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Ultimate Guide to
CFD TRADING

"

An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return

Benjamin Graham

Benjamin Graham was the father of "value investing", Warren Buffett's teacher in Columbia University and mentor at the beginning of Buffett's professional journey

Disclaimer notice:

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Introduction

Welcome to this eBook, brought to you by 24 Markets. Our intention over the course of this eBook is to get you feeling confident about opening a trading platform and placing your very first trade by the end. We offer a demo trading account, and it is worth having the platform open while working your way through this eBook in order to practice the lessons as you are learning. Alternatively, you can start live trading for only $100. This might be another excellent way for you to test out the markets with a low upfront commitment.

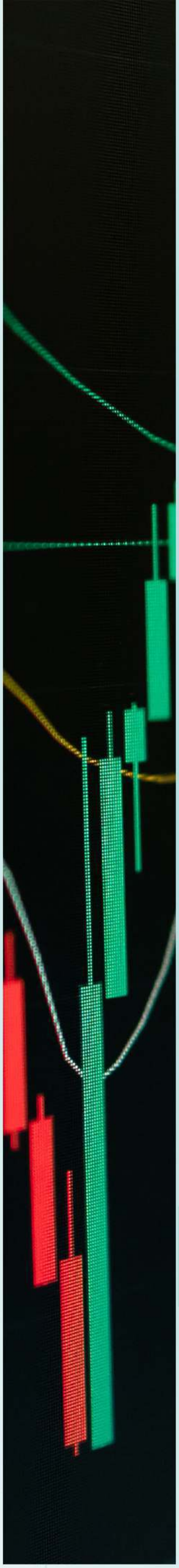
When we talk about CFDs and Forex, we are talking about trading, rather than investing. Trading is generally done on a shorter-term basis than investing, and it usually (although not always) requires much less starting capital – that is the money you need to start trading with. Trading CFDs comes with many benefits over investing, as we shall discover over the course of this eBook. But just so you get an instant understanding, when trading CFDs, you don't actually own anything, e.g. the stock or the currencies involved. Instead, you are speculating on the price movement of the asset. Will the stock rise in value, or will it fall?

Having said all of that, let's now learn what CFDs are and how to trade them.

Chapter 1

CFDs Explained

What are CFDs?



CFDs or Contracts for difference are legal contracts between two parties to agree to pay the difference between the opening price and closing price of a financial asset such as a currency pair, commodity or a stock. For example, a trader opens a position using a CFD to purchase a commodity contract worth $5000. If the closing price ends up at $5200, then the broker is required to pay the trader the difference of $200. On the other hand, the closing price ends up at $4800, then the trader is required to pay the broker the difference of $200. Because of this arrangement, traders can now gain a foothold in the financial markets without actually having to take hold of the actual physical asset. What a relief to know that when you are investing in oil, you will not actually need to store those barrels in your front room!

Here's an example of ABC stock which is currently trading at $20 on the stock market (that means each share is worth $20). You decide to buy a hundred shares. Traditionally, such an investment would cost you $2000 ($20 x 100 shares). This is excluding any commission which is payable to the stockbroker for executing your trading instructions.

However, with CFDs, you can now invest in the same stock with the same trading value, with just a fraction of the original capital that you put up when investing in the traditional way. This is where you begin to understand the power of leverage and trading on margin. With CFDs, most brokers will usually require that you put up a 5% margin of the trading value. The other 95% is effectively what you are borrowing from the broker. In the case of our example, the capital outlay would be just $100, as opposed to $2000. In terms of leverage that equates to 20:1

Belonging to a category of financial instruments known as derivatives, CFD values are dependent upon the value of the underlying asset. So the CFD is a contract based on the price of an asset, e.g. Gold, Facebook stock or the Euro-dollar pair. In short, investors can benefit from the same price movements of the underlying asset without having to come up with a large investment amount.

Contract Size

With regards to contract size, we are referring to the value of the CFD contract in relation to the value of the contract for the underlying asset. Usually, the value of the CFD contract will be in a 1 to 1 proportion. Hence, if the price of the underlying asset rises by $5, then the price of the CFD will rise by $5 as well. However, there are exceptions where the CFD contract will have a higher value in relation to the underlying asset. In such a case, changes in the price of the underlying asset will result in a larger proportion in changes for the CFD contract.

Advantages of Trading CFDs

Created in the mid-90s in the UK, CFDs grew quickly in popularity among investors due to the flexibility and lucrative returns which they are able to provide investors with (notwithstanding the potential losses too!) In addition, with the changes in the regulatory environment and growth of online trading platforms, CFDs became highly accessible to everyone. They literally broke down the barriers to the world of investing. Suddenly trading became much more accessible to the average Joe. Along with that came heavy competition between brokers, and more and more springing up over time. Hence, the need for heightened regulation in the industry and knowing that you were working with a broker that was both safe and secure.

So what are the benefits of trading in CFDs?

Leveraged Trading

Foremost of all, trading in CFDs is affordable since you just need to come up with a small margin in proportion to the value of the CFD contract. For example, if you wish to purchase $10,000 worth of Gold contract and your broker only requires a 5% margin, then you only need to come up with a deposit of just $500.

Liquidity

When you invest in the financial markets through traditional means, you require a willing counterparty to participate in order to actualise a trading transaction. For example, when you want to invest in a stock, you need to find a willing seller of the stock before you can actually buy it. If there is no willing seller, then the price of the stock will rise up until it is sufficient to entice someone to sell his or her stocks on the stock exchange. Alternatively, if we want to sell a stock, you will also need a willing buyer for the stock. If there is no buyer, then the price of the stock will fall until it is sufficient to attract a buyer. The ease, which we can sell or buy a financial asset, is referred to as liquidity. The easier it is to sell or buy, the more liquid that asset is. Often times, when the market is undergoing a crisis, we tend to find the market becoming illiquid hence making it difficult for one to close or open a market position. With CFDs, such a situation rarely occurs, as there is no physical exchange of the asset and hence no requirement to find a counterparty to the transaction. A CFD trade only requires a broker to accept the trade and a commitment from both parties to pay the difference from the opening price of the asset. In other words, the CFD market offers more liquidity than traditional markets.

