeah, it always does ;)). When your trade is in profit, you are greedy. You hesitate to close position, because it may go even higher. Hell, this may be a trade of your life.

This kind of emotions occurs only when you are trading with real money. You will learn over time that most of your loses come from not following trading plan and allowing emotions to play too big role in your decision making process.

You are not able to switch off your emotions. On the other hand, you must be aware of them and not allow to take control. That is why you need to have your trading plan on paper. Write down as many things you can in your trading plan – that way you will minimize impact of emotions in your trading.

Ok, so let's see where demo trading is in trader education process.

Demo trading in trader learning process

1. Open demo account
2. Build strategy and trading plan
3. Test different position sizes – add to trading plan size of positions. Test different currency pairs, different time frames.
4. Test your trading plan – set goals such as do not lose money in next 3 months etc.

When you are profitable on demo…

5. Open real account

6. Fund account with money you can afford to lose

7. Set realistic goals and trade according to your trading plan

8. Trade smaller positions!

When you are profitable...

9. Increase position size

How to learn to trade forex

We've learned about forex trading basics, about demo trading. Question still stands – how to learn to trade forex? There are few steps you can take to learn it. Below I mentioned most important ones.

Find a mentor

It is not an easy task to find mentor. In most cases, there are no ads or other information about mentoring possibility. Initiative should be on your side. If you follow trader you like, then you can ask him about mentoring. Some will say no because of lack of time. Others do not like to mentor because not everyone has teaching skills. Still, finding a mentor is the fastest way to learn to trade Forex. With mentor, you will avoid many mistakes and sometimes save many years of trial and errors.

Two important things to remember. Do not approach mentor if you don't have basic knowledge about trading. It is not a role for mentor to guide you through the basic stuff. You want mentor to teach you how to trade successfully, not to teach basics.

Another thing to remember. Check different styles of trading. Decide which one suits you best. Do you like technical analysis more? Then look for mentors who trade mainly

with TA. You have a job and you want to learn about long term trading? Then do not look for help from day traders, just go and look for other long-term investors.

Learn to trade on demo

Before you move to trading with money start with demo. Play with different currencies, instruments. Understand what leverage is all about. See how spread is different for different forex pairs. Test different trading strategies.

Read trading books (not only about forex)

Of course, practice is most important but books will give you new ideas how you can trade forex.

There are so many books about trading, that it is hard to recommend only few.

One important things about books. Reading more trading books does not make you a better trader. It can give you some ideas, you can learn something new but you must practice this in live market. Just a quick reminder, because I met many aspiring traders who were reading too much and trading too little ;).

Candlestick patterns

No revolution here. Japanese Candlestick Charting Techniques by Steve Nison is still a good choice.

Chart patterns

I recommend books from Thomas Bulkowski like Getting Started in Chart Patterns. He did a solid study about chart patterns and included how often you can profit with them.

Multiple time frames

http://www.technicalanalysisbook.com/ I recommend Technical Analysis Book by Brian Shannon (from alphatrends.net). He is a stock trader but knowledge from this book is universal. It will give you ideas how to use and trade multiple time frames and I can say from my experience – this is crucial.

Trading psychology

Good trading system is not enough to stay profitable. Trader psychology and discipline is a key factor to success. There are many books about that topic, but you can start with Trading Zone by Mark Douglas.

Pivot Points

I use pivot points on daily basis and I wrote some articles about them. If you want to learn more, I can recommend two books about Pivot Points.

If you are totally new to the topic, Candlestick and Pivot Point Trading Triggers by John L. Person is a good choice. You can learn here how pivot works, how to use them and see some setups examples.

For more advanced stuff about Pivots, I recommend Secrets of a Pivot Boss by Frank Ochoa. One of best trading books. Not a cheap one, but worth its price. Lot of knowledge and trading ideas.

Fibonacci

As you know, I am a big Fibonacci fan. I write alot about that topic, but if you want to read a book about Fibonacci, then there is one position I can recommend. It is Fibonacci Trading. Master Price Advantage by Carolyn Boroden. It is a good introduction to various Fibo tools.

Ichimoku

There are few books about Ichimoku Kinko Hyo. I read them all, but I can recommend only Ichimoku Charts by Elliott Nicolle. I use Ichimoku only as additional indicator, but it is still important one. Especially in Forex.

Read blogs

There are many good trading blogs which you can follow. Below few of my favorites:

http://guriforex.com – your number one source for Forex knowledge

http://alphatrends.net/blog/ – mostly about stocks and some content is premium only. Still, great free video summaries of market.

http://thepatternsite.com/Blog.html – blog from Thomas Bulkowski. OK, it looks like it was started in the 90's and is rather about stocks. Still, a great source for new traders to learn more about price patterns and how to setup a trade.

http://www.babypips.com/blogs – great site for new traders. Lots of resources, training materials. Even complicated things are well explained. I like articles about trading systems – you can learn here how you can come up with a trading system and how to test it.

http://www.theforexguy.com/ – lots of good, educational materials. Especially great site if you want to learn more about trading forex with price action.

http://www.forexcrunch.com/ – one of the best blogs/portals about FX. Lots of news and good educational articles.

http://www.newtraderu.com/ – Steve writes in interesting way about trading. You can find here many trading tips and materials not only about technicals but also about trading psychology and risk management. Steve is also very active on twitter.

https://wwww.dailyfx.com/ - it is a mix of forex portal and blog. You will find here news section, but also good educational articles.

https://www.youtube.com/user/DailyFXNews – Dailyfx.com has also a great YouTube channel, where you can watch daily analysis from their experts.

http://www.forexlive.com/ – if you look for most important, short forex news's then this is a great site. Also, active on twitter.

Watch webinars

You can find many great webinars which are free. Fxstreet.com is a good example, you can also find webinars organized by brokers. Some are about technical analysis, some about psychology, fundamentals. They are run by different traders. They show you screen so it is very easy to see how others are trading, what is most important for them.

What's more, you have chat window. In most cases, you can ask questions during a webinar or there is dedicated Q&A session right after webinars finish.

Go to courses

Yes, many Forex traders are losing money. Brokers know that. That is main reason why they organize free trading courses (online and stationary). Often they hire well known traders who teach you about trading.

Of course, not every course is free. Sometimes you can find good trading course which costs quite a lot. Decision is yours. I can say from my perspective that you can learn a lot during such courses. I attended few of them, each was 2-days long. I must say – this was a knowledge based on trading experience and it helped me to jump into another level.

Follow other traders on twitter/fb

Social media are great. There is so much valuable information here, better than cats :) Look for traders via hashtags and other search terms.

Twitter is a great app. Most people follow here celebrities, but you can find also many great specialists. Traders too. They share their quick thoughts about market, sometimes they twit some chart or interesting link.

Which forex trader you should follow? You can start with this list https://www.newtraderu.com/2015/12/13/best-25-traders-follow-twitter-2015/ and see which you like most. My favorites? Dante, alphatrends and Stewie.

Forums

I do not read any forex forums. I used to, but for me there is too much bullshit. Thousands of systems, many argues… It is not for me, but if it is your thing then go and check http://www.forexfactory.com/forum.php.

What is the main point of all this sources?

There is no one ready to go trading system. You must build trading system by yourself. Your trading style will change over the years. To be successful you should learn from others, see what they are doing. That way you can improve your system and your approach to trading.

Forex trading questions – our Forex tips

Naked trading and price action

You must try it at least once. As stated before, most indicators are calculated based on price. Yet, still many traders can't read a single thing from a chart. It is all because they relay so heavy on indicators and do not put enough attention to price itself.

Goal here is to remove all indicators, all moving averages and other indicator from chart. You want chart to be naked. This way you can see clearly price action and make decisions based on price itself.

I have read about trader who uses indicators and other tools. Every few weeks he turns them off and trade only based on price action.

Why is that important? Thanks to naked trading you will learn much faster about price action. There are moments when it is crucial. You will get first signals from price and then, later, from indicators. Therefore, it is important to know how to spot signals which price gives you.

Fundamental vs technical analysis

It is a personal choice.

Only one advice here. Do not ignore the other side. If someone says that he is technical trader and do not look at fundamentals and news, then he is not someone you want to follow

There are so many evidences that news can move the market. Many big players simply close all trades before important news, because market can be unpredictable.

I mostly use technical analysis, but I always start the day from checking news schedule for current day.

Good source for news and data? http://www.forexfactory.com.

Avoid magic trading systems!

When you browse Internet looking for info about Forex, most likely you will see ads or reviews of some super automatic trading systems. In a description, you will see list of trades made on historical data even 10 years back:
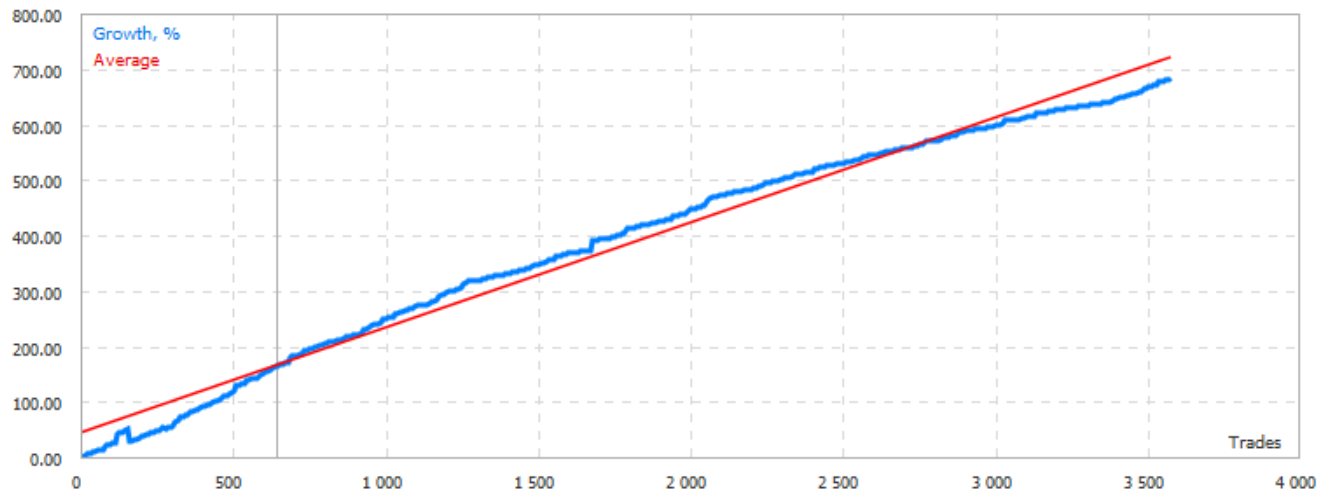
Looks great. Where is a catch? These systems are optimized for historical data. On many times, you will see that possible drawdown is very big. It is because authors use very wide stop losses. This way many trades are closed eventually with profit, but when something goes wrong, you end up with huge loss.

Another way to con the system is to optimize robot for historical data. When you put that same robot in real live trading results are not so great anymore.

There is no magic automated system for 99$ or 999$. Forget about it. Work hard, learn, trade.

Forex major currency pairs

You can see a lot of pairs in your brokers offer, but four of them are most popular. Traders call them majors:

- EUR/USD: The euro and the U.S. dollar.

- USD/JPY: The U.S. dollar and the Japanese yen.
- GBP/USD: The British pound sterling and the U.S. dollar.
- USD/CHF: The U.S. dollar and the Swiss franc.

Which pair is best to trade?

I think that it is best to start with majors, because you have there the lowest spreads and best liquidity. Maybe without USD/CHF, because after Swiss central bank interventions it is not good pair to trade.

EUR/USD is still a good pair to trade; it is great both on lower time frames and on bigger ones.

I also recommend to check Yen pairs, especially GBP/JPY. Here you can find many good trend moves, even on lower timeframes. On chart below there is 1-hour GBP/JPY chart. It took only couple of days for this pair to move more than 1300 pips up.

Other Yen pairs are also nice to trade.

Now, because of Brexit it is good to keep close eye on GBP pairs. Pound is generally getting weaker and weaker across the board. Thanks to that we can see here some strong moves both down and strong corrections up.

It is not recommended to trade on exotic pairs. There are two reasons for that:

- High spreads – costs of trading here can be very high
- Liquidity is not that good as on major pairs

Unless you have some long-term approach; maybe you are resident of that country. But stick to the most popular pairs.

How many pairs should you trade?

As a new trader, you should start with one pair. Why? Two or more pairs are hard to follow. Remember that you should check situation on few time frames to take a trade. With two or more pairs you will struggle to follow price actions. Select one pair. It is enough.

Every pair has its own characteristic. If you jump between pairs, you won't notice this. Also, it is important to check situation on higher time frames. When you do that on many trading pairs, it is hard to follow price action for new traders.

Do I need 10 displays?

You probably saw photos of trade stations where traders have 4, 6 or even more displays. It is not necessary; you can easily start with your current setup.

So why traders use so many displays? Couple of reasons. They follow action on many pairs. They also follow news, check important levels on other time frames. Simply, it is much easier to do all that with few displays.

But if you start trading, don't worry about that.

If you want to have more than one monitor, it is not that costly. You can buy a PC with graphic card which has two slots for displays or you can use SLI technology (more than one graphic card in one computer). Displays are also not expensive. You can buy a 24 inch display for around 150 – 200$; 32 inch displays are also rather cheap and cost around 400$.

How much money do I need to start forex trading

This is one of most popular questions about Forex trading – how much money is enough to start trading. I will try to answer this as good as I can.

Remember, you can open trading account with as little as 100$ (or even less in some cases). Is it enough to trade? Technically, yes. With that money, you can place trades if broker has nano or micro lots in his offer. So there you go, 100$ is enough to trade forex.

But is it enough if you are serious about trading? No.

No, you won't earn big $ in a year, starting with 300$. Few hundred bucks are ok for start in learning process. You can play with that money, make some mistakes, learn new things, grow as a young trader.

When you learn how to trade, use money you can afford to lose. That is very important. Never trade with money you can't lose. This is brutal game. Save some money for your trading account.

People see all that adverts, read about leverage and think that they do not need that much capital. That is a huge mistake.

Trading full time is different. You need solid capital because with that capital you can make profits. So how much do you need? Depends from trader, but 10,000$ is a minimum in my opinion. Optimal amount for start is in range 10,000 – 50,000$. The

amount is strongly connected to your trading system (how you handle risk level, do you trade short term or long term, and many other things).

When you follow, the path described above (demo -> real with small capital and micro/nano) and you can make money, you will be able to count how much money you need to think about going full time.

I like the quote from Alexander Elder. He said that you can start thinking about trading as full time career when you make more money in a month from trading then from your day job. Simple as that.

Remember that you need capital for start because you must follow some risk ratio rules (defined by you). You can follow rule to not risk 1% or 0.5% capital at current time. Try to use that in real money trading and you will understand quickly why you need all that money for start.

Time frame

Another big question – which time frame is the best? Again, it depends from trading styles, but I can give you few tips.

The lower time frame, the more automatic trading you will see. On time frames, such low as 1 minute there is no time to think slowly and analyze your decision twice. When price hit some important level, you may see strong counter move from that point (because of orders from robots). Generally, I do not trade lower than 5 min time frame.

When you are looking for swing trades, then you should look at higher time frames such as 1 hour +.

Of course, you do not look only at one time frame. You should check higher time frames to know what is going on.

On lower time frame it may look like there is a downtrend, but higher time frames may suggest that main trend is up.

But I have a job…

OK, it is not like there is only one proper way to trade Forex. If you start your trading adventure, you probably do not have time to look a whole day at chart. Is there another way to do it? Yes. You can switch to higher time frame such as 1 hour, 4 hour or simply start with EOD trading. EOD – End of Day Trading is trading where you base your trading decisions on daily chart. Of course, you have position open for few days, your stop losses are wider, but also there is a chance to get a bigger move from stronger swing move.

Will your strategy work on lower time frames? Yes. Do not worry about that. In most cases your strategy will be perfectly fine on lower time frames. You may need to modify it and rebuild more or less, but it should be a solid strategy to move on to trade on lower time frames.

There is a great article about EOD trading by Forex Guy. You can read it here at http://www.theforexguy.com/forex-end-of-day-trading/.

How much do forex traders make a day

This is a common question. People want to know how much money can you make trading Forex. The popular believe is that you can get rich so fast here. That is more complicated than that.

I think that there are two things that create fake reality of Forex trading:

1) Demo contests

   There are a lot of demo contests out there. You can win some nice prizes. Problem is that they usually last fore few weeks / other short period. As a result, it is simply a gambling contest, not a trading contest. Forget money management, strategy… To win here people start multiple accounts and trade with highest leverage possible. It is not the way they would trade with real money on daily basis.

2) Real results with only percentage returns

That is interesting thing. Once I had an account at very well-known FX broker. There was no contest, just a motivational newsletter once each month with best results of their clients. OK, not a bad thing – they were showing that people are making money. Thing is, results were presented only in percentage gains. That's it. Basically this numbers tell you nothing. Even if somebody earned 1000% he might simply placed some gambling trade on his 100$ account and he earned with lucky shot.

The big picture here is very unclear. That is a nature of this business – brokers want more clients so they do what they do. People know that many people lose money on Forex, and yet they think that they are better than the rest. In their mind, they can see millions they can make here.

If you want to have overview how traders are doing in contests, head to http://www.myfxbook.com/contests. You can find here both demo and real Forex contests. On the right, you have analysis with more data about each contest.

I encourage you to follow some traders on Twitter or simply to check real-money Forex contests. You will see totally different side of trading. I know traders (who trade for a living) who sometimes place only 5 to 10 trades per week. There are weeks that this is less then 5 trades. They are watching charts all day long, but they wait for their best setups. Number of trades depends from trading style but still – it is a different story when you are risking your real money.

There is no specific answer – how much money do Forex trader make. One thing we can be sure – these are not amounts like in demo trading.

Is daytrading for you - **trading forex for a living**

Many new traders think that they should be day trading to make some serious money. That is a mistake. There is nothing wrong with day trading, but now you have many possibilities to trade on higher time frames. You have pending orders, you can easily set stop loss and profit target or set trailing stop loss. Thanks to that it is easy to manage your positions, even if you have to be away from computer for some time.

