

# GETTING STARTED IN CURRENCY TRADING

*INCLUDES COMPANION WEBSITE*



**WINNING IN TODAY'S MARKET**



**FOURTH EDITION**

**MICHAEL DUANE ARCHER**

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— **Getting Started in** —

# **CURRENCY TRADING**

**F O U R T H E D I T I O N**

**Michael Duane Archer**



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*To my favorite “uncle” and best friend, Jim Pacha*

# Acknowledgments

I wish to thank my mentor, the late Charles B. Goodman, for sharing with me his remarkable market theories, methods, and holistic approach to trading. Unsung in his own time, Charlie was to me the greatest of all the market mavens.

Thanks also to my mentoring students and GoodmanWorks Trading Room members, especially Matthew Cheung, Theunis Hattingh, and Trip Reilly. I have learned much by teaching them. Bradley Sutherland of Najibi Capital was most helpful in giving me a preview of his firm's lead-edge grid trading system.

Finally, to the memory of the co-author of the first edition of *Getting Started in Currency Trading*, Jim Bickford. You are missed each and every day.

M.A.

# Introduction

## About This Book

This book is intended to introduce the novice investor to the exciting, complex, and potentially profitable realm of trading world currencies on the FOREIGN EXchange markets (FOREX). It also serves as a reference guide for stock and futures traders who wish to explore new trading opportunities. My primary focus is on the rapidly expanding and evolving online trading marketplace for spot currencies, generally referred to as *retail FOREX*.

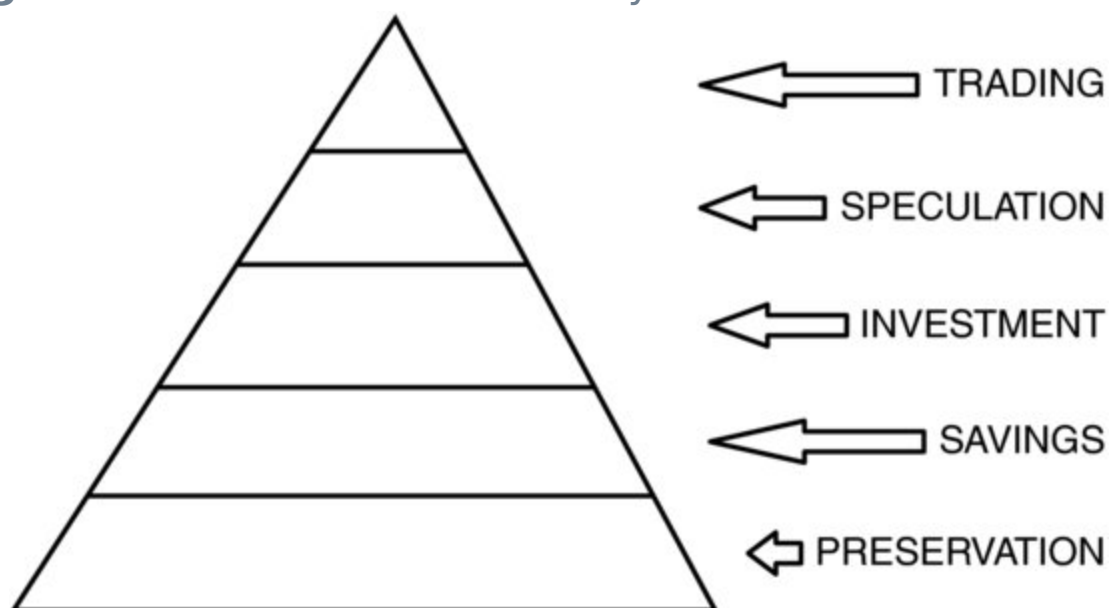
Currency trading has a wide appeal in today's global economic and investment climate. Currencies allow the investor to participate in the financial and economic fortunes and misfortunes of different countries and different regions. As I write these words, there is a seesaw battle between the debt crisis in the European Union and the one in the United States. As news and sentiment ebb and flow, so does the euro/U.S. dollar (EURUSD) currency pair. While the risks are substantial, the rewards are also potentially enormous. There is opportunity every trading session in FOREX. A market does not need to be in a sustained trend to have profit potential. It requires only movement and volatility.

Unlike equities and stocks, a currency trade is a spread between one currency and another currency. You are simultaneously buying one and selling the other. While trends in currencies can be very long, they ultimately trade in very wide *bands* as interest flows back and forth between the two members of the pair. Barring a country's collapse, a currency's price at least in the longer term has always come

back. Some FOREX trading systems, particularly grid and Pac Man programs, aim to take advantage of this band phenomenon.

