Yevgeni Boguraev, Goutam Das

From lamb to wolf

or how to become a successful trader

Financial markets guide for beginners

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Authors' Note

The Forex market has always been attractive to investors because of its endless opportunities for generating income. Throughout the existence of Forex, millions of people have tried trading, and the opinions they form based on their personal experience often prove to be quite contradictory. Some were lucky to make a fortune, while others lost all of their savings. Such a contrasting situation can be explained by the fact that traders that enter the market have different goals and levels of training. Many people come here for quick and easy money, this type is usually run ragged by the market. The failure of certain traders forms the opinion that it is impossible to gain solid income by trading, while in fact Forex is presently one of the biggest financial markets. In 2017, its daily turnover reached $5.3 billion, and many traders all over the world keep generating income.

So, what is the secret of successful traders? What makes them different from those who fall short? The truth is, we all know the answer. Only the most skillful and well-trained traders win regularly and persistently. The key to successful trading is responsible approach, constant learning and applying the new information correctly. We believe that anyone can master the art of trading. It’s a matter of determination and persistence.

This book is a manual for traders who wish to start earning on the Forex market, but have not yet made the first step, or did make it, but with no success. We’ve tried to explain the basic concepts of trading in simple language, thus dispelling all the popular myths.

In traders’ parlance, a “lamb” is a trader, who has just entered the market and is continuously incurring losses. A “wolf” is the opposite of a “lamb” – they are successful traders who have their own idea of the market. If you are reading this book, then you are likely to be a “lamb”. But don’t despair: even the most sophisticated and sharp-toothed wolves started as lambs and struggled to pave their way to the top. You are doing your first steps on the long way, and the most interesting is yet to come. Make best use of other traders’ experience, hone your practice and you’ll find yourself ahead of many of them.

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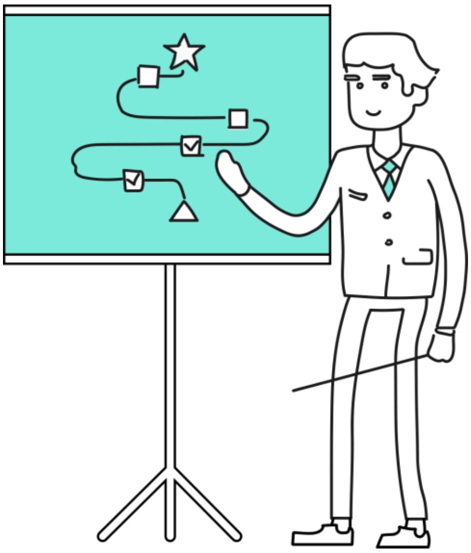
"You are your greatest asset. Put your time, effort and money into training, grooming, and encouraging your greatest asset."

Tom Hopkins



Chapter 1
What is Forex and How One Can Earn on it

Forex (from English. *FOReignEXchange*) is an interbank market for currency exchange at free rates.

Inception of Forex

In 1944, representatives of 40 states signed an agreement in a small town of Bretton Woods, under which gold became a global payment and reserve asset, while the dollar obtained a status of the world’s most important reserve currency.

However, the Bretton Woods System didn’t last for long. On August 15th, 1971, the U.S. President Richard Nixon revoked the free conversion of the dollar into gold. This day became the first step towards the formation of today’s biggest financial market.

The next important step was made in the March of 1971. This was when 20 states outside of the Eastern Bloc came to an agreement that from then on, currency exchange rates would depend on market supply and demand. In 2 years, in the March of 1973, the Federal Reserve System once and for all made away with the “golden standard” in the U.S. financial system. The world switched to floating exchange rates and free regulation of the over-the-counter market.

The new currency system was ultimately formed in 1976 at the meeting of the International Monetary Fund (IMF). In honor of the location, where the meeting took place, the new monetary system was named “Jamaican”. The Jamaican monetary system exists to the present day. The first trading transactions on the

Forex market weren’t perfect from the technical standpoint and were carried out through telegraph channels. This essentially slowed down the work, as well as set limits on the number of market players. The digital revolution changed everything. With the introduction of computers, the average turnover on the currency market grew significantly. Forex became accessible to everyone.

Present Day Forex

In the 21st century Forex keeps penetrating into our lives more and more consistently. Presently, Forex is acknowledged as the world’s biggest financial market. For the sake of comparison, in 1977 the daily turnover on the Forex market made $5 billion, in 2000 it reached $1.5 trillion, while in 2016 it hit $5.1 trillion. According to the experts’ predictions, in 2020 this value will reach $10 trillion.

Market Players

Central banks regulate and help maintain the liquidity of national currencies.

Commercial banks carry out the most large-scale exchange transactions and cover the bulk of investment projects. They are otherwise referred to as “market makers”. Current exchange rates are essentially determined by the activity of commercial banks.

International companies carry out foreign trade transactions, exchange the currency gained from the sales and hedge the risks associated with currency fluctuations.

Independent players and traders buy currency for personal use, remuneration and speculative operations. Their share in the entire traded volume makes only 5%.

Priorities of the Forex Market

1. Trading and making investments is possible from any place in the world with internet access only.
2. Traders can choose to work any time convenient for them. Forex trading is available 24/5.
3. A great many of instruments available for trading: currencies, indices, metals and security CFDs.
4. Universal trade sizes. Trade units are standard in the Forex market. One lot equals 100,000 units of the underlying currency, a mini lot equals 10,000 units (0.1 lot), a micro lot is thus 1,000 units (0.01 lot).

5. Trading is possible even with a small deposit by means of splitting the trade size or with the use of leverage provided by the broker.

6. Forex is a steady market. It will exist as long as various currencies exist.

7. In order to earn money on Foreign Exchange, one doesn’t necessarily need to conduct the deals personally. The traders can analyze accounts of other, more experienced traders and copy their trades.

Chapter 2
MetaTrader 4 Trading Platform

A user-friendly platform is the key to successful and steady trading.
MetaTrader is by far the world's most popular trading platform.
Above all, traders like it for a simple and user-friendly interface.

Download MetaTrader 4

MetaTrader 4 allows:
— working with currency pairs and CFDs;

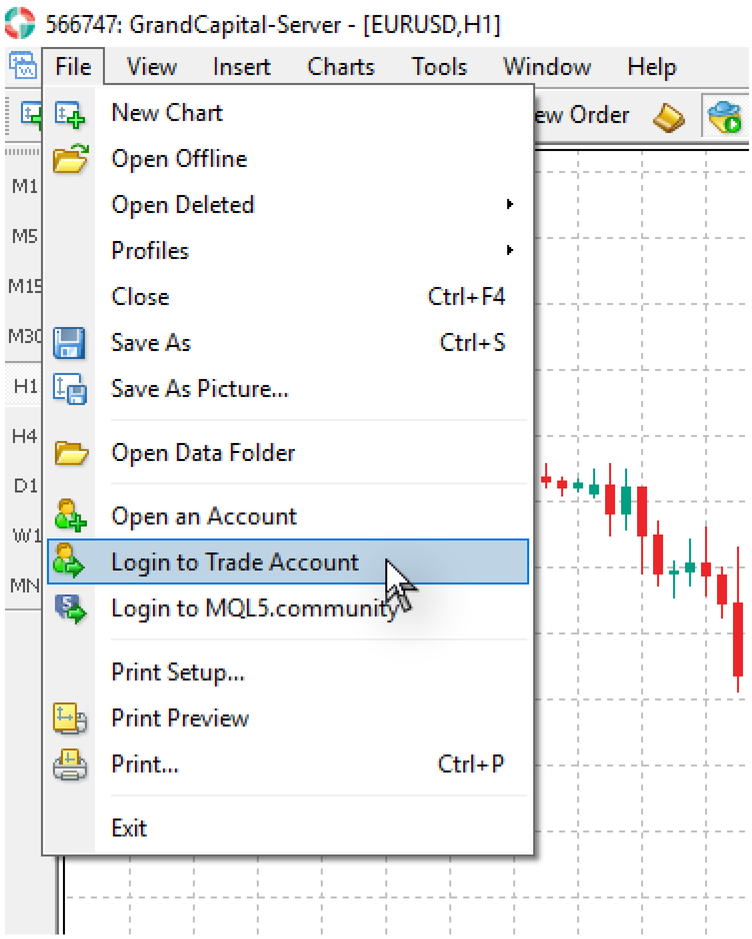
— conducting deals at market prices and working with pending orders;
— setting stop loss and take profit levels;
— using instruments for technical analysis;
— testing trading strategies;
— making trading robots, indicators and scripts;
— receiving market news in a timely manner.

Introduction to MetaTrader 4: Overview of its Basic Features

Let us have a closer look at the basic sections of the MetaTrader 4 terminal.

Account Connection

To get started with MetaTrader 4, you need to download a special installation package from the broker and install the platform on your computer. In order to start receiving quotes, the account must be connected to the platform. To do that, go to the “File” Menu and select the option “Login to Trade Account”.



The authorization window will pop up. Enter your login (account number) and password to your account. In the “Server” field, indicate the type of the account you want to connect: demo or real. Click on the “Login” button. Now your account is successfully connected to the trading platform.

“File” Menu

1. New chart. Displays price charts.

2. Open offline. Most often traders use this option to work with Renko charts.

3. Open deleted. Opens the latest deleted charts.

4. Profiles. Helps to work with chart groups. Here one can select an existing profile or keep his/her own. This feature is handy for those who apply multiple trading strategies.

5. Save as picture. Allows making a screenshot and saving it. One can post the image on MQL5 or receive a link to it.

“View” Menu

This menu offers commands for managing the interface: command windows, toolbars and language. Please note, that some of these commands can also be found in the “Standard” toolbar.

1. Languages. Allows selecting and switching languages.

2. Toolbar. Allows enabling the selected tools, as well as hiding them. All toolbars can be complemented with the required shortcuts in order to optimize your work with the terminal.

3. Market Watch. Prompts a window with current quotes. To get a view of all the trading instruments, select “Show all symbols”. To open the chart of the selected instrument, click on the “Chart Window”.

“Insert” Menu

This Menu offers a set of tools required for technical analysis, which can be put over the charts. These are line tools, technical indicators, shapes, symbols and text.

All the embedded technical indicators are available in the dropdown menu “Indicators”. You can apply the indicator on the chart by selecting one of them. Line tools are grouped together in the below presented dropdown menus: **“Lines”** – here we have horizontal, vertical and trend lines; **“Channels”** – a set of channels; **“Gann”** – Gann’s line, fan, grid; **“Fibonacci”** – tools developed on the basis of Fibonacci sequence. **“Andrew’s Pitchfork”** and **“Cycle Lines”** are at the bottom of the list, neither being included in any of the groups.

Figures, symbols, text and text labels for adding comments and windows linked to coordinates from this menu can also be applied on charts.

“Charts” Menu

This menu helps select the way the quotes are displayed: Japanese Candlesticks, bar or line charts, connecting the closing prices of bars.

1. Timeframe. Allows selecting a timeframe, displayed in one Japanese Candlestick, “bar chart” or a fragment of a line chart.

2. Template. Here you can choose from the existing templates or keep your own. Template – Chart Window Settings.

— Type and color;

— Color diagram;

— Scale;

— Attached expert advisor and its parameters;

— Imposed custom and technical indicators with their settings;

— Line studies;

— Separators of days.

When a template is applied on a chart, the saved settings, as they are, will be applied to the tool and the timeframe. For example, one can create a template according to their trading strategy, and then use it for other currency pairs.

The Chart Windows will thus look identical for different financial instruments and timeframes.

“Tools” Menu

This menu includes service commands and terminal settings.

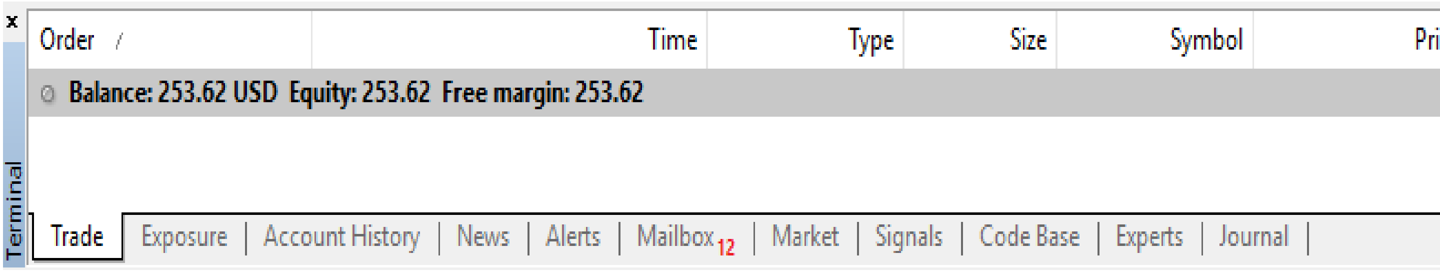
1. New Order. Prompts a window for order management, where you can place market or pending orders.
2. History Center. Prompts a window for managing historical data. This feature is often used in working with testers.
3. Global Variables. Prompts a list of global variables of the terminal. Global variables are common to all advisors, user indicators and scripts.
4. MetaEditor. With its help you can create and edit indicators and scripts.
5. Options. In this window one can set parameters for connection, trading, charts, expert advisors, notifications, etc.

“Window” Menu

Chart window management commands can be found in this menu. In this menu you can also arrange the charts in your workspace or open a new window.

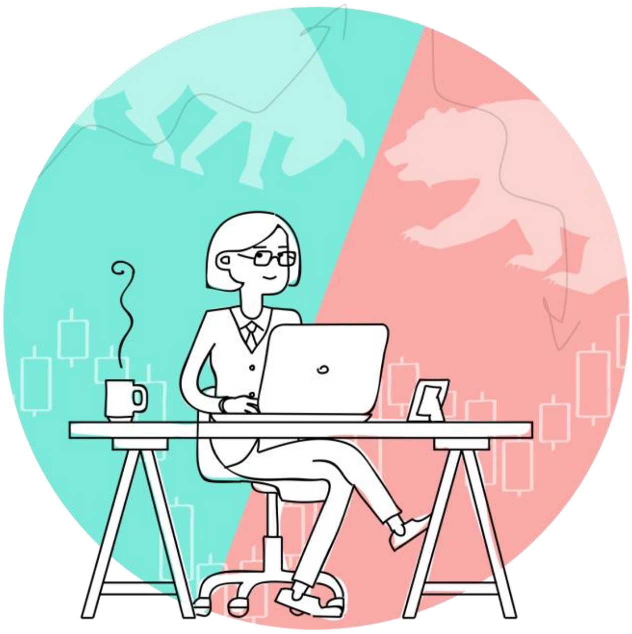
“Terminal” Menu

This menu can be opened by clicking on the “Terminal” button at the top of the screen.



It allows to keep track of your trading activity, get an overview of news and account history, as well as to set signals, work with internal mail and system log.