There is also one addition fact, important for new Forex traders. There are bigger chances that you will lose money on lower time frame than on higher time frame. It

should be a solid argument for new traders to start trading Forex on higher time frames like 1-hour or 4-hours. They have much bigger chances here to stay in the game and to make some profit.

On lower time frame you can meet so often sudden changes in price. What's more, algo trading is taking now big part in price movements. You have to be in front of your screen all the time to follow action and react in time. It is very hard.

As pointed before, you can make good profit on higher time frames and you do not have to follow price action for the whole day.

Also, trading on higher time frame is a pass to day day trading. You should prove to yourself that you can make money on higher frame, that you can trade. You must collect enough trading capital. You can't just jump in and start day trading when you are not an experienced trader and just hope that you can make it. Numbers are against you so you must be prepared.

Stress is another important factor. When you are day trading, you open larger positions for shorter time of period. It is not for everyone.

Trading plan in Forex Trading

You must have one. Simple as that. Of course, there is a whole learning process and you will be testing different Forex trading strategies. Eventually you should decide what works best for you and explore that part.

Your goal is to create trading plan. You should write down things like:

- which currency pair you trade
- which time frames you trade
- when you enter a trade (based on what strategy / signals)
- when you exit a trade (based on what strategy / signals)
- stop losses – what is your risk per trade
- taking profits and money management

If you do not have things like this written down, then you will be changing lot of things at once. That way you will never find out what you are doing wrong. I mentioned earlier that there are traders who can watch price action and wait for 1 or 2 traders which fit entry conditions from their trading plan. Thanks to the fact that they have a strategy, they know what they are waiting for.

When you do not have that kind of information (from your trading plan) then you act based on a hunch or emotions. That is not a way how you want to trade.

As I said, when you start to learn how to trade Forex, it is normal that you will be testing different systems and strategies. In the end, you should choose one and take your time to master it. And trading plan can help in that a lot.

PART 2. FOREX TRADING TOOLS AND STRATEGIES

In this part of guide, we will look into different trading tools and strategies. Of course this is still more like overview because topic itself is very wide. I want you to see that there is a choice to make.

Which trading tool is best for you?

There are many tools like oscillators, averages and others. Common mistake among new traders is to mix everything up. They feel more comfortable when there are more tools on chart. This way it is hard to learn with one specific tool. Because you have so many tools on chart you will act on different signals.

Yes, some indicators work great together but you should know what are you looking for. This may be very confusing. Result is always the same – no progress.

Try to start with few averages and one oscillator (if you plan to use that tools). Trade with that setup for some time – at least for few weeks. Try to optimize parameters.

One more thing, read about your trading tools. What is formula behind them, how they work. Sometimes you can see screen with 2 or 3 oscillators which are basically very like each other. There is no point in that. Try to understand how your indicator works.

Which strategy is right for you?

There are many approaches here. Some traders prefer to follow trend on longer time frames. Others like to open positions more often – they are swing trading. Add to that possibility to trade fundamental, to write your own trading robot or trade naked.

That is a good thing. But what about best strategy for new traders? I would say that it should be a strategy that allows you to trade on higher time frames and profit on longer moves. It doesn't have to be trend following strategy, it can be also swing trading strategy.

I wrote about it before, but I mention it again. Most new traders think that they must trade on lower time frames to make money. For them these low time frames are like deep dangerous water for new diver. This is a place where sometimes more than half of trades is done by robots. We have also High Frequency Trading. And biggest of all - risk to overtrade.

On higher time frame there is more time to analyze current situation, to check other time frames. When you catch a good move, you can make sometimes very large profit. To make money on lower time frame you must invest with high leverage. And for new traders high leverage is a killer.

What settings are best for my stochastic/macd/rsi/other on eurusd/gbpjpy/other?

Please, don't ask that question. There are so many different setups. Each currency has its own characteristic. Each timeframe is different.

Just use price history. With that you can select the best settings for your tools.

Most common mistake – invisible price action

The most important thing to remember is that all is based on price. If you add to many indicators, averages and other tools then you may miss important price action. That is why it is good to trade on naked chart – at least from time to time. Thanks to that you will be more aware of price movements.

Pivot Points

In my opinion one of the most important tool for your trading.

What is on the chart

We have few horizontal lines:

Pivot line – this is the middle line

R1, R2, R3… - resistance lines, above Pivot line

S1, S2, S3… - support lines, below Pivot line

We can calculate more higher levels like S4, R4 and so on but in practice you will need only levels 1,2 and 3.

These lines are calculated based on previous period (to be specific in formula we can find high, low, close). Because of that we have:

1-hour Pivot Points – calculated on high, low, close of previous hour

4-hour Pivot Points – calculated on high, low, close of previous 4 hours

**Daily Pivot Points** – calculated on high, low, close of previous day

Weekly Pivot Points – calculated on high, low, close of previous week

Monthly Pivot Points – calculated on high, low, close of previous month

Yearly Pivot Points – calculated on high, low, close of previous year

As you can expect, R lines work as resistance for price, S lines as support. Idea here is that price tend to move around pivot line. Even in an uptrend, after hitting a resistance we can expect a correction down to the pivot line.

Like in the example below. Price was moving around pivot line (black line). Then we saw a strong move down to the S2 area. Then a pullback and again move around pivot line. When there is no clear trend in place, we can see such behavior where pivot line is center for price action.
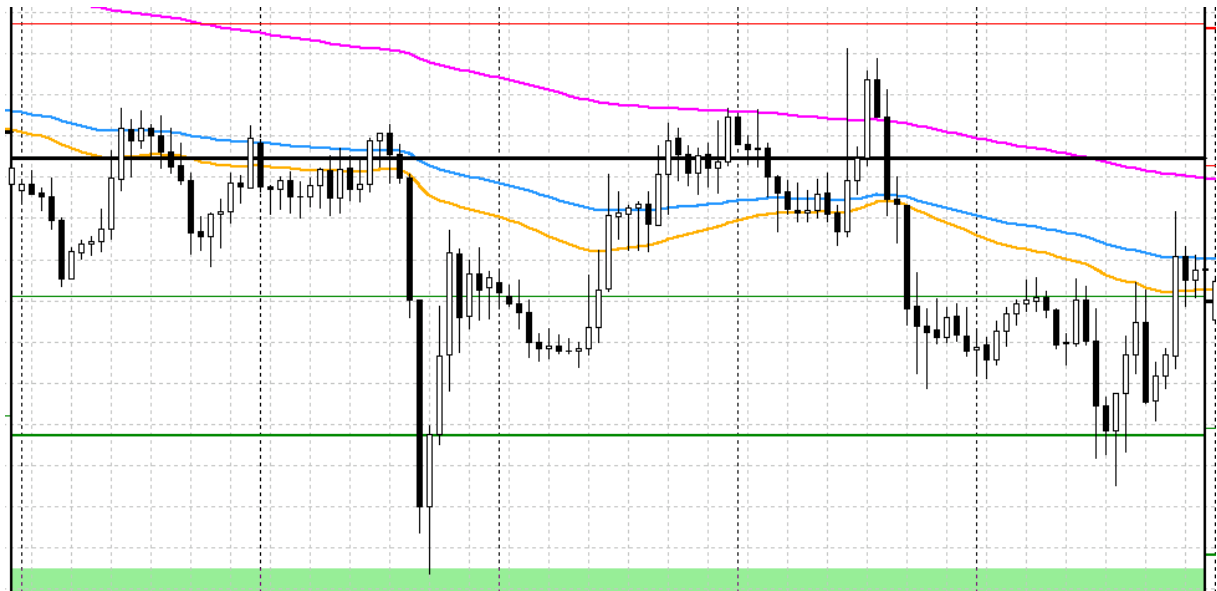
Which Pivots are best for you?

So we know that there are daily, weekly, monthly... Which one is best for you? Depends from your main timeframe and trading style. The most popular are of course daily Pivot Points. You have to test it by yourself which Pivots works best for your trading. As a little help, we can try separate them like this:

1h, 4h Pivots – suitable for lowest TFs

Daily Pivot points – suitable for TF from 1m to 1h

Weekly pivots – suitable for FT like 4h, daily

Monthly – suitable for TF like 4h, daily, weekly

Yearly – suitable for TF like weekly, monthly

Strategy based on Pivots

You can build your main trading strategy based on Pivots or you can use them as an addition to other strategy.

Few important notes about pivots.

When price is below Pivot line, this line may act as a resistance. Similar situation with price above Pivot, it will work as support.

Most important are second lines. So, in other words, there is a big chance that the main target for current move will be S2 or R2. These are levels where traders like to take profits. Because of that you can expect correction move from these lines.

R3, S3. There are times when trend is very strong and price move up to the R3 or down to the S3 line. In that case, you should take profit at S3 or R3. Do not hope for move to continue. In most cases it will end at S3 or R3. Of course, you can close part of your position at 3rd line and let the rest roll. Still, from my experience I can tell that it is very unusual for price to move higher than R3 line or lower than S3 line.

Pivots from higher time frame. There are times when it is good to check situation for higher time frames. I like to open separate chart for that. There are situations when lines from two different Pivots are near to each other. For example we may have daily R2 near weekly R1. This is very important information for us because we know where is the strong support and where we should take profits.

Pivot Points trade examples

USD/JPY H1, weekly pivots

This is an hourly chart of USD/JPY with weekly Pivot points. Trend is up. Price is above Pivot line. After a range move there was a break above trend line and you can see strong move up. It ended exactly at R3 level. It is a rare situation. In most cases you will see that price respect resistance lines at R1 and R2. Sometimes there is news or some other reason for that kind of strong move.

GBP/JPY 5m daily Pivot lines

On chart above we have GBP/JPY, 5m chart with daily Pivot lines. It is an interesting situation. For the first part of a day price was above Pivot line which worked as support.

Later situation changed. Pivot stopped to work as support, there was also a resistance from moving average. Suddenly, GBP/JPY tanked. We can see that it went straight to the S2 line.

That chart shows why it is important to set take profit orders. It was only a moment when price was at S2 line and there was a strong bounce back. You would not be able to close it manually.

EUR/USD, 4h monthly Pivot Points

Last example is EUR/USD, 4h chart with monthly Pivot Points. It is rare when you check monthly pivot lines, but as you can see they also work. In this case Pivot line worked as a resistance, later move up ended at monthly R2.

Fibonacci trading tools

There are many tools based on Fibonacci numbers. Below short overview.

Popular Fibonacci tools

Fibonacci retracement

Fibonacci retracement is the most popular tool used by traders who are trading with Fibonacci. It helps you to predict where correction might end.

Do you remember how in the beginning of this article I wrote about nature of trends? When price is in an uptrend, there is a sequence of higher highs, but there is also a sequence of higher lows, or simply corrections. This is something natural for uptrend – price move up, up and suddenly it is falling down. That is correction and it is a good thing, because it let you to enter position for better price.

Fibonacci retracement helps you to find places where correction might stop. With that knowledge you can plan to enter a position from there in a direction of main trend.
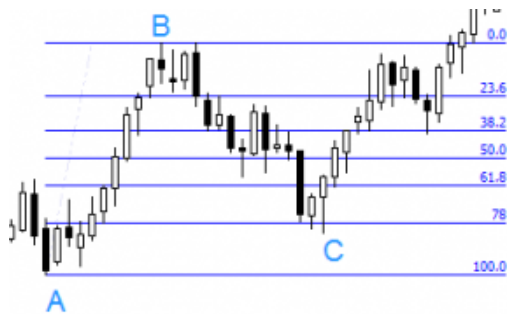
Fibonacci expansion

You can also predict where there will be the next high or low. You can do this with Fibonacci expansion. To do that you need to find three points. A and B from main swing (low and high) and point C where correction ended (similar points as you would be looking to draw retracement levels but here you have to know/decide where correction ended). With that points you are able to draw Fibonacci expansion and in result you have few projections where might be next high/low. There are more levels, but standard are 61.8%, 100% and 161.8%.

There is also extension based only on two points (A and B), which also gives projection levels, but let's do not complicate things too much.

Fibonacci time zones

Interesting tool which you draw horizontally. There is many ways you can draw it – from high to high, high to low, low to high… In a result you have vertical lines, which represents time when there might be end of move or some change of direction.

Fibonacci arc

It is another tool which represents areas of support/resistance, but in another way. You draw Fibonacci arc from high to low or low to high. As a result you can see three curves 38.2%, 50% and 61.8% which represents possible place where price action might stop/reverse.
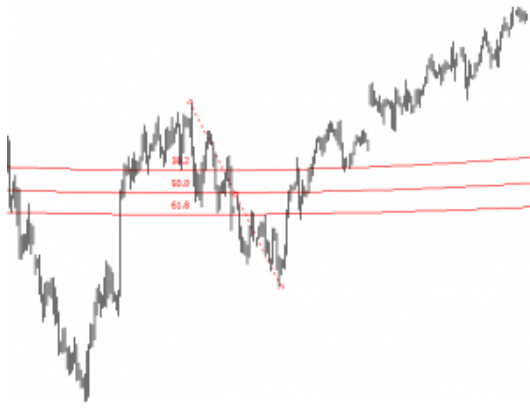
Fibonacci arc example

Fibonacci Fan

With this tool you get three diagonal lines. Each one of them represents Fibonacci ratio and when price is getting close to this lines, you know that this might be area of support or resistance. You draw a trendline between low and high to get this lines.

Actually, this tool is pretty handy. Try to exercise on historical data, or test it in your trading. It is all about selecting right low and high and you will get good results.

Fibonacci fan example

There are some other tools based on Fibonacci numbers, but these are most known. If you are confused right now and you do not know which one you should use, then let me give you small advice. Start from Fibonacci retracement and master using it. Then add to your toolbox Fibonacci expansion – it is important tool, because it let you predict the best points to close position.

Most popular combination is Fibonacci Extension + Fibonacci Retracement:

Fibonacci Extension – they work as possible target for the move (take profit area)

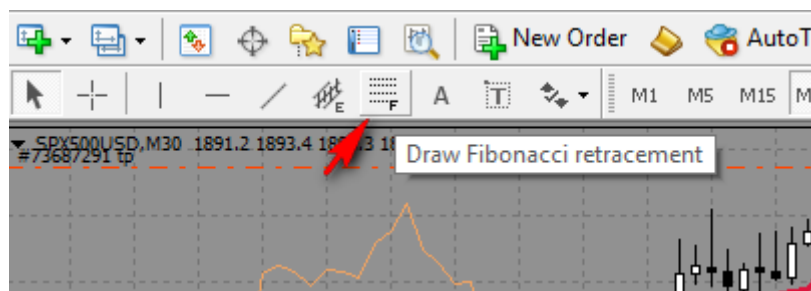**Fibonacci Retracement** – they work as support during a correction

Setup in Metatrader

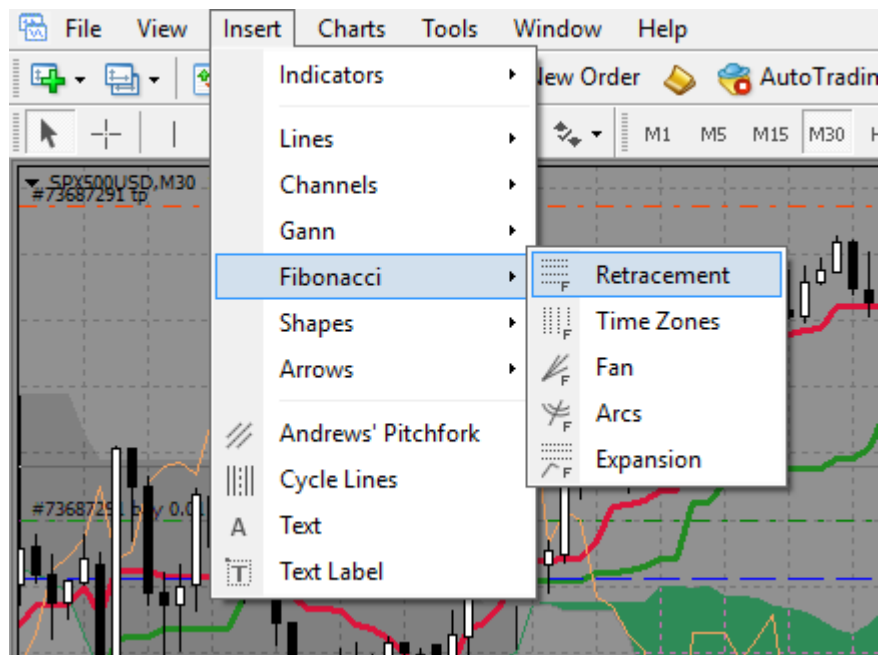Now let's have a look how to setup Fibonacci so you have most popular levels in place.

Below you can find instructions with most popular setup.

Where can you find Fibonacci Retracement in MetaTrader4?

Go to top bar and find Fibonacci Retracement icon:

Or you can go to the top menu and select Insert -> Fibonacci -> Retracement:

How to change Fibonacci retracement and extension levels?