Short Selling

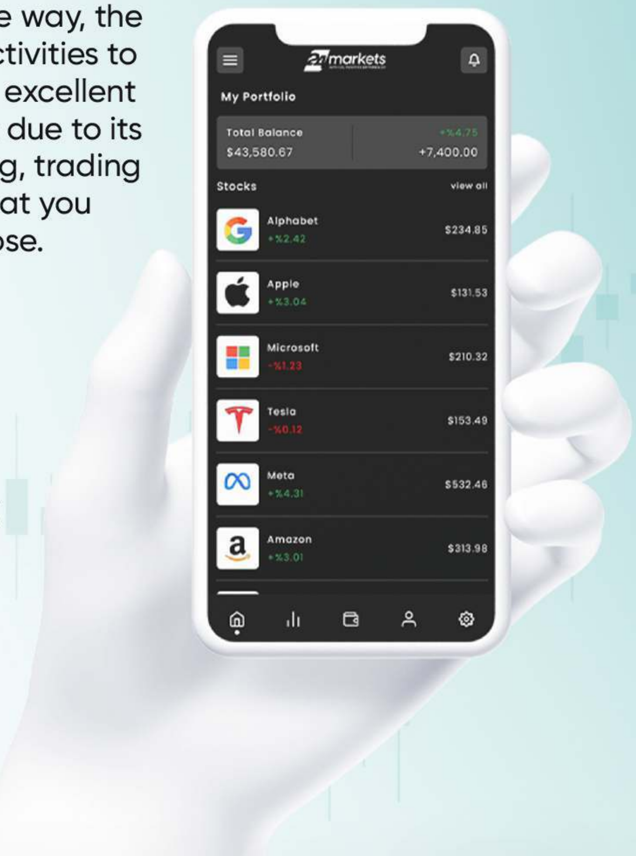
In traditional markets, short selling is usually discouraged as it can have an adverse impact on the market, such as creating panic and unwarranted downward pressure on prices. Short selling occurs when an investor borrows a financial instrument and sells it with the expectation of buying it back in the future for a lower price. In other words, the short seller is betting that prices will drop. With CFD trading, there is no restriction on short selling as a CFD transaction has no effect on the underlying security market. The transaction is not in any way linked to the supply and demand of the underlying security. As mentioned earlier, CFDs are basically a legal contract between the trader and the broker. As such, with CFDs, investors can easily profit from both rising and falling markets. This means you can “go long”/open a “long” position or “go short”/ open a “short” position.

Rollover

Positions in the traditional markets have an expiry date. For example, with futures contracts, as the expiry date draws closer, the price of the futures contract will begin to fall until it reaches zero at expiry. Hence the investor must conclude his trades regardless of whether he is making a loss or a profit before the expiry of the futures contract. If the investor is not able to conclude his trade before the expiry date, then he needs to rollover his trade to a new expiry date cycle. By rolling over his trade, the investor will also incur an additional cost, which will ultimately eat into his profit margin.
With CFDs, you need not worry about fixed expiry dates even if the underlying security has reached its expiry date. This is because the underlying asset is only used as a reference. Your CFD contract can easily be transferred or rollover to a new expiry date without having to incur an additional trading cost. In other words, a CFD trader can keep his position open as long as he wants.

Trading CFDs

CFDs are especially useful for traders who are speculating in the market. The CFD trader does not have to worry about having to own the physical shares in order to profit for a company dividend payout. Likewise, he does not have to worry about taking physical delivery of a consignment of crude oil when he invests in crude oil futures CFDs. With these annoyances out of the way, the CFD investor merely has to focus on his trading activities to ensure a profit. For beginner traders, CFDs are an excellent way to acquaint oneself with the financial market due to its affordability. However, as with all types of investing, trading can incur losses, so it is important to remember that you should never invest more than you can afford to lose.



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Chapter 1 Test

1. What does the acronym "CFD" mean?

a) Call for Difference

b) Contract for Difference

c) Contract for Derivatives

2. In what category of financial security classification does CFDs belong to?

a) Futures

b) Options

c) Derivatives

3. What is short selling?

a) Selling a security with the expectation that the price will fall

b) Selling a security with the expectation that the price will rise

c) Selling a security within a short span of time

4. What are the advantages of trading CFDs?

a) Liquidity, leverage and short selling

b) Regulated trading environment, leverage and low spreads

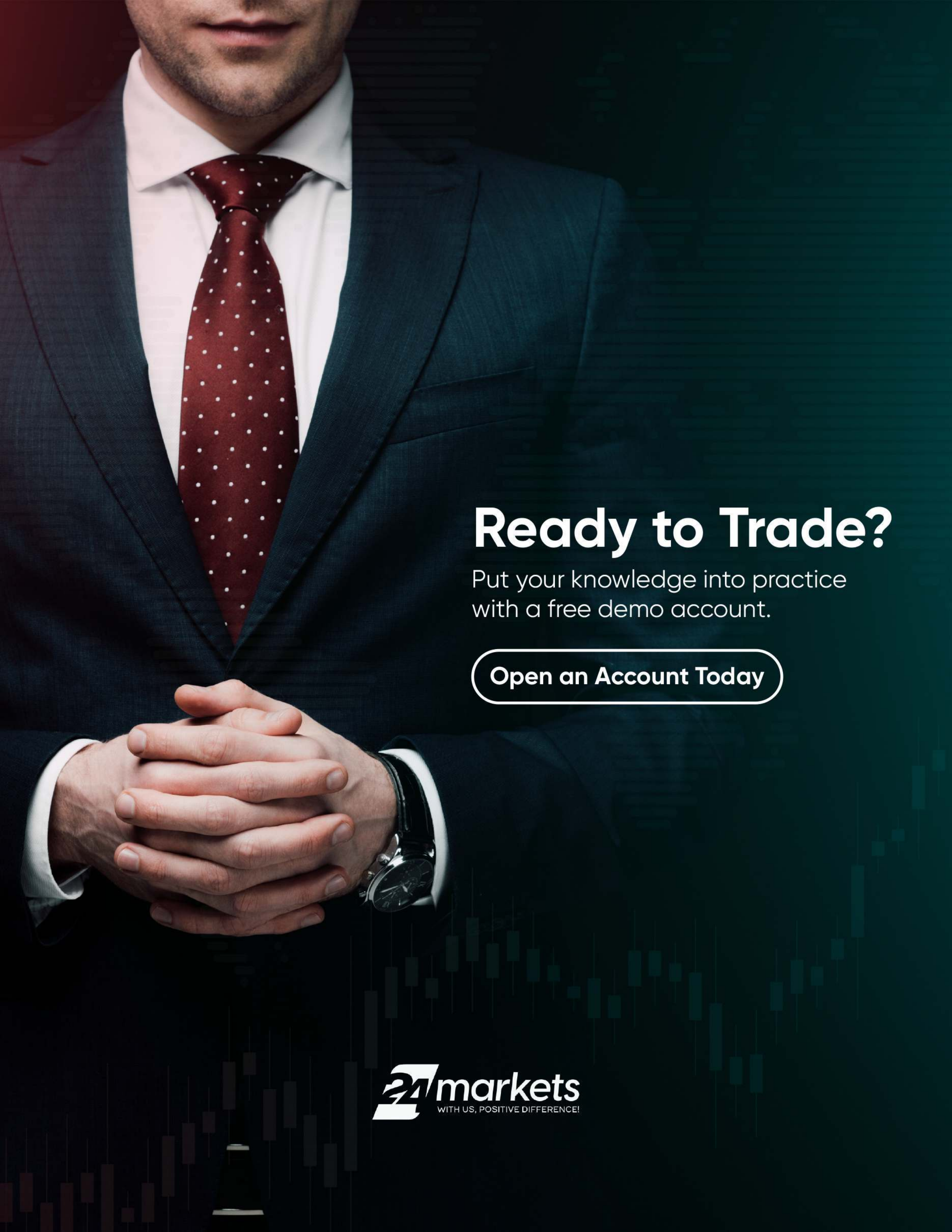
c) Low spreads, regulated market and fixed contract expiry date

5. What is rollover?

a) A market position closed automatically

b) A market position renewed to the next expiry cycle

c) A demand from the broker to place more funds in the trading account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Chapter 2

The Forex Market

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Definition

The Foreign Exchange Market or Forex as it is commonly known is the world's largest market. It is the mechanism by which different currencies from around the world are exchanged for one another. The Forex market is also the platform where the value of one currency is established in relation to another currency. The importance of the Forex market cannot be understated in today's world, as it is the conduit to which global trade flows. Without the Forex market, global trade would virtually grind to a halt. Let's take a look at an example of how Forex helps to facilitate international trade. Assuming an American residing in New York wishes to buy a classic German car in Germany. To do so, the American will need to sell U.S. dollars and buy Euros in order to pay for the purchase of the car.

