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SHORTCUT GUIDE:

The Simplest Way To Make Easy Money From The Forex Market

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It's the 70s and something big is happening

It's the 70s...

Thatcher is in the shadows planning her rise to power.

The brothers Gibb are penning 'Night Fever'.

But something even bigger is beginning to evolve...

Something that will become one of the best opportunities to profit, no matter who you are or what you do.

Flash forward to today...

It's now the biggest of its kind in the world.

It's bigger than Tesco, and open just as long.

It's even bigger than the UK, USA and France put together, in fact it includes all of them.

So what is it?

You might have guessed already – it's the foreign exchange market.

Oh! OK. But, Glenn, why are we concerned with that?

Well, not only is it one of the most popular arenas for speedy spread betting and a fantastic opportunity for the amateur trader, but it's also one of the most misunderstood of markets.

Spread betting is not suitable for everyone - ensure you fully understand the risks involved and never risk more than you can afford to lose.

Prices can move rapidly against you and resulting losses may be more than your original stake or deposit. Margin amounts vary between spread betting companies and the type of markets spread bet.

Always seek personal advice if you are unsure about the suitability of any investment.

Shortcut Guide: The Simplest Way to Make Easy Money from the Forex Market is published by Agora Lifestyles Ltd.

I get a ton of emails from Shortcut readers asking more about foreign exchange, about how it works and how to trade it.

People assume it's a lot more complicated than it is. Hopefully I'll be able to dispel that myth by breaking it down and explaining how it works.

I want to keep it simple, and hopefully avoid boring you, so that by the time I've finished, you should be able to go away, knowing how to spread bet the foreign exchange market for profit.

Dipping into history...

To begin, I just want to give a brief explanation of what the foreign exchange market actually is and the basics of how it works.

Later we'll look at what effects it and how you can spot those things before anyone else.

And throughout I'll be referring to foreign exchange as 'forex'. That's how it's known and no doubt you'll be familiar with the term; I've used it a lot in the past when telling you about the various 'forex' predictor systems that you can follow.

So, where do we begin?

In 1944 actually, at a place called Bretton Woods. There's no need to go too much into it. But basically what happened is a load of economists and politicians got together and fixed their countries currency rates together.

For example two dollars was worth one pound, and one pound was worth one and a half deutschemarks, and that was pretty much that.

It went on like this for a while, but all the time causing quite a lot of financial strain around the world, until in 1971 the plug was pulled. America decided they weren't playing anymore.

And gradually from that point the world shifted to what's known as a 'floating currency rate'. That's what we know today...

One day our pound might be worth one dollar, the next it might be worth a dollar and 2 cents – the exchange rate is always fluctuating.

It's this fact that creates an enormous potential for you to make money. But before we look into how, we need to cover another basic element of the forex market...

And that involves looking at how the big players make money on the forex market.

How the big boys make money on the forex market

A generic statement but an important one: The forex 'market' is made up of the buying of one currency and the selling of another.

What's that mean, in English?

Well, in the forex 'market' all currencies – the dollar, the pound, the yen, etc – are 'paired'.

You might have the dollar and the pound, the dollar and the yen, or the yen and the pound.

These pairs are fundamentally linked. When the dollar goes up another currency must go down.

So the dollar might go up and the pound might therefore go down.

This is because people are 'buying' dollars and 'selling' pounds.

A month later though, the dollar might go down and the pound go up.

This is because people are now buying pounds and selling dollars.

Simple, right? Chances are you're already on that.

A quick bit of lingo...

In a 'currency pair' we would say that when one currency goes up it is 'strong' against another. Alternatively we can say that when one goes down it is 'weak' against another. Both mean essentially the same.

So you can see that if someone were to buy a load of pounds when the pound was 'weak' (not worth much) and then a month later sell them when the pound was 'strong' (worth a lot), they'd make money.

There are numerous reasons why they'd choose to buy or sell at a certain time and we'll look at those in another instalment.

And it is worth mentioning that we're not going to worry about buying currency itself – too much of a complicated business in my opinion (although I hope when we're done, you'll understand how you could).