When you have selected Fibonacci tool described in point 1., draw it on a chart. Now, double click on the line that goes from 0 to 100%:
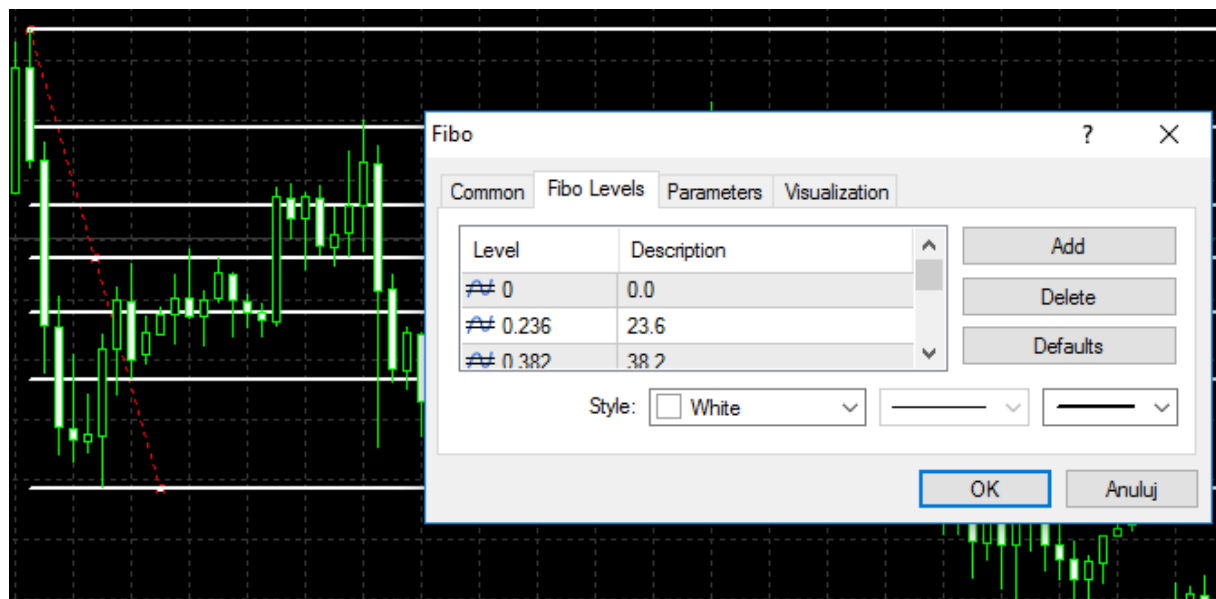
And click mouse right button. Next, select Fibo properties:


Fibonacci retracement and extension levels list

In Fibo properties, go to the second tab. You will find there a table with two columns: Level and Description:

Probably you will see some default values. You can edit fields and add new ones. Correct the list in the second tab so it looks like list below:

Level	Description
0	0.0
0.236	23.6
0.382	38.2
0.5	50.0
0.618	61.8
0.786	78.6
1	100
-0.27	127
-0.382	138.2
-0.618	161.8
-1	200

These are levels that I use in my daily trading. Sure, you can customize this list so it fit your trading style. You can add levels like 261.8, 150 etc. In my experience, you are good to go with the list I provided above:
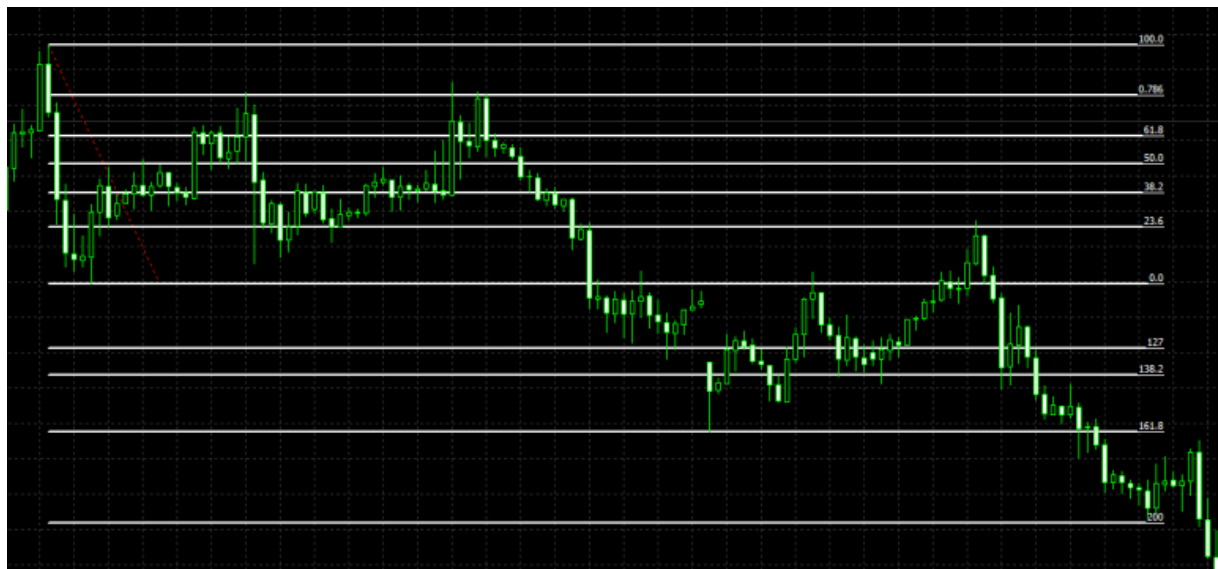
Fibonacci trading in Forex

To draw Fibonacci, we need to select a swing move. Additionally, we have to try to do that in the right direction. That is why it is crucial to understand price behavior, trends, swings.

Let's start from tricky question and basics of price behavior. In which direction, can price move? You probably would answer: up and down. That is correct answer, only that there is one "but". What if there is no main trend? If there is no strong trend, price will probably move sideways. Statistics says that price is about 30% of time in trend and rest of this time is moving in range. Why moving in range is so bad thing? Because there is no clear direction and price move up and down so it is very hard to make money in that kind of movement. Just look at chart below, is it something you would like to trade?

sideway move example

I think so. What we want to trade is trending market. Going into trend direction increases your chances of success. Look at this beautiful trend below. Isn't it something you would like to trade? On the short side of course!


downtrend example

We want to use Fibonacci technique in that kind of market. Before I go further and explain more about this, there is another important thing you must learn.

How to recognize trend?

You should be able to easy recognize if there is a trend in place or not. Sometimes it is hard because of the "noise", but there are some tips you can use.

Look for higher highs and higher lows, if you are looking for uptrend. I have probably showed you this charts before, but this is important. On chart below you can see an example of uptrend. You can see that every high is higher than the previous one, and every low is higher than previous low.
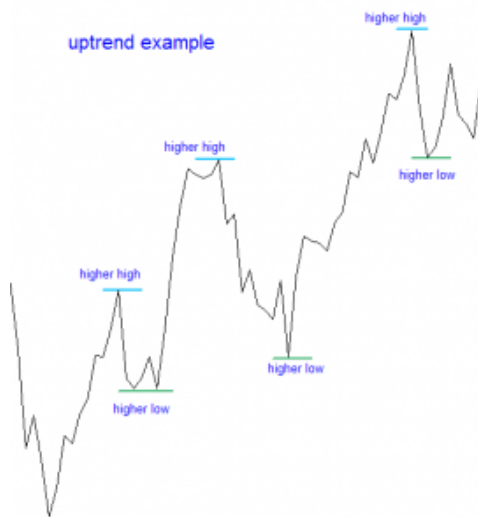
higher high sequence

When you can find these elements on chart, then you have identified an uptrend.

In downtrend you should look for lower lows and lower highs. Each low is lower than the previous one, and each high is lower than previous high. Just like on chart below:

downtrend example
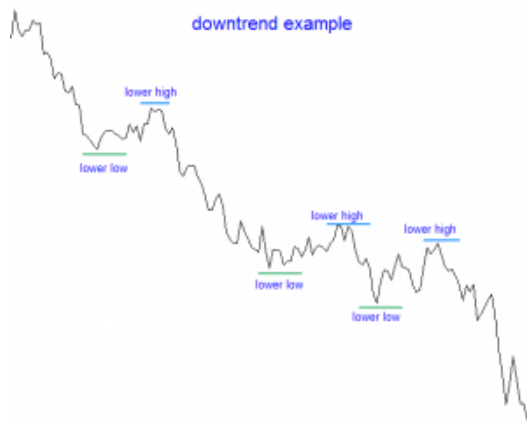
lower low sequence

If you are able to identify lower lows sequence, than you have found a downtrend and you can plan to enter short position.

In range market there is no sequence, therefore there is no trend.

You can also use simpler tools to define trend. Most popular moving average is a good choice. Lets say you are using 200 simple moving average. When moving average is rising and price is above that line, than there is a strong chance that trend is up. If trend is down, price will be under 200 SMA. Of course this method does not make you 100% sure, but the chances are good.

200 SMA as a help in trend identyfying

So, what really Fibonacci trading is?

Now, when you know what kind of trends there are and how to recognize the current trend, we can move to answer the question from title. What is Fibonacci trading about?

Fibonacci trading is a technique, where you are using tools based on Fibonacci numbers to predict possible turning points (if you want to read what it is Fibonacci number, just go here).

There are many tools which you can use for trading with Fibonacci. Each of them do a different job. Some are more important, some less. Lest review them quickly.

How to trade with Fibonacci?

Now you know what does it mean Fibonacci trading, and what kinds of Fibonacci tools we have (plenty of them!). There is one more important question to answer. How should you trade with these tools?

Notice that all this tools give you a potential level of support/resistance or potential exit points. This is very valuable information! But how to use it for your benefits? Of course, I am not able to answer you in few words, but I can give you some advice what should you do.

You should build trading plan. The main core of your trading plan will be Fibonacci tools. As I wrote before, first include Fibonacci retracement and extension to your plan. Next, you need some signals which help you to enter and exit positions. The logic here is that when price is in uptrend and correction occur, you draw retracement levels. When price is near one of them, you do not know which one will be a support. That is ok, because you define your own signal and when price return to move up from correction, you get your signal. It might be something simple like moving averages crossover or signal from some oscillator.

Same with closing position. You should define on which signal you will exit your position. It will be probably near one of expansion levels, so you will be ready to act.

The last, very important part of your trading plan is money management. You should keep your losses small. It is very important to trade smart and not to risk too much.

Some of this information are not very specific, but the whole topic about trading with Fibonacci is very wide. In the end, it is about practice, practice, practice. You should be testing new ideas and getting experience. Trading with Fibonacci is great, because you have possible support and resistance levels and even exit points. Of course, they are only possible levels, but on many times they work excellent. You need to build your whole trading plan around these levels, so around Fibonacci tools. Add to this entry and exit signals and proper money management system and you are on great way to success in trading.

ABCD and Fibonacci trading

There are more advanced techniques to trade with Fibonacci, but you should start with ABCD. This is simple yet powerful approach. In short, we look for a swing. Based on that swing we draw our Fibonacci lines (A and B). Next, we wait for a correction to retracement – C. After that we open a trade and wait for continuation move towards D (which is an extension line).

Look at some examples below, it should be clear.


Fibonacci trade examples

GBP/JPY 1 hour chart
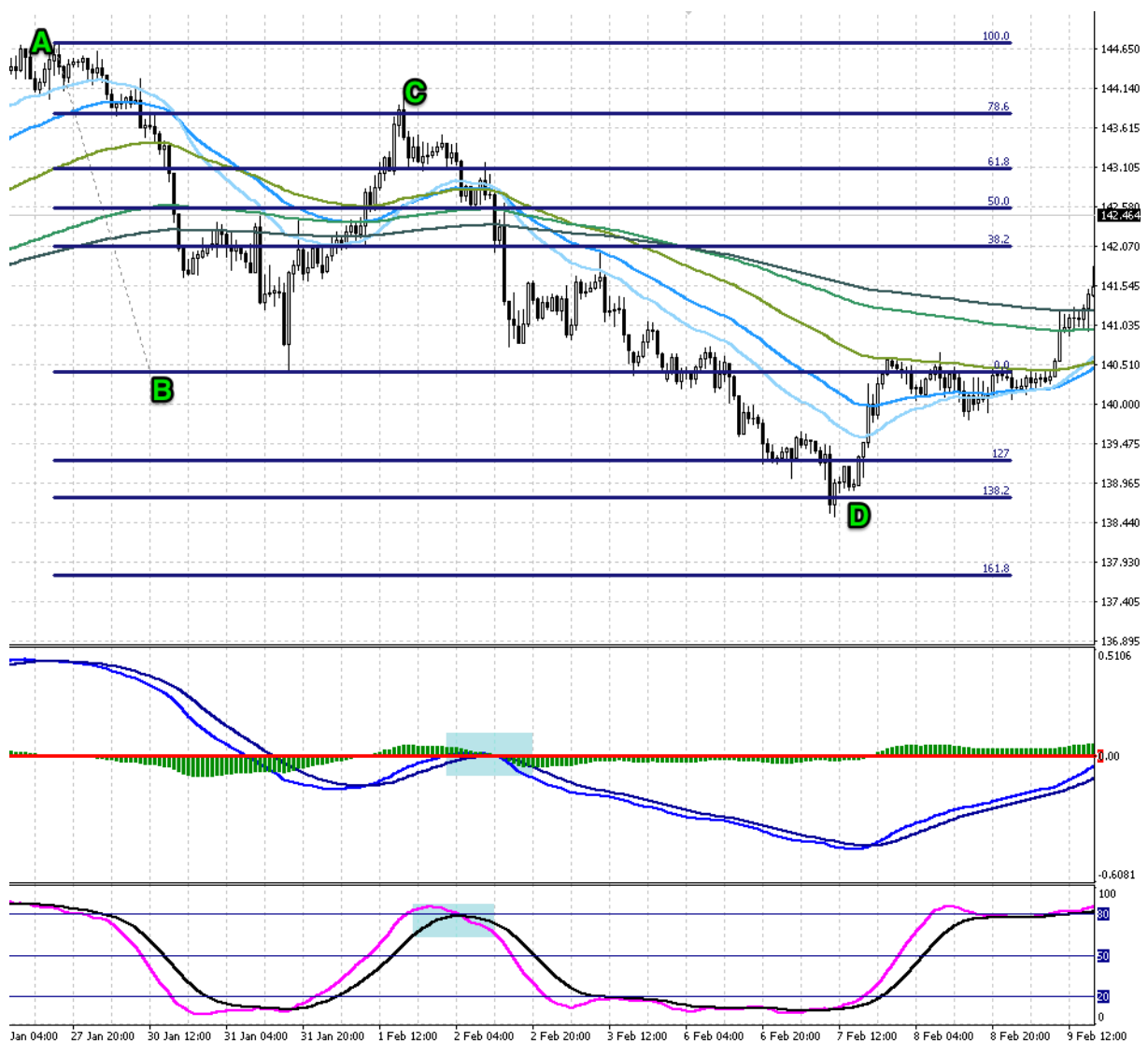
Here we have example of GBP/JPY. We can see that after strong move down (from A to B) there was a correction up. This was a good moment to draw Fibonacci lines and wait for signal to go short. Correction ended at 78.6% and after that there were signals from MACD and Stochastic. This short trade worked well. Move ended at 138.2 Fibonacci extension and it was our D point.

EUR/USD 30m

In this EUR/USD example time frame is 30m. We are in an uptrend and after strong move to the B there was a correction. It was rather deep, down to the 78.6 retracement line (our C point). Next EUR/USD returned to the uptrend. We saw some signals to go long. This was a strong move up, with short stop at 161.8% extension line. Eventually move ended at 200% extension line, this was our D point.

DAX 15m
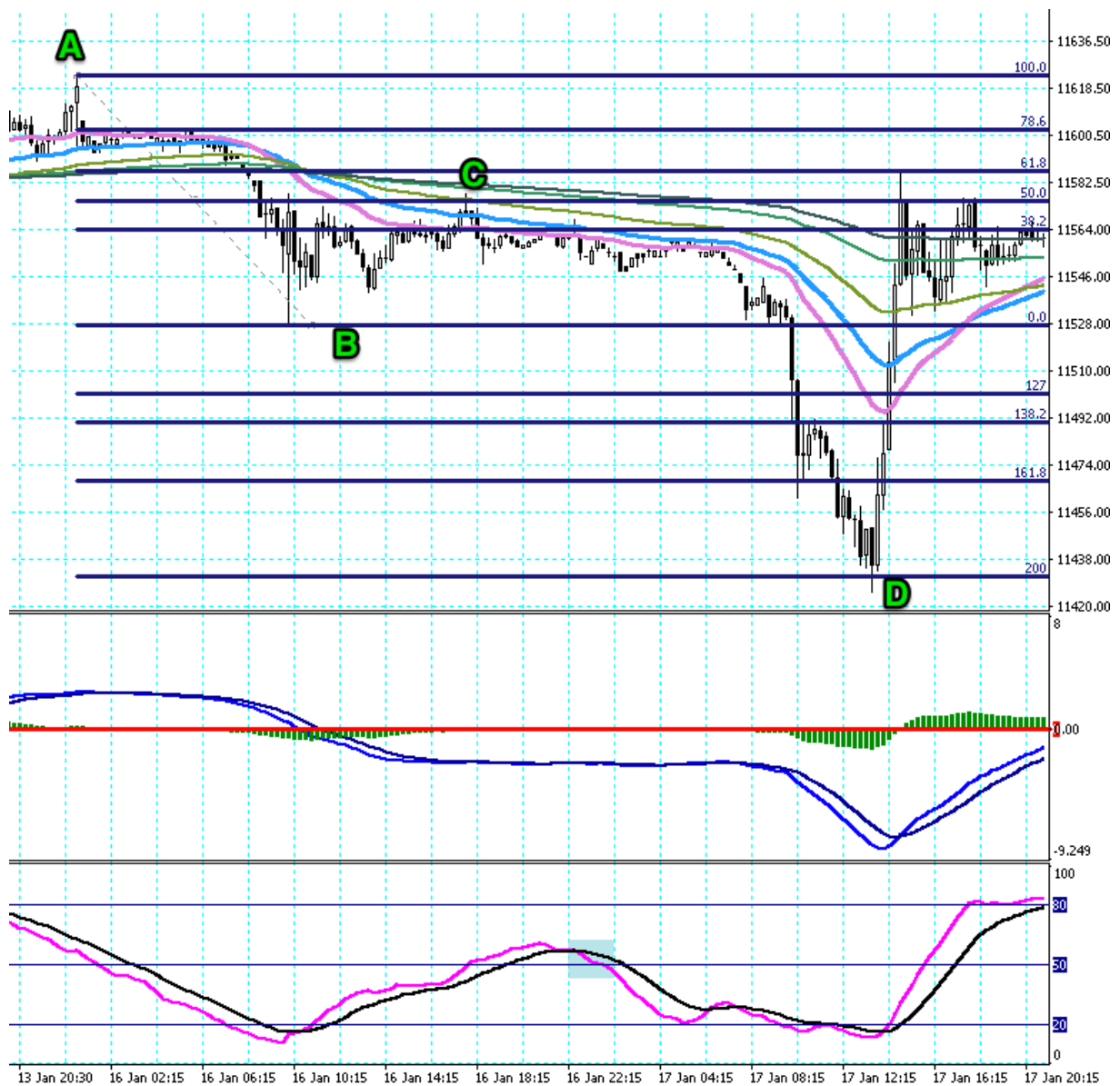
This is 15m chart of DAX. It is a good example, because it shows how universal Fibonacci tools are. They work with currency, with commodities, stocks, indices...

