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- 10 EFFECTIVE FOREX TRADING STRATEGIES FOR BEGINNERS!

10 Effective Forex Trading **Strategies For Beginners!**

TIXEE E-BOOK SERIES

CONTENTS

Introduction	3
What is Forex Trading?	4
Why We Need Foreign Currency	4
The Working Mechanism Of The Forex Market	5
Forex Trading Strategy	6
Popular Forex Trading Strategies	7
Famous Investors & their Preferred Trading Strategies	21
Developing Your Trading Strategy	23
Starting Out	24
Conclusion	25
References	26

INTRODUCTION

The corresponding story is meant to serve only as an example and is not intended to validate or invalidate any particular way of money use or lack thereof.

There lived an old man who spent a lifetime saving up some money he had accumulated over the years. He lived in a shabby house, rarely bought anything and did not spend any of it. You wouldn't believe the craziest thing; he chose to bury it in his compound for fear of having it stolen. Every night, however, while everyone slept, he would tiptoe to where he had buried the money, dig it out and proceed to count it to make sure it was still intact.

On an uneventful night, a thief visited him, took one look at the house and contemplated sneaking in due to the poor appearance of the house. While he pondered, the old man came out of his house tiptoeing, as usual, to do the deed for the night. So, naturally, the thief hid just in time before the old man spotted him. To his utter surprise, the old man approached the spot where he hid the money, dug it out and proceeded to count it as per usual. Jackpot!

Silly. What a silly old man. Chide away. But aren't so many people, by their lack of insight on how to go about multiplying their money, similar in the same vein, Wouldn't it be similar to digging up the ground and throwing a rock in there instead of actual cash? What difference does it make? How about this, the rock will still be there but the money will rot away. Both physically and in value.

Cut it. Nobody in their right minds would dig up the floor to put in money in this day and age. Well then, get ready to get your mind blown. How about the bank as a reference to the ground? And your hesitation to pull your resources to do anything useful with your money, a reference to the old man? Some people might say 'but putting money in the bank is one of the safest ways to protect my money.' How about no?

Here is another iteration to demonstrate how we willfully rob ourselves. In several significant countries, (we will use "Big Country" for the name of said countries and BC as the currency for the same) at the start of the year, while the economy was robust and the value of BC stood tall in the foreign exchange market, having BC1,000,000 meant you had $1,000,000. Fast forward to the end of the year and the value of BC got dragged through the mud making it $1 for BC10. What does that mean for your initial BC1,000,000? It means you can now only afford to exchange $100,000 for your BC1,000,000. What a travesty. If you thought that wasn't possible, then you are far away cozying up in dreamland with a staunch denial. Enter Forex.

WHAT IS FOREX TRADING?

Believe it or not, one way or another, you are actively or passively participating in Forex Trading. Be it by omission or commission. When the currency of one country is exchanged for that of another, let's say the South African rand to the Japanese yen, that's Forex right there. It is oftentimes also referred to as Foreign exchange or FX but it means the same thing.

Unsurprisingly, there is a market for foreign currencies. This is a global market that is open 24 hours per day for five days a week. Which is another reason why it shouldn't come as a surprise that it is the largest market in the world.

WHY WE NEED FOREIGN CURRENCY

Governments, businesses, and people need foreign currencies for various reasons.

Governments need forex to have a rainy day fund which is stored in their reserves. Businesses need forex to buy supplies they need from other countries. And people need forex to have the liberty to do a lot of things - travel as tourists, do shopping online, etc. A great example is if you wanted to visit Paris to see the Eiffel Tower with your love interest. If you are traveling from your country to France, you will need to get some euros because your local currency is not legal tender in France.

THE WORKING MECHANISM OF THE FOREX MARKET

Let's do a brief dive into how the forex market came about. If you are familiar with the barter system of trade, then you have a general understanding of its earlier concepts. The modern-day forex market, however, is a relatively young child. The collapse of the Bretton Woods accord of 1971 ushered in the free flow of currencies against one another.

As stated earlier, the forex market is global. And for that reason, there is no central marketplace where all the transactions are carried out. Instead, the trading of currencies is electronically conducted over the counter (OTC). That way, traders all over the world can participate.

Needful to add, there are a few major financial centres in the world. These are in Frankfurt, Hong Kong, London, New York, Paris, Singapore, Sydney, Tokyo, and Zurich. The uniqueness about them is their adherence to their timezones. To explain this more broadly, when the trading day in the U.S. ends, the forex market in Tokyo and Hong Kong begins anew.

Thus, the forex market's extremely active nature is further cemented. When the floor is open for trading, the demand and supply of currencies make their prices constantly versatile. It is the versatility of the prices that act as the lifeblood of how traders make profits and losses.

