

# GETTING STARTED IN CURRENCY TRADING

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**WINNING IN TODAY'S MARKET**



**FOURTH EDITION**

**MICHAEL DUANE ARCHER**



———— **Getting Started in** ————

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# **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*





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# Contents

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**Acknowledgments** **xix**

**Introduction**

**About This Book** **xxi**

**PART 1**

**THE FOREIGN EXCHANGE MARKETS**

**Chapter 1**

<b>The World of FOREX</b>	<b>3</b>
<b>Introduction—What Is FOREX?</b>	<b>3</b>
<b>What Is a Spot Market?</b>	<b>4</b>
<b>Which Currencies Are Traded?</b>	<b>4</b>
<b>Who Trades on the Foreign Exchange?</b>	<b>5</b>
<b>How Are Currency Prices Determined?</b>	<b>6</b>
<b>When Do Currencies Trade?</b>	<b>8</b>
<b>How Is Money Made in FOREX?</b>	<b>8</b>
<b>Why Trade Foreign Currencies?</b>	<b>9</b>
<b>What Tools Do I Need to Trade Currencies?</b>	<b>13</b>
<b>What Does It Cost to Trade Currencies?</b>	<b>13</b>
<b>FOREX versus Equities</b>	<b>14</b>
<b>FOREX versus Futures</b>	<b>14</b>
<b>Summary</b>	<b>15</b>

**Chapter 2**

<b>A Brief History of Currency Trading</b>	<b>17</b>
<b>Introduction</b>	<b>17</b>
<b>Ancient Times</b>	<b>17</b>

<b>The Gold Standard, 1816 to 1933</b>	<b>18</b>
<b>The Federal Reserve</b>	<b>18</b>
<b>Securities and Exchange Commission, 1933 to 1934</b>	<b>20</b>
<b>The Bretton Woods System, 1944 to 1973</b>	<b>21</b>
<b>The End of Bretton Woods and the Advent of Floating Exchange Rates</b>	<b>21</b>
<b>International Monetary Market</b>	<b>22</b>
<b>Into the Millennium</b>	<b>22</b>
<b>Arrival of the Euro</b>	<b>23</b>
<b>The CFTC and the NFA</b>	<b>25</b>
<b>Summary</b>	<b>25</b>

### **Chapter 3**

<b>Five FOREX Markets</b>	<b>27</b>
<b>Introduction—Spot, Futures, Forwards, Options, Spread Betting</b>	<b>27</b>
<b>Currency Futures</b>	<b>29</b>
<b>Contract Specifications</b>	<b>29</b>
<b>Currencies Trading Volume</b>	<b>30</b>
<b>U.S. Dollar Index</b>	<b>30</b>
<b>Volume and Open Interest</b>	<b>31</b>
<b>Where to Trade Currency Futures</b>	<b>33</b>
<b>FOREX Futures</b>	<b>33</b>
<b>Summary</b>	<b>33</b>

### **Chapter 4**

<b>Regulation: Past, Present, and Future</b>	<b>35</b>
<b>Introduction</b>	<b>35</b>
<b>Regulation in the FOREX Market</b>	<b>35</b>
<b>Regulation Past</b>	<b>36</b>
<b>Regulation Present</b>	<b>39</b>
<b>Regulation Future</b>	<b>43</b>
<b>Summary</b>	<b>44</b>

**PART 2****GETTING STARTED****Chapter 5**

<b>The Language of FOREX</b>	<b>47</b>
<b>Introduction</b>	<b>47</b>
<b>Currency Pairs</b>	<b>47</b>
<b>Major and Minor Currencies</b>	<b>48</b>
<b>Cross Currency</b>	<b>48</b>
<b>Exotic Currency</b>	<b>48</b>
<b>Base Currency</b>	<b>48</b>
<b>Quote Currency</b>	<b>49</b>
<b>Pips</b>	<b>49</b>
<b>Ticks</b>	<b>49</b>
<b>Margin</b>	<b>50</b>
<b>Leverage</b>	<b>51</b>
<b>Bid Price</b>	<b>52</b>
<b>Ask Price</b>	<b>52</b>
<b>Bid-Ask Spread</b>	<b>52</b>
<b>Quote Convention</b>	<b>52</b>
<b>Market Maker and ECN</b>	<b>53</b>
<b>Transaction Cost</b>	<b>53</b>
<b>Rollovers</b>	<b>54</b>
<b>Correlation</b>	<b>54</b>
<b>Summary</b>	<b>55</b>