On the chart, we can't see the left side – there was an uptrend move before. It ended, price went down below averages. There was a correction to the C (50% retracement). From there some move in the range and strong move down to the 200% extension line (D).

Trailing stop

Trailing stop is another great tool which can help in your Forex trading. It is simple, but can help you to catch big moves.

There are few types of trailing stop losses. Sometimes they are built in the trading platform. You can't find them in Metatrader so you must download and install it. Search for *chandelier mt4 trailing stop loss* and you should find the best version.

How to use trailing stop loss

Idea behind trailing stop loss is very simple. If price is above trailing line, you should be long.

If it is below trailing line, you should be short. Simple as that.

The main advantage of trailing stop loss is that it allows you to stay in the trend and take big profit of that.

Example above shows rather well how it works. It works as stop line. You can see that when move up ended and price closed below blue line, it was time to close trade.

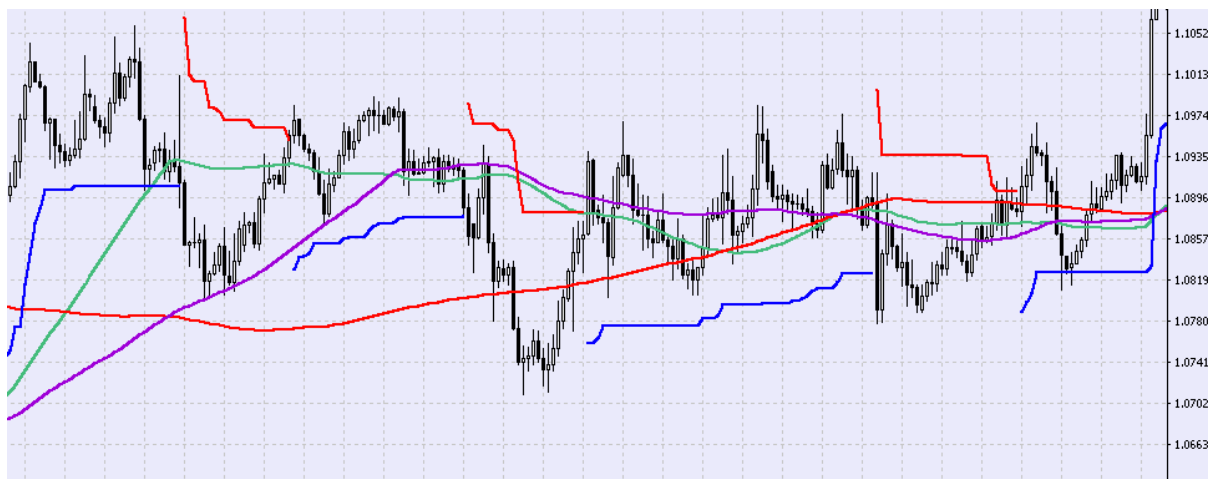*Best settings for trailing stop loss*

It is a common question – best settings for trailing stop loss. You should work it out by yourself. One settings may work great on specific currency and time frame but they can be out of place on another. That is why it is best to test settings on price history. You can play with Length and ATR Period but it is Kv parameter which interest you most.
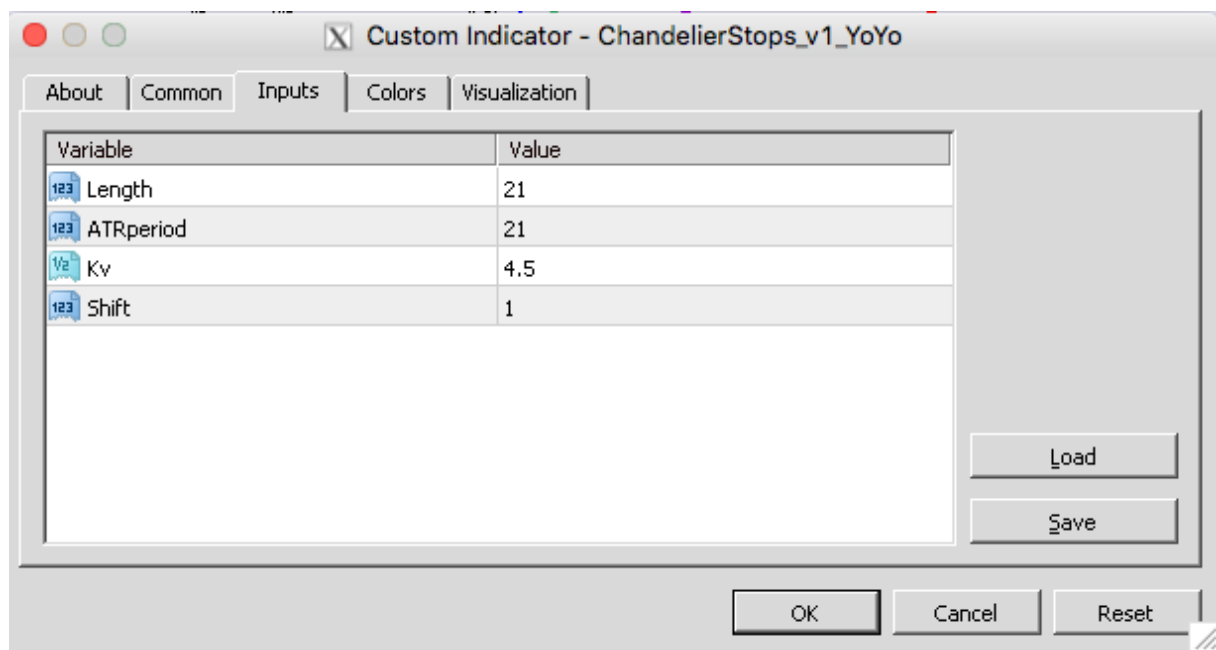
It is not always that easy

Trailing stop loss is easy to use, but there are things you should remember about. It works great when trend is strong. There are times where moves are strong or when there is no specific direction.

When there is a range move, you can easily overtrade and lose money. So, we are talking about situations like this:

Time frame for trailing stop loss

Time frame depends from your trading style, but you can try trailing stop loss on time frames like 15m, 30m, 1h. Trends here can last for some time and profit may be good. If you go lower with trailing stop like 1m, 5m it is much harder – mainly because rapid moves.

Strategy for trailing stop loss

You can use only trailing stop loss but it works best when you join it with other tools. As always, you want to trade in the direction of current trend. That is why it is ok to join trailing stop loss with averages. Thanks to that you can filter false signals, like in example below. After move down there was a change in trailing stop loss and signal to go long. As you can see, price was then below average. That means that it was best to wait for break above it. It didn't happen. It was a false signal after all.

signal to go long but price below MA

Trade examples

GBP/JPY, 30m
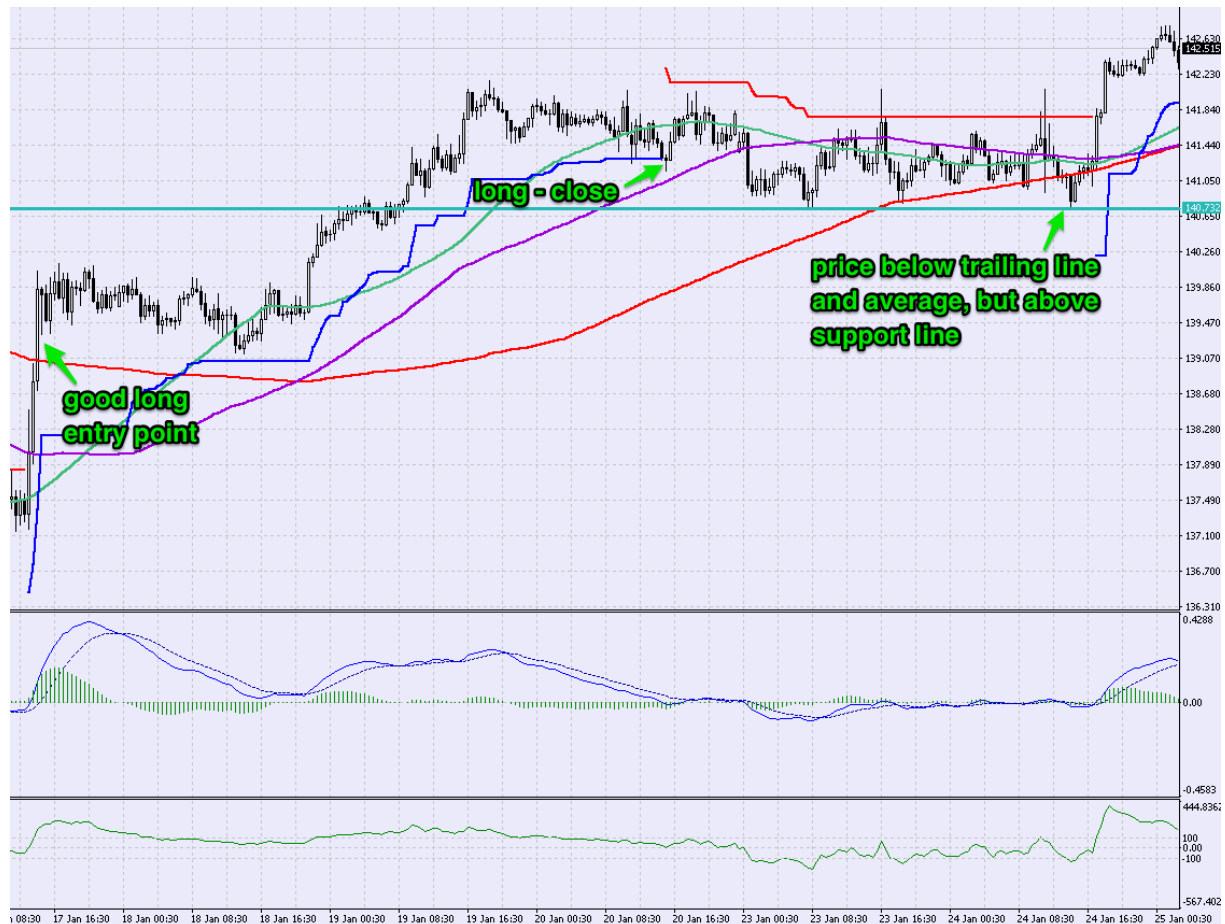
First, there was a signal to go long and strong move up. When move ended, price closed below blue line, it was signal to close. Next, price was below red line (signal to go short) but it was above moving average. It was best to wait for another confirmation. Eventually, price broke below that average, but notice that it was still above support line. It is important to draw support / resistance lines because they help us to make trading decision.

USD/JPY, 4h
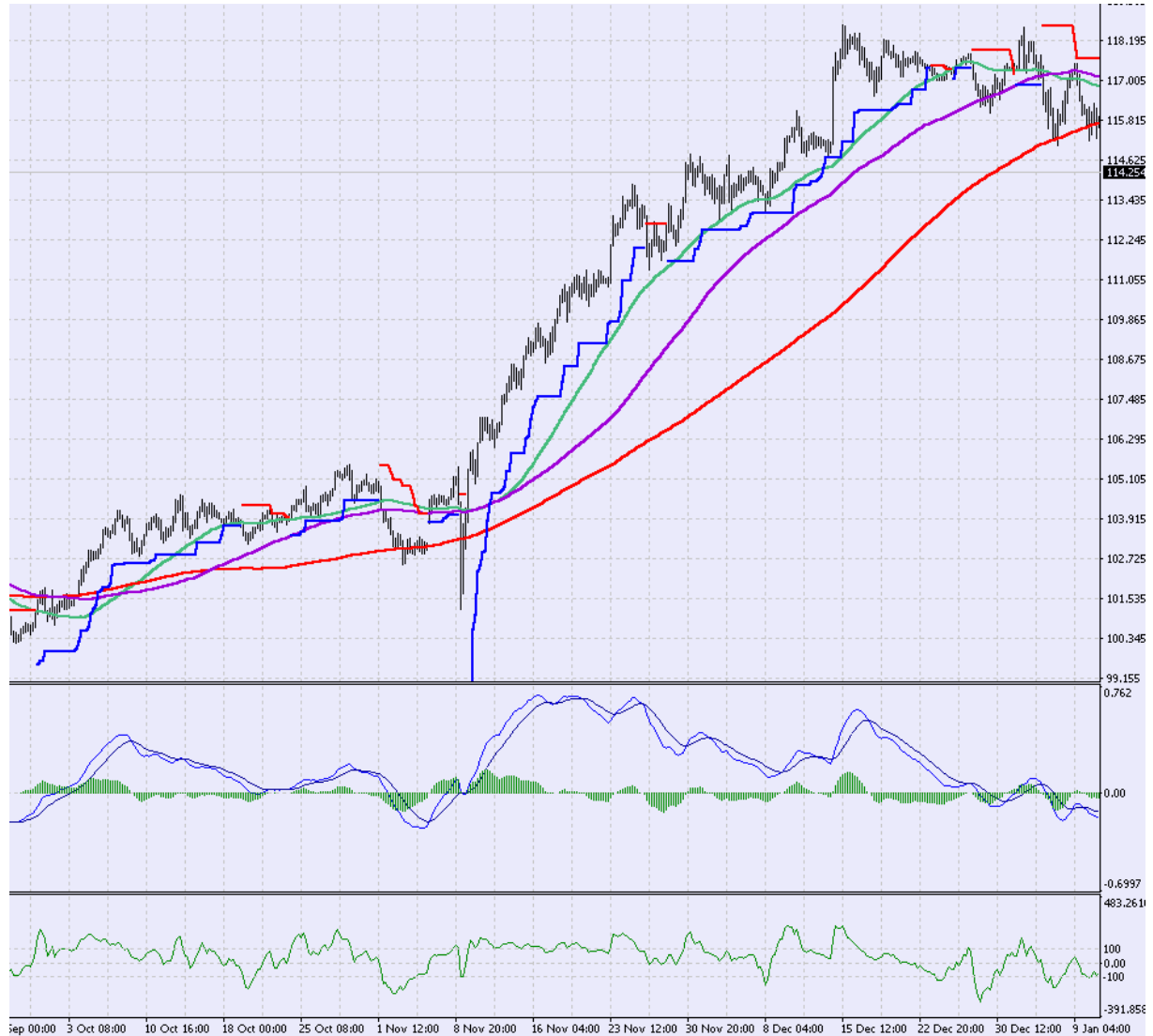
This is a good example that sometimes trailing stop loss can help you to catch really big moves. If you are a long term trader, you can easily use it in your strategy.

Moving averages in forex trading (and not only FX)

That is a common problem among investors. They are looking for best working moving averages. But do you know there are few ways you can use moving average in your trading plan?

Do moving averages crossovers works?

Take ten new traders and tell them to create trading system and I am sure that more than 70% of them will use moving average crossovers as a part of their system. It is not a surprise. Moving averages are one of the oldest technical indicators. They are in use since 20's of XX century so almost 100 years. Of course, over time people find more sophisticated ways of using them. Also, we have many more types of averages, but the concepts behind creating them are still similar.

But do they work?

From the beginning of using ma's traders were trying to find profitable crossover signals. You may be familiar with concept such as Golden Cross and Death Cross. But there is no one simple answer to the question. When there is a strong trend then signals from moving average crossovers work great:

strong down trend and good sell signals from average crossovers

When there is no clear direction – the market is moving sideways or what's worse is very choppy, then quality of buy and sell signals from moving averages is very low:
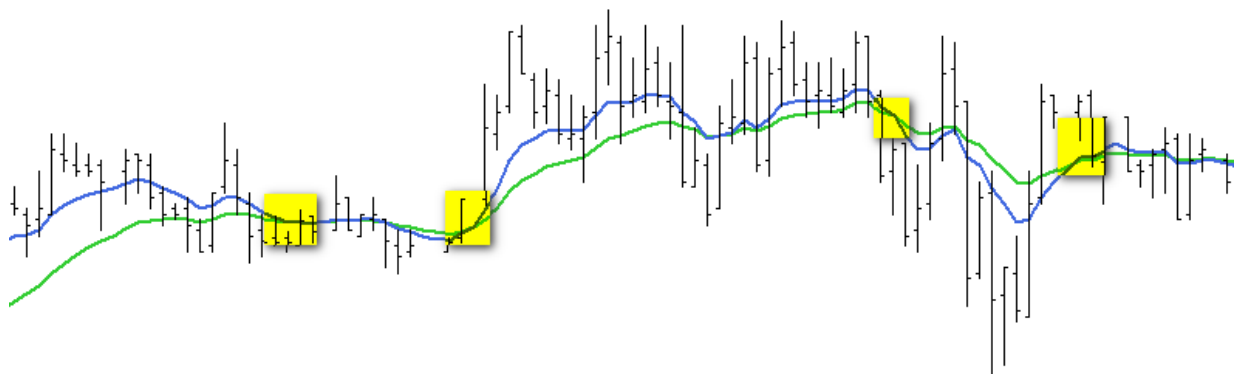
*no clear trend and many false signals from crossovers*

So it depends more from the way you are going to use averages – does your trading plan takes such a scenario into an account?

But wait, there is another way of using moving averages

I started from crossovers topic because many new traders think that this is the main way of using them. They are wrong. Below you can find few examples how you can use averages in different ways.