Instead we're going to look at how we can take advantage of this buying and selling to spread bet on a short term basis for quick profits.

But first we need to find out why the price of a currency actually changes...

Jim, Kent and the little something we call sentiment

Jim runs his own trading company, and he says to Kent, his American buddy who works for HSBC:

"Your new boss, that Obama chap, he seems pretty good. Reckons he's going to fix the crisis."

"Y'all you Brits think so, but I aint so sure. Doubt he's experienced enough to play with the greenbacks," suggests Kent.

"Suppose so, but I still think he'll be rather good for America," ponders Jim.

"We'll see."

And so go conversations like this around the world...

Some people think Obama will be good for America's economy; some people think he'll be bad.

Whichever opinion has the most supporters will become what we know as 'sentiment'.

And this sentiment will influence a lot of things.

But we're concerned with how sentiment influences one thing in particular...

How it influences the value of a currency!

Previous we started looking at how we can make money in the foreign exchange – or 'forex' - market.

We looked at how the market started developing after an international decision in the 70s to let the price of currencies fluctuate naturally.

We looked at how currencies go together in 'currency pairs' – when the price of one goes up, the price of another goes down.

And we saw how the price goes up when people 'buy' the currency and the price goes down when people 'sell' the currency.

Now we're going to look at WHY people buy or sell – what influences the prices of currencies in the forex market?

The key factors that influence the forex market

Sentiment is just one of the key factors that influences whether people buy a currency or sell it.

Ask any forex trader, amateur or professional, and they'll tell you they follow certain factors and not others.

I am personally a big believer in sentiment – I think it has a big effect. And I think it has a cumulative effect too because in a way sentiment can effect all the other technical factors too.

Anyway, I'll tackle that first...

So how does sentiment affect currencies?

Well you see, Jim, our Obama supporter, might think the value of the dollar will go up because Obama will strengthen the US economy. He'll 'buy' dollars, which in turn will push the price up.

Wheareas Kent, our Obama sceptic, would most likely 'sell' the dollar as he doesn't think Obama will strengthen the economy and the dollar will go down.

And as I say, whatever the overriding sentiment is will have a net effect of the dollar going up or down.

But I do admit sentiment is quite an intangible factor.

There are more technical factors which have an effect too.

For example...

A country's interest rate can influence how strong a currency is.

(Remember: A currency is refered to as being 'strong' against another when the price is going up and 'weak' when the price is going down.)

The currency of a country with a high interest rate tends to be stronger against the currency of a country with a low interest rate.

High rate: strong currency.

Low rate: weak currency.

This is based on an assumption that countries with a high interest rate will attract more foreign investment (to benefit from the high rate) so more of the currency will be needed.

On top of that, if interest rates are higher, that country's domestic consumption – how much stuff people buy – will fall so there will be less demand for imported goods and people won't need foreign currencies.

However, as is always the case in such theories – the practice doesn't always follow, which is why we can't ALL make money easily. We have to consider other factors too...

Such as inflation.

And this one is simple...

If a currency is worth less, no one wants it. So they sell it before it loses more of its value.

Bingo. You can start to see how even though these things look complicated on the surface, it doesn't take much to get to the bottom of it.

So, we've got sentiment. We've got interest rates. We've got inflation...

What else can influence the strength of a currency?

Forex markets really come down to common sense

Sentiment and interest rates take a bit of explaining, but like the effect of inflation, the other factors really come down to common sense.

Take economic growth...

If a country's economy is growing then it naturally follows that its currency will get stronger.

More people will invest in a growing economy, so there'll be higher demand for the currency.

Another factor is whether the country itself is aiming to have a weak or strong currency.

A country might want a weak currency so that it costs people too much to import stuff into the country, in which case they'll be forced to buy stuff produced inside the country.

And a weak currency will help a country's export trade, because foreign countries will be able to buy the stuff cheaper.

Phew...

We're getting a bit academic there so let's sum that up.

Basically, you can see that there are a number of factors that influence the value of a currency. It's important that you get that. But here's the thing...

It doesn't matter.

Well it does to an extent but in truth you don't need to worry TOO much about all that. And here's why...