FOREX TRADING STRATEGY

Before the internet, multinational corporations, hedge funds or high net worth individuals (HNWIs) held the defacto exclusivity to trade currency. This is primarily because forex trading required a lot of capital. And having the strategy to make this continuously work was another advantage.

The internet made it possible for individual traders to emerge. However, they have to gain access to the forex market via banks or brokers. Plus have their own forex trading strategy so that they can stay afloat. This in itself is not a bad thing because traders who can afford to control a large trade with a small account balance can now do so. To be able to comfortably operate an account with a large tradable volume, you will need a robust trading strategy.

A forex trading strategy is any technique a forex trader uses for determining if they want to buy or sell a currency pair at any one time.

POPULAR FOREX TRADING STRATEGIES

There are several types of forex trading strategies. Depending on how they generate trading signals, each of them can either be classed as automated or manual.

As they both imply, an automated system involves developing an algorithm that automatically executes trades when a trading signal is found by it. A manual system on the other hand involves the decision of a trader who has confidence in their ability to notice trading signals that inform on a buy or sell position.

Here is a list of the most commonly used trading strategies by buyers.

SCALPING STRATEGY

Often underestimated as a strategy for folks who are concerned about short-term gains, the scalping strategy still has its perks and effectiveness. This strategy is an intraday(during the day) trading strategy. Here, traders perform buying and selling currency transactions with the intention to make small profits with each trade.

A quick look at the chart below shows that the trends used here are equally applicable to scalping, even though the chart covers days and not minutes. The chart also points to the price of the pair each reaching a Fibonacci line and a resistance line. This is a perfect opportunity for scalpers to open a position just before a price decline.

There are a few other forex trading strategies to be discussed. However, you can reach out to tixee for us to provide you with the pros and cons of your favorite forex strategy for you.

CARRY TRADE STRATEGY

In this example, the trades of a low-yielding currency are funded by that of a high-yielding currency. Traders use this strategy to catch the difference between the rates, which are oftentimes huge as per the leverage that is used.

As a popularly used strategy, one of the best ways to jump right into it would be to determine the currency that yields a high return and which one has a low yield so that you can buy low and sell high.

Traders particularly use this strategy when central banks raise or lower interest rates due to its associated high volatility.

Get in touch to find out how [tixee] can fit this into your preferred trading strategies.

DAY TRADING STRATEGY

Securities that are bought and sold within a single trading day are what this strategy entails. Traders who engage in this type of trading are usually knowledgeable. Additionally, they have the right amount of funds to be able to capitalize on the leverage that is usually available to them.

To be able to take full advantage of day trading, you must become one with current events. The news is one great resource for getting economic statistics. Corporate earnings, interest rates, etc.

There are several strategies that day traders utilize in a day. A few of these include; scalping, range trading, news-based trading, high-frequency trading, etc. We will look at a few of these subsequently.