Moving average as a trend detector

You simply take longer time frame and observe where the price is. So, in the example below we are looking at 200 moving average. When price is above that average then that is a signal for us that the overall trend is up:
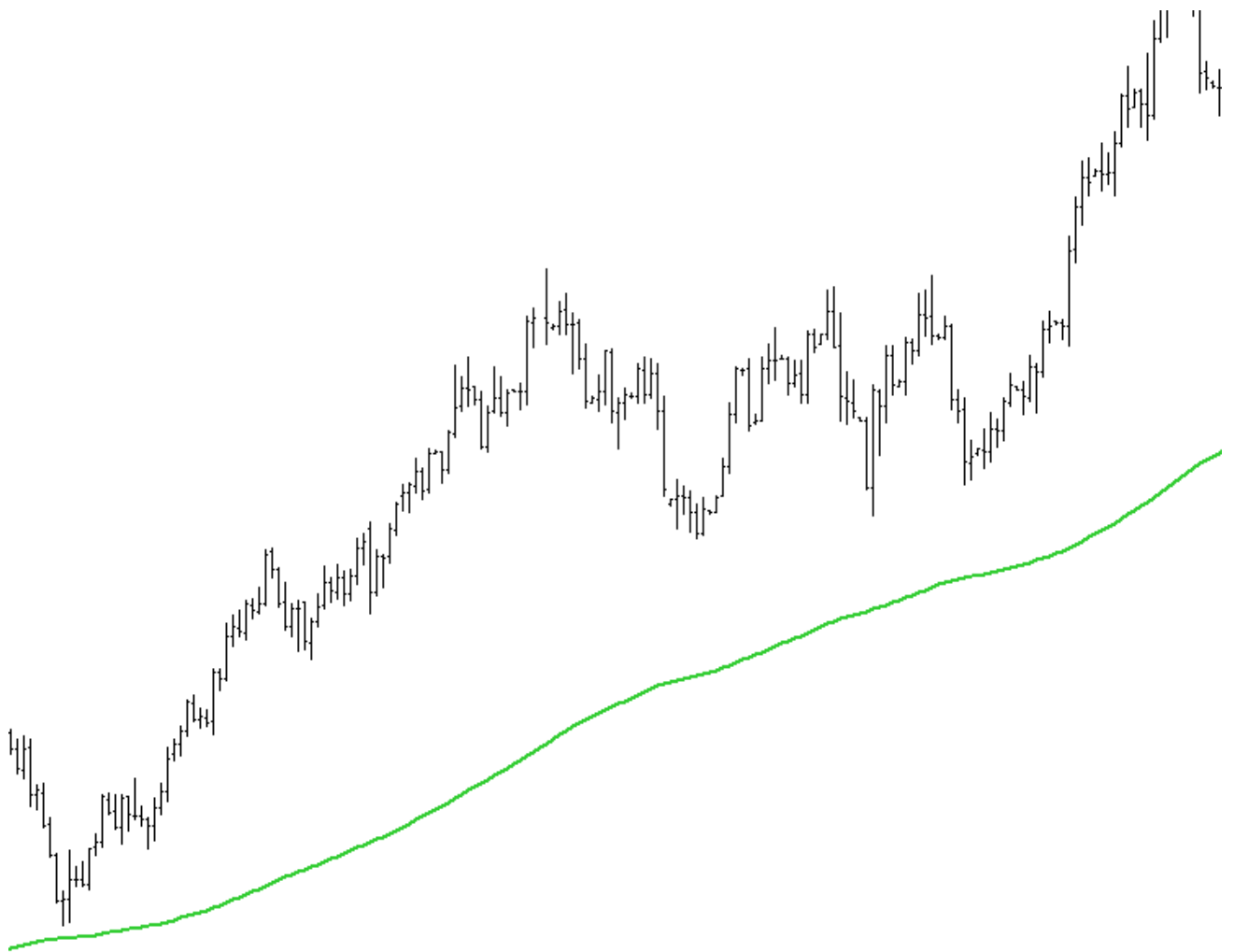
price above 200 moving average

When price is sitting back below average for most of the time, then it's sign that sellers are stronger now:


price below 200 moving average

What is the direction of average?

You should also pay attention at what direction moving average is pointing. If it's pointing up, then there are better chances that trend up will continue.

When it's pointing down then it is possible, that there is a correction taking a place or down trend will continue to expand.

Is price crossing through moving average?

This is also a valid signal. When price for most of the time was right below average and suddenly is crossing through to the other side than it is a sign that overall sentiment may be changing like in the example below:
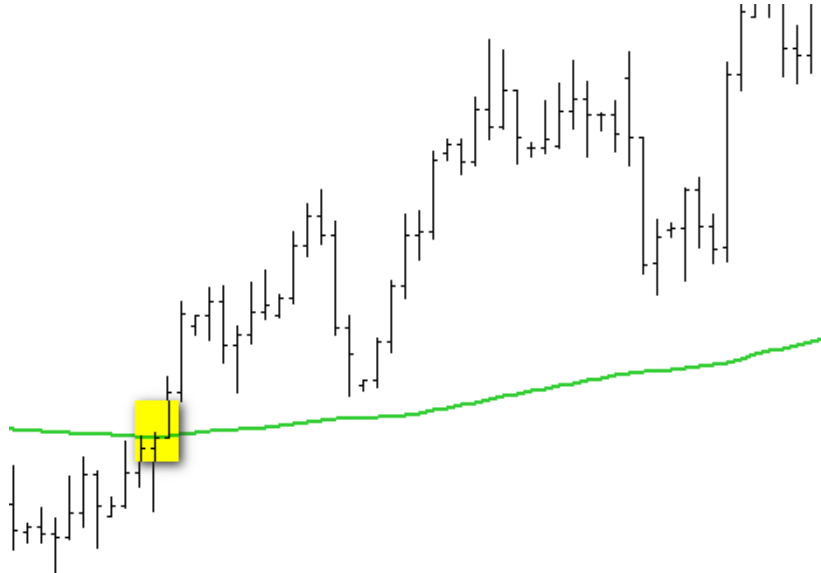
price crossing through average

Moving average as a support or resistance

That is a very important function. Some averages are commonly used by traders, for example 50, 100 or 200 averages. They are very popular and when price is moving near them then you can expect reaction. If price was most of the time above average, it is possible that there will be support. Check the example below:
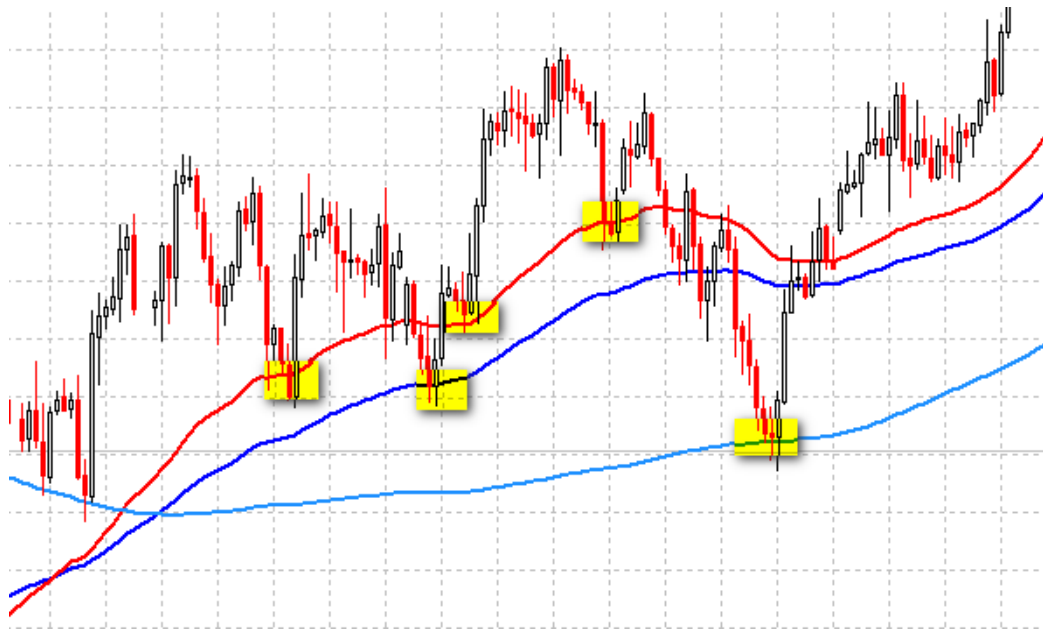
support at 50, 100 and 200 averages

On the other hand, if the price is below averages and is moving closer to them, then it is possible that averages will work as a resistance area.

As you already know, knowledge about possible support and resistance areas is very worthy. You can write this into your trading plan and close trades at better moments.

How many averages should you use?

It depends strongly from trader and trading style. For beginners, I suggest to put on chart at least one average from each group. We can divide averages in three main groups:

- Short-term group – averages from around 1 to 20. They are helpful when you want to check the current short-term trend.
- Medium term group – with averages from around 20 to 50.
- Long term group – averages from period from 50 up. With long term averages you can see better the bigger picture.

Periods may be different for some traders. The values from above are there to give you some idea about scope of each group. So, you just want to have one average from short-term group, one from medium and one from long term group. You may create set like:

- 10, 50, 200
- 5, 33, 100
- 7, 21, 200
- any other combination

I think that the good start is to use 13, 50 and 200 moving average.

13, 55, and 200 moving averages on eur/usd chart

Test it and see which one is the best for your trading plan.

Other tools based on averages

There are many trading strategies based on averages. Most popular use of averages are Rainbow Moving Averages and GMMA. Let's have a closer look.

Rainbow chart

Rainbow chart is very popular; you can find it in many trading platforms. If there is no Rainbow chart, then you can build it by yourself.

How? Rainbow is usually constructed from moving averages with period range 2 – 200. It may be something like averages 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15 … and so on. For averages from higher groups distance is wider, that is why in last group we have 125, 130, 135… Or if you need numbers for all rainbow averages, here you go:

2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15 – 1st group

17, 19, 21, 23, 25, 27, 29, 31, 33, 35, 37, 39, 41 – 2nd group

44, 47, 40, 53, 56, 59, 62, 65, 68, 71, 74 – 3rd group

78, 82, 86, 90, 94, 98, 102, 106, 110, 114, 118, 122 – 4th group

125, 130, 135, 140, 145, 150, 155, 160, 165, 170, 175, 180, 185, 190, 195, 200 – 5th group

Usually they are divided into 4 or 5 groups. You may have for example groups like:

Averages 2 to 15 – red color
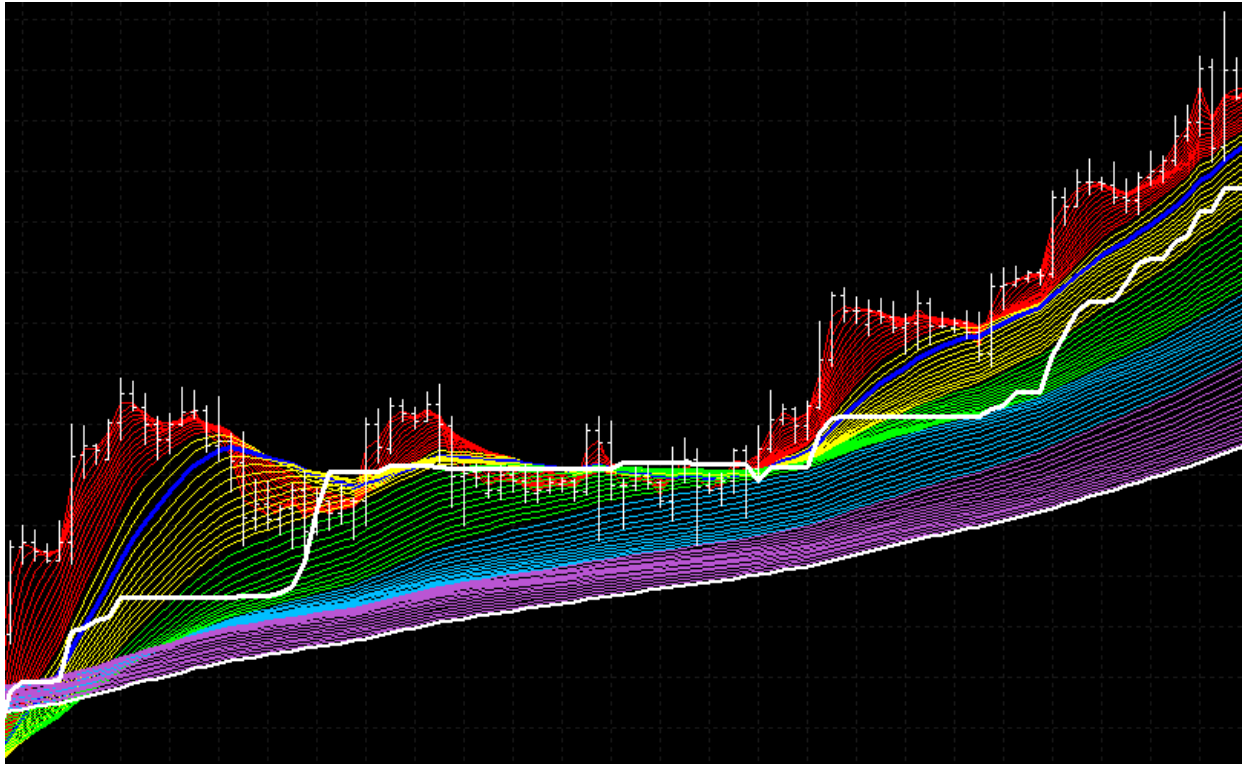Averages 17 to 41 – yellow color
Averages 44 to 74 – green color
Averages 78 to 122 – blue color
Averages 125 to 200 – violet color

Or you can use different colors, they are here only to separate visually each group.

You can use type of averages which is best for you. I use in most cases exponential averages or linear weighted averages.

The idea behind Rainbow

You can see that this is a simple tool. It helps you to check current situation. Obviously, this is a tool for traders who want to trade with trends. With Rainbow tool, they see current trend. Also, there is an information about support and resistance areas. Wide Rainbow means that support / resistance is strong, narrow that it may be weak.

Range moves

Like other tools which help with catching trends and it is great with that. As always, problem is with range moves. There is a big risk that you will overtrade when there is no clear trend in place. In situations like this you will notice that Rainbow is narrow and it is changing directions a lot. Like in the example below:
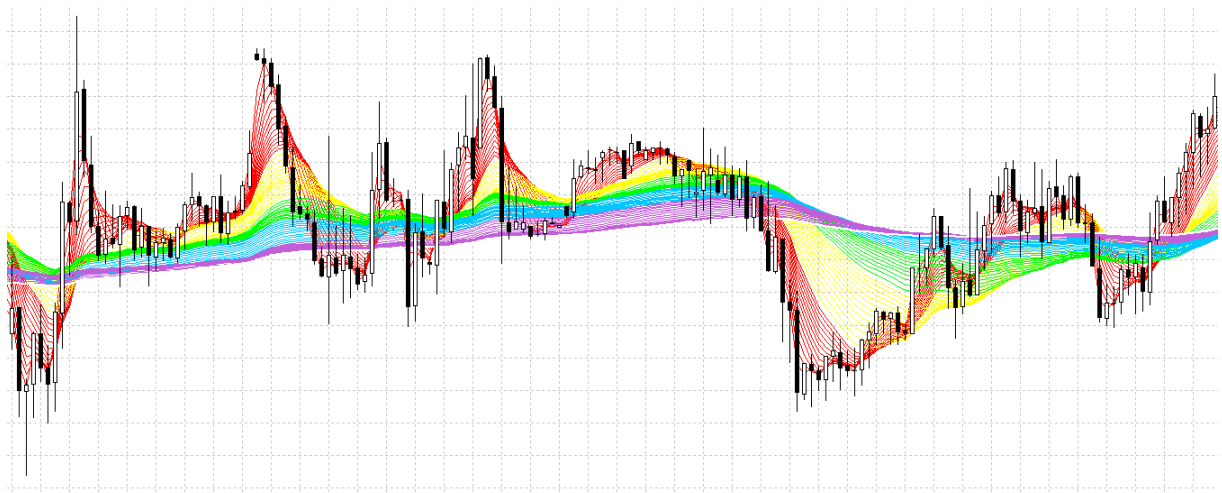
You can see right away that Rainbow is rather flat and price is moving up and down. Thing with range moves is that it is rather hard to spot them in the beginning. After a while, like in chart above you know that you are dealing with range move. Before that it is not so obvious.

It comes with practice. Check higher time frames, use trend lines so you have better understanding of current situation.

Rainbow and…

From my experience with Rainbow tool I can tell that it is best to join them with other indicators. For example you may build you r strategy around Rainbow and MACD, you can add also Pivot lines. Below you can see Rainbow with two Ichimoku Kijun Sen lines (Kijun set to 26 and 60) and Pivot points.
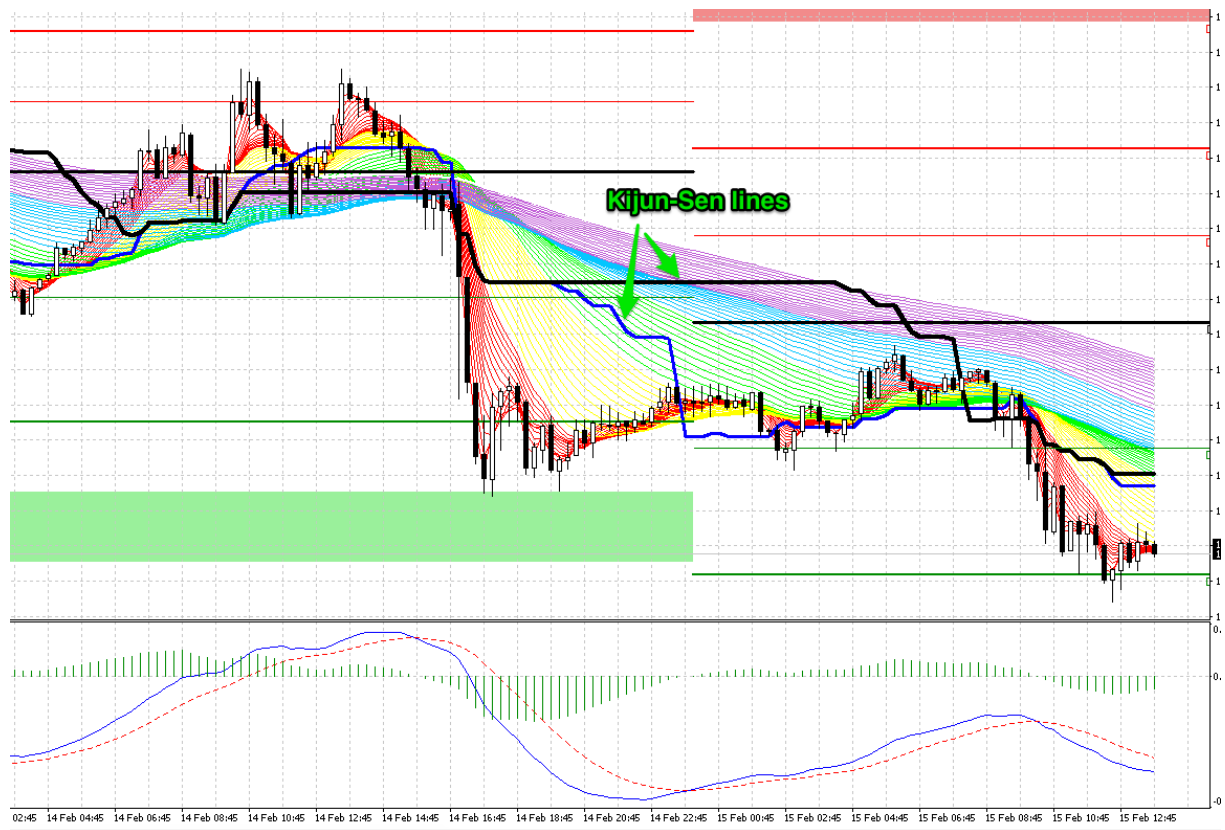
You can mix Rainbow with other trading tools you like most. Overall, in my opinion Rainbow can be very powerful when joined with other tools with good trading strategy.