When it comes to trading on the forex market the key thing you should look for are trends.

The wisest trader will always follow the trend. So that when a currency is strong they'll buy it and when it is weak they'll sell it.

All that we've explored here helps in that you understand WHY a certain trend is occurring. And it helps give you a better idea of when a trend might end.

But for the amateur trader, for anyone new to the market – the trend is king.

Getting in and out quickly on a trending market is the quickest and easiest way to profit. That above all is what we're interested in.

So, we've seen the 'why' and it might pay to have another skim of the past few pages when you get the chance. But next we're going to begin to look at the 'how'...

How do you get in and out on the trends, how do you grab those speedy profits?

I hope despite having gone through the sometimes dry background, the potential for profit here is incredibly exciting.

When we're done with the guide, you'll hopefully be in a position to experience that excitement first hand.

Point, click, type twice, click, profit

They must think me strange in my old local, The Matrix, back in Grimsby...

Rather than chatting about footy and women, there I was explaining how to bet on the forex market.

I apologised to Pete, the barman, but he wanted to know more.

Stop me if I'm getting technical, I say. But he's laughing at me...

"Nah, I love it, plus, what you're saying's easy."

He's right.

In the last few pages we've looked at how the forex market came about and what influences people when it comes to buying and selling currency.

I also said that 'following the trend' is the easiest – and cleverest – way an amateur can make money on the forex market.

Now I'm going to explain exactly what I told Pete – the very 'non-technical' technicalities behind forex trading and how you can give it a go yourself.

Placing forex trades really is as simple...

- Point to the currency pair you're after.

- Click on it.

- Type the amount you want to bet and a stop loss.

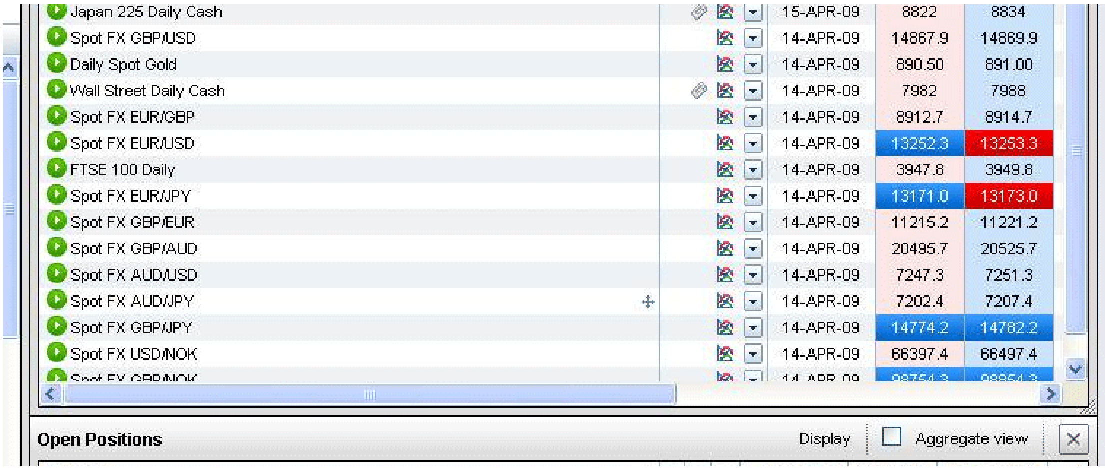
- And then click it again and your trade is placed.

But what's all that mean?

And where do you do that exactly?

First off, I personally think the clearest and most easy to use trading platform is IG Index. You'll find most people agree with me.

A little later I'll show you how you can set up an account with IG. For now though all you need to know is that when you log into IG on your screen you'll see something a little like this...



On the left there you'll see a list of trades.

Where you see 'Spot FX' and then 2 3-letter codes separated by a slash – that's your forex trades. Bingo.

We already know what a currency pair is – that's the currency that's being bought and the currency that's being sold.

The 3 letter codes are the currencies themselves.

So GBP means the British pound and EUR means – yup, obvious right – the Euro...

USD mean US Dollars, JPY Japanese Yen, AUD Australian Dollar and so on.