Chapter 3
Open and Closed Positions

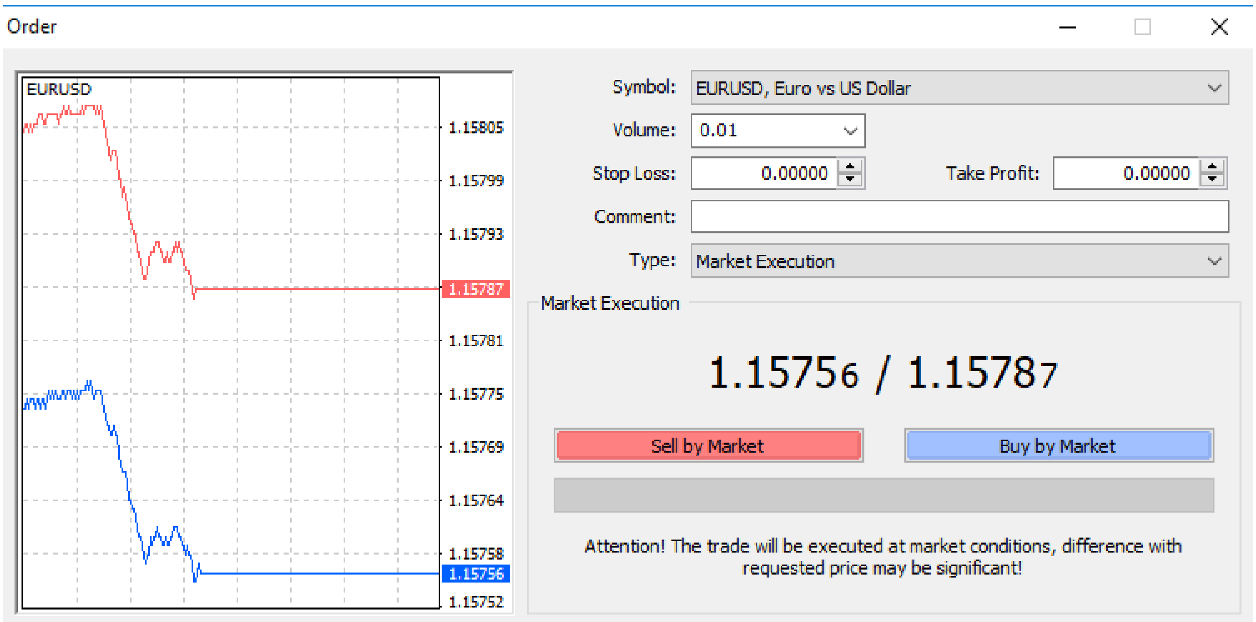


Open positions or orders are orders sent to the broker for conducting this or that trading transaction. There are two types of orders: market and pending orders.

[See in Web-terminal]

Market Order

A Market Order is a command to buy or sell an instrument at the current price. When a broker executes an order, the trading position is opened. At that, the ask price applies at buying, and the bid price at selling. One can also attach stop loss, take profit or trailing stop orders to the market order.



Placing a market order on the currency pair EUR/USD

In order to place a market order in MetaTrader 4, the first thing you should do is to click on the “New Order” button, which can be found at the top of the toolbar. In the popup window select the trade size and the type of position you wish to open: buy by market or sell by market. Once the order is placed, all information about it will become available in the “Trading” section.

Stop Loss and Take Profit can be placed immediately or later on at any time while trading is open. These orders make the work of a trader automated.

Stop Loss – an order to close the trade in case the price moves in the unfavorable direction. It works as a safety net for traders, helping reduce losses.

Take Profit – an order to close a winning position once the price reaches a certain level.

Take Profit helps lock in the profit.

Trailing Stop controls the Stop Loss. This feature helps shift the stop loss level towards the price in case the position is profitable. For example, you placed a buy order, knowing that the resistance level is 20 points above your trade. However, your strategy implies that take profit should be placed at the level of +40 points. If the price starts moving away from the resistance level after moving in the profitable direction, you won’t lose anything, since the trailing stop will move your position to the opening level. If the price keeps rising, the trailing stop order will be drawing the stop loss towards the set level.

Please note: Trailing stop is a feature of the terminal, not an order for a broker. Therefore, if you close the terminal, the Trailing stop won’t be activated. In order to set the Trailing stop, click on the order located in the “Terminal” window and select “Trailing stop”. In the dropdown list select the distance between the stop loss level and the current price. Only one Trailing stop can be attached to each open position.

You can set the parameters of stop loss, take profit and trailing stop levels, as well as partially or entirely close your positions in the MetaTrader 4 Terminal.

In order to close the position partially, double click on the order number. In the popup window, set the volume which you’d like to close and click “Close”.

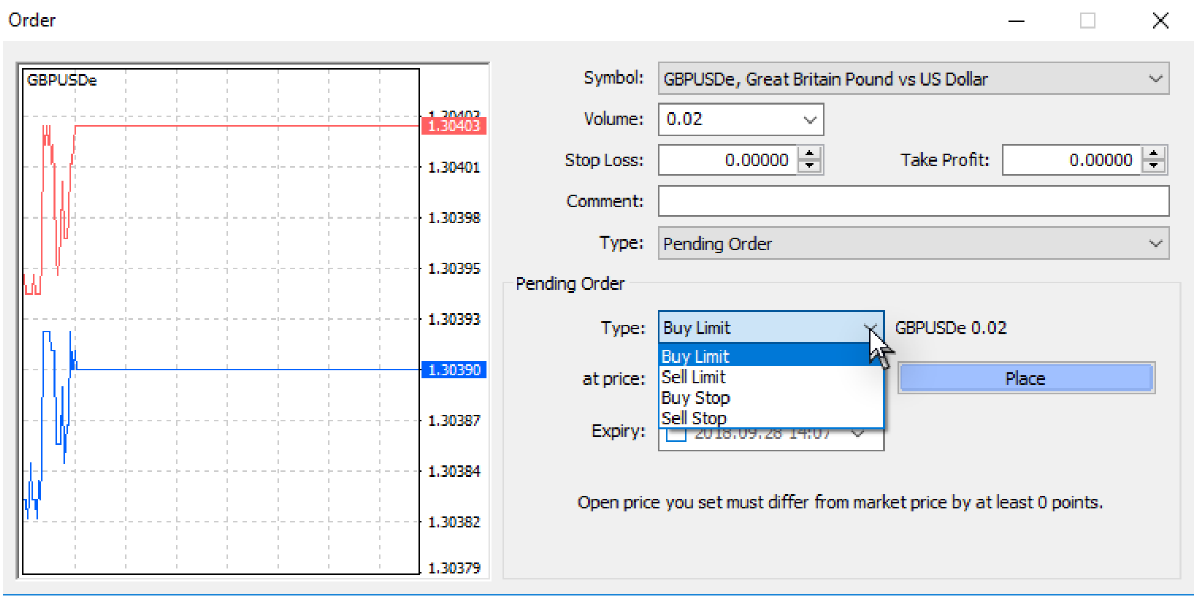
In order to close the position entirely, simply click “Close”, without setting the volume.

Partial closing of the order

The example presented above shows that the total trade volume makes 0.4 lot. For partial closing 0.02 lot has been selected.

Pending order

A Pending order is a command to buy or sell an instrument in the future at the pre-defined price. As soon as the price goes up or down to the required level, the pending order will become a real position.



Placing a pending order on the pair EUR/USD

We distinguish between four types of pending orders:

1. Buy limit for buying an instrument at a price that is below the current one, i.e. buying it at a lower price than at the given moment.

2. *Sell Limit* is an order to sell an instrument at a price, that is above the current one, i.e. to sell it at a higher price than at the given moment.

Limit orders are placed above the ask price and below the bid price. It is assumed that once the price reaches a certain value it will start moving backwards. Limit orders are placed in anticipation of a breakdown.

3. Buy Stop is an order to buy an instrument at the price that is above the current one, i.e. to buy it at a higher price than at the given moment.

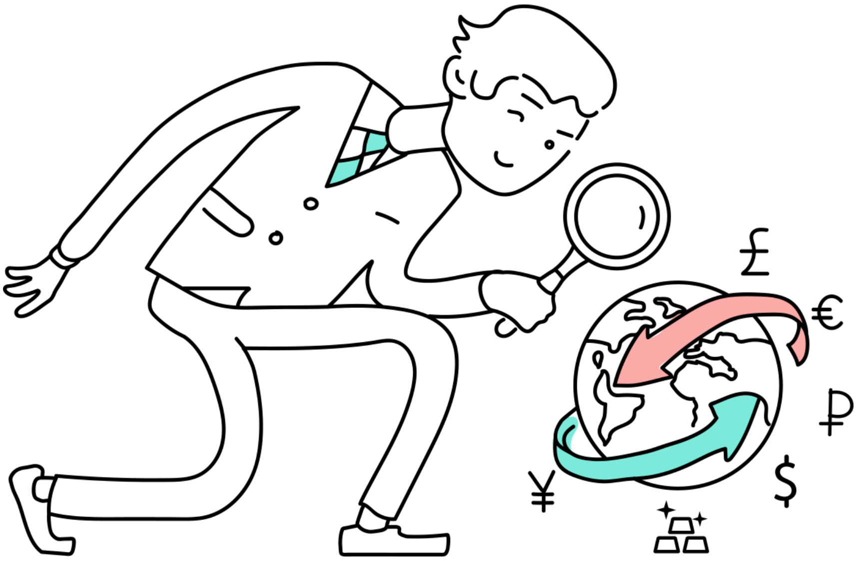
4. *Sell Stop* is an order to sell an instrument at a price that is below the current one, i.e. to sell it at a lower price than at the given moment.

Stop orders are placed above the bid price and below the ask price. They are placed with an assumption that once the price reaches a certain value it will start moving in the current direction. Stop orders are used in anticipation of a breakout.

Chapter Summary

Orders open and close positions. In case of market orders, we start at the price currently offered on the market. Parameters of pending orders are set in advance, while this type of orders become active only once the price reaches the level defined by the trader.

Chapter 4
Fundamental Market Analysis



The Forex market is changing swiftly. A trader needs to predict in which direction the market is going to move. To perform this task, traders use two types of analysis: fundamental and technical. In this chapter we will study fundamental analysis.

What is Fundamental Analysis

Market movements are influenced by a number of various economic and political events. The traders predict instrument prices by analyzing them, which is actually referred to as fundamental analysis.

Fundamental data able to influence the market fall into three categories:

1. Political news
2. Announcement of economic reports
3. Psychological factors

Let us discuss each of the categories separately.

Analysis of political news

Political events have an immediate impact on the price of national currencies. They include the following:

1. Presidential and Parliamentary elections. A shift of power changes the country’s policies. Understandably, this finds a reflection on the status of the national currency.
2. Resignation of the cabinet, dissolution of Parliament, removal of key public officials from office. As a rule, such events affect the price of national currency, since they make the country’s policies unstable and unpredictable.
3. Revolutions, takeovers, military actions, terrorist attacks and armed conflicts. These events significantly weaken the country’s economic development, which has its negative impact of the national currency.

Analysis of economic reporting

Presently, economic data is available to everyone. Public availability has increased its influence on the prices of currencies.

Economic news is categorized into three types according to the level of importance:

1. Standard
2. Important
3. Very important

Let us look further into very important news, which are most heavily reflected on currency quotes.

Unemployment level is the main indicator of the country's economic power. A high unemployment level means weak economy and insufficient resources to provide work opportunities for nationals. This leads to the decline of the price of the national currency.

Unemployment rate is the correlation of the number of unemployed people and people actively searching for a job to the employed population. The values of earlier periods should be considered when calculating the current unemployment rate.

A situation which demonstrates the influence of unemployment on the price of the national currency:

15:30 07.07.17	USA	★★★	**Unemployment Rate (Jun)** Edit	4.3%		4.4%
15:30 07.07.17	USA	★★☆	**Average Hourly Earnings (MoM) (Jun)** Edit	0.1%		0.2%
15:30 07.07.17	Canada	★☆☆	**Part Time Employment Change (Jun)** Edit	-22.3K		37.1K
15:30 07.07.17	Canada	★☆☆	**Participation Rate (Jun)** Edit	65.8%		65.9%
15:30 07.07.17	Canada	★★★	**Employment Change (Jun)** Edit	54.5K		45.3K

Economic calendar for June 7

On June 7th, 2017, at 12:30 pm (UTC), U.S. unemployment data was published. According to the report, the country’s unemployment rate had grown by 0.01% as compared to the past month. At the same time Canada published its employment data, which turned out to be better than the previous ones: the employment level rose up to 45.3K vacancies against the predicted 10K. Such a report caused a sharp decline of the currency pair USD/CAD immediately following the announcement of the news.

USD/CAD chart for June7

Interest rate decision. Interest rate influences the inflation level and at the same time is dependent on it. The interest rate decision is made by Central Banks once in 4–6 weeks, varying from country to country.

High interest rates attract foreign investors who are looking for better options for “risk-free” investments. As a consequence, high interest rates are able to sharply increase the demand for the country’s currency. But there’s always the reverse of the coin: high interest rates entail growth of lending rates for private and legal persons, which is negatively reflected on small and medium enterprises.

Fluctuations of interest rates have a strong effect on the country’s currency, therefore, prior to the publication of interest rates it is important to lock in the profit on open positions. The traders can also use the difference in the value of the

interest rate for one’s benefit, earning on positive swap. To do this, one should open positions in favor of the currency that has a high interest rate. The size of the accrued swap depends on the difference between the interest rates of the currencies in a currency pair.
On the other hand, if a trader opens a position in favor of a currency with lower interest rate, then apart from the broker’s commission, a negative swap will be added.
Swap is irrelevant for intraday traders, whereas for “long-term” traders it can become a source of extra income or extra loss.

U.S. crude oil supplies. This data is published on a weekly basis and shows the changes of commercial oil, petrol and distillate supplies. The reports on oil supplies are announced by the Energy Information Administration (EIA) of the U.S. Department of Energy. Market makers actively respond to the changes in these indicators.

Core Retail Sales m/m measures the volume of all the goods traded on all types of retail outlets. This is an important indicator of consumer spending reflecting the dynamics of the development of economy. If the Core Retail Sales rates appear to exceed the predictions, they reinforce the national currency, and in the opposite case they signal about possible pressure on the national currency by bear speculators.

Analysis of Psychological Factors

Currency rates on the Forex market hinge on the traders. Let us imagine that, for some unknown reason, market participants all over the world start buying Indonesian Rupiahs, which causes a rise of Rupiah. If the traders change their strategy and start selling Rupiah, its price will fall.

Various subjective factors are able to influence price formation no worse than real economic indicators, sometimes even more significantly. Speeches of public officers, representatives of Central Banks and well-known economists have the most powerful impact. These people shape the country's economic policy and only one word, spoken by them, can drastically change the market sentiment. Understandably, they realize this pretty well and sometimes use their status for personal interest.

Chapter Summary

Fundamental analysis is important for forming a general idea about this or that currency. In most cases it is certainly not very efficient to trade relying solely on the news, but combining fundamental analysis with technical analysis one can achieve more profitable and consistent trading.

Chapter 5
Technical Analysis and Indicators

Technical analysis provides an estimate of the future movement of the price based on its past performance.

Principles of technical analysis:

1. Prices consider all factors.
2. Prices follow the trends.
3. History repeats itself.

Examples of technical analysis

Instruments of technical analysis are basically the tools that help perform the analysis. These are indicators, graphic elements, wave models and others.

Types of Indicators

Technical indicators are the most important tools for technical analysis. They help define correctly the point of market entry, as well as close the positions before it is too late. Using indicators, traders predict price movements on the market. Apart from basic indicators there are also auxiliary ones that point at recent news and provide information about the trading account. In the MetaTrader 4 terminal the indicators are displayed on the chart in the form of curved lines, bar diagrams, various shapes and symbols.