**Chapter 6**

<b>FOREX by the Numbers</b>	<b>57</b>
<b>Introduction</b>	<b>57</b>
<b>Pips</b>	<b>58</b>
<b>Profit and Loss</b>	<b>59</b>
<b>Margin</b>	<b>60</b>
<b>Leverage</b>	<b>62</b>
<b>The Bid-Ask Spread</b>	<b>62</b>

<b>Profit Threshold</b>	<b>63</b>
<b>For Futures Traders</b>	<b>66</b>
<b>Summary</b>	<b>66</b>

## **Chapter 7**

<b>A Guide to FOREX Trading Platforms</b>	<b>69</b>
<b>Introduction</b>	<b>69</b>
<b>Trading Platform Features</b>	<b>71</b>
<b>More Trading Platforms</b>	<b>79</b>
<b>Professional FX Platforms</b>	<b>80</b>
<b>Trading Platform Checklist</b>	<b>81</b>
<b>A Kid in the Candy Store</b>	<b>82</b>
<b>Summary</b>	<b>82</b>

## **Chapter 8**

<b>Selecting a FOREX Broker</b>	<b>83</b>
<b>Introduction</b>	<b>83</b>
<b>Broker-Dealer Due Diligence</b>	<b>84</b>
<b>Demo Accounts</b>	<b>85</b>
<b>Market Maker or ECN?</b>	<b>86</b>
<b>Costs</b>	<b>87</b>
<b>Liquidity Providers</b>	<b>89</b>
<b>Customer Service</b>	<b>90</b>
<b>Trading Pair Palette</b>	<b>91</b>
<b>Financial Stability</b>	<b>91</b>
<b>Complaint and Error Resolution</b>	<b>92</b>
<b>Account Options</b>	<b>92</b>
<b>Games Brokers Play</b>	<b>93</b>
<b>Top Broker-Dealers</b>	<b>93</b>
<b>Popular Broker-Dealers</b>	<b>99</b>
<b>The Big Four Broker-Dealers</b>	<b>100</b>
<b>For the Professional and Non-U.S. Trader</b>	<b>101</b>
<b>Spread Betting</b>	<b>102</b>
<b>Fraud, Scams, and Off-Exchange</b>	<b>103</b>

<b>Broker-Dealer Checklist</b>	<b>103</b>
<b>Summary</b>	<b>103</b>

## **Chapter 9**

<b>How to Open a FOREX Account</b>	<b>105</b>
<b>Introduction</b>	<b>105</b>
<b>The Demo Account</b>	<b>106</b>
<b>The Live Account</b>	<b>107</b>
<b>Redundancy</b>	<b>111</b>
<b>Summary</b>	<b>113</b>

## **Chapter 10**

<b>Making the Trade</b>	<b>115</b>
<b>Introduction</b>	<b>115</b>
<b>Orders</b>	<b>115</b>
<b>Market Orders</b>	<b>117</b>
<b>Limit Orders</b>	<b>118</b>
<b>Stop Orders</b>	<b>118</b>
<b>Combination Orders</b>	<b>121</b>
<b>Specialty Orders</b>	<b>121</b>
<b>Order Placement</b>	<b>121</b>
<b>Order Execution</b>	<b>122</b>
<b>Order Confirmation</b>	<b>123</b>
<b>Open Orders</b>	<b>123</b>
<b>Open a Demo Account</b>	<b>124</b>
<b>Summary</b>	<b>125</b>

### **PART 3**

## **THE TRADER'S ARSENAL**

## **Chapter 11**

<b>The FOREX Marketplace</b>	<b>129</b>
<b>Introduction</b>	<b>129</b>
<b>Portals and Forums</b>	<b>130</b>

Broker-Dealer Reviews	133
Educational Resources	133
News and Calendars	135
Management Tools	136
System Development Tools	137
Data Services	140
Programming Services	142
Advisory Services	142
References, Periodicals, and Books	143
Fun Stuff	145
Summary	146

## **Chapter 12**

Technical Analysis	147
Introduction	147
Bar Charts	148
Trendlines	151
Support and Resistance	151
Recognizing Chart Patterns	152
Reversal Patterns	152
Continuation Patterns	153
Candlestick Charts	155
Point and Figure Charts	157
Charting Caveat—Prediction versus Description	160
Indicators and Oscillators	161
Relative Strength Indicator	161
Momentum Analysis	163
Moving Averages	164
Bollinger Bands	165
Indicator Caveat—Curve-Fit Data	167
Wave and Swing Analysis	169
Cycle Analysis	170
Trading Systems	171
The Technician's Creed	171

