

Contents

Preface	xi
Acknowledgments	xv
Chapter 1 Introduction to Foreign Exchange Trading	1
Trading Money to Make Money	2
Striking Gold	3
Buying and Selling at Retail	4
Big and Liquid, Like the Ocean	5
Open 24/5	7
Playing in the Majors	9
Leveraged to the Hilt	12
The Players	13
What Moves the Forex Markets?	15
What to Expect from This Book	17
Chapter Summary	19
Chapter 2 Basic Foreign Exchange Trading Mechanics	21
Anatomy of a Currency Pair	22
Going Long and Selling Short	24
Market Orders—On the Spot	27
Entry Orders—Waiting until the Price Is Right	27
Stopping Losses with Stop Losses and Trailing Stops	28

Contents

Profit Limits—When You're in the Money	31
Exit with Caution	31
Trade Size—Lots and Lots of Lots	32
Leveraging Margin and Leverage	33
Margin Call—Insufficient Funds	34
Pips—The Currency of Currency Trading	37
Spreading the Wealth—Spreads or Commissions?	39
Interest—Giving and Receiving	41
Hedging—Two Sides of the Same Coin	44
Chapter Summary	45
Chapter 3 Technical Analysis—Tools for Trading Foreign Exchange	49
Introduction to Technical Analysis—	
Interpreting Price Action	50
Basics of Bars and Candlesticks	52
Keeping Time with Chart Timeframes	57
Support for Resistance (and Support)	59
The Trend Will Set You Free	64
How Trendy—Lines and Channels	67
The Magic of Moving Averages	72
Seeing Patterns in the Candles	78
Currency Charts Take Shape	82
Indicators of Change	88
Pointing the Way with Pivot Points	95
Fibonacci's Magic Numbers	96
Riding the Elliott Wave	98
Getting to the Point & Figure	99
Chapter Summary	100

Contents

Chapter 4 Fundamental Analysis—What Drives the	
Foreign Exchange Markets	103
Introduction to Fundamental Analysis—Basic Economics	104
A Healthy Interest in Global Bank Rates	105
Carried Away with Trading	108
Indication of Things to Come—Economic Indicators	110
No News Is Bad News for News Traders	121
Chapter Summary	124
Chapter 5 Foreign Exchange Trading Methods and Strategies	127
Rules to Trade By	128
Position Trading—Settling in for the Long Term	130
Swing Trading—Riding the Waves	134
Day Trading—In and Out, Day In and Day Out	137
Trend Trading—Going with the Flow	140
Range Trading—Between a Rock and a Hard Place	147
Breakout Trading (and Fading)—Shooting for the Stars	150
Pattern Trading—Playing with Shapes	158
Fibonacci and Pivot Point Trading—Magic Numbers and Self-Fulfilling Prophecies	161
Elliott Wave Trading—Two Steps Forward, One Step Back	166
Divergence Trading—Separate Paths	170
Multiple Timeframe Trading—Timing Is Everything	172
Point & Figure Trading—Pointing Out Breakouts	175
Carry Trading—In the Interest of Interest	179
News Trading—All the News That's Fit to Profit From	183
Contrarian Trading—The Majority Doesn't Rule	184
Backtesting—History Repeats Itself	187

Contents

Autotrading—Robots for Hire	190
Chapter Summary	192
Chapter 6 Important Elements of Successful Foreign	
Exchange Trading	195
The Boring Side of Success	196
A Risky Business	196
Fatter Is Healthier (But Only for Trading Accounts)	197
Risk and Reward	198
Fix Your Fractions	200
Trailing Stops—Loyal Followers	201
Size Matters	202
Position Overload	205
Measuring Risk with a Trendline	208
Great Expectations	209
Psychologically Speaking	210
Plan the Trade and Trade the Plan	214
Chapter Summary	216
Index	219