We distinguish between three types of indicators:

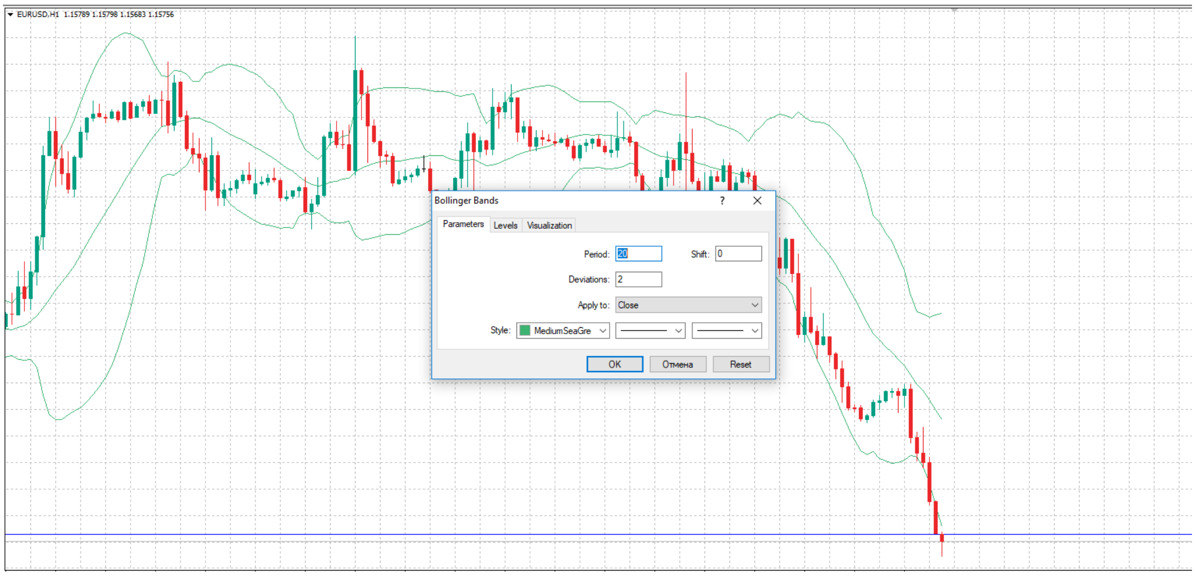
1. Trend indicators.
2. Oscillators.
3. Information and volume indicators

Trend Indicators

Trend indicators track the direction of the trend, singling out its formation, course and subsidence. Certain indicators are embedded in the MetaTrader 4 platform by default. In order to apply them on the chart, in the main Menu select the following options: Insert – Indicators – Trend Indicators. You will then see the list of available indicators.

Let us discuss some of the most popular ones.

Bollinger Bands



Bollinger Bands are named after their creator John Bollinger.

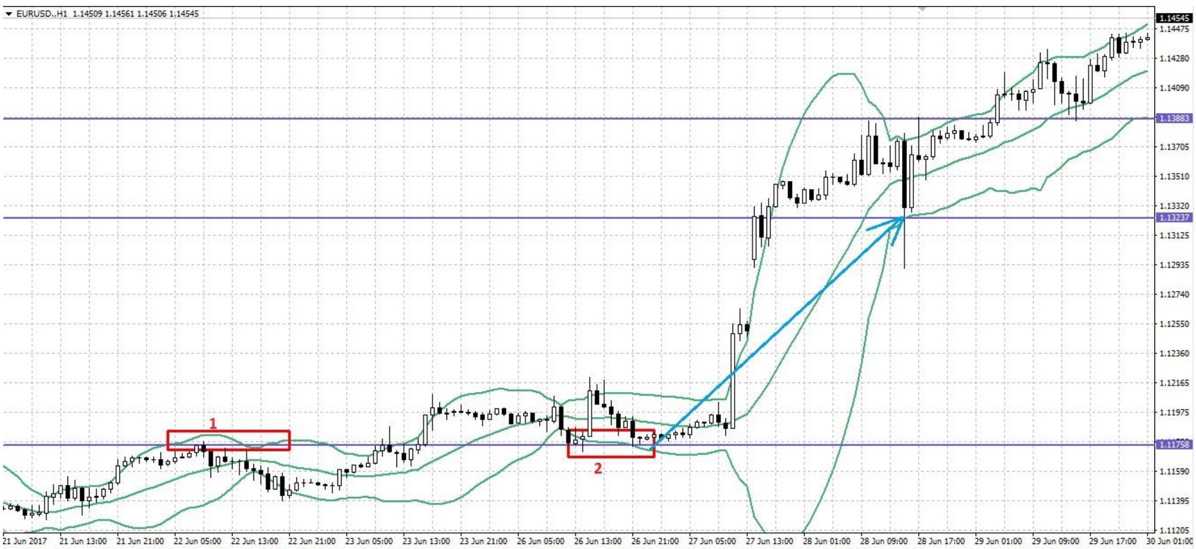
Bollinger Bands consist of three lines. The middle line is the so-called moving average which stands as a reference for Bollinger Bands. The upper and lower bands measure fluctuations of the current price. Converging bands indicate low market activity, while diverging bands speak of the opposite.

If we apply the indicator on the chart, we'll see that at the time of high volatility the price ignores the indicator's ranges and follows its course. Therefore, using this indicator without other instruments of technical analysis will be little effective.

Examples of Indicator Use

1. The combination of Bollinger Bands with support and resistance levels.

Support and resistance levels are the most powerful instruments used in technical analysis. We shall dwell on them in Chapter 6. However, just like any other instrument, they are not perfect and cannot predict the situation with 100% precision. To get a more reliable trading signal they can be combined with Bollinger Bands.



On the image above a resistance level, which also appeared to be the upper boundary of Bollinger Bands, takes shape near the first triangle. After breakdown of the resistance level, it shifts to the status of a support level, which is witnessed in the area of the second triangle, where the testing of the lower boundary of the indicator is fixed. In this case we were studying buy transactions from the lower boundary of the indicator and the mirror level.

2. Combination of Bollinger Bands with Williams percent range.

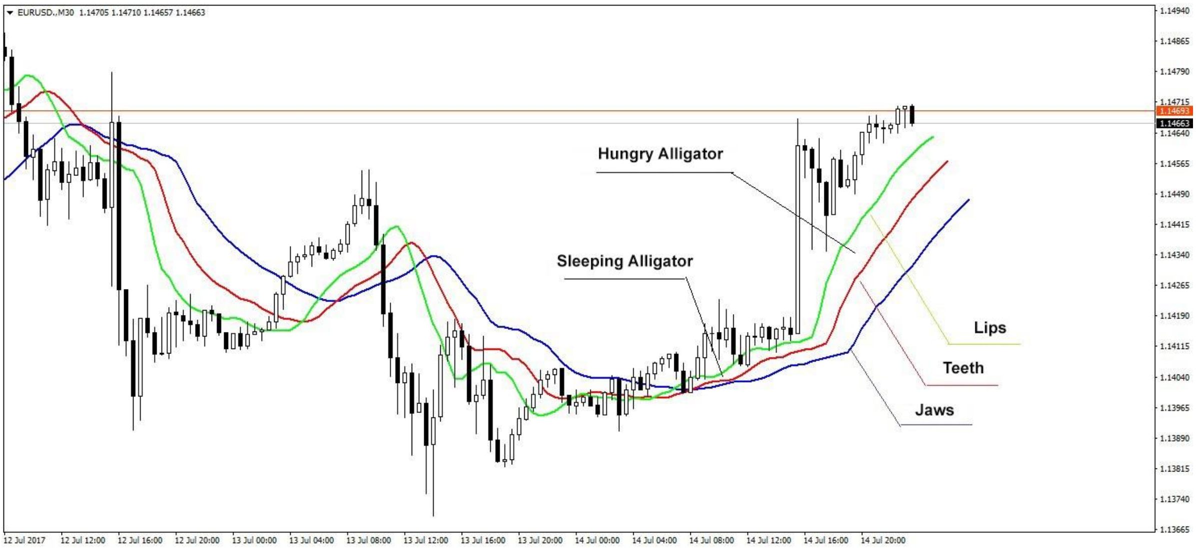
Williams percent range indicator measures the extent to which the market is overbought and oversold. The values shown by this indicator make a good combination with those of Bollinger Bands.

On the image above, we notice narrowing of Bollinger Bands. This testifies to the accumulation of positions anticipating further movement. On the lower boundaries of Bollinger Bands, Williams percent range indicator showed that the price is in the oversold zone, were buy orders can be placed. Once the accumulation zone is broken through, we see expansion of Bollinger Bands. This suggests the start of an upward trend.

Buy orders can be placed from the central Bollinger line. A smaller timeframe chart analysis is used to find an earlier point for market entry at a more profitable price.

Alligator

This indicator has been developed by a famous trader Bill Williams. The Alligator helps trace trends. Intertwined indicator lines mean that the alligator is sleeping and the market is moving sideways, but once the lines straighten and the alligator's jaws open, we can conclude there's a trend on the market.



Alligator indicator consists of three parts. Bill Williams came up with rather original names for them.

1. Lips. Green Line, 5-bar simple smoothed moving average.
2. Teeth. Red Line, 8-bar average.
3. Jaws. Blue Line, 13-bar average.

The Alligator indicator has quite a controversial reputation. Some traders consider it to be an essential tool for technical analysis. Others are skeptical about it; they start using the indicator in a wrong way, receive wrong signals and as a result renounce it. Nevertheless, even Bill Williams, the creator of this indicator, recommended using the Alligator in combination with other instruments, such as Fractals, Awesome Oscillator and Accelerator Oscillator. Therefore, it is advised to combine various indicators to get more reliable signals.

Oscillators

Oscillators take their name from the Latin word *oscillo*. Inside the Oscillator indicator the price seems to be oscillating from the upper boundary to the lower one, pointing at the possible reversal zones or zones of trend weakening. They can help find out the market condition, i.e. whether it's overbought, oversold or at the stage of forming a divergence, which in its turn testifies to the weakening or reversal of a trend.

Awesome Oscillator

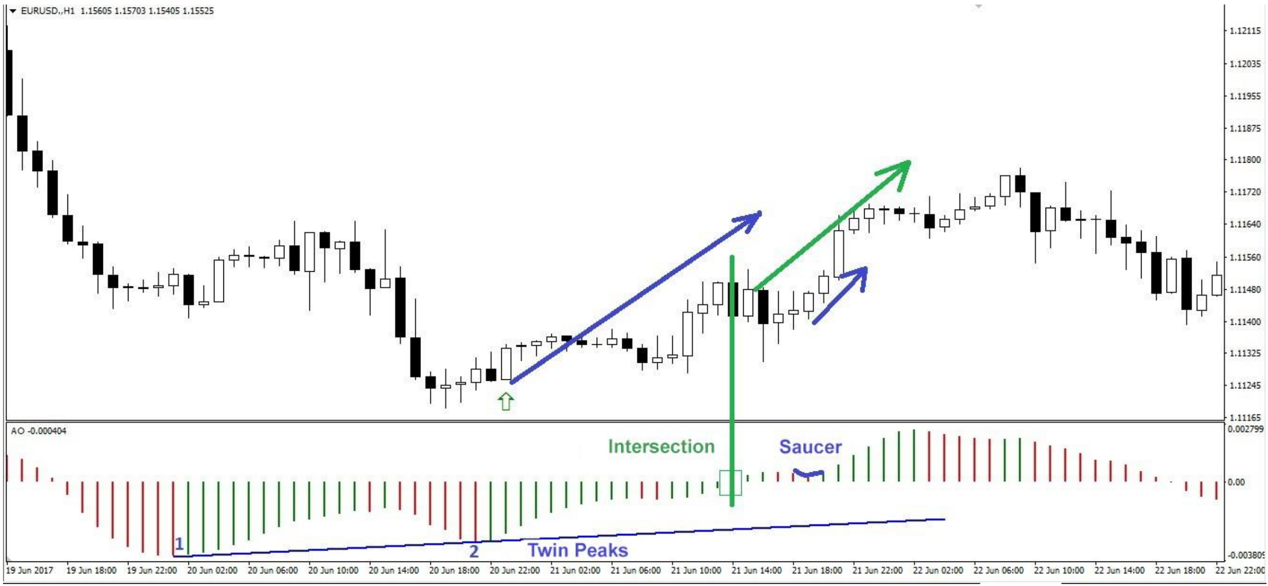
Awesome Oscillator is one of the most popular oscillators. Bill Williams – the creator of indicators we spoke about earlier, was trying hard to find the so-called buyers' and sellers' strength balance line. He compiled a lot of statistic data and as a result he was able to single out the optimal periods for simple moving averages, which made the foundation of the Awesome Oscillator.

Awesome Oscillator consists of bar charts (columns) and a zero line.

The indicator's bar chart shows the dynamics of price movements. The column above the previous price is colored green, and the one below the previous price is colored red.

Bill Williams highlighted three trading signals of the indicator: Zero Line Crossing, Saucer and Twin Peaks.

Zero Line Crossing. The trade is opened at the presence of two bar charts on the opposite sides of the zero line. For a buy order the first column must be below the zero line, while the second should be above it. It is important that in this very situation both columns are colored green. For a sell order the first column must be above the zero line, and the other one should be below it. In this case both columns must be red.

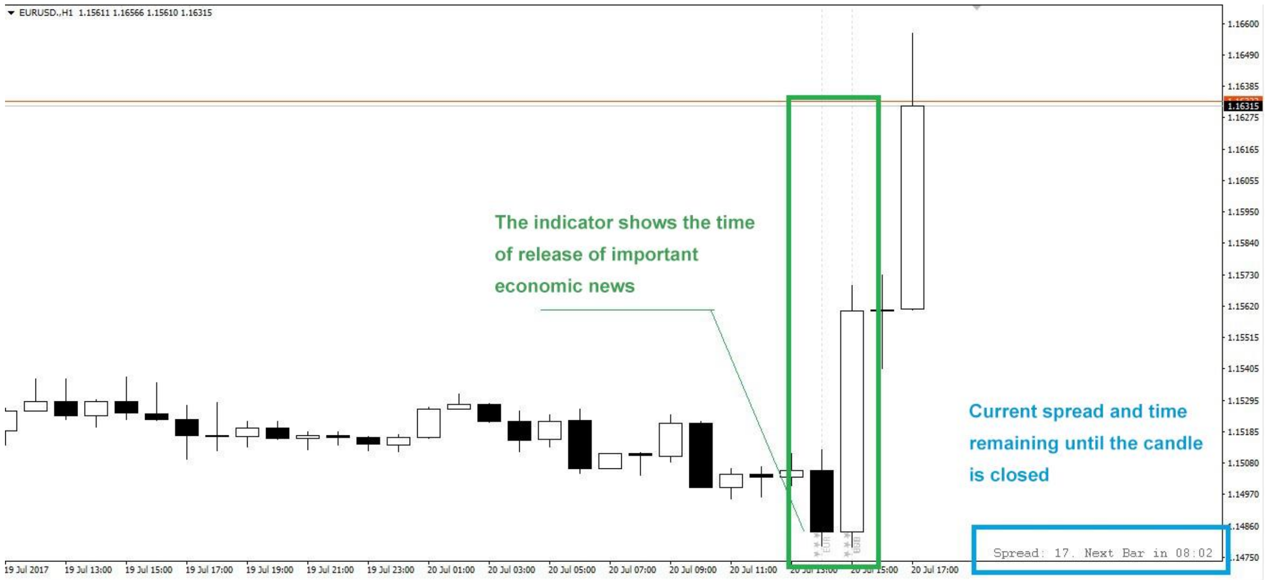


***Saucer*.** This formation consists of three bar chart columns. To place a buy order the first and the third columns must be above the second one. The color of the first column does not matter, but the second one should be red and the third one should be green. It is important that the shape is above the zero line. To place a sell order, the Saucer must be reversed and below the zero line.

Twin Peaks. These are two peaks of the bar chart columns oriented towards the predicted trade. For a buy order the columns must be below the zero line and for sell orders they should be above it.

Information and Value Indicators

Information indicators do not address the trader's main challenge, i.e. they do not suggest whether it's worth to buy or sell assets or close the deals. Information indicators are additional assistants. They give the trader information about the trading account, spreads, times of trading sessions and announcement of news. In fact, traders can perfectly do without them, but when used wisely they can essentially enhance the trading system.