<b>The Technician's Caveat</b>	<b>171</b>
<b>Summary</b>	<b>172</b>

## **Chapter 13**

<b>News Trading</b>	<b>173</b>
<b>Introduction</b>	<b>173</b>
<b>Fundamental Analysis</b>	<b>174</b>
<b>Fundamental Problems</b>	<b>174</b>
<b>Fundamental Factors</b>	<b>175</b>
<b>A Fundamental Discussion</b>	<b>181</b>
<b>FOREX News</b>	<b>186</b>
<b>Key News Releases</b>	<b>186</b>
<b>Reality versus Expectation</b>	<b>187</b>
<b>News Trading</b>	<b>187</b>
<b>Shockwave Analysis</b>	<b>189</b>
<b>Strategy and Tactics of News Trading</b>	<b>189</b>
<b>Summary</b>	<b>191</b>

## **PART 4**

# **WINNING IS THE NAME OF THE GAME**

## **Chapter 14**

<b>Trading Spaces</b>	<b>195</b>
<b>Introduction</b>	<b>195</b>
<b>Charts, Bars, and Trading Spaces</b>	<b>196</b>
<b>Trading Profiles</b>	<b>199</b>
<b>Selecting a Trading Profile</b>	<b>201</b>
<b>The Market as a Process</b>	<b>202</b>
<b>Summary</b>	<b>203</b>

## **Chapter 15**

<b>Setting Up Shop</b>	<b>205</b>
<b>Introduction</b>	<b>205</b>
<b>The Plan Components</b>	<b>206</b>

The Trading Platform Plan	207
Pre-Trade Plan	209
Trading Session Plan	212
Pulling the Trigger	213
Post-Trade Plan	214
Summary	216

## **Chapter 16**

A Simple System	217
Introduction	217
General Principles	218
A KIS Toolbox	219
A Simple System	220
Not So Simple	227
Pairs to Trade	228
Summary	228

## **PART 5**

### **THE GOODMAN METHOD OF TRADING**

## **Chapter 17**

Goodman Wave Theory	231
Introduction	231
The Basic Market Paradigm	232
Goodman Wave Theory	234
The Basic Goodman Setup	243
Summary	244

## **Chapter 18**

The Propagation Trade Setup	245
Introduction	245
The PTS	245
Summary	251



**Chapter 19**

<b>The Dagger, the Waltz, and the Line</b>	<b>253</b>
<b>Introduction</b>	<b>253</b>
<b>The Belgian Dentist</b>	<b>254</b>
<b>Enter the Dagger</b>	<b>254</b>
<b>Waltzing the Trade</b>	<b>257</b>
<b>The Line! The Line!</b>	<b>264</b>
<b>Summary</b>	<b>267</b>

**Chapter 20**

<b>The Proactive Trader</b>	<b>269</b>
<b>Introduction</b>	<b>269</b>
<b>Laydowns</b>	<b>270</b>
<b>Bathtub Analysis</b>	<b>271</b>
<b>The Propagation Lens</b>	<b>272</b>
<b>Looking Inward and Outward</b>	<b>273</b>
<b>Multiple 3-C Counts</b>	<b>276</b>
<b>Stations</b>	<b>276</b>
<b>Ghost Trading</b>	<b>277</b>
<b>Sitting On Your Hands</b>	<b>278</b>
<b>Summary</b>	<b>279</b>

**Chapter 21**

<b>The 30-Trade Campaign Program</b>	<b>281</b>
<b>Introduction</b>	<b>281</b>
<b>Capital Allocation</b>	<b>282</b>
<b>The Tracks of Your Trades</b>	<b>286</b>
<b>Pre-Trade Checklist</b>	<b>286</b>
<b>Diagnostics</b>	<b>288</b>
<b>Characteristics of Successful Traders</b>	<b>291</b>
<b>Summary</b>	<b>293</b>

**Chapter 22**

Goodmanisms	295
Goodmanisms	295
Summary	298

**PART 6****OVER THE FOREX RAINBOW****Chapter 23**

Tools for Traders	301
Introduction	301
Techniques	302
Time Studies	315
Fear and Greed, Greed and Fear	317
Summary	318

**Chapter 24**

Options and Exotics	321
Introduction	321
Options	322
A Primer on Options	322
Basic Options Terms	323
Options: Pros and Cons	324
The Four Basic Options Strategies	325
Purchase or Write Options?	325
Advanced Options Strategies	326
The Greeks	326
The Retail FOREX Options Landscape	327
Options or Spot FOREX?	328
Risk Management with Options	328
Exotics	330
Trading Exotics	332
Summary	332