Because critical events occur so frequently in the global economy of the twenty-first century, a buy-and-hold strategy can be frustrating and costly irrespective of the investment instrument. Carefully nursed profits can vanish with the next news announcement, flash crash, or crisis. The traditional investment pyramid is composed of classes—*preservation, savings, investment, and speculation*, typically denominated with specific investment instruments such as *cash and gold, bonds and savings, equities, and commodities*. In today's environment, *trading* becomes a class unto itself for the astute investor, seizing good profits before they disappear. Trading currencies becomes a near-perfect fit for the times.

**Figure I.1** The New Investment Pyramid



From the beginning, I emphasize currency trading may not be to everyone's disposition. The neophyte investor must be keenly aware of all the risks involved and should never trade on funds deemed necessary for day-to-day living. Currency trading is a form of speculation—attempting to



profit by absorbing a risk that already exists. This differs from gambling in which one creates a risk in order to take it. Savings and conservative investment should be covered before considering speculation of any kind, including trading.

If you have some experience with leveraged markets such as futures or options, you owe yourself a look at FOREX. Those who have never traded will find it the most laissez-faire of all financial adventures.

## The Fourth Edition

From the writing of the first edition in 2004 to the publication of this fourth edition in 2012, the retail FOREX industry has evolved enormously. Regulation, almost nonexistent in 2004, has now expanded to the point where many participants consider it overdone and more burdensome than productive. But at least for the retail currency market participant increased regulation has made the currency markets more palatable.

Many small, boutique FOREX brokers are no more; either dissolved because they could not meet new financial requirements or they were absorbed by larger firms. Selection is less, but quality is higher. Customer service, a bugaboo for years, has made great strides as the major players strive to attract new clients and keep existing clients from seeking greener pastures.

Tools for trading have increased and improved. In 2004, almost every brokerage had its own trading platform and most of them had significant problems. Today, there are fewer than half a dozen standardized platforms and all of them are very stable and feature-rich. If you like a platform but dislike the broker, it is easy to change the latter and keep the former. The technology for online trading, while still not perfect, is much more stable and robust.

But the bottom line has not changed. Most new traders do not last long and are shown the door quickly. It is the purpose of this fourth edition of *Getting Started in Currency Trading* to assist you, dear reader, in not being one of those statistics. To that end, I have organized the material to be more of a step-by-step introduction, easing you in to the biggest game in town, slowly but surely. I have also included more material on my own trading approach, the Goodman Method. It is a holistic approach that incorporates a simple-to-learn method—Goodman Wave Theory—with built-in money management and procedural guidelines.

This edition includes a chapter on managed FOREX for those who like the idea of participating in the currency markets but who do not wish to do the trading themselves.

## How This Book Is Organized

There are six main parts to this book:

### **1. Part 1—The Foreign Exchange Markets**

The World of FOREX, A Brief History of Currency Trading, Five FOREX Markets, Regulation: Past, Present, and Future

I open the book with a brief overview of the FOREX markets, an event-by-event-based historical overview of currency trading, and the five primary methods for participating in the currency markets as a retail trader. I hope to dispel any myths the reader has about FOREX while encouraging a slow approach to learning and a healthy skepticism of the get-rich-quick fallacy. Currencies may be traded in five different forms although spot trading predominates. Retail FOREX regulations are playing catch-up after years of benign neglect.

### **2. Part 2—Getting Started**

The Language of FOREX, FOREX by the Numbers, A Guide to Trading Platforms, Selecting a FOREX Broker,

## How to Open a FOREX Account, Making the Trade

Every major industry has its own gamut of highly specialized terms or jargon, and currency trading is no exception. You must thoroughly comprehend this jargon before attempting to initiate any trades. With a little familiarization, the language of currency trading will become second nature.

I review the major trading platforms and assist the new trader in selecting a reputable online currency dealer. The steps to open an account—beginning with a demo account—are explained and the problems to be avoided noted. The actual step-by-step processes of initiating and liquidating a trade are examined in detail with a complete explanation of each order type. The new trader can at this point open an account and at least become familiar with the day-to-day operations of a broker, the intricacies of a trading platform, and the fascinating movement of currency prices.

This section must be understood before the reader proceeds to the later sections and commences actual trading.