An example of using an Information Indicator

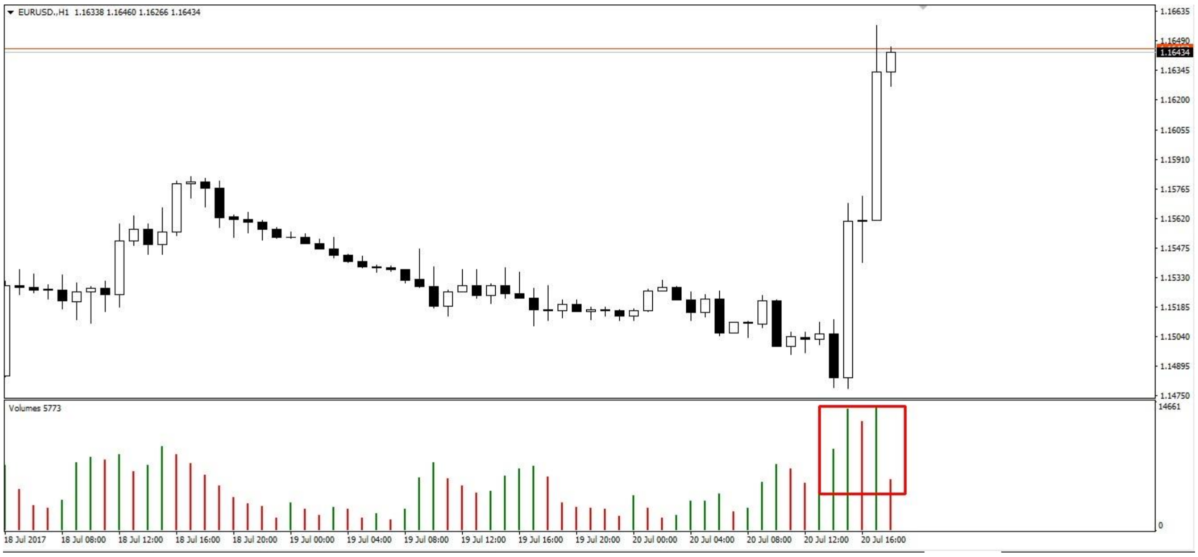
For example, with the help of news indicators you can see the time of news publication right on the chart. The trader will thus secure their trading because the news won’t be a surprise for him. If the trader uses an account with floating spread, an indicator that displays the spread size on the chart will come in handy.

There are many other information indicators that can help make trading easier.

Indicators are great, but make sure not to get carried away when using them. Follow the main rule – indicators should not obstruct the actual chart.

Volume Indicators on the Forex market are based on the tick volume, since the real volumes of transactions on Forex are unknown. In fact, volume is one of the key indicators in market transactions. In case of a steady upward trend, in the periods of growing quotes the volume increases, and in the periods of falling prices it reduces. In case of downward trends things are quite the opposite – falling prices make the volume increase and growing prices make it decrease.

Volume Indicators show the number of transactions carried out in the given time unit. They help define increase and decrease of demand, as well as make predictions about the upcoming trends.

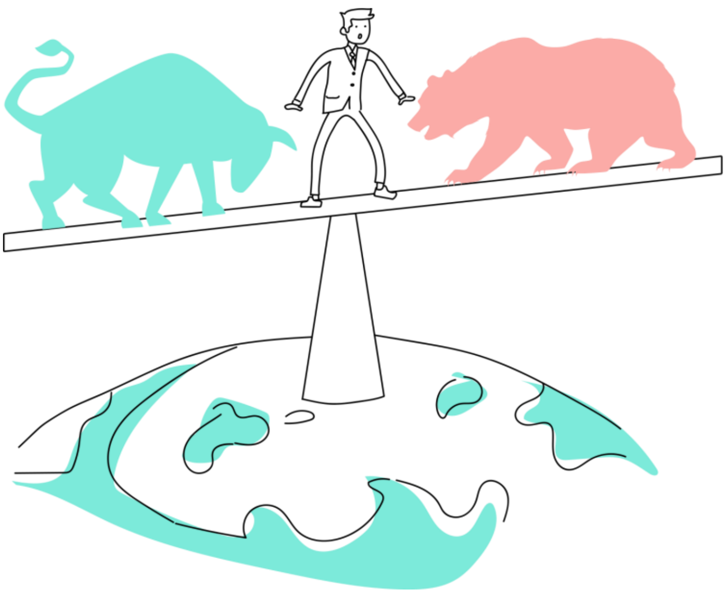


The example above shows that the increase of tick volume has an immediate influence on the movement of a currency pair.

Chapter Summary

Indicators serve as an anchor for traders. They help define trend directions, find profitable points for opening and closing positions, see information essential for trading displayed on charts. However, indicators alone cannot ensure consistent and successful trading. The trader must see the actual chart, have good risk management skills and follow a certain trading system.

Chapter 6
Support and Resistance Levels



Levels are the lines where the trends weaken and are supposed to reverse. In other words, they mark the places where the market is distributed and can either follow the existing trend or head in a new direction. Basically, price formation on the currency market takes place in two stages. The first phase is accumulation, when volumes form trends. This is followed by the second phase, namely distribution.

Let’s suppose the price moved close to the resistance level. Buyers and Sellers struggle on the levels. If the level isn’t broken through then the Sellers prove to be stronger. Otherwise, if the price breaks through the resistance level, then the buyers appear to be stronger. The levels are much like ropes which are constantly pulled by the Buyers and Sellers.

Levels, thus, are not specific lines. They are certain zones, which, if broken through, suggest possible continuation of the current trend, while otherwise, they testify to the weakness of the market or its unwillingness to keep moving in the existing trend. We distinguish between horizontal, downward, circle, historical lines, Fibonacci levels, etc. But all of them address the same task.

It is always important to correctly define the levels regardless the strategy you use, even in case you rely exclusively on fundamental factors in making trading decisions.

Levels of EUR/USD chart

How to Find Levels on Charts

Before you start marking levels, it is required to define the extremes, i.e. top highs and lows on the price chart. Levels are formed due to maximal accumulation of extremes. The example below shows the breakthrough of a level, which however, proved to be false, and the price went back to the other side of the level.

In order to find the extremes, one can use the Fractals indicator. In the MT4 Terminal it can be found in the section *Bill Williams Indicators*.

Beginners can also use the ZigZag indicator to find levels. In the MT4 Terminal it can be found in the *Indicators* menu.

Thus, what you need to do is to find the same level extremes on the chart, and then connect them by drawing a horizontal line.

Mirror levels are believed to be the strongest horizontal levels.

A Mirror Level is a level that was previously both a support and a resistance level.

The example shows that initially, when it was a support level, the price was above it. After the breakthrough the price moved back towards the level, testing it a second time. Now it’s a resistance level. After this the Buyers made an unsuccessful attempt of a breakthrough. Then the level was actually broken through and once again it became a support level.

This example is the best demonstration of the importance of using indicators. It was the levels that showed the start of a downward trend and its fading and subsequent moving upwards.

Descending channels are downward lines, which, when broken through, testify to the end of the trend or the increase of the wave degree of the existing trend. For an upward trend the descending channel is built on candlestick lows and for a downward trend – on its highs.

On the image above, we see the breakthrough of the blue descending channel. The breakthrough of the red descending channel, in its turn, will indicate to the termination of the formed ascending construction.

A trading system based on the analysis of horizontal levels

The main objective of this trading strategy is finding an exit from flat zones. Trades are opened strictly on the retest of the mirror level. It is better to use M30-H4 timeframes for trading.

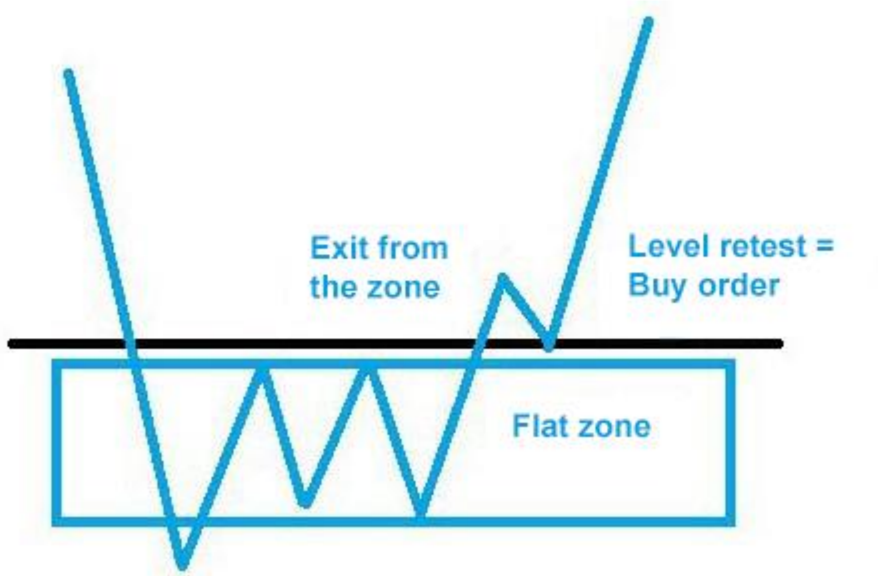


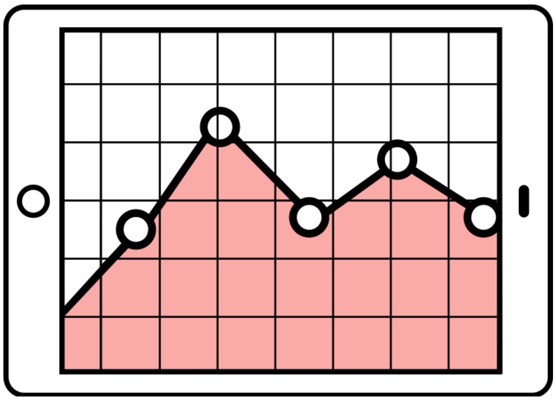
Diagram view of an entry point

The example above showed that the blue level was initially a support level, which was followed by the level's breakthrough vertically down. The sellers formed a new resistance level (red one). In the course of the price reversal to the blue level it acquired a status of a mirror level. It was tested by both Sellers and Buyers. It's a level retest. On such a level one could open a short position with profit on the new support level. When the price reaches from one level to another in the horizontal channel, that is actually what we call a flat. Consequently, an exit from it bottom-upwards will actually be a signal for opening a long position. Trades are opened strictly on the retest of the level, since it should go back to its initial status of a support level. Opening of short trades takes place according to the same scenario, only the other way around. There should first be a resistance level which the price should break through. This is followed by forming of a flat with subsequent breakthrough of the same level and selling on the retest.

Chapter Summary

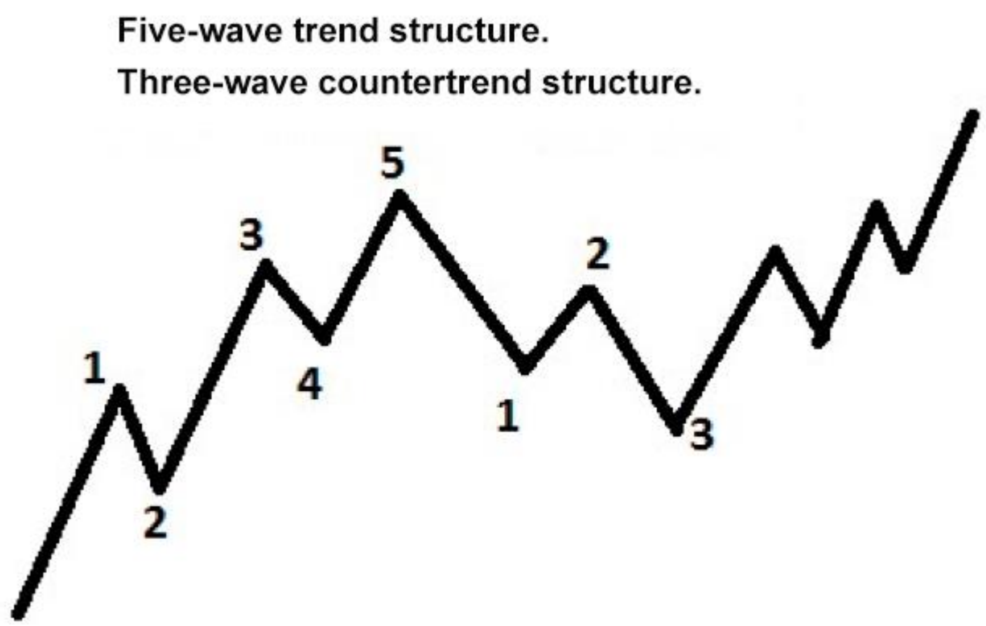
Basically, price movements on the Forex market can be compared to the Russian matryoshka doll. You shift to a smaller timeframe, but the picture remains the same. If you take your time to train drawing levels, you will master one of the most important elements of technical analysis.

Chapter 7
Wave Analysis



Wave analysis is considered to be one of the most complicated types of technical analysis. Its main purpose is to define the current trend and its reverse trend on the early stages of its inception. The theory of wave analysis was developed in the 30s of the 20th century by Ralph Nelson Elliott. He discovered that the prices on charts change according to certain models. Elliott based his theory on Fibonacci sequence, which was discovered by

mathematician Leonardo de Pisa (Fibonacci) back in the 13th century.
In the theory of wave analysis price movements have a wave-like nature. Elliott categorized 8 permanent waves, 5 of which move in the direction of the trend and 3 against it.

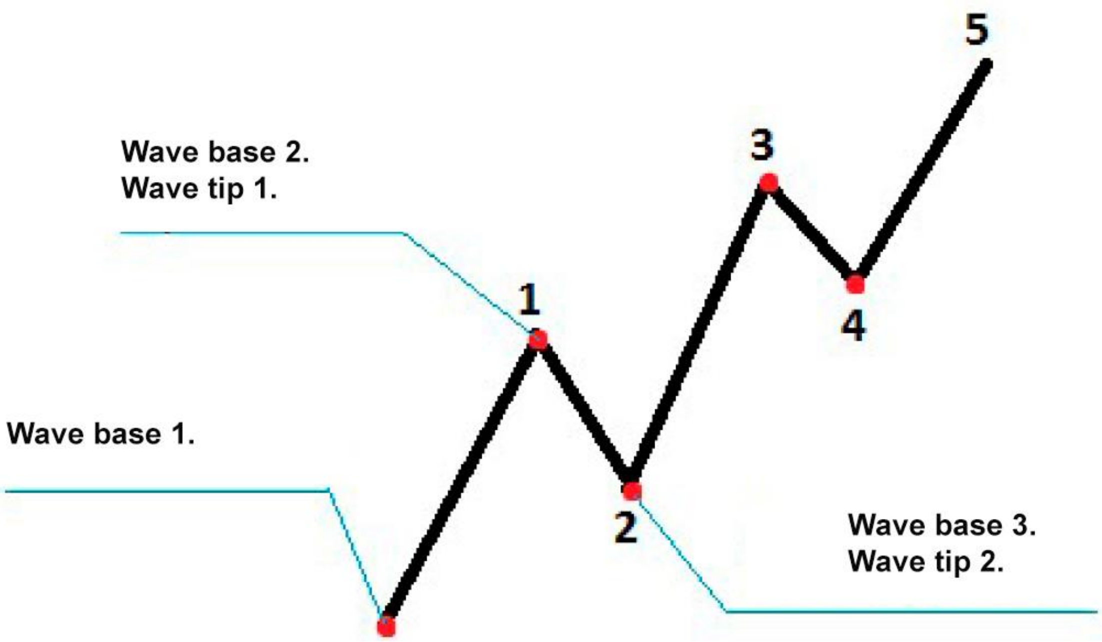


One of the co-authors of this manual – Yevgeni Bogurayev, uses the modified wave analysis in trading.
Principles of Wave Analysis

1. On the chart prices move in waves, namely ***zigzags***. Each impulse wave is followed by a *corrective* wave. The only exception is a situation when an impulse wave of an existing trend is followed by an impulse wave of the reverse one.

2. ***A wave*** is a fragment that connects two extremes.

3. ***The wave base*** is the point where the wave starts taking shape. *Wave tip* is the point where the wave calms. Considering the fact that charts form from the left to the right, the wave base will always be on the left side, while the tip will be on the right.