Regarded as the world's largest market, the daily turnover of the Forex market is said to be in the region of $6.5 trillion dollars. While commercial activities account for a portion of this huge turnover, the bulk of the volume is largely attributed to speculative activities.

Forex Pair Quotes

Currencies are always traded in pairs. The EUR/USD represents the Euro against the U.S. dollar, where the currency on the left, the base currency is the Euro and the one on the right side, the counter currency is the U.S. dollar.

If the value of the EUR/USD is 1.17 that means 1 Euro is worth 1.17 dollars. Another example is the EUR/GBP = 0.90. This is the Euro against the British pound, where 1 Euro = 0.90 GBP. When you buy the EUR, you are selling the GBP and vice versa

Quotes follow several conventions as to how they are displayed.

1. In a Forex quote where the is one of the components of the currency pair, the Euro will always be denoted first as the base currency. This shows how many units of the counter currency is required to exchange for one unit of the Euro.

2. Where the Sterling is a component of the currency pair, it is the base currency for all currencies except the Euro, In the EUR/GBP quote, the GBP becomes the counter currency instead of the base currency.

3. For the U.S. Dollar, it is usually quoted as the counter currency in relation to the EUR, GBP, NZD and AUD.

Numbers

Based on the Bank for International Settlements (BIS) 2019 triennial report, the Forex market daily capitalisation volume has reached approximately $.6.5 trillion. According to the latest figure published by bond research firm LearnBonds (January 2020), this figure reached $6.6 trillion in 2020, which represents a 40% increase in 10 years. This massive increase in daily turnover is good news for the retail trader as the large market capitalisation of the Forex market tends to result in lower volatility. In other words, large trades by central banks or institutional investors tend to have less impact on prices in the Forex market. Any impact caused by large trades is significantly diluted. Nevertheless, it is important to note that the Forex markets have several major key players, with the banks being the most influential. In fact, the interbank market is the largest component of the Forex market, which the U.S. banks dominate. In order for a retail trader such as yourself to be successful, you need to understand the enormity of this market and how the various components of this market interact with each other.

Volume and Liquidity

The Forex market is extremely attractive to many investors, largely due to its high liquidity. With the large volume of currencies traded on the Forex market every day, investors can get in and out of the market easily 24/5. In other words, you will never get stuck in an unfavourable position for lack of a counterparty. Nevertheless, it is important to note that while the Forex market is highly liquid, this liquidity can vary from currency to currency, as well as the trading session that you are trading in. Of all the currencies that are traded in the Forex market, the major currency pairs such as the EUR/USD and USD/JPY make up more than 40% of the overall trading volume. Of this 40% volume, the U.S. dollar dominates more than ¾. Next, is the Euro and in third place, the Japanese Yen. What this means is that new traders should focus their attention towards these three major currencies when formulating their trading strategies.

Capitalising on opportunities in the Forex Market

In order to take full advantage of the unique features of the Forex market, traders should consider their approach towards making trades in the Forex market. Because every individual has a different perspective on how to identify trading opportunities and risks, they need to formulate a trading strategy that will suit their individual trading personalities. They need to decide whether fundamental analysis or technical analysis is more suited for their trading needs. In the later chapters, we will cover these types of market analysis in more detail.

Chapter 2 Test

1. Traditionally, the Euro has always been quoted in which part of a currency pair quote?
a) Base Currency
b) Counter Currency
c) Primary Currency

2. Which institutions dominate the Forex market?
a) The Commercial Banks
b) The Central Banks
c) The Bank of International Settlements

3. What is the latest Forex market capitalisation figure?
a) 2.1 Trillion
b) 6.5 Trillion
c) 4 Trillion

4. What are the major currencies traded in the Forex Market?
a) USD, CHF, JPY
b) TRY, GBP, JPY
c) AUD, NZD, CNY

5. How many per cent of the overall trading volume does the top 3 major currencies dominate?
a) 40%
b) 20%
c) 15%

Chapter 3

Rules of Trading

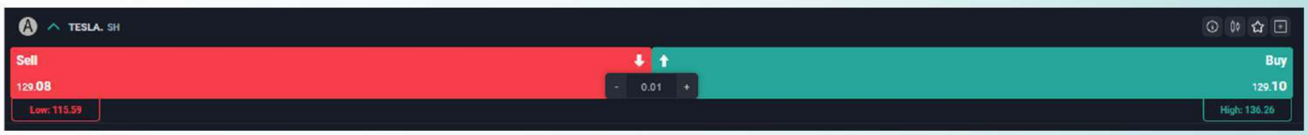
Buying & Selling

The primary objective of any trading activity is to make a profit. Likewise, with Forex trading, you want to buy low and sell high. However, with Forex, it is also possible for you to sell a currency at a price and then buy it back for a lower price. Either way, the goal is to make a gain from your transaction. In Forex trading, you will often come across the term "exchange rate". The term refers to how much one currency can be exchanged for another. As we mentioned at the beginning of Chapter 2, the exchange rate will comprise of two components, the base currency and the counter currency. The base currency will always be the first currency in the quote.

For example, for the EUR/USD quote, the Euro is the base currency. The second currency in the quote, the USD, is the counter currency. The relationship between the base currency and counter currency is that it shows how much counter currency is required to purchase one unit of the base currency. If the EUR/USD is quoted at 1:1.2, then this means $1.2 USD is required to purchase one Euro. Another fact that we have to note about Forex trading is that when we open a market position, we are simultaneously buying one currency and selling the other currency. With reference to our EUR/USD example, when we purchase this currency pair, we will be buying the Euro and selling the USD at the same time.

Quotes, Spreads and Profit Calculation

When you ask a broker for a quotation for a currency pair, you will be given two prices, the BID price (lower price) and the ASK price (the higher price).



The BID price is the price that the broker is willing to purchase the base currency for. The ASK price is the price which the broker is willing to sell the base currency for. The difference between the BID and ASK price is called the spread. This is the margin that the broker earns every time a trade is executed on behalf of a trader.

Profit & Loss Calculations:

Let's take a look at how to calculate the profit and loss for the trade. In this example, we assume that you are going to purchase a standard lot of the EUR/USD currency pair at ASK price of 1.22850. A standard lot is 100,000 units of the base currency. Hence for this trade, it would have cost you $122,850 (100,000 x 1.22850).