### **3. Part 3—The Trader's Arsenal**

#### The FOREX Marketplace, technical Analysis, News Trading

Historically, there have been two major schools of thought in analyzing markets, whether they are stocks, commodity futures, or currencies: fundamental analysis and technical analysis. Most traders—especially at the retail level—use technical analysis: the study of the actual price movements as depicted by charts and indicators. While an understanding of fundamentals—unemployment statistics and banking policy, for example—is useful, it is difficult to apply in the hurly-burly of everyday trading. More critical is how the market reacts to such information. Each currency has a multitude of

standing news reports that often sharply affect the price of currency pairs. Understanding these reports and how to make them work for you instead of against you is where the fundamental rubber hits the FOREX road. The popularity of currency trading has spawned a very large third-party industry and a wealth of trading products and services. A full chapter is devoted to those offerings.

#### **4. Part 4—Winning Is the Name of the Game**

##### **Trading Spaces, Setting Up Shop, A Simple System**

Understanding trading as a process instead of an activity is critical to success. I have mentored students in FOREX for over a decade and where they most often fail is in not having a coherent plan to approach trading.

You can trade currencies at many levels. Where you fit in depends a lot on your schedule—how much time you can devote to trading and your individual preferences and propensities. Guerillas are very short-term traders, often using charts with five-minute bars. Scalpers may have a slightly longer perspective and trade 15-minute bars. Day traders typically use one-hour bars, and position traders use one-day charts. Deciding early in your career where you fit is important. Mixing profiles is a mistake many new traders make.

Part of getting the process right is being well organized. Because the markets run  $24 \times 7$ , except for weekends, you need to be able to keep track of what has occurred while you were away. A variety of forms are provided to help you set up shop the right way and be fully prepared for battle from the outset.

It will take some time before you know what trading methods and tools you will want to use. To get you into the swing of things while you study and learn, I offer a simple system that allows you to at least trade and learn at the demo account level. It will also give you a

foundation as you study the vast array of available methods for trading FOREX.

## **5. Part 5—The Goodman Method of Trading**

Goodman Wave Theory, The Propagation Trade Setup, The Dagger, the Waltz, and the Line, The Proactive Trader, A 30-Trade Campaign Program, Goodmanisms

Charles B. Goodman was a commodities trader who mentored me in my formative trading years. He had his own approach to trading, which incorporated a method—Goodman Wave Theory, a money management scheme—the Dagger, the Waltz, and the Line, and a wonderful approach to the issue of process in trading.

While I have written some very complex computer trading systems using artificial intelligence and nonlinear models, I have yet to find a method better than Goodman Wave Theory. The trader can put it to work quickly yet drill very deep as he progresses.

I detail in this section the method, the money management scheme, and his process teachings. You may or may not decide to use his method. But his money management and process, tracking, and organizational ideas are universal and may be applied no matter what specific method you may ultimately use to trade FOREX.

Mr. Goodman's general advice to all traders is offered in Goodmanisms, brief comments, analogies, metaphors, and pointed statements he made to emphasize the holistic nature of trading in general and his methods in particular.

## **6. Part 6—Over the FOREX Rainbow**

Tools for Traders, Options and Exotics, Managed FOREX, Computer Trading

No matter how successful a trader you become, there is always room for improvement! The variety of techniques traders use is legendary. Here I hope to pique your interest in some I have found of value and others my

students have been successful using. You are encouraged to explore for more.

Currency options are now becoming a serious contender to the most popular FOREX venue, spot trading. Exotics are currency pairs with a member from a small country such as Turkey or Poland. They can be riskier than the major pairs such as EURUSD, but also quite lucrative for the astute participant.

After dabbling in FOREX, some traders decide they appreciate the value of currency trading but do not have either the time or desire to do it on their own. Hiring a professional money manager may appeal to them. There are a number of venues within this space and, like trading itself, a right and wrong way to approach it and participate in it.

Computers and FOREX trading are like bacon and eggs, a natural match. Beyond placing orders and following the markets online, there are multiple avenues to computer trading. Some traders use a fully automated strategy; others develop their own methods and tools to assist their trading. Looking in to the future, there are a number of developments, which all FOREX participants should at least be aware.

## **7. Appendixes**

Reference information, including currency symbols, information on trading times and zones, and pointers to additional FOREX resources is included in the appendixes. A comprehensive glossary of terms completes *Getting Started in Currency Trading*.

The author's attempt has been to make this book an all-in-one introduction as well as a handy computer-side reference guide for day-to-day trading operations. Alas, only you, dear reader, may judge the level of my success.