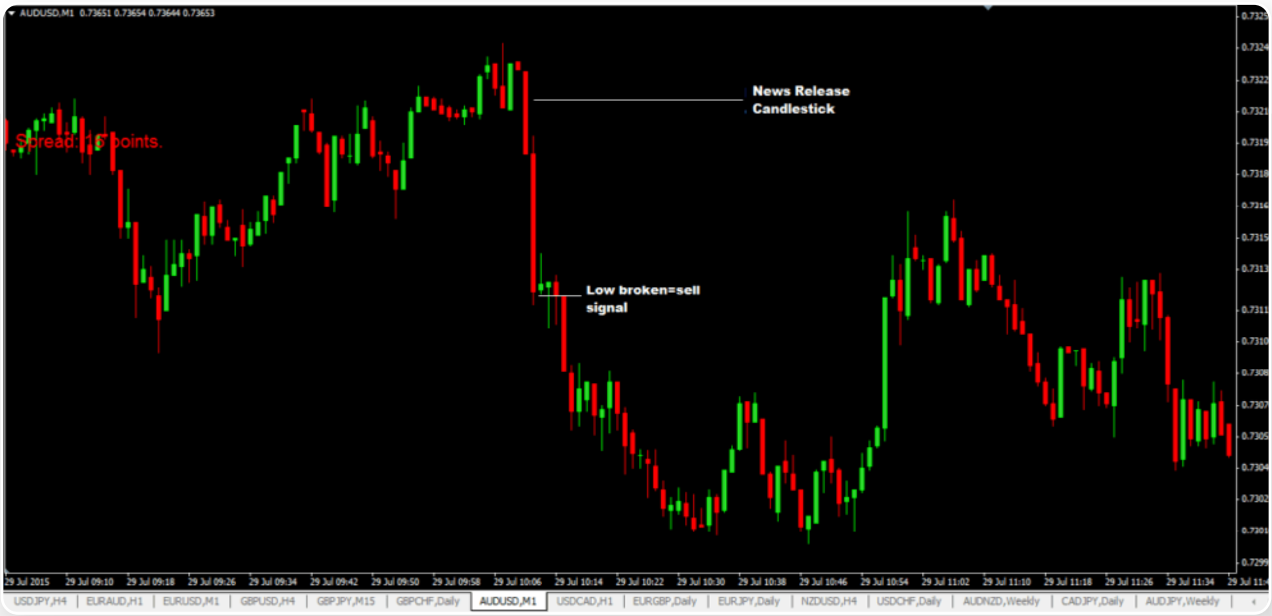
NEWS TRADING STRATEGY

Due to the forex market being a global arena, being heavily influenced by the news shouldn't come off as a surprise.

The news is a vital factor that shapes how prices, volumes, and volatility work in the financial market. A good news trader can utilize market sentiment in their favor. Keeping track of the news is one way to anticipate certain hot topics that can fetch a reasonable amount of profitable trades.

For there to be volatility within the market, the news has to be one that greatly impacts the development of things. There are two categories of news that news traders pay attention to. These are recurring and unexpected news.

You can find a chart representation of what possibly happens to a currency based on the impact stirred by a piece of news.



News traders always have their ears to the ground looking to hear the news that pertains to things such as the announcement rate by the Federal Reserve, earning reports, U.S employment situation summary, etc.

A few newsworthy resources for getting tidbits on the latest in business news are Bloomberg and Investing.

Here are a few tips and pointers to assist you with news trading.

Knowing the dates and times of important events: *Usually, the dates and times of important events scheduled to happen are readily available online. Thus, getting a wind of them before they occur will be of a tremendous advantage. All this information could include, economic data announcements, earnings reports, FOMC, and others.*

Have a working tried and tested strategy in place beforehand: *Making rash decisions is not uncommon in this market. There is a tool called the greed and fear index that is used for gauging the movements in the market to ascertain if the prices are fair. That could come in handy as well.*

Have a risk cap: *This will put a limit to the level you are willing to go to lose a trade. A stop-loss order assures the mitigation of losses and may be an effective tool for risk management.*

Employ the use of fading if necessary: *Ignoring the news or fading is just as powerful to avoid getting dragged into the frenzy that is being generated in the market.*

If you get a good grasp of managing your risks and understanding how to make the news work in your favor, taking advantage of the market can be an adequate opportunity for building your portfolio.

TREND TRADING STRATEGY

A trend, according to the Dow theory is a series of higher highs that are followed by a series of higher lows. Here, traders keep it simple without complicating the interpretations of the chart. The naked eye is a base for determining the trajectory that is currently being taken by the market.

A chart with the price rising from the bottom left corner of the screen to the upper right corner of the screen is a bullish position and therefore, an uptrend.

On the contrary, a chart where the price indicates a fall from the upper left corner to the right is seemingly a downtrend.

As implied by its name, this trading strategy has to do with moving in the direction of the current price trend in the market. Traders effectively do so by identifying the most significant trend direction, its strength and lastly, its duration.

These factors combined inform traders on the reliability of a trend and when a reversal is expected.

POSITION TRADING STRATEGY

Traders have that baby grip here and they hold their position over a long period. This could range from a few weeks to a couple of years. To be able to appreciate this strategy, a trader must have a wider look at things and view things from a macro perspective. That way, their position wouldn't be countered by the fluctuations in the market.

This strategy is dependent on having a deep understanding of the market and having the ability to absorb possible losses that may arise in the short term. A trader will have to have performed a deep market study. This will in turn help them in ascertaining all the major pullbacks and price fluctuations that may potentially arise from trends.

In the chart below, the currency pair shows a three-month decline in value that is constant. This could be a possible set-up for position traders looking to have long-term potential profit.

To adequately reap the benefits here, remember an entry and exit planned way ahead of the entry and the exit date is a must. And lastly, having a controlled level of risk is greatly recommended.

RANGE TRADING STRATEGY

The concept of support and resistance are heavily relied upon here. What those mean on a price action chart is the highest and lowest point that a price reaches before it reverses in the opposite direction. Combined, the support and resistance levels are what constitute a trading range. Generally, it can be used at any time, but its peak effectiveness is prevalent when the market has no particular direction insight.