Let's further assume that you decide to liquidate your position at the BID price of 1.22875. (Note, that in this case, your BID price is higher than your ASK price.). Hence, your total return for your trade will be $122,875 (100,000 x 1.22875). The difference of $25 ($122.875 - $122,850) will represent the profit that you earned from this transaction. In the second part of your transaction where the BID price is lower than the ASK price, then you will likely be making a loss from your trade. Supposing instead of liquidating your position at the BID price of 1.22875, you liquidated at a BID price of 1.22825. This means you will be making a trading loss of $25.

To summarise, there are two important takeaway points that we should take note from our trading example above:

1. One standard lot traded is 100,000 units of the base currency. Apart from the standard lot, most brokers nowadays also offer smaller trading lots such as the Mini lot (10,000 units), the Micro lot (1,000 units) and Nano lot (100 units).
2. The trader makes a profit when the BID price that he gets is higher than the ASK price.

Pip Value:

In our EUR/USD trading example, we note that the ASK price for the EUR/USD pair was quoted at 1.22850, up to 5 decimal points. A pip represents the smallest movement of the price at the 4th decimal point. For simplicity sake, our examples only deal with a movement of 2.5 pips in both directions.

Currency, interest rates and swaps

Every currency that is traded in the Forex market has an interest rate attached to it. The interest rate, however, varies with time and the time frame traded. As mentioned earlier, each time we open a market position, we are actually buying one currency and selling another simultaneously. When we buy a currency, we will be earning interest on it whereas when we sell a currency, we pay interest on it. With a fluctuating exchange rate, the interest rate for these currencies will also vary during the duration of our trade.

Due to the interest differentials, open market positions are rolled over after each settlement date. During a swap or rollover procedure, the difference in the interest rates is settled. The broker either received interest from you or he pays you interest depending on interest differentials. There are basically two types of swaps, "Swap short" for keeping "short" positions open overnight and "Swap long" for keeping "long" positions open overnight.

Difference between the spot market and CFD on rollover positions

Unlike the spot Forex market, for Forex trades conducted through CFDs, an open position is automatically rolled over to the next settlement date or until the trader decides to liquidate his position.

Order types

There are five types of trading orders that are normally used in Forex trading:

Market Order

A market order is a trading order to the broker to execute a trade at the best available price at that moment. Due to price fluctuations in the market, the price when the market order is issued and when the trade is executed can vary. As such, this can lead to unforeseen losses or gains by several pips. Only use market orders when prices in the market are relatively stable.

Stop-Loss Order

A stop-loss order is an order to the broker to exit a market position that went against your expectations when the price reaches a specified level. This type of order is designed to limit one's trading losses.

Limit Order

The limit order instructs the broker to execute a trade (buy or sell) only at a predetermined price limit or better. You use this type of order to buy below the market price or sell above the market price. The order helps you reduce the risk of sudden price changes.

Trailing Stop Order

The trailing stop order is similar to a stop-loss order except that the stop price level moves as the market price moves to the predicted direction. This type of order is designed to help you secure the profits that your trade has achieved while minimising your potential losses.

Take Profit Order

The take profit order is an instruction to the broker to close the trade automatically when it reaches a predetermined level. This type of order is designed to secure your trading profits based on a profit value that you set initially.

Margin, balance and free equity

Forex brokers operate by offering margin-trading facilities to their clients. With margin trading, a trader can leverage his trade with his limited trading capital in order to secure a bigger profit potential. The ratio of the margin offered by the broker will vary from broker to broker.

If changes in the price result in the available equity being unable to cover the margin requirements, then the broker will issue a margin call to the trader to top up his trading account in order to maintain the minimum margin ratio. The available equity or free equity is the portion of the trading balance that is unencumbered and can be committed to maintaining the margin requirements for a new position or withdrawn from the trading account.

Chapter 3 Test

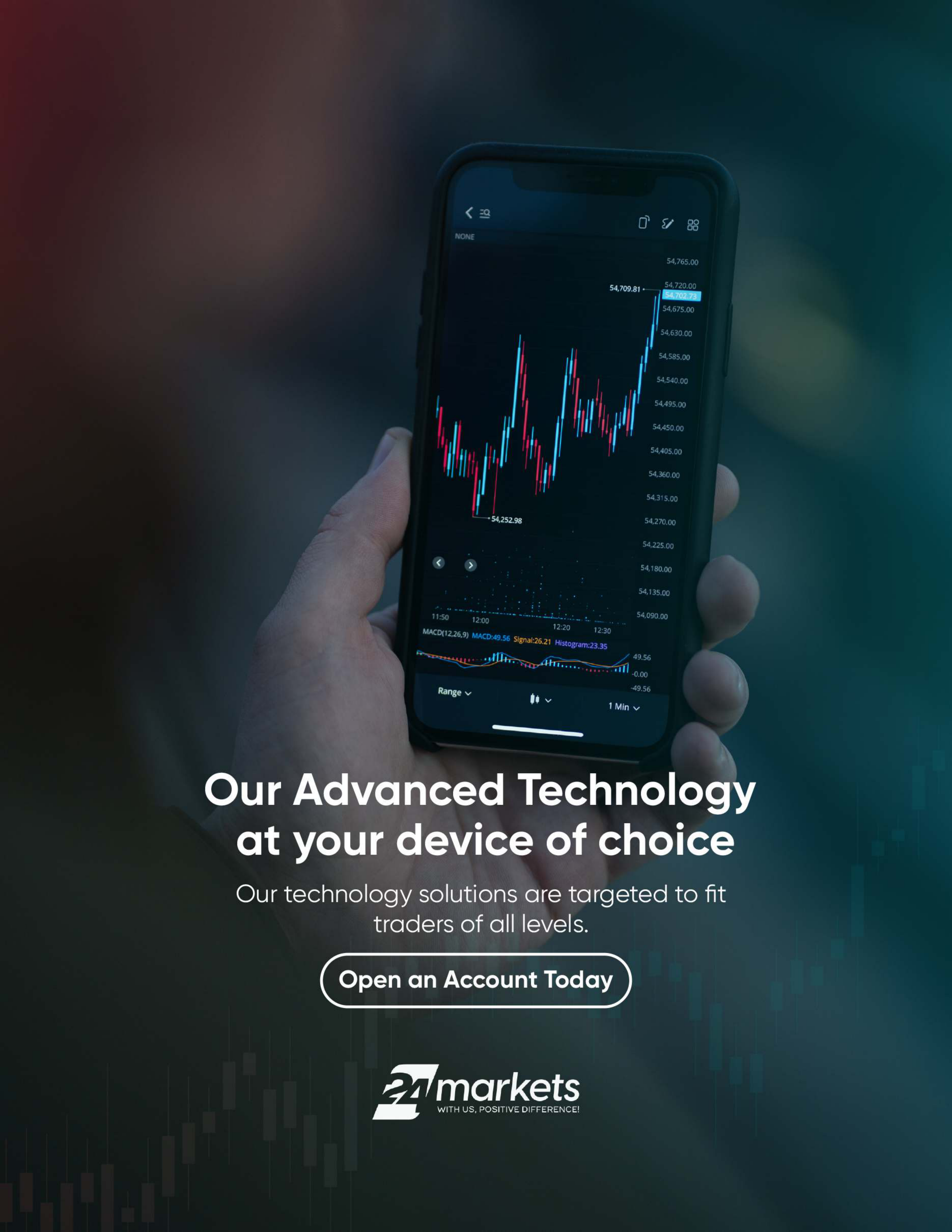
1. What is the exchange rate of a currency?
a) The exchange value between two currencies
b) The difference between the GDP of two countries
c) The price difference of a product in two different countries