Rainbow trade examples

EUR/USD, H1
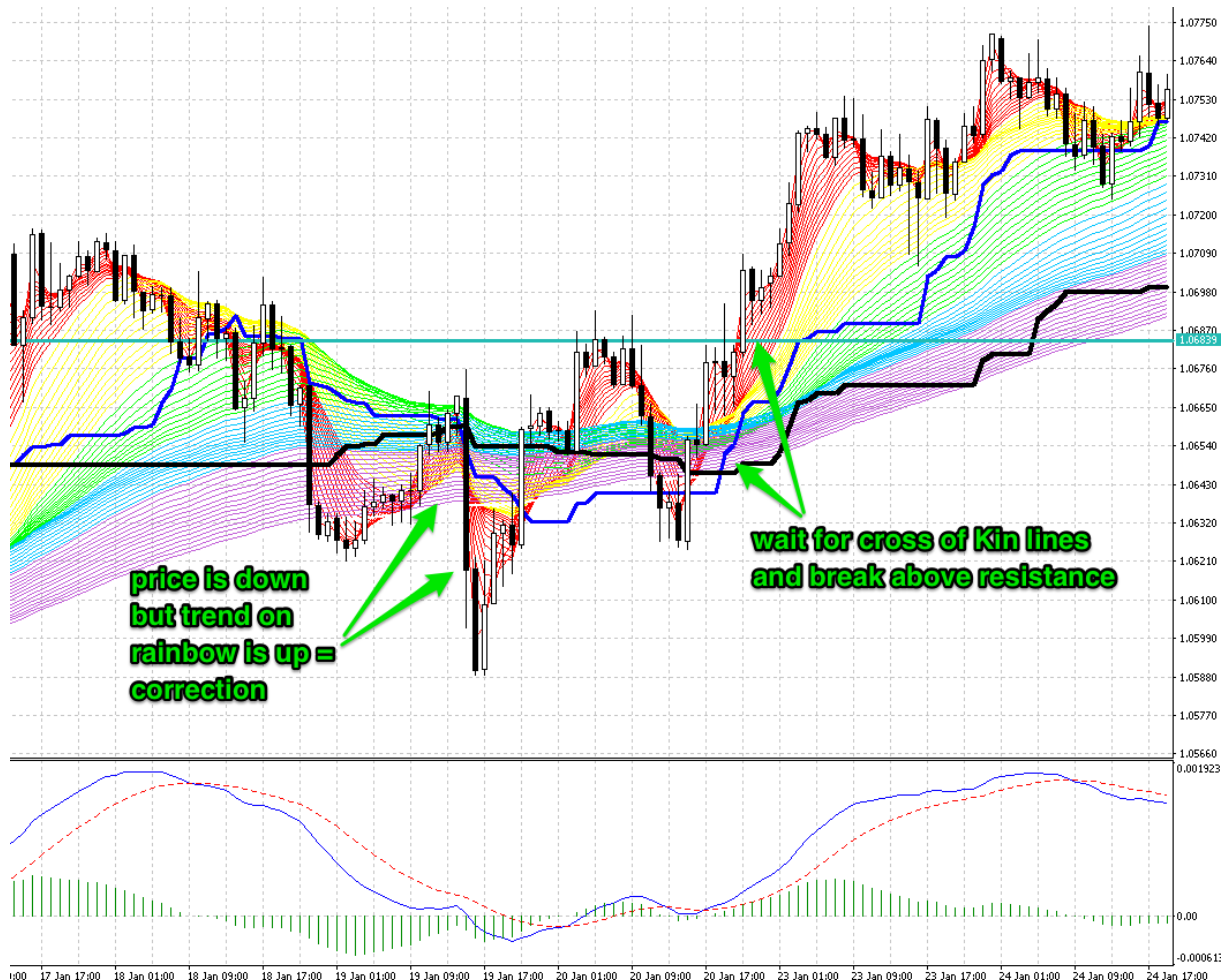
On this 1-hour EUR/USD chart we can see rainbow averages, two Kijun Sen lines (26, 60) and MACD oscillator.

After long uptrend, there was a strong move down. Was it a change in trend? We can see that longest averages gropup (violet) is still wide in this place, like other groups. This is not a good place to go short. You can close position here but it looks like trend is up. Situation like this is not rare and with help of Rainbow you can trade in right direction and you can avoid trading against main trend.

Later we can see that blue Kijun line crossed again with second Kijun and EUR/USD moved higher – this was a good point to go long again.

GBP/JPY, 30m
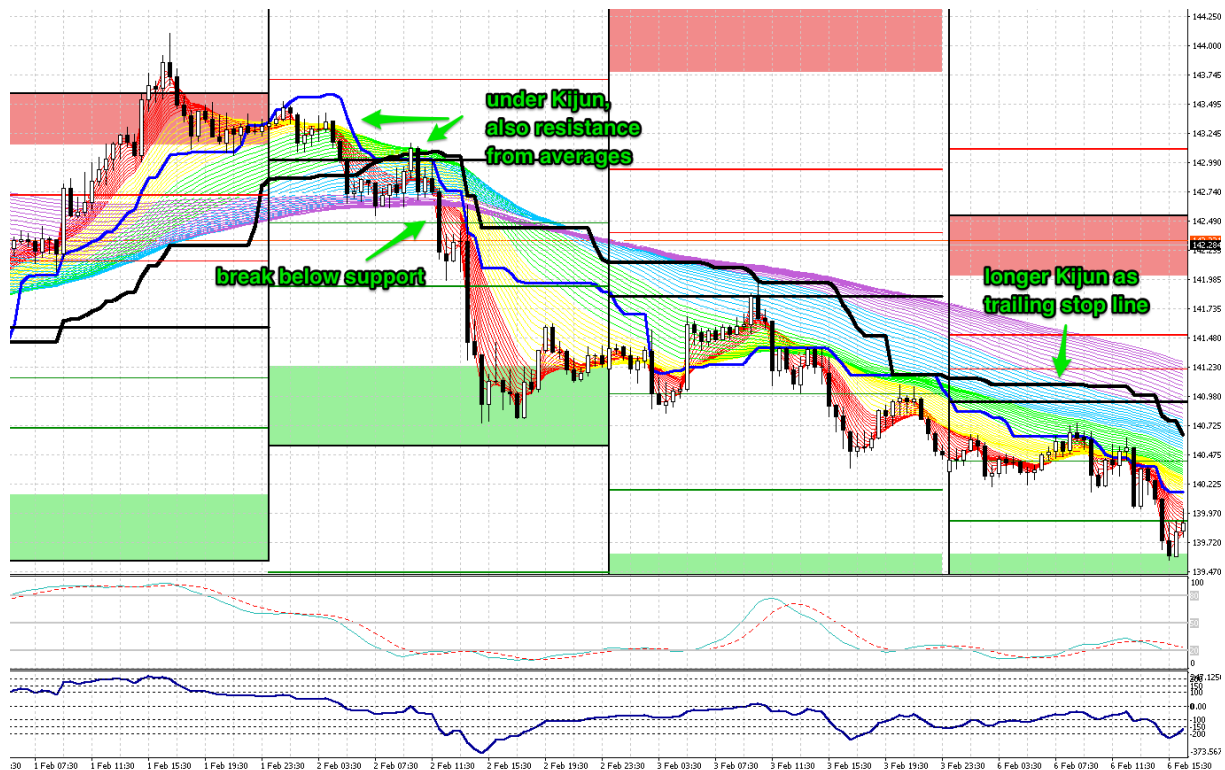
On this 30m GBP/JPY chart we have Rainbow, two Kijun lines, daily Pivots and oscillators.

You can see that break below support was a start for a strong move down. You could enter at the break (because earlier trend was also down and it was a correction up) or wait for reenter later. This is a good example that Rainbow is trend indicator (we know how strong is trend, direction) and longer Kijun line is our trailing stoploss line. Thanks to that you can maximize profits from your trades, because you will stay in trade as long as possible.

AUD/NZD, H4
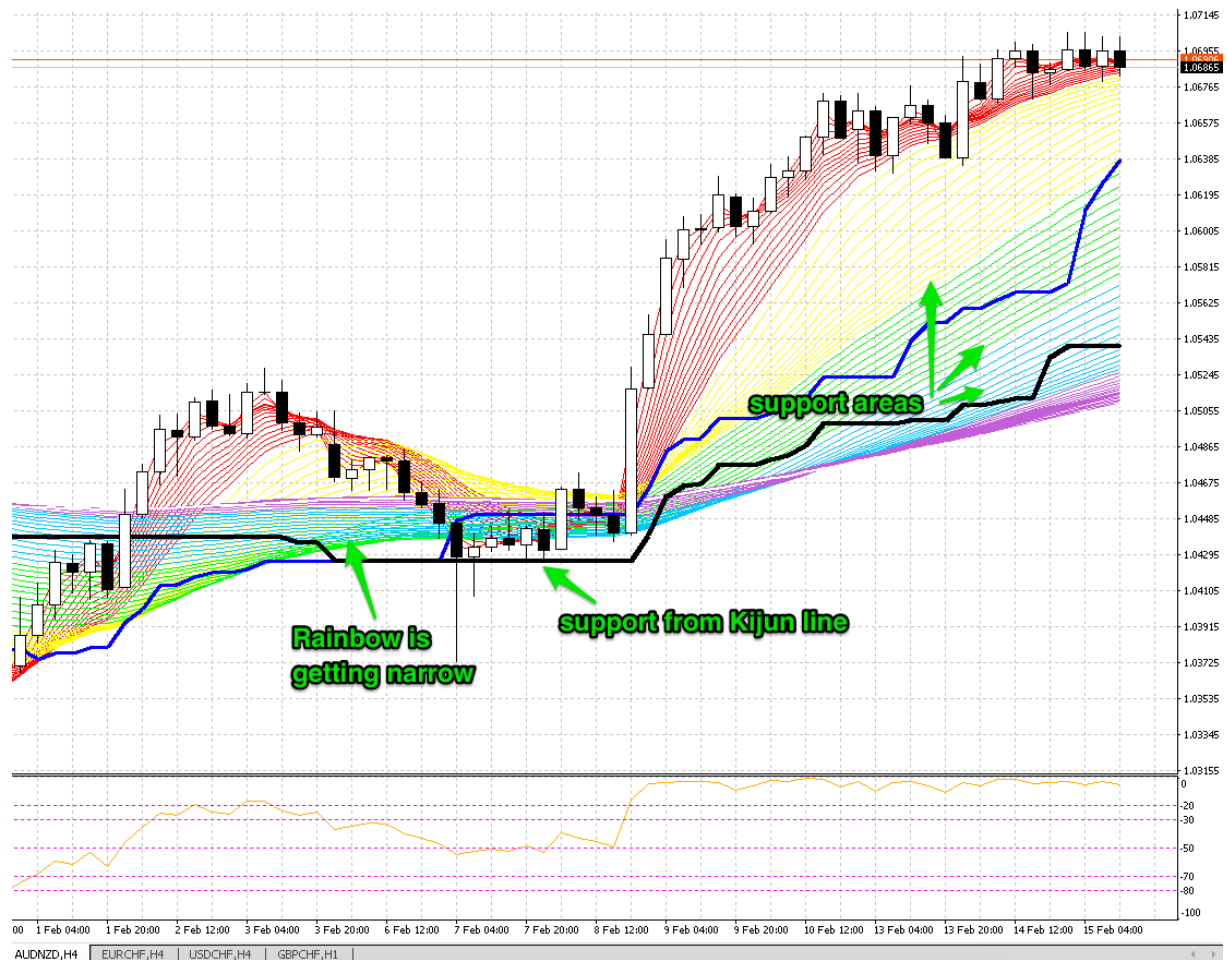
We have here 4h chart of AUD/NZD. Earlier trend was down. Then it looked only like a correction move but we can see that price failed to close below Kijun lines. Also, Rainbow lines were getting more narrow. It could be a start of a range move but it turned out to be a start of move up.

GMMA

GMMA is another tool based on moving averages. It was introduced by Australian trader Daryl Guppy. He is using it in stock market but it works great in Forex. Like Rainbow it is best to join GMMA with other tools.

Construction of GMMA

We have two groups of moving averages:

3, 5, 8, 10, 12, 15 – this group represents short term traders

30, 35, 40, 45, 50, 55, 60 – this group represents long term traders
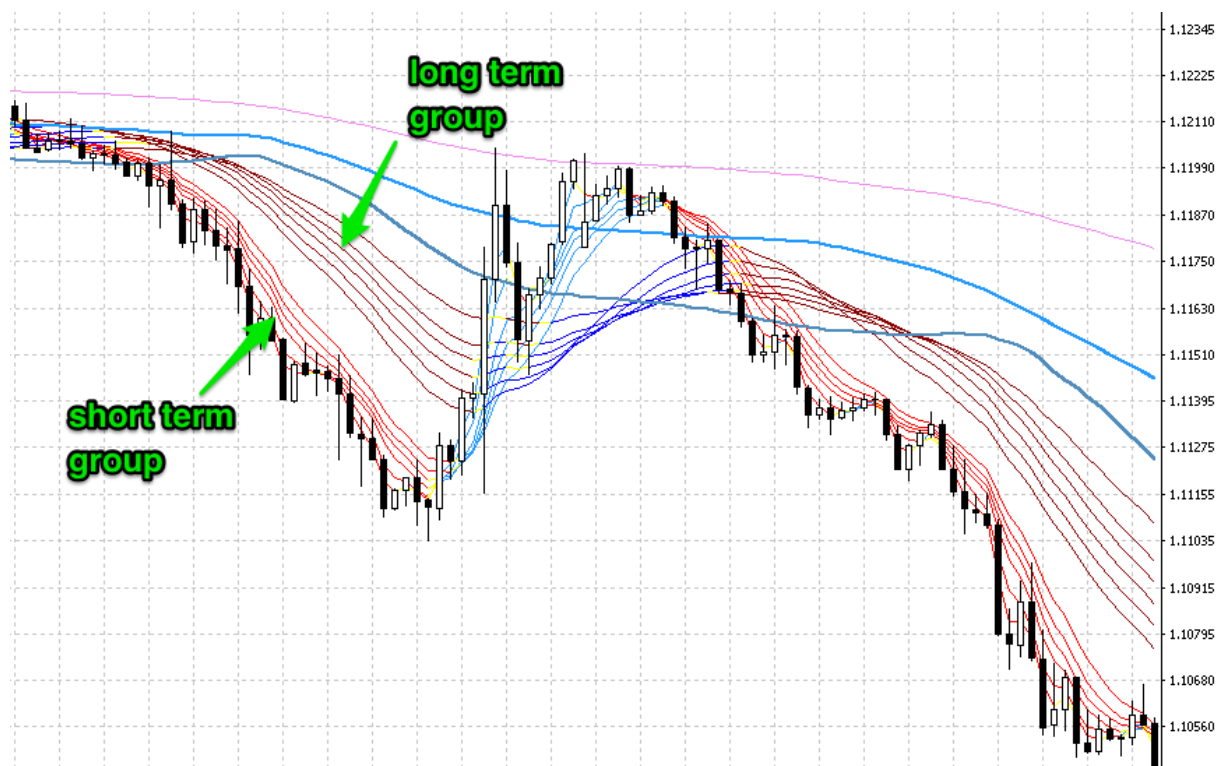
You can build in by yourself in Metatrader. I used *MA in color* indicator which you can easily install in your MT4 platform. It allows you to have 3 colors for each average; different for move up, move down and range move. In the chart above you can see that during a correction move colors changed to blue and light blue, then after a while back to brown and red.

You can use type of averages which is best for you. I use in most cases exponential averages or linear weighted averages.

Main goal of GMMA – how to use it

When price moves, we have main trend and short term moves (correction). Long term traders want to profit from the main trend. Short term traders want to profit from this short moves. Each group has different goals, but when you join this two groups together you can see what is going on right now with the market.

You can use it to decide about trade direction. When each group is, wide and separated from each other, trend is strong. If not, it is possibly good idea to wait for situation to be clear. More in trade examples.

Problems with GMMA

Like Rainbow, GMMA is great in trending markets but can be dangerous when market is moving in a range. There are signals that we might have a range market – averages will be close to each other; short term group will oscillate around long term group. Like in the example:

It is a good to check other time frames, draw support and resistance lines, use longer averages (200 period long) so you can avoid trading in such market conditions.

Trade examples

GBP/USD, 15m

We have here 15m chart of GBP/USD. It is a simple example how you can join GMMA and trend lines and breakout strategy. Of course, here we have only one line, but there are more complex patterns. Logic is the same – you draw trend lines and wait for a breakout. Thanks to the GMMA lines, you place a trade according to the direction of main trend.

DAX, 30m

On this 30m DAX chart we joined GMMA with Fibonnaci Retracement and Extension lines. GMMA lines work very well with Fibonacci. They help you to see the direction of move. Also, it is easier to spot a correction.

In this example price after swing move there was a correction down to the 50% retracement line. After that we saw a continuation move up to the 161.8% extension line. Easy and clear setup which you could execute with help of trend lines or your favorite oscillator.