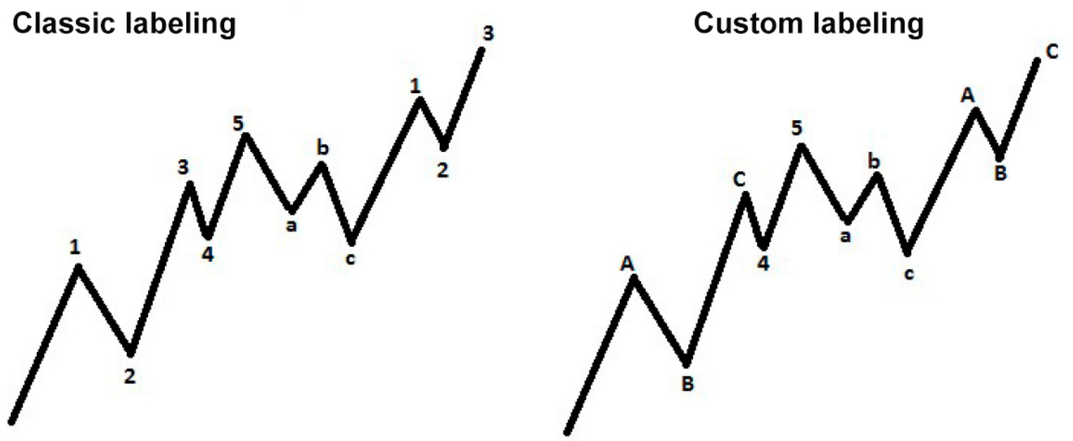
4. Waves consist of ***subwaves***, i.e. smaller degree waves. Each wave is composed of 3 or 5 subwaves.

5. The wave headed in the direction of the trend is referred to as an impulse wave. And correspondingly, the one going against the trend is called a corrective wave.

Correction is always shorter than the impulse from which it is formed.

6. Labeling is done over the wave crests. In classical wave analysis the waves

following the direction of the trend are labeled 1, 2, 3, 4, 5; and those against the trend are labeled a, b, c.
Yevgeni Bogurayev labels the waves as follows: A, B, C, 4, 5.



How is this labeling explained? If for an adherent of classical wave analysis the alleged impulse construction appears to be corrective, they have to change the labeling from 1-2-3 to A-B-C. If, on the other hand, the correction proves to be an impulse, alphabetical marking is switched to impulse labeling. As a result, the chart becomes incomprehensible due to constant modifications.

Therefore, such labeling like A, B, C, 4, 5 is pretty optimal.

7. An impulse wave, as a rule, is composed of three and less often of five subwaves, and in exceptional cases it may not have any subwaves whatsoever. Usually a corrective wave also consists of three subwaves, and in rare cases it may either have 5 subwaves or have none.

This is another essential difference of the modified wave analysis from classical one. In wave analysis the impulse is commonly known to have five subwaves, while the correction wave has three subwaves. This is the reason why the proponents of classical wave analysis find the fourth or the fifth waves where there were previously no waves at all, for an impulse is composed of five waves. We believe that this approach does not allow to critically evaluate the current situation and creates a misleading idea about the continuation or end of the current trend.

8. ***Wave level*** is the strength which moves the wave and pushes the price. There are various types of wave levels – super, basic, initial, transitional, secondary, etc. At that, each of the levels has its format of labeling. The rules of defining these levels are quite figurative. The waves can be defined with the help of Awesome Oscillator Indicator. The value of the level in this case depends on the timeframe in which the construction was formed. For example, a construction that was formed in an hourly timeframe will have AH1, BH1 and CH1 subwaves, provided that it's a three-wave construction. Such a definition of wave levels gives an accurate idea about the

quality and strength of the constructions. It is commonly believed that the third wave (Wave C in our case) must at least reach Fibonacci's 123.6 level from wave 1 (A). But the truth is, every instrument is unique and quality trading requires regular collection of statistic data on wave lengths. There are some currency pairs, where level 200 is reached more often than 123.6, which leads to missed profit.

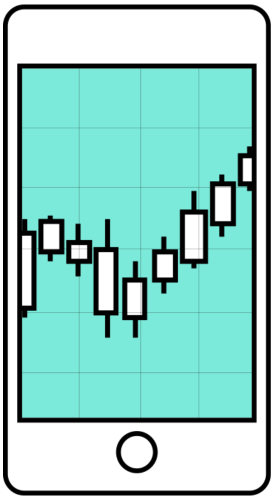
Here's an example of labeling and developing a trading plan.

As you can see, we do not claim that the price will move up or down, but only follow the price movements, earning on them.

Chapter Summary

According to the theory of wave analysis, there are impulse and corrective waves. Impulse waves create trends, corrective ones move against the trend. With the help of wave analysis traders predict the behavior of the price on certain fragments.

Chapter 8
Candlestick Analysis



Candlestick analysis gives an idea about the price movements in a certain period of time and helps predict trend reversals in due time. When used in combination with other instruments of technical analysis, it can be a powerful weapon for a trader. The priority of candlestick analysis is that traders do not have to rack their heads over complicated calculations; what they need to do is simply detect the candlestick pattern and classify it correctly.

The Origins of Candlestick Analysis

Candlestick analysis originated in the East. It appeared in the arsenal of Western traders not until fairly recently, though it's been used in Japan for 200 years, if not more.

Japanese trader Munehisa Homma is considered to be the father of candlestick charts. While some history scholars claim that Homma was a mythic personality, others provide evidence of his existence. Thus, if we believe history, in the 18th century Munehisa Homma lived in the town of Sakata in Japan. His parents were owners of rice plantations, so that the boy's future was predetermined. Homma started his career as a merchant, trading rice on Sakata exchange, but after his father’s death he took the family money and left for Osaka, were Japan’s largest rice market was. Today the Osaka Securities Exchange is legendary. It was here that people started trading first rice contracts, which are presently known to traders all over the globe as futures. In Osaka Homma embarked on a large-scale research project. He was analyzing rice prices throughout the entire history of the market, keeping an eye on weather and using insider information about the market. Homma’s research became a foundation for candlestick analysis.

In the 90s of the 20th century U.S.-born Steve Nison popularized the Japanese candlesticks. He learnt about the candlestick analysis from his Japanese friend, who was running a brokerage firm in Japan and was well aware of this system. Steve Nison authored a couple of books about candlesticks, thus making them a popular method of making predictions on financial markets.

What Japanese Candlesticks Consist of

In candlestick charts all the price movements throughout the day are displayed on a certain model – a candlestick. Based on the body of the candlestick, traders draw conclusions about the prevailing market trends.

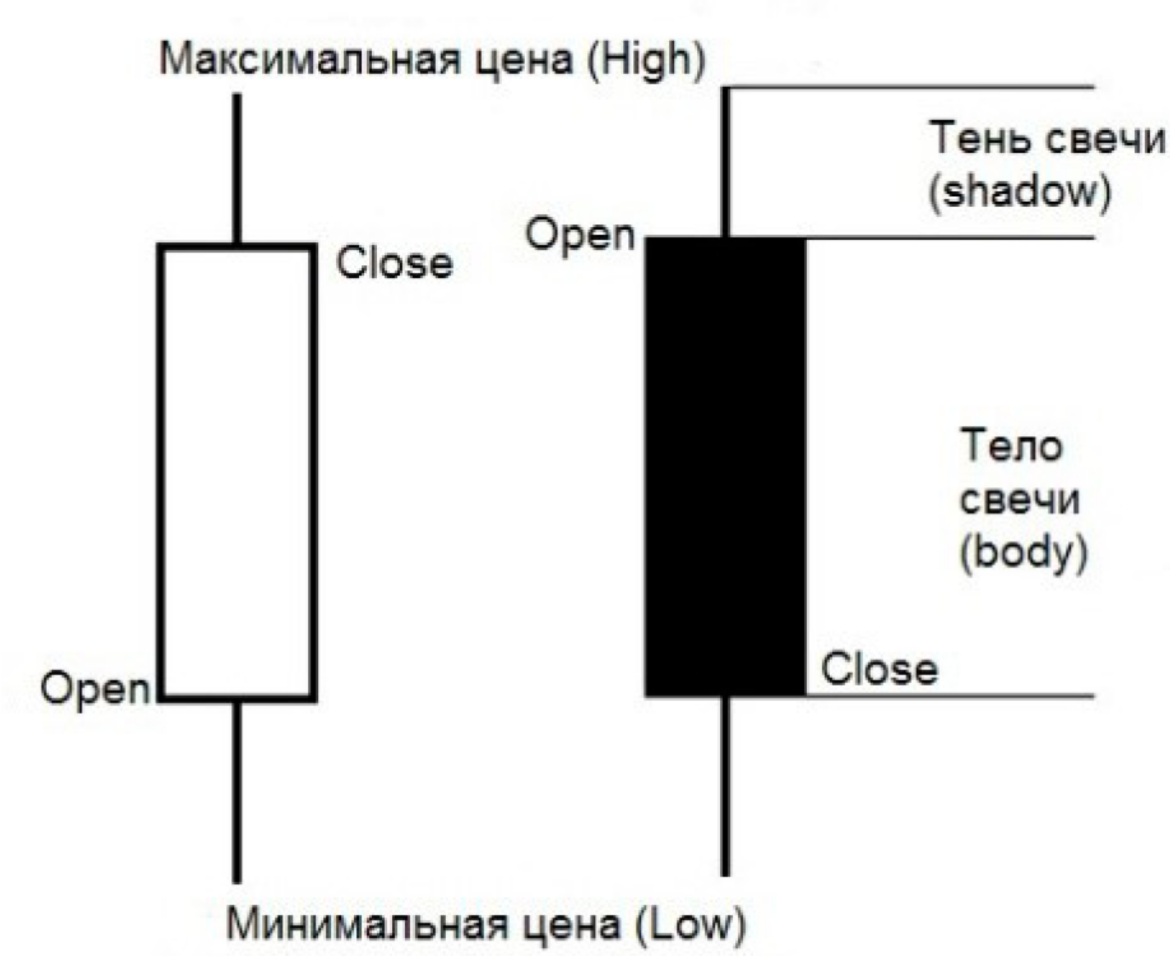
A Japanese candlestick contains information about four prices:

1. Opening price. The price value at the beginning of the timeframe.

2. Closing price. The price value at the end of the timeframe.

3. High price. The highest rate throughout the candlestick period.

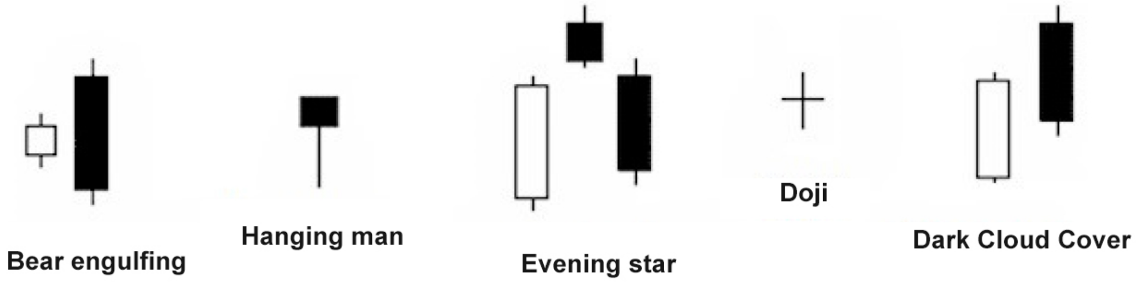
4. Low price. The lowest rate throughout the candlestick period.



One should know these four parameters to make a candlestick chart. On the chart the candlestick is composed of a **body and shadows.**

The candlestick's ***body*** looks like a triangle, showing the difference between the opening and closing prices. Depending on the body height traders make conclusions about the range between these two prices. A black candlestick body means, the closing price appeared to be lower than the opening price. If the body’s white, then the closing price was higher. These are standard color settings for the trading terminal and quite common for many traders. However, you are free to customize them.

Shadows are short lines above or below the candlestick. They form when the closing and opening price are lower than the high or low prices. Respectively, the upper shadow is the highest price and the lower one is the lowest price.



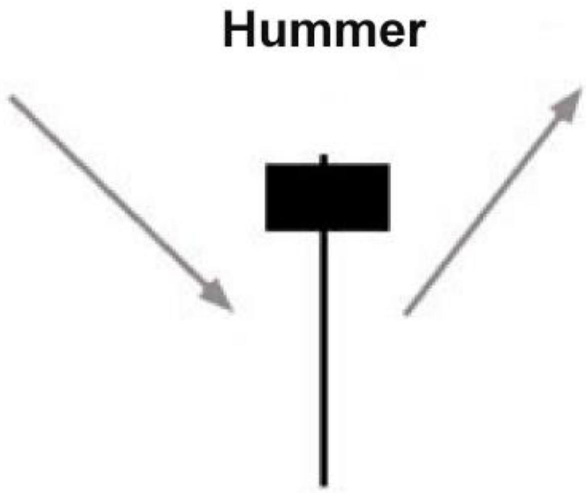
Various kinds of Japanese Candlesticks

Types of Japanese Candlesticks

There are two types of Japanese Candlesticks – the first one signals about reversal and the second type signals about continuation of a trend. Additionally, some analysts further classify the reversal candlesticks into such that form an uptrend, and such that form a downtrend. All this applies to one particular candlestick; however, combinations of candlesticks can also influence market trends. It is easier to analyze candlesticks one by one, but they do not often appear on charts separately. Therefore, successful trading requires skills for analyzing candlestick combinations.

Candlestick Reversal Pattern

Hummer

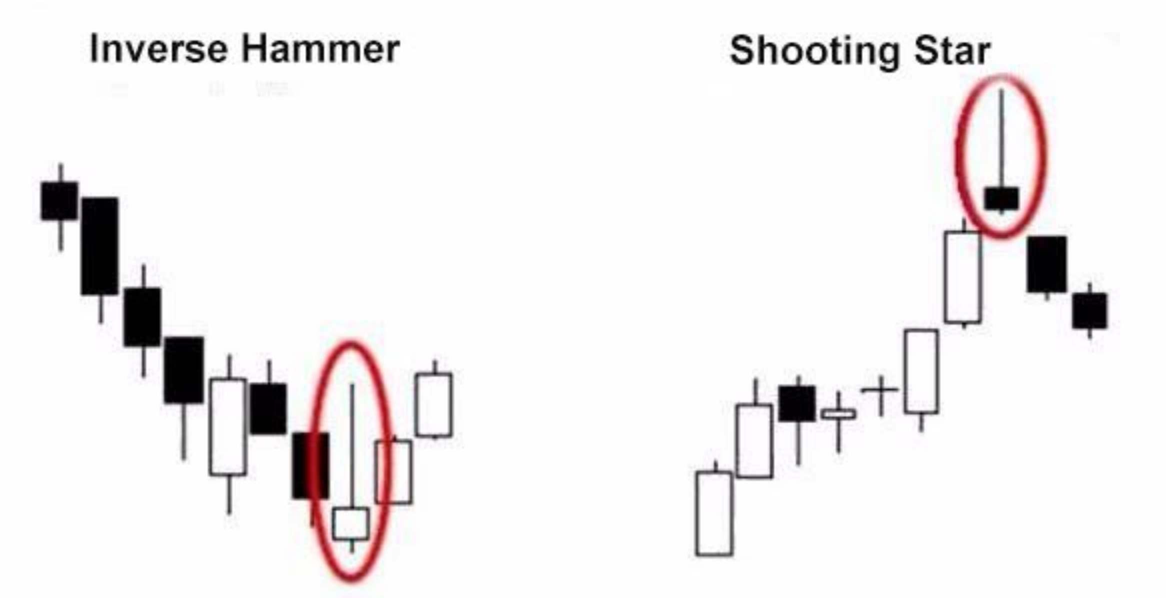


A "***Hammer***" candlestick reminds a hammer as it has a small body and a long lower shadow. A *"Hammer*" signals appearance of an upward trend. At that the price starts growing right at the next timeframe, and as a rule, keeps increasing during multiple time intervals.