There are a few types of range trading but we will be looking at four of the commonly preferred types. These are;

Rectangular Range

With this range type, sideways and horizontal price movements are encountered. They will be between lower support and upper resistance. The chart below is a representation of how the price movement of the currency pairs remains between certain lines of resistance, thus creating an opportunity for buyers.

Traders usually use this range type due to it having a shorter time frame.

Diagonal Range

This type of range is common in the forex market and should not come as a surprise to the number of traders who actively use it. When you take a closer look at the chart below, you will notice a pattern of the price both descending and ascending in a diagonal trend. The upper and lower trendlines are also in place to establish a possible breakout.

Traders are in on this range type due to its tendency to have breakouts that could possibly solidify the earning of profits.

Continuation Ranges

This occurs in the middle of an already ongoing trend, resulting in a quick breakout.

They usually happen to correct a predominant trend and bullish or bearish conditions can happen at any time giving traders a chance to potentially generate profit.

Irregular Ranges

Irregular ranges make up the last of the ranges we will talk about. With takes place within a central pivot line making support and resistance lines both surround it. The chart below shows a diagonal trend that has formed within a larger rectangular range that creates a new line of support and resistance.

Determining the support and resistance lines in an irregular range can oftentimes prove difficult but there are still those traders out there who can tackle irregular patterns and take advantage of a looming situation.

This concludes our take on the range trading strategy. It is very important to master all of them if you are considering becoming a range trader.

BREAKOUT TRADING STRATEGY

With a breakout trading strategy, a trader aims to get into a trade just when the price happens to break out of its range. Traders of this type of strategy seek out a strong indication of when a break-out happens and that is all the signal they need to get into the market and take advantage of the movement.

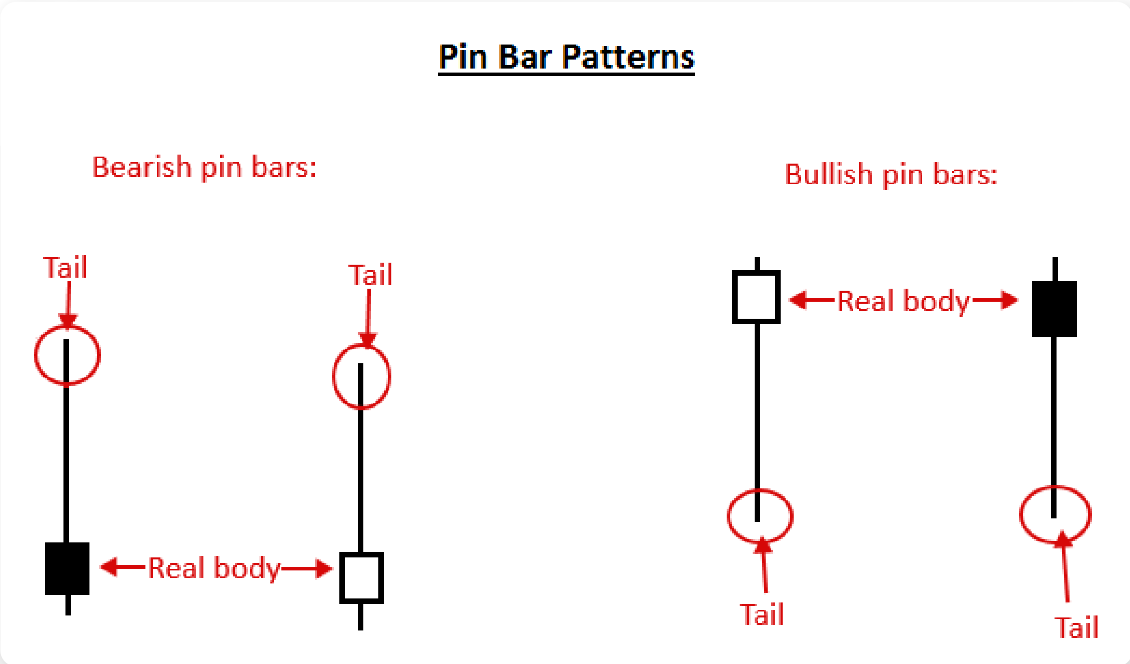
The chart shows both the support and resistance levels. These are important to factor in when it comes to determining when a price will likely stop.

Traders typically enter a trade when a price has gone past its resistance level. To them, this indicates the price has the momentum to ascend even higher.