Let's say we think the current trend is for the Pound to go up against the Euro (as I say this is hypothetical and certainly isn't going on right now).

The currency pair we want then is GBP/EUR. GBP comes first because that is the 'base currency', that's the one we think is going to go up.

So on IG we simply point to that pair and click on it. Stage 1 and 2 dealt with in one almighty blow. We're rocking!

Once you've done that what's known as a 'ticket' will pop up.

What's the ticket?

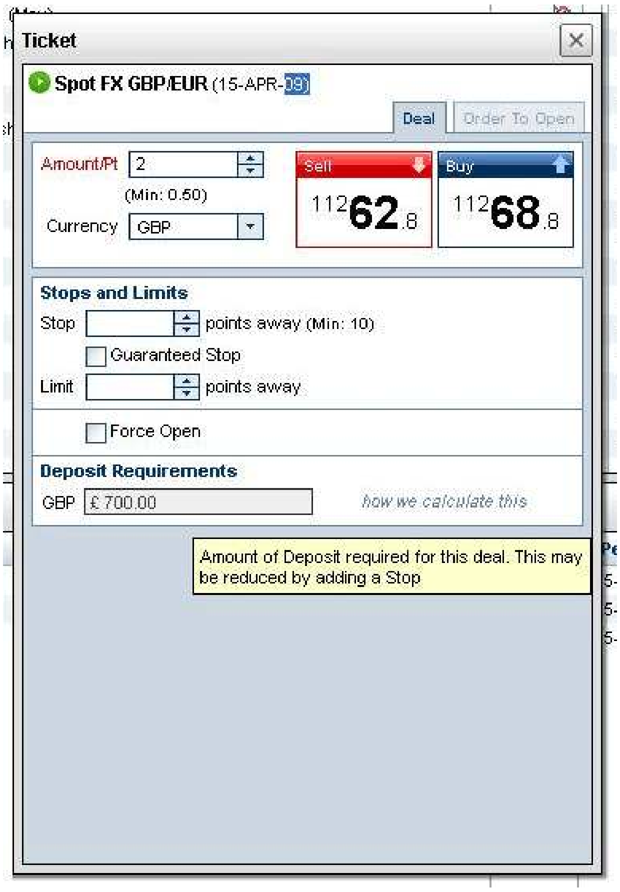
Well, I was in the bookies this past weekend betting on a tip Bob Rothman sent out…

I picked up a betting slip, wrote the horse's name down, how much I wanted to put on it and handed it in.

A ticket is just another term for betting slip. Except we've already chosen our horse – the British Pound – we just need to say how much we're backing it with.

(The horse won by the way and paid for beers that Pete was serving me whilst I explained this to him.)

So, the ticket looks something like this...



At the top of ticket you see the trade you picked out – GBP/EUR.

Below that you see the amount and the type of currency you're betting in.

Here I've entered £2 per point but you can bet as little as 50p per point in some cases.

In fact, that's something we need to explore a little more – it's one of the most important elements of trading in the forex market...

Remember you're always playing by the point

Chances are you already understand the principles of betting 'per point' but it's important that you're totally clear.

It's this principle that makes all the difference to your profit in the forex market.

On the ticket there you'll see two figures – one in a red 'sell' box (11262.8) and one in a blue 'buy' box (11268.8).

These two figures represent the currency 'spread'. These are the two theoretical prices of the 'currency pair'.

If, as in our example, you were going to 'buy' the Pound against the Euro, you would be buying at the 11268.8 price in the blue buy box.

And remember, we're hoping the price will go up. So let's say it goes up to 11278.8.

That's a difference of 10. 10 what? 10 giraffes? No. It's gone up 10 'points'. But 10 points is essentially still as meaningless as 10 giraffes.

What makes it meaningful is that we'll be betting on how much we want to win 'per point'.

So let's say we put a very conservative £2 pound per point on our bet that the British pound will go up against the Euro and the spread price goes up 10 points.

If we got out of the trade at that point we'd have made 10 points at £2 a point so our profit would be £20.

Now we can see a tangible meaning to those points.