2. What is the spread?
a) The spread is the filling between two pieces of bread
b) The spread is the difference between the BID and ASK price
c) The spread is the gap between the time a trade is opened to when a trade is closed

3. What is a pip?
a) A pip is a type of financial instrument
b) A pip is a variation between two currencies
c) A pip is the fourth decimal price movement of a Forex price quote as EUR/USD or GBP/USD

4. What is a margin call?
a) A margin call is a broker's demand to add funds to the trading account
b) A margin call is a decision made on the side
c) A margin call is a leverage reduction

5. What is a mini lot?
a) A mini lot is a kind of order
b) A mini lot is a trading lot that represents 10,000 units of the base currency
c) A mini lot is a type of Forex trading account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Chapter 4

What to do and what not to do

To help you get started on the right footing, we have included the following tips to get you set up correctly no matter whether you are trading from home, from an office or even from your mobile or tablet device:

Working environment

Ensuring that you have all the proper tools at your disposal is critical in helping you to seize all available trading opportunities. Working internet, of course, is a basic requirement for trading. The faster the internet speed the better. If you intend to engage in automated trading with the help of EAs, then you would be well-served to use a VPS. This is a private server which ensures no downtime. That means all of your trades will get executed as planned, with no slippage.

EAs, as you may come across later in your trading journey, are pieces of programmable code that when installed into the MetaTrader platform will automatically follow pre-set trading strategies. You can either programme your own, buy or rent them. This comes later on though. For now, we will focus on the basics.

Trading platform

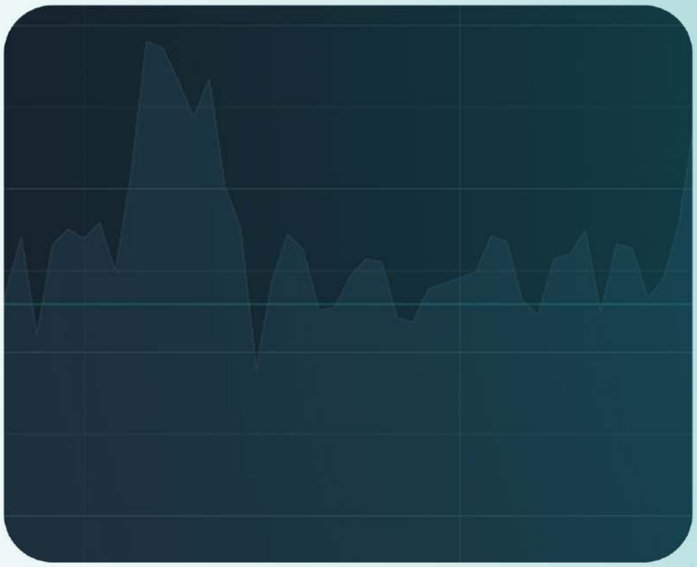
Another factor that might affect your performance as a trader is the trading platform that you are going to trade on. The online trading platform provided by your broker is your gateway to the financial markets. Hence, knowing how the platform works and all the tools that are integrated with the trading platform will certainly make your life easier and more profitable. To help you familiarise yourself with the trading platform, you can use the demo account provided by your broker to learn about the features of the trading platform at no risk to you.

Here at 24 Markets, we offer a selection of different trading products. These include the popular MT4, its younger sister which contains different features, the MT5, our proprietary WebTrader, which can be used over an internet browser rather than necessitating software download, and our mobile trading app.

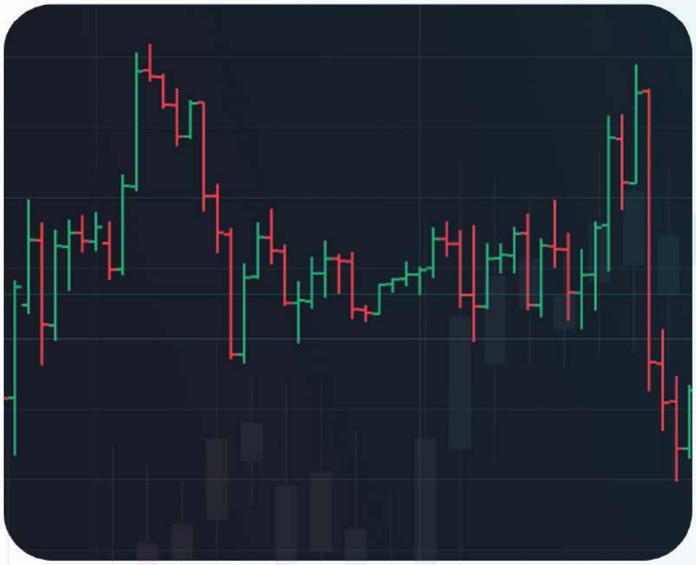
Charting and Technical Analysis

In addition to the platforms, you will need a charting package. Most platforms have them inbuilt, although some traders prefer to conduct their technical analysis and charting on an external package. A good charting package will contain a variety of chart types, from bar chart, line chart, to Japanese candlesticks.