USD/JPY, H4
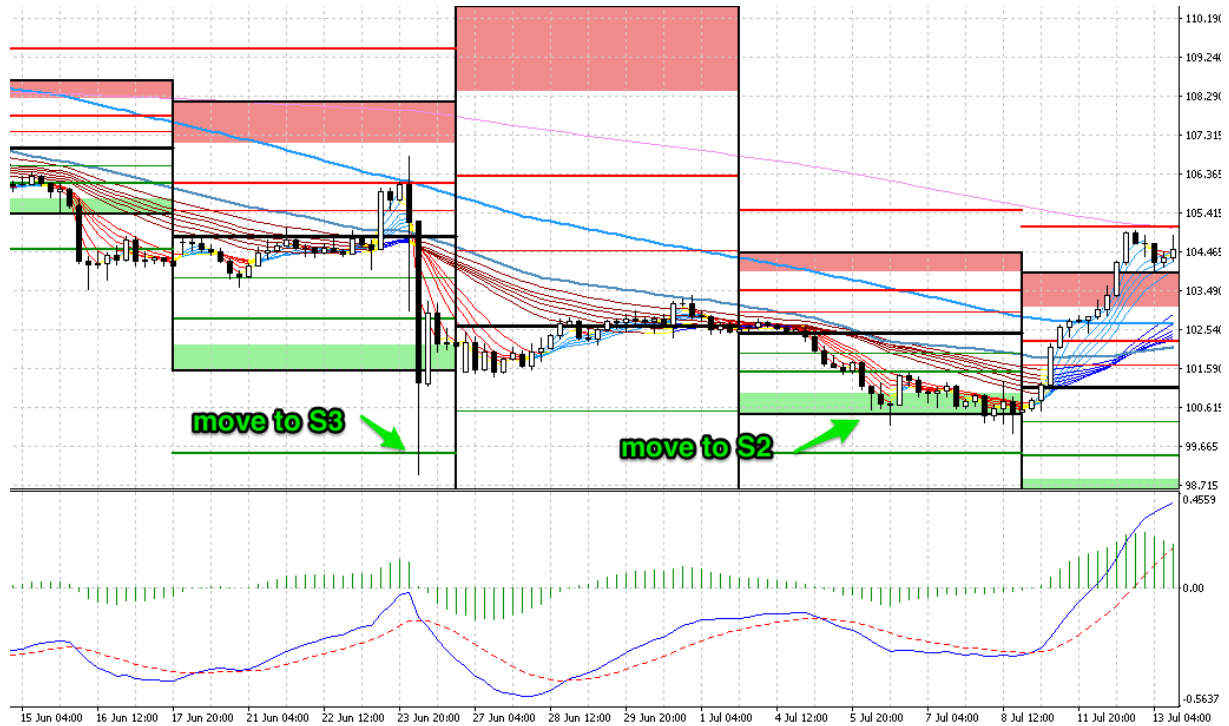
On chart 4-hour USD/JPY with GMMA, MACD and weekly Pivot Points. This is example how you can mix GMMA with different tools. With help of Pivot Points, we can take profit when price is getting closer to one of S lines. Here it went down to S3 and later to S2 line. Gmma helps you to trade in direction of trend, Pivot Points to take profits at best places.

PART 3. MONEY AND POSITION MANAGEMENT

How to set stop loss in forex trading

This is the most common problem among traders. How to set stop loss to protect position but not to be stopped out too soon? The good news is that setting stop losses with Fibonacci trading tools is easier. In this article you can read about basics of setting stop losses and some more advanced tips.

Should you use stop loss orders?

Lately I've read few opinions that using stop losses is bad. I am not going to fight with everybody here. If some pro trader thinks that stop losses are not necessary then it is his choice. If he makes money, that is good. But if you are a new investor, struggling to close a year with a profit, than using stop losses is necessary.

Let's say it clear and loud: stop losses are not perfect. It is not something that will make you rich or profitable trader. It is also not something 100% accurate. You set your stop losses and your stop losses are as good as good trader you are.

Why stop losses are good?

Stop losses are good because they protect you from your grid and impulsive decisions. How many times have you waited too long to close the losing trade? You were hoping that this is only a correction and in a minute buyers will come back.

Emotions are your worst advisor. You cannot turn them off totally, but you can work on minimalizing their impact on your trading. Stop loss order is one of the tools which may help you to achieve that.

The idea of stop loss

The idea of good stop loss placing is to help you keep your losses small and avoid emotions taking control over your decisions. This way you can have three losing trades in a row, but your loss together from these three trades won't be such a big. The next trade may be much more profitable.

Let's look at example.

John wants to buy 200 shares of YYY Company at 12$. He is willing to risk 1.2$ on each share. He has a good feeling about this company and his trading plan gives him a green light. He bought it and two days later he was stopped out. **His lost was 1.2$x200 shares = 240$***.*

Next day he decides to enter other trade. There was a breakout on VVV chart. He buys 80 shares at 20$ and set his stop loss 1.5$ lower. In the beginning it looks good, but suddenly there is a rumor about YYY problems and shares start to fall. He was stopped out. **His loss is 1.5$x80 shares = 120$***.*

*He is not happy about that, but he is looking at other opportunities. He has few possible candidates, but he decided to wait for another confirmation from his trading plan. Few days later there is a confirmation signal on HHH Company's chart. He buys 50 shares for 42$ and sets his stop at 38.5$. There is not too much action next days,   but   eventually   stock   starts   to   move   up.
In next few weeks HHH goes up to 52$ and John decide to close the trade, because there is a strong resistance near that level. He closes position at 52$ and* **his profit is 50 shares x (52-42) = 500$***.*

On previous two trades he has lost 360$, so **his profit is 500$-360$=140$***. Ok, he is not reach, but it is not so bad. But what if his losses from previous trades were bigger? Then he still would be trying to earn back his money.*

Example is simple, but I hope that you get the main idea. That is a life of investors. You will be stopped out. Your goal is to look for profitable trades and thanks to them earn money for profit and to cover your losses.

Risk/ratio reward

There is a very popular goal to keep your risk/reward ratio at 1:2 or even 1:3 proportions. That means that trader is willing to risk for example 2$ per share and expect to earn 4$ per share (1:2) or 6$ (1:3).

If the risk/reward ratio is around 1:1, they do not enter a trade because it is not worth that risk.

Risk/reward description is a good topic for another article. For now let's stay with the risk part. Experienced traders, who are looking for good opportunities, know where to put stop. They do not enter a trade and then wonder: "Hmm, maybe here will be a good place for stop loss". They basically know that when they think about entering a trade, because they are looking for good risk/reward ratio. Keep that in mind.

When to set stop losses?

The best practice is to set stop loss **in the same time you are placing your order**. You should know in advance where you want to set your stop loss. When you are placing your order, you set stop loss right way. Why? Because later you are probably going to hesitate to place SL. You might also place it in a wrong place, because of emotions.

Where should you set stop loss?

It is hard to answer in few words, but there are some good rules you can follow. Before we review them, let's learn more about two most common mistakes.

Mistake 1: Placing stop too tight.

When stop loss is set too tight then there is a strong chance that you will be stopped at first bigger move or stop hunt. Markets are very volatile today and it is easy to be stopped out when your stop is too close. I've noticed that this happens to traders who do not want to lose too much money. Because stop loss is very near the entry point, when it gets triggered, loss on account

is small. The main problem is that tight stop losses get triggered very often. Soon you have dozens of small losses which altogether are one huge loss on your account.

Mistake 2: Placing stop too wide.

Nobody likes to be stopped out from a trade. Some traders place their stop losses very wide to avoid that. They do not want to be caught during stop hunting or correction. Wide stop losses are triggered rarely, but when it happens – loss is very big. On some occasion that works, but on many times they are eventually stopped out and loss from that is very big.

So what is the answer here? You have to find something in the middle! Ok, I know that this is not the answer ;).

Start from looking closely at **price action**. If you have read my others articles, you saw the next chart, but this is an answer for your problem. I assume that you are trying to invest in a trending market. When there is no trend, you do not trade. What we know is that in an uptrend we have a sequence of higher highs and higher lows, just like on the chart. If the trend is strong and healthy, you can easily see that sequence just looking at the price. When there is something wrong with trend, price has problem to make next high – sign that correction is possible.

Setting stop loss below last low

With all that information you can place your stop below last significant low, when you are in a long position. When trend is healthy, you should make your money. When trend is very weak, you will be stopped out. It is a good thing because probably the price will go even lower than your stop loss.

It also works in a downtrend. You are simply looking to place your stop loss above last high.

Placing a stop loss in a down trend

Look at the logic here. If price in a downtrend will manage to break above recent high, then there is a strong chance that buyers are trying to take over the control. You do not want to be short in that situation. You want to close your position and look for other opportunities.

Raising stop loss

I am a huge fan of that method, yet many people do not use it. It is very simple, so in your next trades try to use it.

How does it work? You place your stop loss when you are opening a trade. On some occasions you will be stopped out pretty fast. Other times trade will go as you wanted to. That is good, but what do you do when your trade is profitable? It still can turn around and trigger your stop loss and from profitable trade you will end with a loss. That was my mistake actually for many years. I had so many profitable trades for a while, but I was closing it with loss.

Now when my trade is profitable, I am simply **raising my stop loss to the entry point**. This way even if price is going to turn against my position, I do not lose a single dollar. When to raise stop to entry point? Not as soon as your trade is profitable. Just wait some time and see how things are. You have to work out your own system. I usually wait until price is at least twice as far from entry point as my stop loss is. So in a trade where entry position was at 20 and stop loss set at 18 (2$ lower from entry price), I raise stop loss to 20 as soon as price will go up to 24$ (twice as stop loss so 2×2$=4$). Sometimes I raise it earlier – it really depends from situation.

When the price is still going up, I am raising my stop even further. Why? To protect my profit. If price will fail to reach my target, I still book some profit from that trade. It is called **trailing stop**, because your stop loss is practically following the price all the time. When price goes up, so is your stop loss. Of course if price in an uptrend is down, you are not lowering your stop. There are many methods of using trailing stop loss. You can watch this movie below to see how some traders are using this technique.

1% rule

Some traders are using 2% rule, but this is not the most important thing about that rule. 1% rule means that **you can risk only 1% of your trading capital** on any single trade.

For example, when your trading account is 20000$, than you can risk 20000$*1%=200$ on any single trade.

Yes, you can risk only 200$ per trade. Many traders do not have big enough accounts, so they are simply just ignoring this rule. The truth is, this is a great rule, which helps you to survive. Even if you will have 20 losing trades in a row, you still have more than half of money on your account. Without that rule, you would be probably looking for money for your next account.

It is very wide topic; I am going to write about this in separate article. It is your decision to use this rule or not. I am using this rule and I can say that on many times it saved my account.

Join this rule with good stop loss placing and you will be so much better trader.

Stop losses with Fibonacci trading

When you are [trading with Fibonacci numbers](#), it is easy to use stop losses.

When I am looking to enter a long position, I wait for a correction to the [retracement line](#). When I enter after some confirmation signal, my stop loss would usually go below 61.8% or 78% line:

Setting stop loss below 78% retracement line

When price will close below those lines, then I do not want to be in that trade because price should go up from these levels, not below them.

When I go long on breakout, then my stop loss goes below the nearest retracement line:

Setting stop loss with Fibonacci retracement (after breakout)

Why? Because I assume that trend is strong enough that last high was broken, so price should go up. When it does not, then probably there is something wrong with the trend or this is a false breakout. I take a small loss and wait for another setup.

Conclusion

Stop loss placing is an important topic. Many traders have different ways of doing that. You should work on your trading plan and practice different ways of placing stop losses. It comes with time, but it is worth it to practice. Stop loss can be a great tool in your trading and I hope that I've managed to show you that in my article.
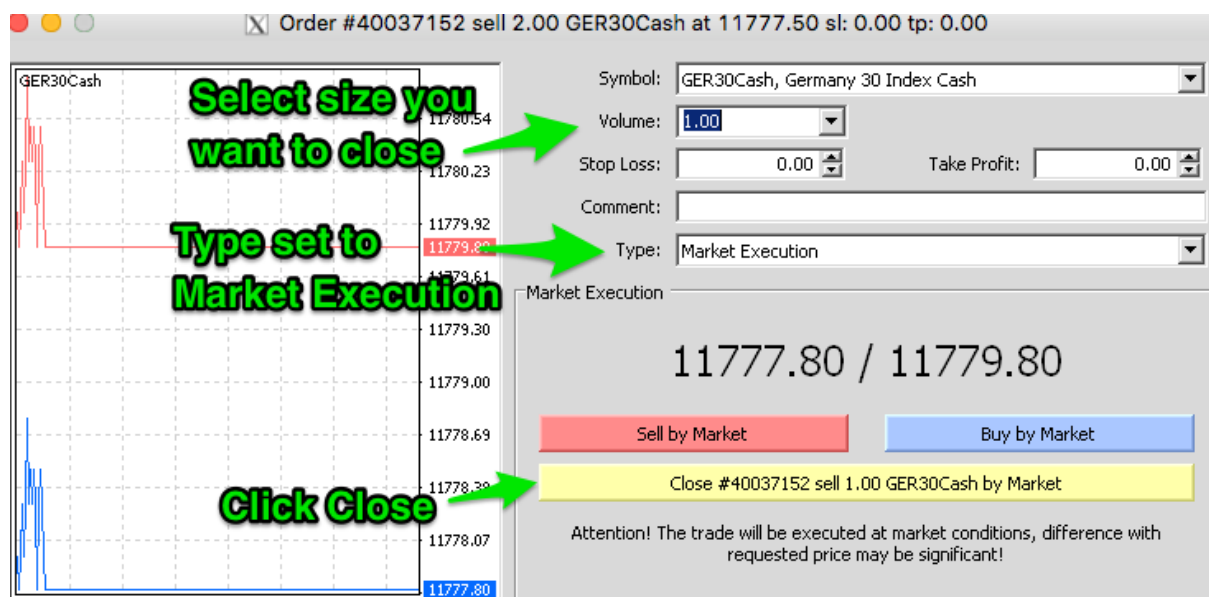
Trade partial close in Metatrader

Not everyone knows that you can close part of a trade and let the other part keep on running. I use this approach in Metatrader. If you use other trading software, you should check manual.

So how to close part of the trade? It is simple. First, from open trades select trade you want to modify. Right click on it and click *Modify or Delete Order*:
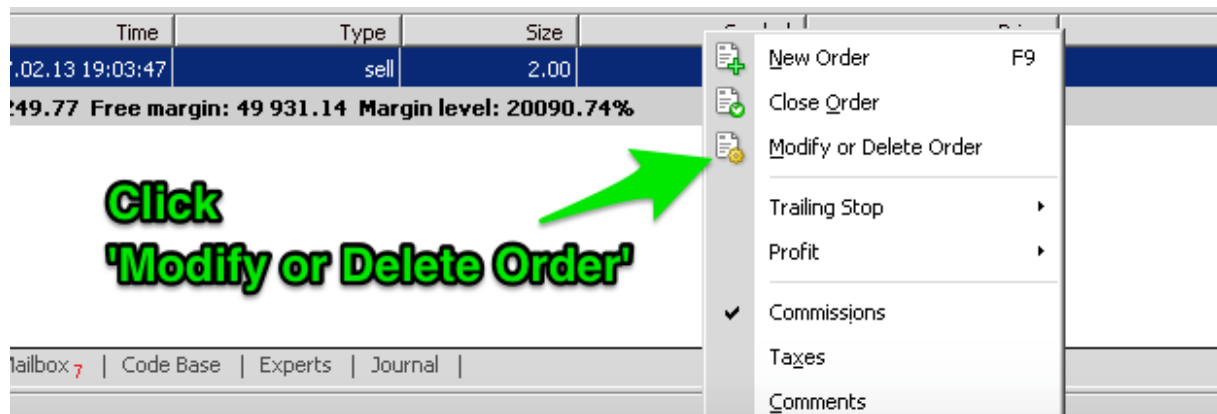
Next you will see popup with options. Make sure that *Type* is set to *Market Execution*. In *Volume* line select size of position you want to close. You can see in the example that I have 2.0 lots open on Germany 30 Index Cash and I want to close half of it so I set volume to 1.0. Next, click yellow *Close* button at the bottom.

This way you can close part of your trade and left the other part open.

Why you should use partial close?

Every experienced trader will tell you that profit on your open position is only virtual. Only when you close a trade and book profit then you can say that you made X dollars on that trade. There are many situations when market can turn around in split of seconds. If you trade longer than few months, then you probably saw flash crashes or some other strong moves. If market goes against you from nice temporary profit you can have a loss.

With partial close you can have better control with money management and position sizing. Next, I show you some examples when you can use partial close.

Partial close and stop loss

When you close part of your trade then you have some part left open. So, you book some profit, but what about this open part? Where is your stop loss? It is always a good idea to move your stop loss to the entry point. That way if something goes wrong with that open part then you won't lose money.

When you can use partial close?

Of course, in most cases it will be when you are profitable. You are not sure if this is an end of a move but you want to book some profit.

There are many situations when you can close part of your trade. Some examples below.

Long term trading

In long term trading you keep your trade open so long as you can.

You may see signals that trend is getting weaker. Maybe price has problems with some resistance area and there is a range move. Or price is approaching very important level. When you have nice profit on your current trade it is a good idea to close part of it. You can always reenter trade on correction move.

Resistance areas and trend reversals

There are levels which are very important for traders. It may be some pivot line or resistance line based on price history. Let's say that traders are long. When trade is in profit, they set take profit (TP) order on R2 line.

We also have trading robots. Programmers know that around R2 line we can expect some sell-off because of TP orders. They program robots to go short from that level for short time of period.

This way we can see some rapid price actions near important levels.

If we are in profit and see that price is getting closer to such area, we can close part of trade here.

Few targets

What if trend is strong and price can go to R3 line? When we use Pivots we have few support and resistance lines. Same thing with Fibonacci – there are few extension lines where traders can close their trades. In these cases, we can use partial close.

Let's check the example chart below and discuss this situation.

On chart, you can see Fibonacci retracement and extension lines. We open short position, 2 lots on EUR/USD. Everything goes well, there is a strong move down. We know from our experience that 161.8% is often target for TP orders. Still, move is strong and we have another good target at 200% extension line. The best way to handle this situation is to close part of trade at 161.8% extension. Next, we move stop loss to the entry point – that way even if price suddenly go back we won't lose any money. Last thing to do is to set take profit target for 200% extension line.