A "*Hammer*" appears when the price gradually starts going down and the market is moving downwards. The sharp downward movement gives shape to the wick of the hammer – the candlestick shadow, which is followed by a backlash. Basically, the last movement towards the falling of the price is the bears' attempts to prolong the unsuccessful downward trend.

The situation is more favorable if the closing price is higher than the price at which the timeframe was opened. Such a scenario promotes the influence of the *"Hammer"* on the existing trend. The reversal pattern will be confirmed by the opening of a new timeframe at a higher rate.

The "*Hammer*" can be used for market entry, as well as when the trader is placing a buy order or closing a short position. This can help retain the generated profit and prevent losses.

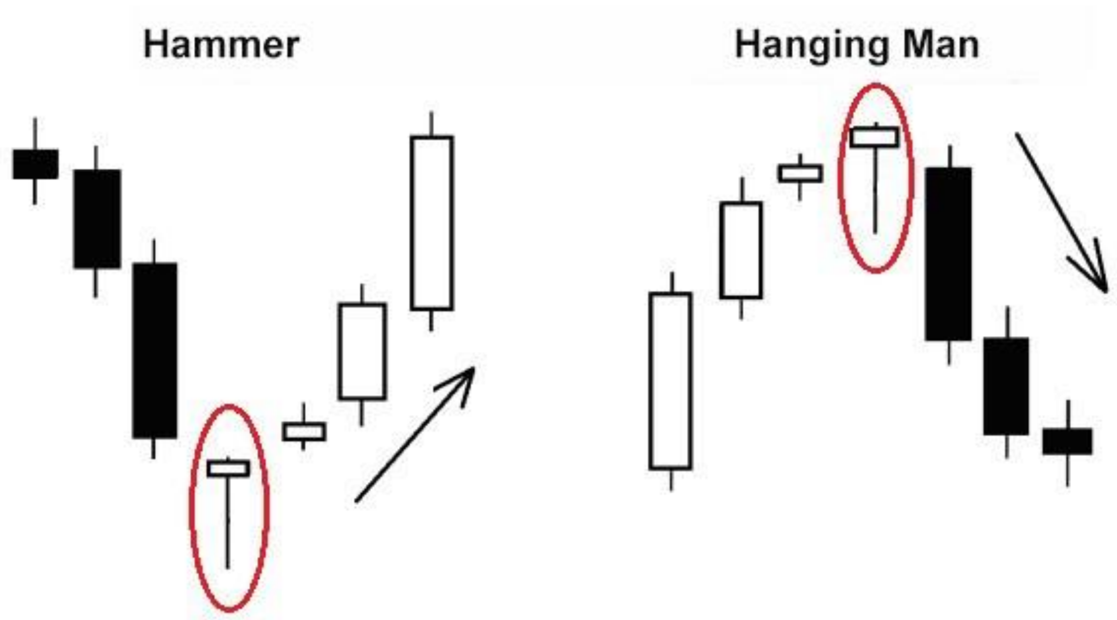


*An "**Inverse Hammer**"* appears when the trend is moving downward, and it usually signals the possibility for the trend to start moving upward. The "*Inverse Hammer*" is composed of two candlesticks, and the first has a long body and small shadows. It represents the last attempt of the "bears" to support the downward trend. Nevertheless, the attempt fails, which leads to the appearance of a second candlestick with a long upper shadow and a small ascending body shifted to the bottom of the candlestick.

This candlestick combination, as a rule, doesn’t cause a powerful reverse movement.

*A “**Shooting Star**”* is yet the same inverted hammer, which appears when the trend is moving upwards, with the only difference, that it is now preceded by a long “bullish” candlestick, while the *“Shooting Star”* itself is already “bearish”, signaling about upcoming downturn of the currency pair.

The influence of the “Shooting Star” is increased if its highest price is close to the resistance level or any other important point. This can be the intraday high or another price indicator. Everything depends on the timeframe in which you are trading. The length of the upper shadow plays an important role in these two candlesticks. It should be at least three times longer than the body. The bigger the distance between them, the stronger the reverse signal.

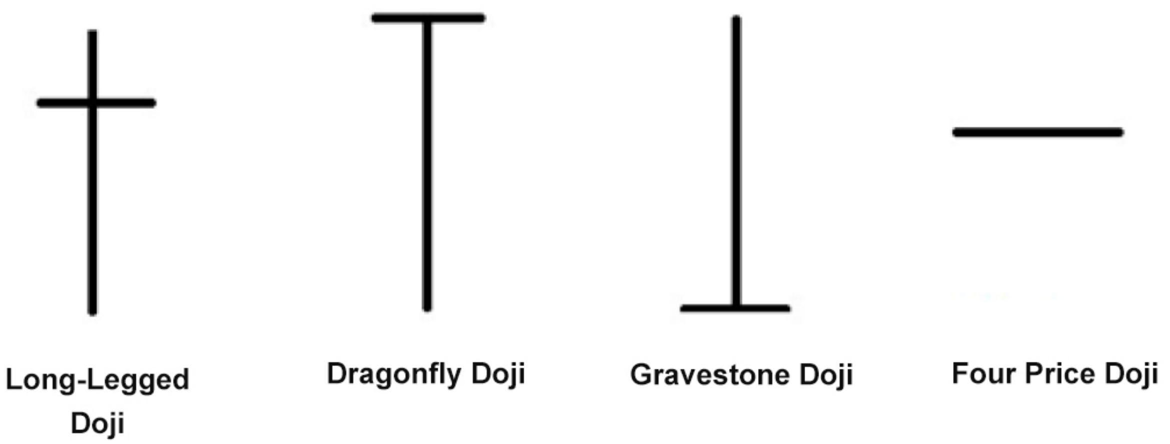


*The "***Hanging Man***"* pattern is very similar to the *"Hammer",* but unlike the latter it appears with an increasing trend and signals about a reversal. The *"Hanging Man"* has a small body and a lower shadow, which several-folds exceeds its body in length. This candlestick almost lacks an upper shadow.

The *“Hanging Man*” appears at the peak of an increasing trend and oftentimes makes its final accord. An increasing trend reigns over the market, the price gradually moves up, but it is extremely close to the notional level, which can be the resistance level or simply a base mark.

The rate of the currency pair goes many-fold below the opening level, after which it goes back to the opening level, and by the end of the timeframe it is close to the opening price. Thus the “*Hanging Man’s*” body takes shape. Essential falling of the price is the first attempt to change the trend, since the movement goes against the existing trend. Many traders take it as a correction of the trend, but the candlestick’s ascending body (when the closing price is higher than the opening price) and the appearance of a new candlestick at a lower rate serve extra proof to the trend reversal.

A “*Hanging Man”* is a “bearish” candlestick pattern, therefore, all long positions should be closed as soon as it appears on the chart. Additionally, this candlestick pattern can serve a signal to open short positions.



*“**Doji**”* is a candlestick pattern that doesn’t have a body or it’s too small (maximum body height 2-4 points). *“Doji”* is indicative of the fading of the existing trend or to possible reversal.

There are a few varieties of this candlestick:

*“**Long-Legged Doji**”*. The candlestick’s body divides it into two almost equal parts. In such situations the buyers’ and sellers’ pressure is practically equal, which can cause a flat, i.e. a sideways trend.

*“**Dragonfly Doji**”* reminds an incomplete *“Hammer”* with an extremely narrow body. It appears when the candlestick opens and closes at the highest high of the selected timeframe. The *“Dragonfly”* can cause a short or long reversal of a

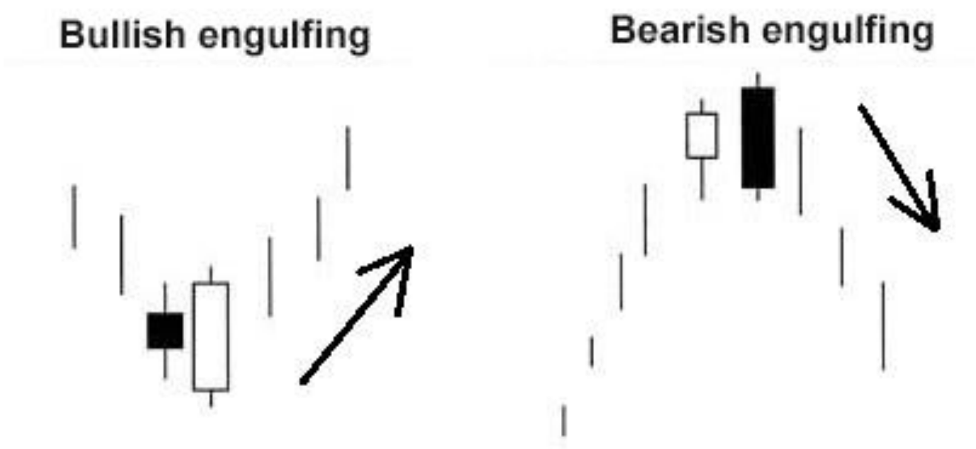
trend, therefore extra attention won’t go amiss.

*“**Gravestone Doji**”* visually reminds the *“Shooting Star”,* but without a body. At that, the downtrend depends on the length of the upper shadow. The longer it is, the higher the chances of a reversal. Appearance of a *“Gravestone”* on the uptrend predicts weakening of the bullish trend and possible inception of a bearish trend.

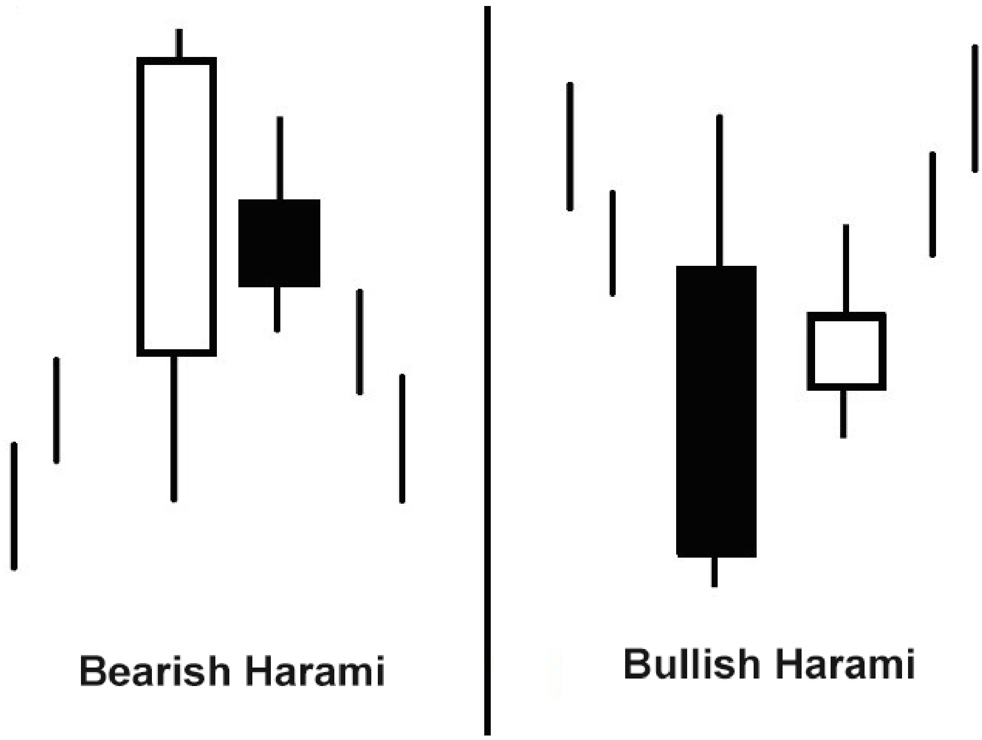
*“**Four Price Doji**”* is formed when throughout the predefined timeframe the price remains unchanged. In fact, it’s an ideal flat, when all the parameters of the candlestick, i.e. high, low, open and close, are absolutely equal.

Combinations of Japanese Candlesticks

More complicated models, such as combinations of multiple candlesticks providing more reliable signals, are also used in candlestick analysis.



The "*Engulfing*" pattern is composed of two candlesticks of different colors. The body of the second candlestick must completely engulf the body of the first. The *"Engulfing*" patterns often appears on the chart near the support and resistance levels.

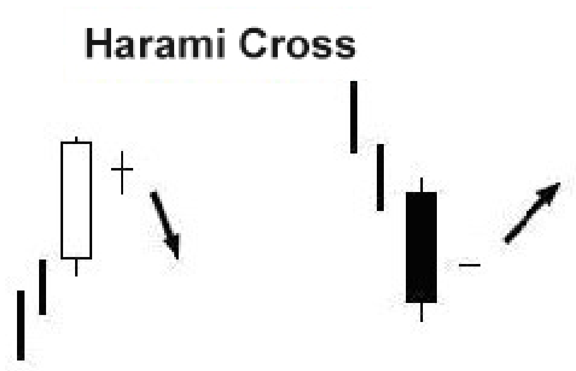


*“**Harami**”* means pregnant in Japanese. The oblong candlestick is called a mother and the smaller one is considered to be the baby. This combination is the exact opposite of the *“Engulfing”* pattern, where the long candlestick engulfs the other body.
There are two types of “*Harami*” patterns: bullish and bearish.

The “***Bullish Harami***” is an inverted uptrend model, usually preceded by a downtrend. The attempts to move the price down forms a long descending candlestick, while the one following immediately after it opens much higher and starts forming an uptrend, though the closing price does not exceed the opening price of the previous candlestick. The reversal can be confirmed by a third candlestick following an uptrend and its opening at a higher price than the previous one. Buy orders should be placed only after distinct confirmation. Meanwhile, short positions can be closed once the main model has been formed.

*“**Bearish Harami**”* is a candlestick pattern which causes a downtrend and, as a result, closing of buy positions and placing sell orders. *“Bearish Harami”* is the exact opposite of *“Bullish Harami”.* First, an uptrend is reigning over the market, ending in a long upward

candlestick, followed by a short descending one, outlining a new trend. *"Bearish Harami"* is not a strong reversal signal, therefore, it's better not to rush to open new positions immediately after it appears. It would be smarter to await the third candlestick, which would confirm the reversal.



Practice shows that simple *"Harami"* isn't quite efficient. It doesn't have a strong influence on the existing trend and does not always cause a trend reversal. Unlike the simple *"Harami",* the *"Harami Cross"* is a stronger reversal signal, and thus, it can help avoid many false signals.