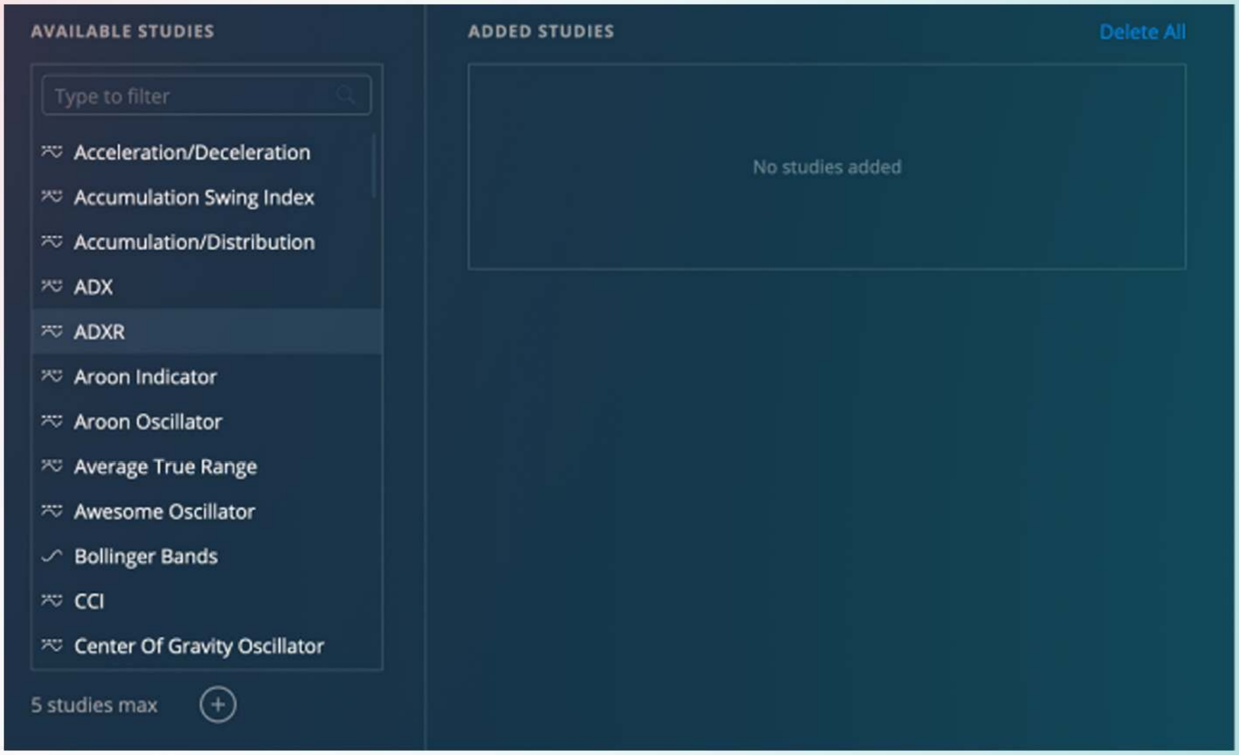
Japanese candlestick chart



Line Chart



Bar Chart



It will also contain a variety of different indicators and technical studies. This will help you to implement technical analysis.

Technical analysis, in short, is how you can identify trends, trend reversals and to spot entry and exit points otherwise known as signals.

These can really save you time on conducting your research.

Market Timing and Economic Calendar

The Forex market is open 24 hours a day, 5 days a week, so no matter where in the world you are, you will always find a trading session, from the Asian session to the European session to the US session. Even though the markets are open all week, you still need to be able to isolate instances where trading opportunities arise. One simple way of doing this is by referring to an economic calendar. The economic calendar contains the dates and times when the key economic data are going to be released.

Major economic and investment decisions are made by investors after considering all the relevant data that they have on hand. Some of these key data are contained in reports that are published by the central banks or relevant government agencies. For example, a rising unemployment rate figure released by the labour department would indicate the economy as a whole is operating below capacity. It also means that there is less purchasing power circulating in the economy. For some business people, this could be a signal to indicate that this might be the wrong time to invest in a factory expansion, for instance. Hence the release of these key economic data has the ability to move prices in the financial markets. Therefore, knowing when these figures are released to the public can provide you with a head start of when changes in prices in the financial markets might occur.

Time	Cur.	Imp.	Event	Actual	Forecast	Previous
			Friday, January 20, 2023			
02:00	GBP	★★☆	Core Retail Sales (MoM) (Dec)	-1.1%	0.4%	-0.3%
02:00	GBP	★★☆	Core Retail Sales (YoY) (Dec)	-6.1%	-4.4%	-5.6%
02:00	GBP	★★☆	Retail Sales (YoY) (Dec)	-5.8%	-4.1%	-5.7%
02:00	GBP	★★★	Retail Sales (MoM) (Dec)	-1.0%	0.5%	-0.5%
02:00	EUR	★★☆	German PPI (MoM) (Dec)	-0.4%	-1.2%	-3.9%
02:00	EUR	★☆☆	German PPI (YoY) (Dec)	21.6%	20.8%	28.2%
03:00	CHF	★★☆	SNB Chairman Thomas Jordan speaks			
03:00	CHF	★★☆	World Economic Forum Annual Meetings			
03:30	HKD	★☆☆	CPI (YoY) (Dec)	2.00%	1.90%	1.80%
04:00	EUR	★★☆	German Buba President Nagel Speaks			
05:00	EUR	★★★	ECB President Lagarde Speaks			
08:00	INR	★☆☆	FX Reserves, USD	572.00B		561.58B
08:30	CAD	★★★	Core Retail Sales (MoM) (Nov)	-0.6%	-0.4%	1.6%
08:30	CAD	★★☆	Retail Sales (MoM) (Nov)	-0.1%	-0.5%	1.3%
09:00	USD	★★☆	FOMC Member Harker Speaks			
10:00	USD	★★★	Existing Home Sales (Dec)	4.02M	3.96M	4.08M
10:00	USD	★★☆	Existing Home Sales (MoM) (Dec)	-1.5%	-5.4%	-7.9%
17 min	EUR	★★☆	ECB's Elderson Speaks			

Here is how the economic calendar looks. Notice that each event has an impact (imp.) on different assets, and each event has an impact level, meaning how important the event is.

Emotions and Objective trading

Every trader is in some way emotionally affected by money that they have invested in the financial markets. For the uninitiated, the thought of losing their investment capital may result in them making investment decisions based on emotions, rather than on objectivity. Trading based on emotions is a sure path to failure. Key emotions to be aware of include fear, greed, excitement and of course, adrenaline, which may get you to make decisions you wouldn't normally make.

Risk Management

To avoid falling into such a situation, it is essential that you have a solid risk management and trading plan and stick to it regardless of the circumstances. You are highly advised to employ orders such as stop-loss orders, trailing or limit orders in all your trading decisions to help protect you from unforeseen losses. Also, decide how much to invest per trade, e.g. 5% of your overall capital and stick to it.

Leverage usage

One of the key attractions of trading with CFDs is the fact that it is a leveraged product. With the leveraging provided by your broker, you have the ability to multiply your profit potential several times over with your limited investment capital. Nevertheless, it should be borne in mind that leverage also has the potential to increase your trading losses several times over. The fact is leveraging one's trade is a double-edged sword. Therefore, it is prudent that you use leverage modestly and not excessively. As a new trader, it is best that you limit yourself to a leverage ratio of 1:10 or better still 1:1.

Trading with the flow

One of the most fundamental rules of Forex trading is to never go against the flow. The enormity of the Forex market means no single individual is able to affect the flow of prices in the Forex market. Hence, rather than digging a hole for yourself by trying to trade based on "gut feeling", learn to read the market trends and trade accordingly with the trend. Use trading tools such as technical analysis to help you define the current trends in the market and formulate your trading strategies accordingly. This is why we say "the trend is your friend."

Chapter 4 Test

1. What is the ideal leverage ratio to employ in your trade?

a) 1:100

b) 1:10

c) 1:400

2. Which is one of the fundamental rules of Forex trading?

a) Trading with the flow of the market

b) Trading against the flow of the market

c) Trading with "gut instinct"

3. What is a risk-mitigating tool that you can employ in your trading strategies?

a) Interest rate swap

b) Stop-loss order

c) A margin call

4. What is an economic calendar?

a) A calendar depicting when all the major economic data are released

b) A calendar showing all the available trading dates

c) A calendar showing the settlement dates of your trades

5. What is emotional trading?

a) Trading the market based on gut feeling

b) Trading the market when you are depressed

c) Trading the market based on your trading strategies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Chapter 5

Trading Tips

Trading Sessions

While it is a fact that the Forex market operates 24 hours a day and five days a week, there are lulls in trading activity during those times. In fact, most trading activities are confined to 3 specific trading sessions, the Asian trading session, the European trading session and the US trading session. The Asian session is from 12 am to 9 am GMT. The European session starts from 8 am to 4 pm GMT. Lastly, the US session starts from 1 pm to 10 pm GMT. It is during these trading sessions that the Forex market is most active. As such, it is advisable that you focus on one of these trading sessions if you are looking for market volatility and opportunity.