Of course, you can trade with other system. I use Fibonacci in example but you can have few targets based on trend lines or Pivot lines or some other trading technique. The most important thing here to remember is that you can manage your trade. With partial close you can protect your profit. When you change your stop loss to the entry point, you make sure that you won't lose money. And part of the trade which is left open – sometimes it will work out, sometimes not.

When to take profit

Taking profits is very important :) This is a moment when you book your profits. Closing a trade will be different for every strategy. In this part I will share some important thoughts based on my experience.

Signals from Ma's / Oscillators are not so great

I can still see people trading with signals from moving averages or oscillators. That's not that bad thing. I use them too, mainly to decide to enter a trade. But they lag and that is a bad thing when you want to close trade at best possible place. As mentioned before, we can see strong moves around important levels – traders know very well where are these areas for current day or week. On top of that we have algo trading. When you are waiting for a close signal from oscillator, pros are already out of trade.

On the example below you can see 5m chart of EUR/USD. Move up was strong but it ended at R1 line (red). If you look closely you can spot long shadows on candles near R1 line. Price tried to move higher but this was a strong resistance area. We can assume that traders used this level to close trades and book profits. If you wanted to close long trade based on MACD (or other oscillator, MACD is only as an example here) then you would be so late with your decisions. Same situation is with moving averages, look how late average cross was.
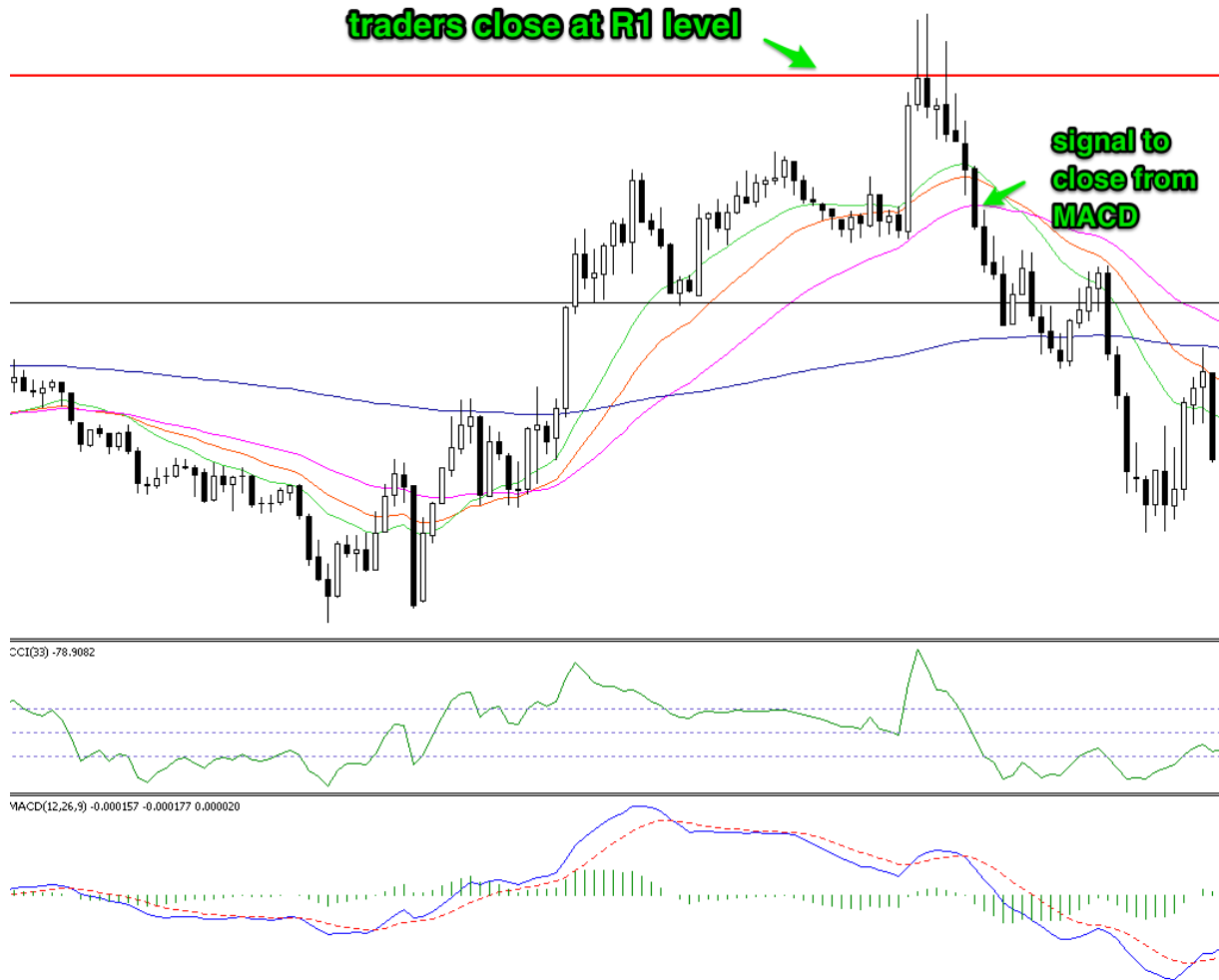
Pivot points are very important

I wrote more about Pivot points earlier in this guide. You can build the whole trading strategy around Pivot points. You can also use other strategy but still use them to decide when to close a trade.

The great thing about Pivot points is that we have many types of PP based on time frame. So we have:

Lower than daily – for example hourly, 4h and so on.

Daily – Pivot line, support and resistance lines are based on previous day high, low, close

Weekly - Pivot line, support and resistance lines are based on previous week high, low, close

Monthly pivots - Pivot line, support and resistance lines are based on previous month high, low, close

Yearly - Pivot line, support and resistance lines are based on previous year high, low, close

Thanks to that everyone can select the best Pivots for their strategy. You trade long term? Then weekly or monthly pivots will be a good addition to your trading. Daytrader? Then you have daily Pivots and lower.

How to use Pivot points to close a trade

The middle line is pivot. Above pivot we have resistance lines, below are support lines. In most cases, we want to have on chart lines from 1 to 3 so S1, S2, S3, R1, R2, R3. You can calculate more levels like R4, R5, S4, S5 but it is very rare to use them.

The most important lines are 2s – R2, S2. Of course, price can stop at any level, but many traders will confirm that on many times R2 and S2 lines are targets for traders. That is why when price is near S2 or R2 it is a good idea to close a trade or to close part of trade.

Sometimes trend will be strong and price can move through second line to the third line (S3 or R3. I can tell from my experience – in that situation set take profit target at third line. When it is hit, close trade and end trading :).

I had times when it looked like Armageddon – trend down was so strong. I saw that there was S3 was in place but I ignored it and kept position open, hoping for move down. In most cases S3 worked, price went back above that level. Similar story with R3 line.

It is very rare for price to move behind third line – of course there may be some political or economic news. In that case price ignore important levels because we have mass orders. But these are exceptions. Trust me when I say from my experience that S3 / R3 line is your last target when you should have profit which is good enough.

Let's check some examples:

On chart below we have 1-hour GBP/JPY with weekly Pivot Points. You can see that uptrend was strong, but two weeks in a row move ended at R3 line. Even in strong trend R3 / S3 line are respected, traders want to cash profit and in situations like this they do it at third line. There is no hoping for more or some wishful thinking.
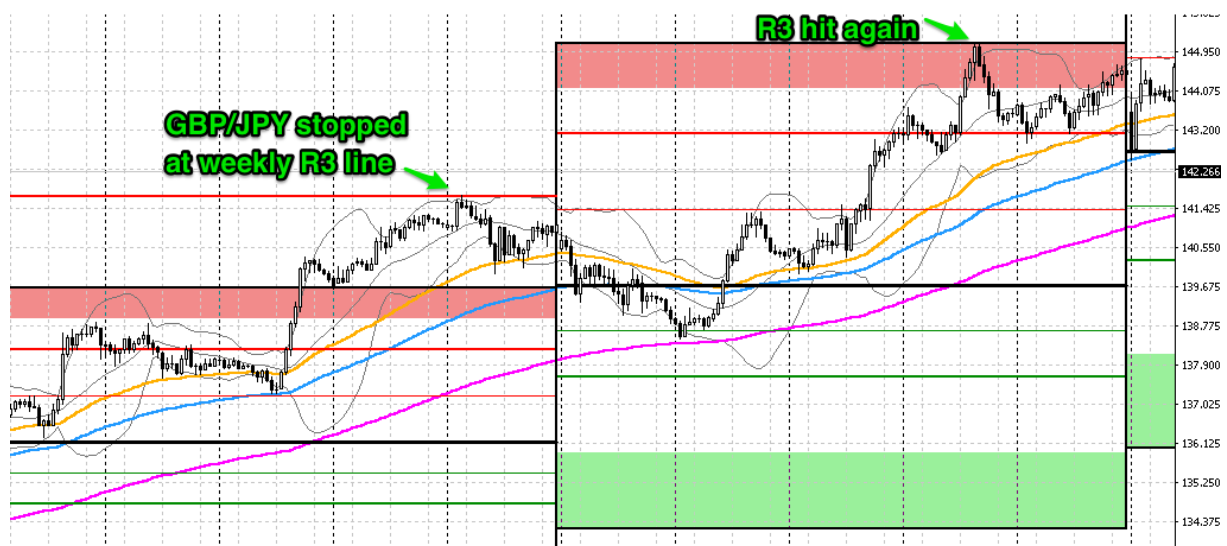
Next we have 5m DAX. Move down was rapid but it stopped right at S2 line. If you had Pivot lines on your chart you would know that you should look for exit from short around that area.

DAX - move ends at S2
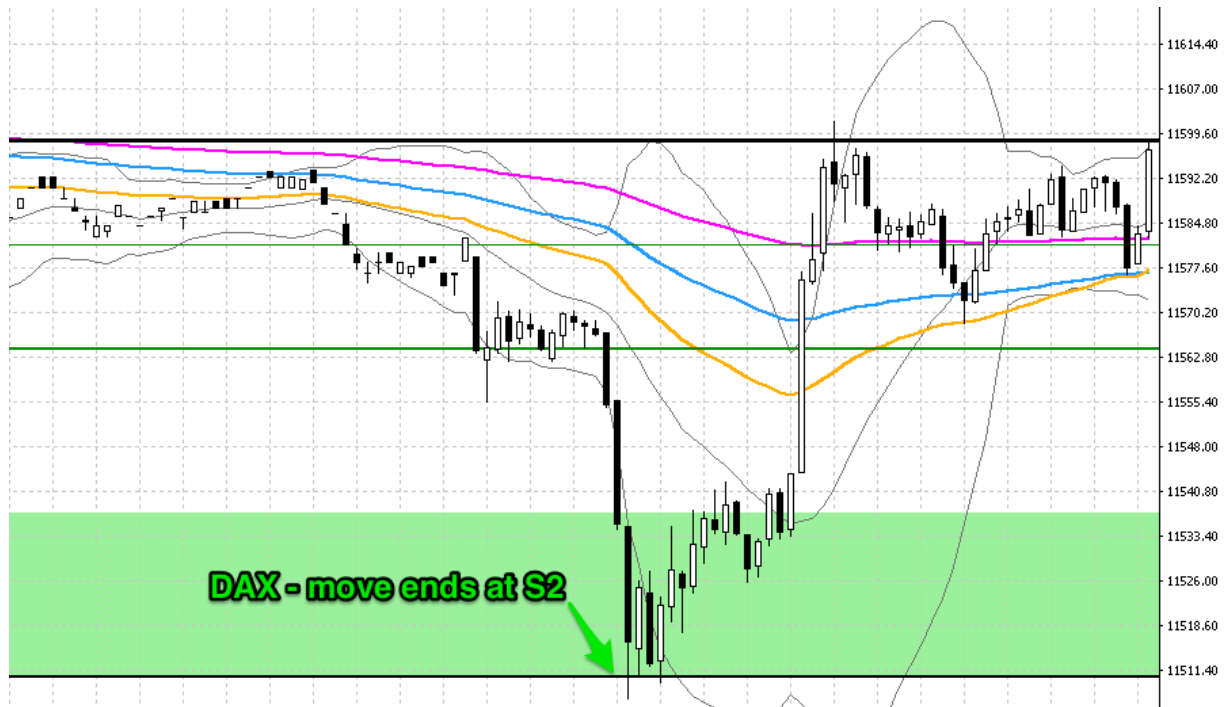
Fibonacci works great too

Fibonacci extension lines are great when it comes to set profit target.

There is one disadvantage with this method. You should know how to draw Fibonacci lines on chart. With Pivots there is a different story – lines are calculated based on formula so there is no guessing. On the other hand trading with Fibonacci is not that hard so it is good to learn how to use them.

With Fibonacci we have:

AB move – this is a move which is used to calculate extensions

Extension points above / below B point – possible exit levels
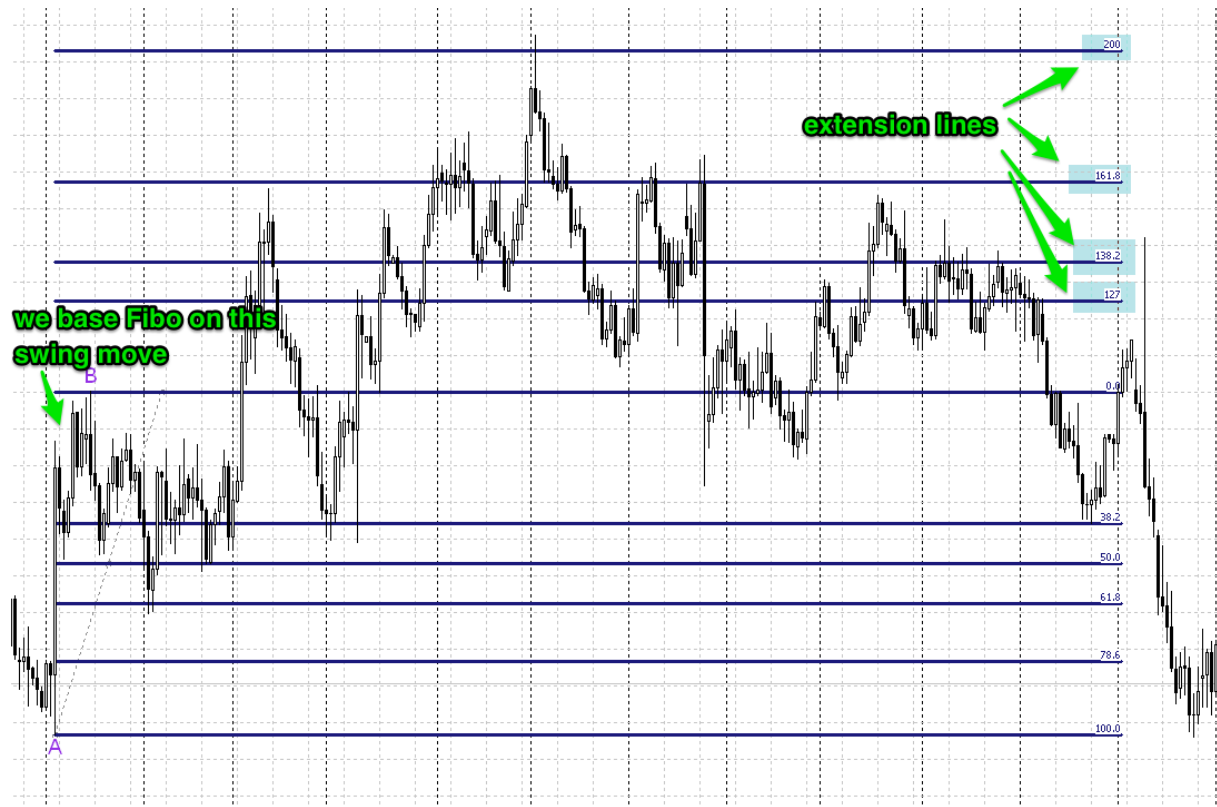
With Pivots we had S2 / R2 lines as most possible targets. With Fibo extensions this level is 161.8%. On many times this will be target for traders. If price goes higher we have 200% and then 227%, 238.2% and so on… But you are most interested in levels lowers than 200%.

To sum up, extensions are:

127%

138.2%

161.8%

200%

Sometimes traders like to use 150% extension

You can also look for areas where you have Fibo extension and other line like pivot or support / resistance. That way it is easier to select where to close trade.

Don't forget about support/resistance lines

Traders know where important support and resistance lines. You should know that too. It is best to switch to higher time frame and there look for most important levels. Why is this so important? These lines will be profit targets for them so you should be aware of most important areas. That way you won't be surprised with sudden direction change.

Trading journal

We talked about stop loss, taking profit. There is one more important thing we should talk about when it comes to position management. Yes, trading journal. You see, this guide should help you to learn how to trade Forex. You should know your mistakes and learn from them.

My biggest mistake in first years of trading was not to run a trading journal. I started few times, but I was too lazy to keep it running. In the end, I struggled to be profitable.

Then I started journal in form of spreadsheet. It was ok. Beside info such as entry, exit, profit/loss it has information about trading signals. But… I am not strict mechanical trader. I use trading signals, but I also analyze the current market situation, higher time frames and many other things.

There is better way to run your trading diary.

Write it down in a notebook.

I saw on twitter that few of traders which I follow do that. They keep diary in form of notebook. They describe trade, what was the current situation, how did it look from technical analysis perspective. Later they write how it ended. Or they simply write new things they have learned.

I believe this is the best way to do it. Thanks to that description you can also write what you were thinking, what was the main motivation to take the trade. Later it is easier to spot mistakes you are doing in your decision process.

Another important tool you can use is MyFXBool. I recommend running normal trading journal, but also keep track of trades with MyFXBook.

MyFXBook is easy to use. They whole idea is that it connects with your Metatrader platform. Then thanks to the MT4 publishing options MyFXBook can receive your trades and results. That's all going on in the background.

When you log in, you have so much valuable data. Not only obvious like gain for the whole time, each week, month. You can also see what is your average profit, loss, number of shorts won, longs won and many others. Thanks to that you can see clearly your results.