But hold on!

What if there's breaking news and it turns out Gordon Brown and Alistair Darling are actually robots being operated by a child in an IT class in Salisbury?

This news wouldn't bode well. People could start selling the pound left, right and centre. The spread price could go down.

What if it went down to 11258.8. We've LOST 10 points. 10 points at £2! We've lost £20. Not good.

What can you do about it?

Well, once you've entered the amount you want to bet per point (the first part of our 'type twice step') a sensible forex trader will enter what's know as a stop loss.

What do you mean I'm losing money? STOP!!

The second part of our 'type twice step' is to enter a stop loss.

You can see the place to enter the amount on the ticket where it says 'stop'.

What is a stop loss? You'll have likely come across this concept before.

It's simply a point BELOW the price you enter the market at that if touched by the market causes your bet to be closed at that point.

In our example we might put a stop loss level at 11263.8 – that's 5 points below our buying price of 11268.8.

So if Brown and Darling are revealed to merely be instruments of a very technically minded child in Salisbury school and the price of the British pound goes down by 10 points to 11258.8 our trade will actually stop at 11263.8.

As we were clever and put in a stop loss, we'll only lose 5 points while everyone else loses 10. Instead of losing £20 (or more), we can only ever lose £10.

Placing a stop loss not only limits any potential loss, it allows you to know exactly how much you can lose so you can decide if the risk/reward of a certain trade is worth it.

OK. You've entered the amount you want to bet per point. You've entered your stop loss. That's all the typing done.

We've got one more important click.

You need to click either the red sell box or the blue buy box.

And this is where the dramatic drums of EastEnders kicks in...

I know, I know! I'm sorry.

But we've already covered a lot and I think it would pay for you to have a break so that you can have a little look around the IG Index website yourself.

That way, as soon as we're done, you'll be able to get going...

You can sign up with IG Index by following this link:

http://www.igindex.co.uk/?QPID=1072&QPPID=1

(NOTE: Fleet Street Publications do receive commissions from IG Index.)

As I say though, before you get down to business we need to finish off what this guide so don't spend too long looking around IG.

Next we'll not only cover the final elements of placing a trade but we'll also look at how you can not just close a trade but 'cleverly close' for potentially larger profits.

OK. Presuming you've taken a break, let's go for it...

The final click to place your forex trade

We're on the precipice...

One more click and we'll have placed our forex trade.

We've got £2 per point on the good old, pint-drinking British pound to go up against the dastardly, espresso-drinking Euro.

If it goes up 10 points we could pick up £20 profit. If it goes up 100 points we could be looking at a very quick and very easy £200.

How did we get to this point?

Well previously we looked at how you go about placing an actual forex trade on the trading platform IG Index.

We saw that it's simply a case of identifying the currency pair you want to bet on...

Entering how much you want to bet 'per point'. That's the amount you win or lose multiplied by how many points the trade moves in either direction...

And then entering a stop loss – the point below the current spread price that you want to get out of the trade if it goes wrong, thereby limiting your loss.

With all that done you're just a click away from placing the trade...

Now, you'll remember the red sell box and the blue buy box. These are what you need to click, but you should only click one depending on which way you think the 'base currency' (the British pound in our example) is going to go.

We think it's going to go up against the Euro so we would click the blue buy box to BUY the currency.

If we actually thought the base currency was going to go down against its pair we could actually SELL the bet. Then we'd want the British pound to get 'weaker' against the Euro.

But in our example we're backing a strong British pound so let's click the blue buy box.

Once that's confirmed, your trade is placed. Hurrah!

But it's not quite over yet...

'Infinite trading', to my knowledge, hasn't yet been invented, so it's no good having an eternally open position.

You still need to 'close' the bet. And most importantly, if the trade goes well, grab your profit.

How to pick up your profit from forex trading

You might hear a bet that you've got running referred to as an 'open position'. You soon get used to this jargon, though.

Anyway, to close an open position, you have two options a) you close it in one fell swoop or b) you can close part of the position and leave part of it open.

Option A makes sense – if you're in profit you want to close the position and take your profit.