Correlation between currencies

It is important that you understand how your trading portfolio can be sensitive to market volatility, especially when you are trading Forex. This is because the currencies that you are trading are priced in pairs. As such, no currency pairs are independent of each other. Being aware of how currency pairs correlate to each other will help you become a more efficient trader by letting you have better control of how to manage your portfolio exposure.

Currency correlations can be either positive or negative. A positive correlation is when two currency pairs move in the same direction. A negative correlation, on the other hand, means the currency pairs move in the opposite direction. These currency correlations can be used to help you realise higher profits or to hedge your market position and reduce your exposure to risks. To help you maximise your profit potential, you can use a positive correlation to open another position. Alternatively, you can use a negative correlation to hedge your current open position. The strength of a currency correlation depends on several factors such as the trading volume, the trading session of both currency pairs. Naturally, currency pairs that include the US dollar will be more actively traded during the US trading session.

Correlation between Forex and other markets

Currencies can also have correlations with other markets such as the stock market or commodities market. Like currency pairs, the correlations can either be positive or negative. It is important to note that the underlying reason for these correlations differs from market to market. Being able to identify these reasons will help you take advantage of these correlations to further increase your profit potential. These correlations exist because of the capital flow between markets.

Trading with market correlations

Let's take a look at an example of using market correlations to trade. It is generally understood that there is a positive correlation between the AUD/USD currency pair and the price of gold. Let's assume that several economic reports have indicated that the US economy is in a declining state. Investors predicting that the business environment in the US will get tougher decide to withdraw their investments from equity markets. After withdrawing their investments from the equity markets, investors will now look for an alternative and safe option to park their investments. The most obvious choice for most investors will be to park their investments into gold. Naturally, the price of gold will rise as the demand for gold rises. Since Australia is a major producer of gold, it is safe to assume that the Australian dollar will rise as more people buy Australian dollars to purchase gold. Since the USD is paired with the Australian dollar, this means the USD will depreciate while the Aussie dollar will increase in value. As a Forex trader, you can capitalise on this situation by investing in the AUD/USD currency pair.

Other market correlations, which you can look at is the positive correlation between crude oil and the Canadian dollar as well as the negative correlation between the stock markets and Swiss franc

Fundamental analysis trading

One of the main methods of analysing the Forex market is by using fundamental analysis. Fundamental analysis in Forex essentially measures whether a currency's intrinsic value is undervalued or overvalued. This is done by studying various macroeconomic factors, such as the Gross Domestic Product (GDP) of an economy, its unemployment rate, Government policies relating to the economy as well as the geopolitical situation of the region. Generally, if an economy is facing good growth prospects, the value of its currency will tend to increase.

Technical analysis trading

Technical analysis is a method which most traders rely on to help them formulate their trading strategy. Technical analysis involves the study of historical price data to identify any discernable patterns in the price movements of a currency. It is based on the principle that history repeats itself. In other words, if the price moves in a certain manner, then it is possible to predict how it will move in the near future. To help them discern the price movements in the Forex market, technical analysts rely heavily on the use of trading charts and technical indicators such as Moving Average and Relative Strength Index (RSI).

Here's an example of a technical indicator overlaid onto the (Bitcoin/US dollar) BTC/USD chart in order to identify a trend.

Chapter 5 Test

1. What does GMT mean?
a) Greenwich Meridian Time
b) Grand Master Title
c) Global Mean Temperature

2. What is a negative currency correlation?
a) When the price of two currency pairs move in the opposite direction
b) When the price of a currency pair goes into freefall
c) When a currency is viewed negatively as a mean by criminals to hide their ill-gotten wealth

3. Crude oil has a positive correlation with which currency?
a) Australian Dollar
b) US Dollar
c) Canadian Dollar

4. What is Technical analysis?
a) A method of analysing the market using historical price data
b) A method of market analysis using computers
c) A measurement of a currency's liquidity

5. Which of the following is not used in fundamental analysis?
a) The GDP of an economy
b) The unemployment rate of an economy
c) The balance in your trading account

Chapter 6

3 CFD Trading Strategies

Below are three proven CFD trading strategies that you can try out:

News Trading Strategy

Because of its low transactional cost and high flexibility, CFDs are ideal for scalping. This makes it suitable for news trading. This trading strategy will allow you to make quick small gains within a short period of time. Nevertheless, in order to be successful with News Trading, it is crucial that you keep yourself updated with any new developments in the market by keeping a close watch on your economic calendar.

With the News Trading strategy, your goal will be to invest just before the release of a report or right after its release. For the former, your objective is to try and predict what the market's reaction to the impending news release will be. This method is highly risky as it is difficult to say for certain whether the news release will be positive, negative or neutral. Furthermore, the market sometimes will not react as predicted. With the latter method, i.e. trading just after the news release, the aim is to go with the market flow. With this method, to safeguard yourself, you should employ stop loss and trade profit orders with your trade.

If you are trading Forex with CFDs, you should pay extra attention to any news or statistics released by the central banks. Likewise, any information about the state of the economy and investors' confidence will affect the demand for a country's currency.

Pair Trading Strategy

Pair trading is classified as a market neutral trading strategy. This strategy can be used with any type of financial asset as well as during periods of high and low market volatility. To employ this strategy, first select two highly correlated assets that belong in the same industry, for example, Google and Facebook. The objective here is to go long on the stronger asset and to go short on the other weaker asset. With this method, you will be able to profit from the divergence between the two assets.

Hedging Strategy

Hedging in financial trading is akin to having an insurance policy. The aim of hedging is to reduce or to negate your trading risks. For example, you hold a diversified portfolio of stocks in blue-chip companies such as Microsoft, IBM, American Express and Goldman Sachs. Let's assume that you think the banking sector is going to weaken. To reduce the effect of Goldman Sachs falling stock prices, you can go short with CFDs on Goldman Sachs stocks. This way, you can even profit from Goldman Sachs' falling stock prices. At the same time, the profits from your CFD short position will help you to negate the loss that you incurred while holding Goldman Sachs stocks. You can even hedge your entire portfolio with market indices CFDs, as opposed to CFDs on a single stock.

Chapter 6 Test

1. What is scalping in trading?
a) A strategy to reduce financial leverage
b) A trading strategy to make a small quick profit from a trade
c) A trading strategy to cover currency risk

2. How do you employ pair trading?
a) By buying and selling a pair of financial assets
b) By going long on a stronger performing correlated asset and going short on a weaker correlated asset at the same time
c) By trading with two different trading platforms at the same time

3. How do you trade the news?
a) By keeping abreast of all markets developments and acting on the news once released
b) By watching the news on the television while trading the market
c) By having a live news feed on the trading platform

4. Which institution is the prime mover in the Forex market?
a) The Central Banks
b) The Commercial Banks
c) The Government

5. How do you hedge an entire trading portfolio?
a) By buying CFD for each individual asset in the portfolio
b) By using CFD market indices
c) By using a take-profit order

Chapter 7

The Bottom Line

The Bottom Line

The bottom line is that there is nothing more important than your bottom line. That's your profit. Your goal in trading is to preserve the money you come in with and of course, to make even more, so it is worth your while. Risk management can't be overstated enough. You should get a grasp of when to lock in profits and when to close losing trades.