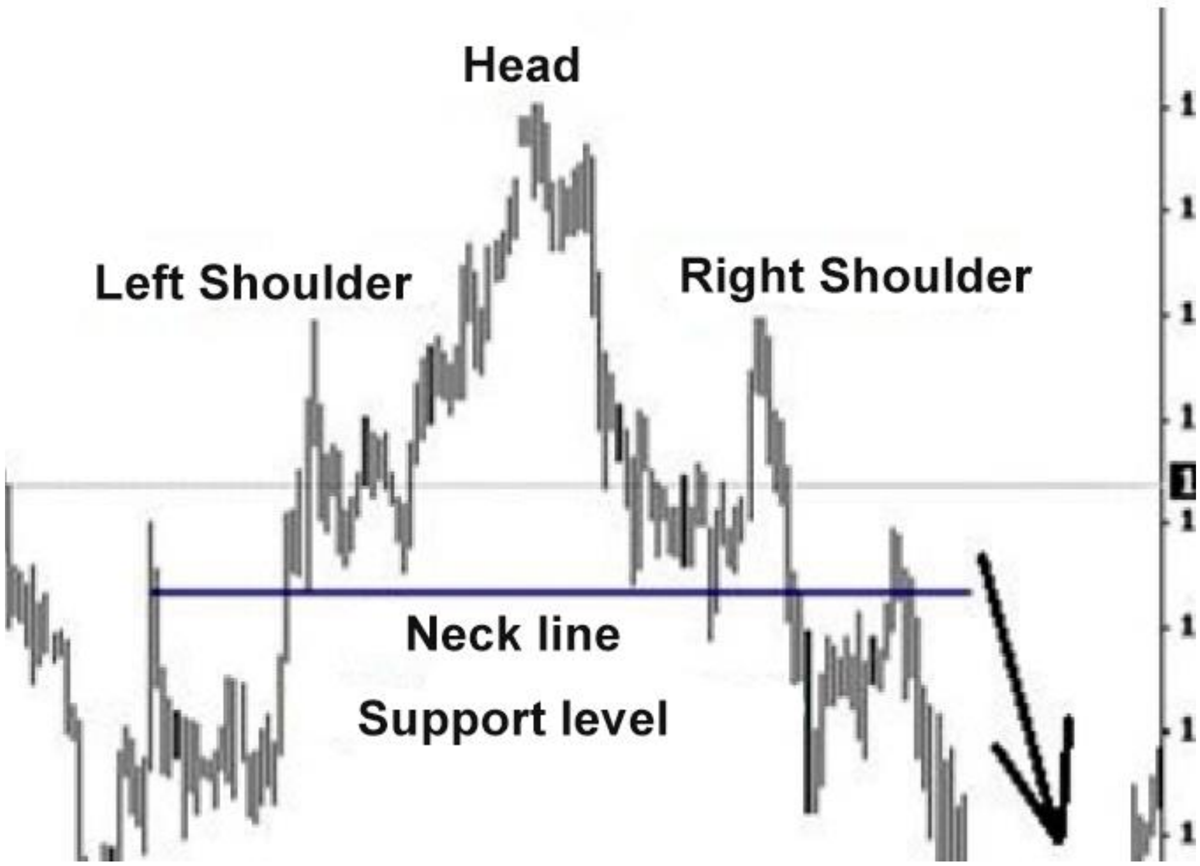
The *"Harami Cross"* is composed of two candlesticks. The first one has a long body and the other doesn't have it at all. Basically, the second candlestick in the *"Harami Cross"* is a "*Doji",* where the opening price is equal to the closing price, but there are also two shadows, marking the high and low prices of the previous timeframe. The appearance of this model is indicative to certain indecision on the market, which, as a rule, is followed by a reversal or a strong price leap towards the existing trend.

The fact that the pattern is composed of two candlesticks means that it was formed in the course of two timeframes. In the first timeframe the price was rather active, which gave the candlestick a long body and two corresponding shadows. The first candlestick should be directed along the currently prevailing trend. The second timeframe was way less volatile. The price moved slightly up, then went down (or vice-versa), forming the high and the low, and by end of the timeframe it returned to the opening point.

The second candlestick must be fully engulfed by the body of the first, i.e. the engulfing range must cover the shadows as well. In this case the signal will be stronger.

Appearance of the third candlestick directed against the first one will confirm the occurrence of the reversal. In other words, if the first candlestick has a “bullish” pattern, a downtrend must dominate over the third. Considering that the *"Harami Cross"* means indecision among "bears" and "bulls", it is desirable to await a confirmation of the reversal or of the continuation of the prevailing trend.

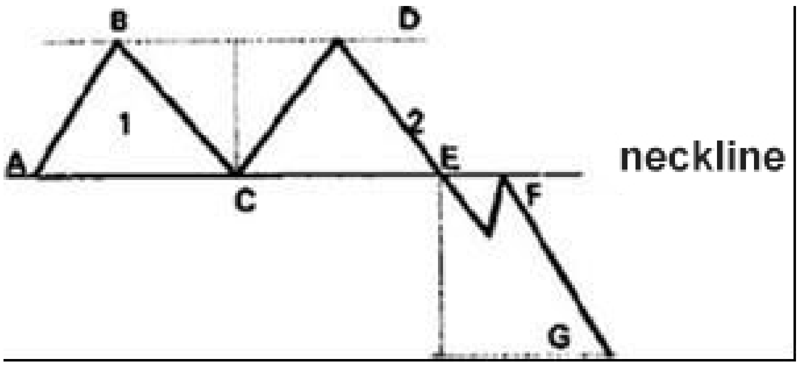
Head and Shoulders



*"**Head and Shoulders**"* is a reversal formation, which appears on the top of the trend and is composed of three peaks.

Visually they remind a human head and shoulders, since the central peak is higher than those on both sides. *"Head and Shoulders"* pattern forms both on bearish and bullish trends. On a bullish trend it forms on the three top peaks and on bearish trend – on three low peaks.

Double Top



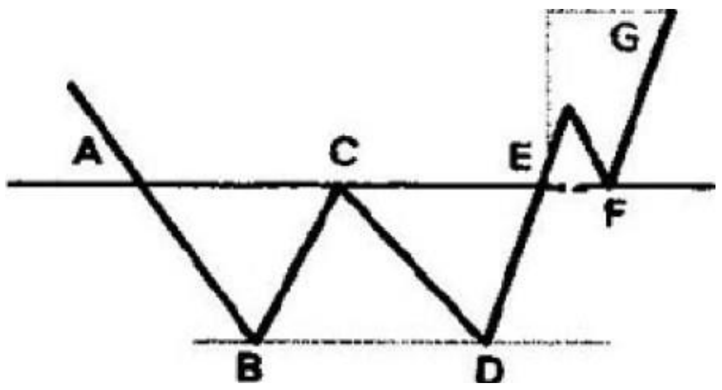
The "***Double Top****"* pattern is composed of two peaks of almost equal height. Parallel to the resistance level that connects the two tops, there is a line that can be considered analogous to the neckline in the *"Head and Shoulders"* pattern. If we consider that the previous resistance line was broken through at point A, then at the price level C it turned into a support level, but was subsequently broken through again at point E. After this the support line became a solid resistance line, triggering a sharp reversal at point F. The range of the channel, where the pattern was formed, is thus the target for Take Profit.

The “*Double Top”* pattern contains information pertaining to:

- Support line (fragment AE);
- Resistance line (Fragment BD);
- Price direction.

If the neckline withstands the pressure of buyers at point F, the pattern signals, that the further direction of the price will be opposite to the direction of the peaks, i.e. it will be bearish.

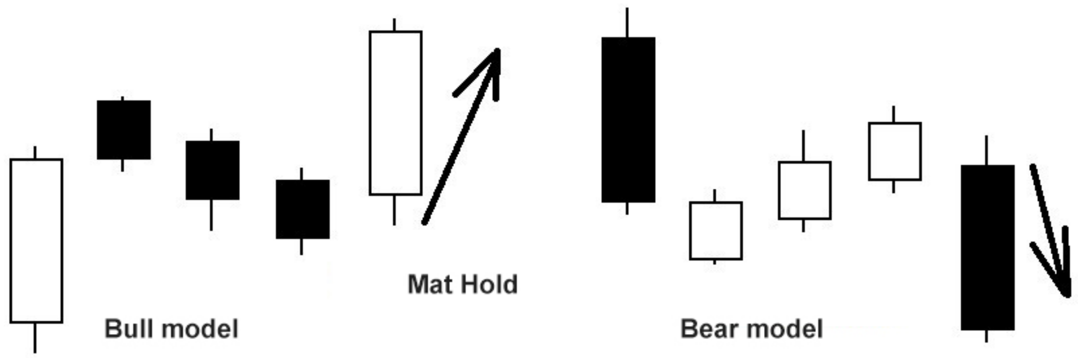
Double Bottom



The pattern ***"Double Bottom"*** is the flip image of the "*Double Top",* therefore, all the specifics and conclusions, presented above, can be applied to it too. The height of the bottoms in this pattern is almost equal.

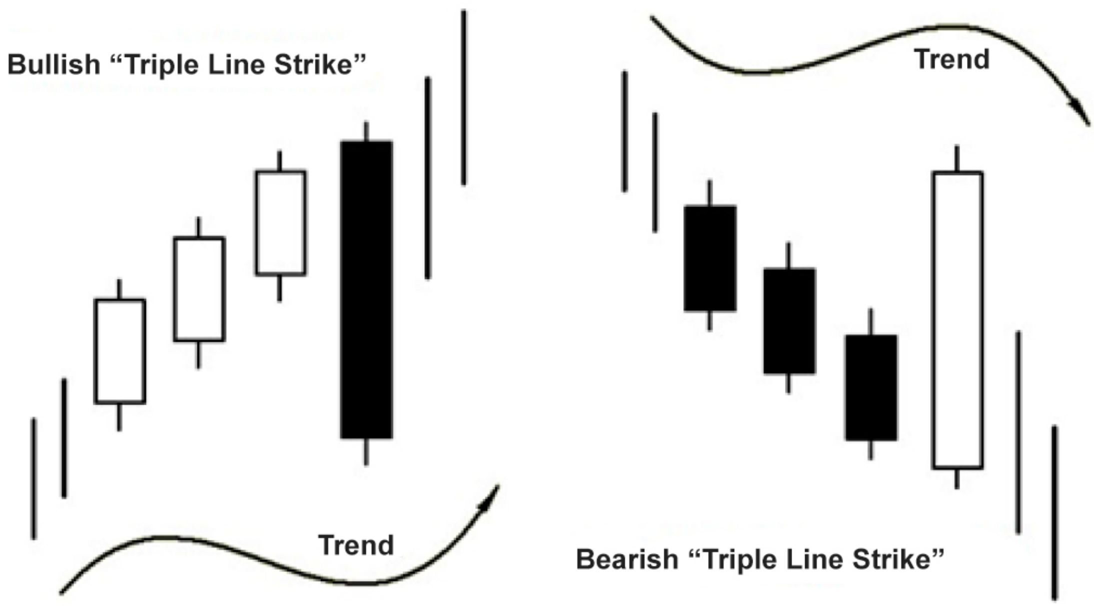
The neckline is parallel to the line connecting the peaks of the bottoms (B and D). Being a support line, it was broken through at point A, turned into a strong resistance line at the price level C, but was repeatedly touched at point E. The resistance line turned into a strong support line triggering a market reversal at point F.

Trend Continuation Candlesticks



*“**Mat Hold**”* can be seen in Japanese candlestick chart analysis among various currency pairs and appears to be quite an accurate signal. This formation is categorized as a continuation pattern, meaning the traders who use it place orders in the direction of the current trend. On the chart the “*Mat Hold”* is represented in the form of three or rarely more than three candlesticks with small bodies and short shadows.

“Mat Hold” is gaining momentum before continuing in the existing direction. Trades should be opened after the second-high signal candlestick closes.



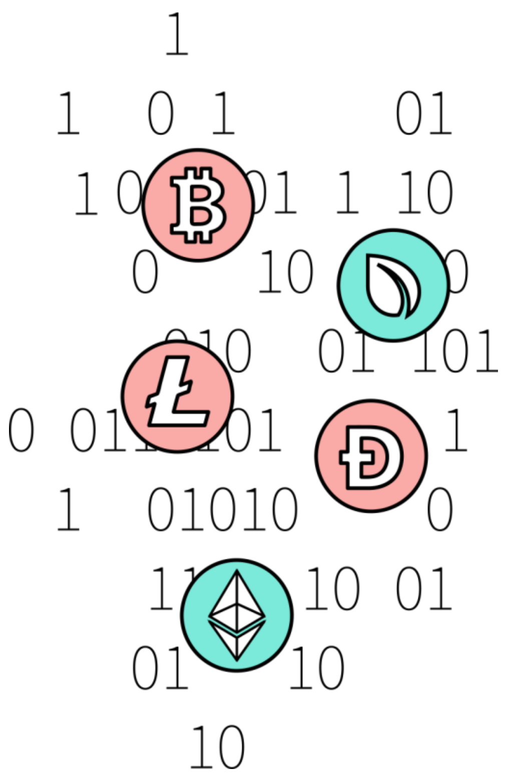
“***Three Line Strike***” is a candlestick pattern which appears in the trend market. It signals a pause in trading, after which the market is supposed to keep moving with new vigor.

The “*Three Line Strike*” is composed of four candlesticks. The first three continue the current trend. They are white if it’s an uptrend and black if the trend is moving downwards. These three candlesticks have long, approximately equal bodies and short shadows. The fourth shadow features a long body and is colored differently from the rest. It is important that the three previous candlesticks are in the range of the fourth one. The “*Three Line Strike*” is well visualized on intraday charts.

Chapter Summary

In this chapter we discussed only a part of candlestick patterns, which can be seen on the Forex market. Candlestick formations fall into two categories: reversal and continuation patterns. Anyway, a candlestick is only an indicator of the market makers’ behavior. Therefore, to have a confirmation of the ideas suggested by candlesticks, it is better to use them in combination with other instruments of technical analysis.

Chapter 9
Cryptocurrencies



Open a demo ECN Prime account and trade cryptocurrency.

Cryptocurrencies are by far the main financial trend of 2017. In January the Bitcoin rate reached $1,000, and by the end of the year it hit the mark of $16,000. Ethereum—Bitcoin's closest competitor—

also kept growing. In January it was traded at $9–10, while in December it went up to $700. Those who invested into Bitcoins in 2010 and bought it at the price of $0.05 have already become millionaires. There are some funny stories too. In 2010, on a thematic forum, an American bought two pizzas with 10,000 Bitcoins. As of today, it's the most expensive pizza throughout the history.

In 2017 cryptocurrencies caught the interest of both serious and novice investors. Cryptocurrencies are constantly in the center of heated discussions. While a some people claim that the bubble is about to burst soon, others actively mine, trade cryptocurrencies and predict a bright future for this market. Let us find out what cryptocurrencies actually are and how profitable they are.

What is a cryptocurrency

Cryptocurrencies are basically currencies that do not have physical existence and reside exclusively in the digital world. The concept of the world's first cryptocurrency, namely the Bitcoin, was presented on 31 October 2008, by a person under the pseudonym Satoshi Nakamoto. The person who went by this name is unknown to the present day, but the Mass Media are still making guesses. The main difference of cryptocurrencies from traditional money is their decentralized nature. This means that cryptocurrencies do not belong to anyone specifically. The Dollar, the Euro and other currencies are issued by the banks, and their prices are influenced by the monetary policy of states. The rates of cryptocurrencies depend entirely on market demand and supply. If at some point absolutely no one shows interest in Bitcoin, Ethereum and Litecoin, their prices might come down to zero.

Cryptocurrencies work on blockchain technologies. The information about cryptocurrency transactions is stored on thousands of computers all over the world, therefore this data cannot be forged or modified. All cryptocurrency transactions take place online. Initially, every such transaction is nothing but a message, stating that one user transferred to another one a certain number of Bitcoin, Ethereum or other Cryptocurrency.

At this stage miners come into action. Miners figure out the special hash function and thus confirm the transaction. The miners are rewarded for their work. When the price of cryptocurrencies started growing sharply, all of a sudden everybody got interested in mining, from students to housewives. The computer stores all over the world experienced an unexpected deficit of video cards. But the majority of amateur miners were unsuccessful. The competition is very high among miners, so it is hard, and as a rule, unprofitable for a miner with a standard computer to compete with professional farms.

Industrial Mining Farm: Author: Marco Krohn

How to Earn on Cryptocurrencies

The cryptocurrency market is quite young and volatile. The cryptocurrency rates change rapidly.

The news and various rumors are able to drive up the price of this or that currency at some point and topple it with the same sharpness. Likewise, at the end of June the news about the death of Vitalik Buterin – the creator of Ethereum, broke the Internet. The news turned out to be fake, but it played its trick on the market, causing Ethereum to crash by 14%. Another example: in the summer of 2017 the press received multiple messages about an imminent rift among the developers of Bitcoin, so that before Bitcoin was divided into two currencies, namely classical Bitcoins and BitcoinCash, the Bitcoin rate slowed down and started to stagnate.

Presently, there are dozens of hundreds of cryptocurrencies out there, and the new ones keep blowing in. Certainly, not all of them are much sought after.
Bitcoin, Ethereum, BitcoinCash, Ripple and Litecoin make the top five. However, in a couple of years another cryptocurrency can unexpectedly hit the market, challenging the present leaders. The cryptocurrency market is dynamic, what makes it really interesting. Here, one can catch the trend wave and make a fortune on it.