Why would you leave part of the position open as in option B? The fact is you might already be in profit but still think the trade will continue to go up.

So what you can do is take some of the profit and leave a little part of your position open to grab some more if the trend does continue.

Either way, it's pretty simple to do. You'll see on IG Index that where you have an 'open position' there is an option to 'close'.

When you select this option you'll see a screen pop up quite similar to the 'ticket' pop up you saw when you opened the bet.

You'll see there is an option for how much you want to close the position. It will likely be set to close the full position but you can change this if you wish to only close part of the position.

If you chose to leave open part of your position, it's also wise at this point to raise your stop loss (you can do this now too). That way if you're wrong about the trend continuing and it falls back down, you will limit any loss on your remaining stake.

When you've decided the amount you want to close, to actually close the bet you need to click on the opposite box to what you clicked originally.

So if you bought the bet by clicking the blue buy box, to close the bet you would SELL by clicking the red sell box.

Alternatively, if you sold the bet originally you'd click the blue buy box to BUY the bet.

After that you're done, assuming you've completely closed the position. That's it – you've successful placed and closed a forex trade. Well done.

Hopefully, I've covered enough in this guide that you'll be comfortable going on to IG Index and making a forex trade. And hopefully you've seen that it's a lot simpler than some people think.

But before I wrap this up there are a couple of other points I want to summarise that will help you...

3 points to remember when you get down to trading

The spread – As I mentioned, whenever you close a trade out you do so by performing the opposite action to what you did in the first place. You sell a trade you bought; you buy a trade you sold.

This is where the spread comes into effect. You see when you buy a trade you buy at the buy price (the price quoted in the blue box) but when you sell a trade you do so at the sell price.

That all sounds a bit like nonsense – but here's the best way to think about it. It's like a handicap in snooker or golf...

You're always starting a little behind. It's just the nature of the game.

For example let's say you buy at 11268.8 and closed the bet immediately before it had moved. You'd sell at the sell price of 11262.8 so you'd lose the spread of 6 points. So you should look at it like a handicap of 6. To make a profitbreak even you need the price to go up by at least 6 points. And to make a profit you need it to go up more than 6 points.

Guaranteed Stop Losses – Previously I talked about stop losses as a way of limiting your potential loss. Most of the time this is the best course of action, but you should be aware that there are some extreme circumstances in which this type of stop loss will not work...

If a market closes and something dramatic happens that makes the price go beyond your stop loss it might not come into effect. Similarly if a dramatic event happens whilst the market is open this could happen too. It's known as the market "gapping".

To get round that you can select the option of a 'guaranteed stop loss'. This will stop your trade no matter if the market gaps. The downside is that it does mean your spread will be a little wider i.e. your handicap will increase.

Getting advice – I talked in a previous instalment about expert forex traders who follow the forex market in much more depth – analysing all the elements we identified that influence the movement of currency prices.

Our expert in the field is Tom Tragett, he's been dealing forex for years and knows a fair whack about what drives the market. A helping hand from someone like Tom can make a real difference to your forex trading.

To find out how you can get Tom's advice on a regular basis, read about his personal service here:

LINK

Minimizing risk – I've already alluded to this during this guide but it's always worth restating. When spread betting the forex market you should never bet more than you can afford to lose.

And in my opinion you should always try to trade with a stop loss in place so as to minimise any possible loss if your prediction for the direction of the market is wrong.

When starting out, and following the techniques I've outlined in this series, it's worth 'paper trading' to begin with so that you can see how it works and how much you might have won or lost if you were actually trading.

OK. I think we've covered some good ground and hopefully you feel confident enough to check out forex trading for yourself.

Here's to your profits on the forex market,

Glenn Fisher
Editor
Shortcut Publications

Where do you go from here?

If you want to find out more about forex I'd recommend checking out Tom Tragett's brand new Forex Trade Alert service...

With what you've learned here in the guide, you'll find you'll be able to follow Tom's trades as well as build your knowledge from his expert insight.

You can find out more about Tom's Forex Profit Alert Service here:

http://www.fsponline-recommends.co.uk/FTA2?ETTFK405

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