**Chapter 25**

<b>Managed FOREX</b>	<b>335</b>
<b>Introduction</b>	<b>335</b>
<b>Why Managed FOREX?</b>	<b>336</b>
<b>Pros and Cons</b>	<b>336</b>
<b>Types of Managers</b>	<b>337</b>
<b>Types of Managed Accounts</b>	<b>338</b>
<b>Trading Methods</b>	<b>340</b>
<b>Performance Analysis</b>	<b>342</b>
<b>Two Methods of Performance Analysis</b>	<b>345</b>
<b>The Due Diligence Process</b>	<b>346</b>
<b>Costs and Fees</b>	<b>350</b>
<b>Spotlight on Managers</b>	<b>352</b>
<b>Research and Resources</b>	<b>354</b>
<b>Summary</b>	<b>355</b>

**Chapter 26**

<b>Computer Trading</b>	<b>357</b>
<b>Introduction</b>	<b>357</b>
<b>Technical Analysis</b>	<b>357</b>
<b>Expert Advisors</b>	<b>358</b>
<b>Automated Trading, Agents, and BOTS</b>	<b>359</b>
<b>Get on My Cloud</b>	<b>359</b>
<b>High-Frequency and Ultra-High-Frequency Trading</b>	<b>360</b>
<b>Into the Future of FOREX</b>	<b>362</b>
<b>The Trend Machine</b>	<b>363</b>
<b>Grid and Pac Man Programs</b>	<b>364</b>
<b>Arbitrage</b>	<b>365</b>
<b>Pros and Cons of Arbitrage</b>	<b>370</b>
<b>Summary</b>	<b>371</b>

<b>Appendix A: List of World Currencies and Symbols</b>	<b>373</b>
<b>Appendix B: Time Zones and Global FX Trading Hours</b>	<b>379</b>
<b>Appendix C: Central Banks and Regulatory Agencies</b>	<b>381</b>
<b>Appendix D: Resources</b>	<b>385</b>
<b>Glossary</b>	<b>389</b>
<b>About the Author</b>	<b>403</b>
<b>Index</b>	<b>405</b>

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M.A.



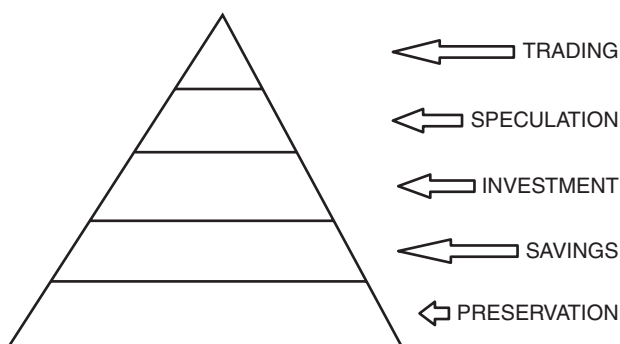
## About This Book

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.

## You Are Here

Throughout the book you will see bolded paragraphs beginning with the phrase **YOU ARE HERE**. The purpose of these is to serve as a check on your work and your progress, noting where in the steps toward FOREX mastery you should be at that time.

Key ideas are emphasized and useful supplemental information is provided along the way as *Tips*.

## Website

This edition of *Getting Started in Currency Trading* offers a *Getting Started* companion area on the author's website, [www.goodmanworks.com](http://www.goodmanworks.com).

You can find many of the tables and forms in this book in downloadable format in *Documents*. You may customize them to your own needs and either print or work with them in MS Word or MS Excel.

All charts in this book will also be found in the *Documents* subsection of *Getting Started*. They are provided in .jpg format so you may manipulate them and study them in close detail.

A *What's New* section keeps readers up to date on the ever-changing retail FOREX landscape. The *Getting Started Blog* offers additional learning ideas from the author and provides an informal question-and-answer forum.

I am always happy to hear from readers with comments, suggestions or constructive criticism. If something is unclear or you wish to dig deeper, do not hesitate to e-mail me. If I am occupied it may take a few days to respond—but you will hear back from me.

## Disclaimer

Neither the publisher nor the author is liable for any financial losses incurred while trading currencies. FOREX is the ultimate caveat emptor enterprise.

Michael Duane Archer  
Steamboat Springs, Colorado  
January 30, 2012