Basically, this market abides by the same rules as other currency markets. Trading cryptocurrencies requires good skills in fundamental analysis and solid knowledge of technical analysis. The rules of classical trading are applicable to cryptocurrencies as well.

Rule №1. Diversify the risks. “Don’t put all your eggs in one basket” – reads investors’ holy commandment. It’s unwise to invest all your money into one, say Dogecoin; distribute your funds between multiple assets.

Rule №2. Bitcoin is the basis of the basket. Put your stakes on Bitcoin most of the time. Despite all speculations and talks about Bitcoin’s imminent “flop down”, it is presently the most stable cryptocurrency. Therefore, it makes sense to invest the bulk of your deposit into Bitcoins.

Rule №3. Follow the trend. Trading with the trend reduces the risks. It’s the simplest trading strategy, so don’t ignore it.

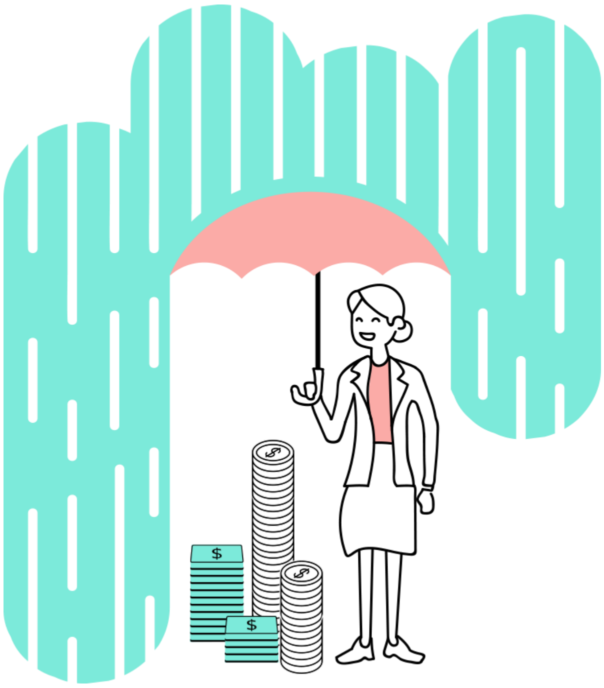
Rule №4. Combine various instruments for technical analysis. There are no magic pills in technical analysis. Using a combination of multiple instruments is the key to efficient trading.

Rule №5. Do not invest all your savings. This recommendation is especially relevant to cryptocurrency trading, since the cryptocurrency market is similar to a rollercoaster more than any other market. Put only a part of your money under risk.

Chapter Summary

The only difference of crypto trading from other types of trading is the instrument, while the rules are the same: buying at lower price, selling at higher, using technical and fundamental analysis and managing risks.

Chapter 10
Risk Management



The difference an amateur trader and a professional lies in the skill of risk management. Newbies often think that studying the basics of technical and fundamental analysis is the key factor in trading. Empowered by this knowledge, they start trading, but for some reason potentially profitable trades inflict losses, whereas a sound trading strategy suddenly becomes another fake Grail. In this chapter we will discuss the ways of reducing losses or, as traders put it, “not catching a falling knife”.

The majority of traders incur losses due to not complying with risk management rules or completely forgetting about them. To safeguard ourselves from such inadvertences, let us study the theory. So, two principles lie at the foundation of risk management. The first is – know how much you are ready to lose and the second: know how much you want to earn.

Loss and Profit Ratio

Beginner traders are recommended not to risk more than 2% of their capital per trade. An ideal loss and profit ratio for a trader is 1:2 or more. In this simple schematic representation 1 is the level of possible loss and 2 or more stands for the level of possible income. In case the potential profit is smaller than the possible loss, then the trade should be left out. The only exception is trading in turnovers, when the trader closes the existing trade as soon as the reversal signal is received and simultaneously opens an opposite order. In this style of trading, the stop loss level, as a rule, moves closer to the opening price, which reduces possible loss, as compared to initial quoting. In all other cases it is better to go by 1 to 2 or more formula.

Stop Loss

Traders' main rule is "Limit the losses, increase the profit". Stop loss is one of the instruments for risk management and a way to reduce losses. More details about it are presented in Chapter 3.

Steady trading requires realizing the amount of possible loss at each trade. A tip for the users of MetaTrader 4 platform – if you aim the mouse on the stop loss level and keep holding it, on the left side you'll see the exact amount of possible loss in your account's currency. The same is applicable to the take profit feature.

Placing the stop loss and take profit correctly is a separate science. Various factors, such as the specifics of the traded instrument, the trade's duration, the deposit amount, etc. influence their levels.

Stop orders are usually placed based on:

the concepts of the trading strategy;

indicator's or advisor's signals;

simple mathematical calculation: the stop loss amount is several times smaller than that of take profit. As a rule, traders strive to go for the ratio 1 to 2 or 1 to 3, i.e. so that take profit exceeds stop loss by 2 or 3.

To calculate the stop loss and take profit a novice trader will find it convenient to use special calculators. They help find out the amount of possible loss or gain at a given level of stop loss and take profit. Once the profit reaches the stop loss level, many sophisticated traders move the trades to break-even, drawing the stop order to the opening level. This move helps to essentially reduce the risks, but keep in mind, that any modification of stop orders should be thought over in advance.

Take Profit

Take profit works according the same mechanism as the stop loss order. The only difference is the result, achieved by the trader. More details about take profit are presented in Chapter 3.

Do not shift your take profit, unless it’s prescribed in your trading strategy. Quite often, gaining some profit, traders throw away the trading strategy and close the orders ahead of time, missing a part of profit, or shift the take profit away from the price, hoping to gain more. The fact is, the trader breaks the rules of the trading strategy, which makes the statistical data received from past experiences absolutely useless.

Impulsiveness or avarice aren’t the best advisors on the financial markets.

Stick to the initial plan and do not give way to emotions.

Chapter Summary

A successful trader:

— limits their losses by placing stop loss orders;

— does not exceed the permissible amount of the trade;

— uses the take profit order to lock in the profit, as prescribed by one's trading strategy;

— learns from one's own and others' mistakes;

— develops emotional resilience.

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Chapter 11
Mistakes of Beginner Traders

All traders at some point made mistakes, which led to financial losses. But in fact, the majority of them go down that road again. So, let us learn from others' experience, starting with the discussion of the most common mistakes, made by beginners.

1. Trading without a strategy. A trading system is basically a set of rules for opening and closing positions at certain

circumstances. Lack of a system turns trading into gambling, and sooner or later leads to the loss of deposit.

2. Trading against the trend. Everybody must have heard the phrase “*The Trend is my Friend*”. However, not everyone complies with that rule when trying to guess high and low prices for a profitable trade. Following the trend is a safer and less stressful type of trading.

3. Failure to place stop loss and take profit orders. Newbies often do not place orders for closing positions after earning a certain amount or incurring certain loss. On the Forex market traders trade on probability. The higher the probability, the better the chances of income. Even professional traders don’t know for sure whether the price will move in favorable

direction or not, and therefore make sure to place stop losses to limit the loss in case of an unfavorable scenario. Placing take profit orders, on the contrary, helps gain maximum profit: in this case traders place the order at important price values, where reversals are possible.

4. Shifting the stop loss level. Oftentimes, when the price moves against the trade, beginner traders shift the stop loss level far from the price, in hope of a reversal and avoidance of loss. But the price keeps moving against the trader, so do not shift the stop loss level, unless it's prescribed in your trading strategy.

5. Ignoring money management. In most cases this has to do with avarice. The trader places a high volume trade, stepping out of money management

rules, and thus, bears relevant loss. It is very important to trade with money management principles in mind.

6. The desire to get back what's yours. As a rule, after multiple unsuccessful trades in a row traders experience an overwhelming desire to get their own back. As a result, traders do their best to recover the losses as soon as possible, placing orders against the system and ignoring money management rules. If it's not your first day on financial markets, then you've probably tested many of these mistakes on yourself and are well aware of the negative consequences thereof. If you're making your first steps on Forex, there's much ahead of you. Not all of your transactions will be perfect, but these simple rules will help you outrun

other traders and secure yourself against unwanted losses.

To be in a better control of your trading activity, keeping a diary will be useful. Log your statistic data and make notes on the reasons you were governed by when opening and closing each trade. Keeping a dairy can help reveal the strengths and weaknesses of your trading system. Another option that can help to strictly follow your trading strategy is making a check-list. Outline all the terms of your trading system and make sure to check them out every time you want to open a position. If all the prescriptions of the system are complied with, you are ready to go with your trade.

Participate in trading contests!

Trader's Glossary

Ask — buying price.

Available margin — the amount on the account which can be used for trading.

Balance — the financial result on the trading account, excluding the open trading transactions.

Bearish market — a market, characterized by declining prices (quotes).

Bearish trend — downward movement; a market situation with obvious sustainable decline.

Bid — the offer price.

Breakthrough — a situation when the price breaks through a certain level: local highs or lows, support or resistance level, trend line.

Broker— an intermediary between the buyers and the sellers on the market. The choice of broker is highly important.

Bullish market — a market, characterized by growing prices (quotes).
Bullish trend — upward movement; a market situation with obvious sustainable growth.
Buy — purchase.
Buy limit — this order type is placed in anticipation of the price to move down to a certain level, reverse its course and continue moving upwards. In other words, this order suggests buying at a lower price than the current one.
Buy stop — a pending buy order at the higher price than the current price level. Assumes buying at a higher price than at the given moment. It is placed in anticipation that the market price will break through a certain level and keep moving upwards. It is executed when the future ask price is equal to the bid value.

Chart — graphical representation of the flow of quotes.

Closed position — a position that is no more exposed to currency fluctuations. A position is closed by placing an equal or opposite deal to offset the open position.

Commission — the fee, paid to the broker for the execution of transactions.

Consolidation — consolidation refers to a sideways correction or sideways trend with a narrow range. Consolidation indicates a relative equilibrium on the market, either caused by roughly equal demand and supply or temporary absence of market players.

Convergence — a kind of unconformity between the trading market price chart and technical analysis chart, where the new lower low of the market price corresponds to the new higher low of the technical indicator.

Correction — the reversal of the price or its backslide from the previous low or high.

Cross-rate — the exchange rate between two currencies, resulting from their rate against a third currency.

Currency — a state's monetary unit

Currency pair — two currencies that make part of a quote on the Forex market. For example, EUR/USD.

Currency rate — the number of currency units of one country against one currency unit of another country. In case of a currency pair it's the number of units of the quoted currency against one unit of the underlying currency.

Deposit — funds on the trading account.

Divergence — a kind of nonconformity between the market price chart and the technical indicator chart, when the new market highest high corresponds to the new lower high of the technical indicator.

Diversification — a strategy of diminishing risks. Following this strategy, a trader distributes the funds among multiple financial instruments. As a Forex term, diversification means trading different currencies, that have minimal effect on each other.

Flat— absence of a steady trend in the price movements; a neutral position on the market.

Free margin — the funds on the trading account, that can be used for opening new positions. Free margin is calculated by the following formula: current account balance minus the margin requirement.

Fundamental analysis — analysis based exclusively on the news, economic indicators and global events.

Gap — a break on the price chart. A gap can appear due to quick fluctuations on the market, preceded by force majeure or announcement of important economic data. Gaps often occur after weekends, when the opening and closing prices are essentially different.

Indicator — mathematical derivative of the price or volume of the financial instrument used for analysis and market prediction.

Instrument — the asset of the trade, placed in pursue of profit.

Japanese candlesticks — a Japanese candlestick chart displays the prices of the trading range, as well as the opening and closing prices.

Leverage — the ratio between the collateral (margin) and the trade size. The leverage is provided by brokers to allow traders to perform transactions that exceed the deposit amount many times. However, using leverage also increases the risks of incurring losses.

Limit order — an order of trade execution with the restriction of the highest ask price and the lowest bid price.

Long position — a trade initiated in anticipation of earning on the growth of the price. Long position assumes buying.

Lot — a unit to measure the amount of the deal. A standard lot equals to 100,000 USD. In contemporary trading it is popular to trade micro lots on micro accounts.

Lot size — the quantity of securities or underlying currency in one lot.

Margin — 1. The portion of interest rate which should be added to the price of the commodity to find out the trade value. 2. The difference between ask and bid prices for securities when purchased by a market maker or commodities when purchased by a dealer. 3. In commodity and currency trading margin represents the size of pre-payment to the broker or the dealer made by the person trading on the stock market, or by the investor, when buying futures. 4. The value, representing the difference between two specified indices; the required amount of funds, deposited by an investor as a collateral.

Margin call — a request from a broker or dealer to deposit additional funds or other collateral **Market maker** — a dealer who regularly quotes ask and bid prices for a financial instrument with a commitment to carry out a transaction at the indicated price.

Money management — the process of managing one’s capital based on a set of rules. Money management includes various methods and techniques, aimed at multiplication of investments along with minimization of risks.

Non-farm payrolls — represents the number of new vacancies in the U.S. opened in non-farm sector of economic activity. It’s the second most important economic index of the U.S. after the GDP and it impacts the market sentiment throughout a one-month period. The non-farm payroll index is believed to be “driving the market”.

Offsetting transaction — a form of offsetting trading, which serves to canceling or diminishing market risks on the open position, partially or entirely.

Open position — a market position, which at the given moment has not been offset by an opposite deal.

Order — a request to the broker to execute a deal at the quoted price.

Pending order — an order for execution of a deal once the price reaches a certain level. There are four types of pending orders: buy limit, buy stop, sell limit and sell stop.

Point — the smallest currency price unit. Usually, it’s the second or the fourth decimal digit after point, e.g. 0.01 or 0.0001.

Quotation— a representation of the unit of one currency in the units of another.

Quoting — a flow of quotes for opening trading transactions, presented to the trader by the broker.

Resistance — a price level, at which the probability of active selling is high, with subsequent reversal of the uptrend.

Scalping — one of the strategies of intraday speculations on the stock, currency and commodity markets which is characterized by closing the deals once a small profit of several points is gained.

Sell limit — a pending order for selling an instrument at a price, that is above the current market price. Sell limit is placed in anticipation that the market price will grow up to a certain level and the start declining. It is executed when the future bid price is equal to the quoted value.

Sell stop — an order for selling an instrument at a price, that is below the current market price. It is placed in anticipation, that the price will reach a certain value, break it through and keep moving downwards.

Short position — a trade initiated in anticipation of earning on the decline of the price. Short position assumes selling.

Spread — the difference between the ask and bid prices of a currency, measured in points.

Stop loss — an order that automatically liquidates the open position at the indicated price level. Such orders are often used to minimize losses should the market move against the investor.

Stop out — an order close the position compulsorily without prior notice to the client and without the latter’s consent in case of insufficient balance to sustain the open position.

Support — a price level, at which the probability of active buying is high, with subsequent reversal of the downtrend.

Swap — forwarding of an open position to the next day. A swap can be positive and negative.

Take profit — an order placed for the purpose of banking the profit gained from a position in case the price of the financial instrument keeps moving in the favorable direction.

Technical analysis — prediction of prices based on the analysis of market data, i.e. historical data on trends and average price value, trade sizes, opened deals, etc.

Tick — the smallest currency price unit. Usually, it’s the fourth decimal digit after point, e.g. 0.01 or 0.0001.

Trader — a market player who carries out transactions to generate profit.

Trading strategy or system — a set of rules and terms for carrying out transactions.

Trading terminal or platform— a software used to receive flows of currency quotes, conducting real time transactions, logging and recording thereof, as well as to analyze the market situation.

Trailing stop — one of the functions of the trading terminal that allows the traders to shift the previously set stop loss following the movements of the price of the currency pair.

Trend line — a straight line on the price chart, connecting the local lows in case of an uptrend and the local highs in case of a downtrend. The trend line graphically displays the current market trend, and its breakthrough is a signal of possible trend reversal.

Volatility — a market specification measuring the price movements in a certain time interval.

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