Certainly, reading and watching the videos we provide here at 24 Markets will help. But, nothing is more important than practice, practice, practice. You can use our demo account for one month. This is an excellent way to test out your strategies and to get a grip of the platforms. But bear in mind, nothing is like trading for real. We offer nano lots on various popular stocks, and you can start trading for just $100. Never risk more than you can stand to lose. Also, note that we offer an off-the-shelf risk management tool, called StopLoss, This protects your selected trades from losing.

When all is said and done, trading is exciting and sometimes scary, but know that when you trade with 24 Markets, you are never alone. We are here to support and guide you every step of the way.
Happy trading!

Test Results

Chapter 1 Answers:

1. b
2. c
3. a
4. a
5. b

Chapter 2 Answers:

1. a
2. b
3. b
4. a
5. a

Chapter 3 Answers:

1. a
2. b
3. c
4. a
5. b

Chapter 4 Answers:

1. b
2. a
3. b
4. a
5. a

Chapter 5 Answers:

1. a
2. a
3. c
4. a
5. c

Chapter 6 Answers:

1. b
2. b
3. a
4. a
5. b

Glossary

Ask
The term "Ask" in the context of financial trading is defined at the price that you purchase a financial instrument from the seller. It is sometimes called the "Ask Price" or "Asking Price".

Bear market
A bear market refers to a situation where the prices in the market are generally heading in a downward trajectory. This is due to the fact that the sentiment of the investors is one of a pessimistic view.

Bid
As opposed to the "Ask" price, which is the price that a seller is willing to accept, the "Bid" price is the price which an investor/buyer is willing to pay to purchase a financial instrument.

Bollinger bands
Bollinger Bands is a technical indicator developed in the mid-80s by John Bollinger. This technical indicator consists of upper and lower bands that are derived from moving averages. The bands will widen as volatility in the market increases and contract when volatility decreases.

Bull market
A "Bull" market is when the prices in a market are generally on the uptrend. Prices are rising as investors are holding an optimistic view of the conditions in the market.

Call
With Call options, traders are able to profit when the price of an asset increases above a certain level within a specified time frame. They work in the opposite manner of Put options where an investment only returns a profit when the price of an asset falls below a certain level during a specified time frame.

CFDs
CFDs or contracts for difference are a type of financial contract between two parties to agree to exchange the difference in price between when the contract is first executed to when it is settled. CFDs let investors capitalise on the price movements of an asset without having to own the asset.

Central Bank
A country's monetary authority, which sets the country's monetary policies as well as the interest rate.

Glossary

Commodities
Natural resources derived from the earth either through mining or by cultivation. These include Gold, oil, wheat and even cattle.

Consolidation
A term used to describe a market in a state of indecisiveness where prices are neither rising nor falling. The period of consolidation ends when the price breaks out at the upper or lower level of the price range. The term is also used to describe the financial statements of a parent company and its subsidiary being amalgamated.

Core Retail Sales
A statistical measure of the total retail sales in the economy based data collected by the U.S Commerce Department. The figures exclude automobile and gasoline sales. It is often used by analysts and policymakers as a measure of consumer confidence.

Currencies
Currency is money used as a token of exchange for goods and services. It can take the form of coins, paper notes or digital code. Normally, money is only issued by a government, but in recent years, digital currencies such as Bitcoin which have no central issuing authority is slowly being accepted as an alternative medium of exchange.

Derivatives
A type of financial instrument or contract whose value is derived from the value of an underlying asset.

Equities
The term equity can be used to mean the following:

1. Stocks or securities which represent an ownership interest in a company.
2. The amount of funds contributed by the shareholders inclusive of the retained earnings or losses.
3. The value of a margin account minus the borrowings from the brokerage firm.
4. The net value of a piece of real estate after deducting the amount owing to the mortgage firm.
5. One of the principal asset classes which investors invest in.

ETF
The term ETF refers to an Exchange Traded Fund. It is a type of investment fund that is traded on exchanges. Usually, ETFs track the performance of a market index or a set of assets.

Expiration Rate
The value of a financial security such as an option contract or futures contract at the time the contract expires.

Expiration Time

The time and date when an option or futures contract is due to expire.

Glossary

Financial Market
An all-encompassing term used to describe a market where commodities, currencies and other financial securities are being traded.

Financial Securities
An instrument that represents ownership of an asset. It has a monetary value and hence can be traded on the financial markets.

Fiscal Policy
A government policy that involves adjusting its tax rates and spending levels to influence the conditions in the economy on a macro level.

Forex
Forex or foreign exchange refers to the act of exchanging one currency for another currency. The forex market is the largest market in the world, with a daily turnover of more than 5.5 trillion dollars. Another unique feature of the forex market is the fact that trading is conducted on a 24-hour basis.

Futures
A financial contract that obliges a buyer to buy, and a seller to sell an asset at a predetermined price at some fixed point in the future.

Hedging
A risk management strategy which investors use to limit or offset the probability of losses as a result of price fluctuations in the market.

Indices
These are a basket of assets grouped into one instrument. They are grouped by sector or region. Some well-known regional examples include the Nikkei 225, the FTSE 100, the S&P 500 and the CAC40. You can trade an index as a CFD by speculating on whether the value is rising or falling.

Leverage
Leveraging in the context of financial trading lets you, as an investor, multiply your profit potential with your limited investment capital. At the same time, you will also receive more exposure when you leverage your market position. This can bring higher returns and higher risks.

Margin
This is like borrowing money from your broker, in the same way you would take a mortgage from your broker or bank. You use the borrowed money to trade and return it when you lose a trade or keep it when you win a trade.

Monetary Policy
The macroeconomic policy is decided by the central bank of the country. Typically, it involves adjusting the money supply and interest rate to control consumption, liquidity and consumption in the economy. In the U.S, the Fed is in charge of the U.S monetary policy.

Resistance
The resistance is a hypnotically upper price level which an asset's price has difficulty in breaching. Any attempt of the price to move beyond this upper level is met with resistance.

Glossary

Retracement
A temporary reversal of the price of an asset that goes against the prevailing trend.

Stocks
A type of financial security, which represents partial ownership in a business or company. Stocks of public listed companies are traded on registered exchanges such as the New York Stock Exchange, NASDAQ and the London Stock Exchange.

Support
The support is the lower price level that an asset's price has difficulty in breaking through. Any attempt of the price to move further below this lower level is met with resistance.

Trade Balance
Sometimes known as the Balance of Trade. It represents a country's exports minus its imports.

Volatility
Refers to the degree of variations in the series of prices of an asset over a period of time. Typically, the higher the volatility, the riskier it is to invest in the asset.

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