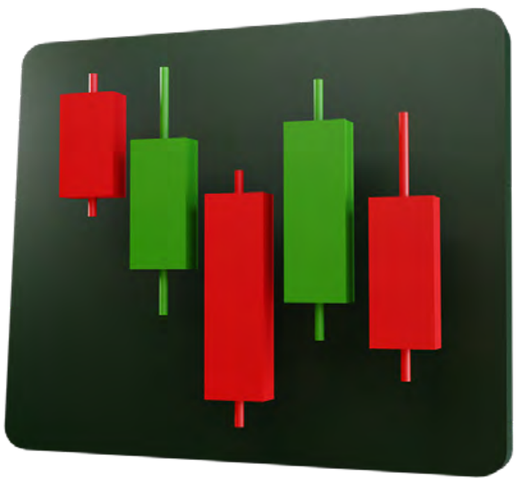
PIN BAR TRADING STRATEGY

This strategy uses a price bar or a candlestick price bar to showcase an abrupt price reduction. This is oftentimes referred to as the pin bar reversal and it is indicated by a long tail which is also referred to as a wick.

The body of the bar itself is denoted by a body that is smaller than the length of the tail. You can see illustrations as shown below.



The area of the tail refers to the price that was rejected. This implies a movement of price in the opposite direction of the tail. The image above shows a bearish pin bar that has a long tail in the uppermost part of its body and the reverse is the case for a bullish bar.



Here are a few tips to know how to use this trading strategy as a beginner.

- You will find that it is easiest to learn how to trade pin bars. This will tie in with the dominant daily chart trend.
- Because pin bars adequately reveal a reversal in the market, they are a very good tool for predicting short and long-term price direction thus, marking major tops or bottoms in the market.
- It is advisable to not randomly go trading every pin because not every pin will provide a return. The most favorable pins to trade may happen in strong trends after a reversal from a support or resistance.

SWING TRADING STRATEGY

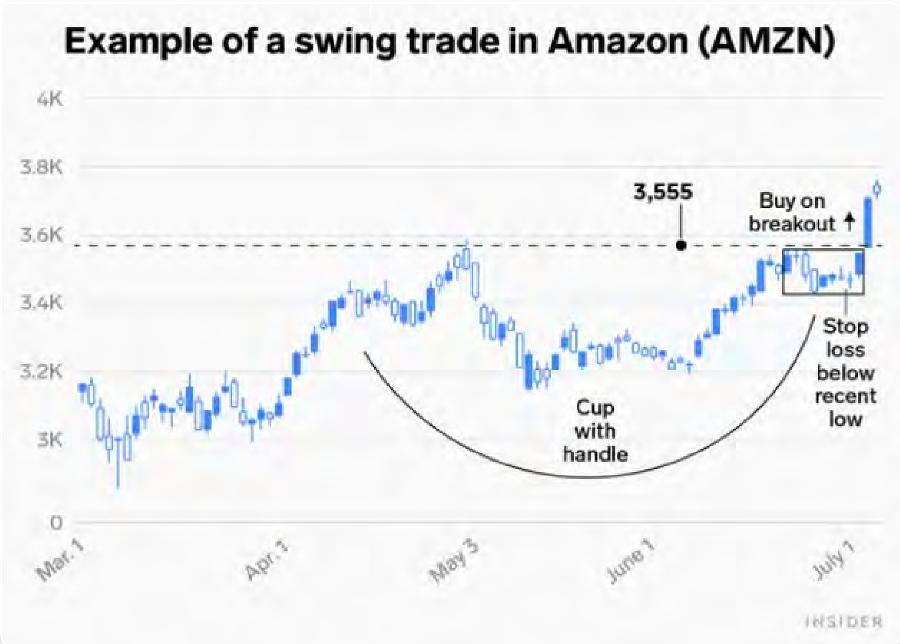
With a swing trading strategy, the goal of traders is to rack profits from short to medium-term gains from a trade or financial instrument over a short couple of days or months.

Swing traders actively seek out and monitor volatile or sedate trades. To effectively do this, swing traders typically use technical and fundamental analysis to analyze the patterns of prices.

Traders flock to this trading strategy due to a couple of reasons. A couple of these might include; the reliance on technical analysis to simplify the process of the trade, the possibility to maximize short-term profit potential using capturing the bulk of the market, and the flexibility of time it offers due to it not having to take up too much time for monitoring.

Find a chart below that shows an example of a swing trade. The candlestick chart shows a pattern known as the cup and handle. Here, you will notice that the cup is shaped like U and the handle is slightly pointed downward.

If the trader wants to make a profit from the trade above, they would enter a buy position at the top of the cup.



FAMOUS INVESTORS & THEIR PREFERRED TRADING STRATEGIES

It's time to shine some light on the rock stars of the financial world. These are folks who have carefully crafted strategies that work well on their behalf. A key component of that is knowing what rules to strictly abide by and knowing when to go all-in with what your gaze is upon especially when you have an edge.

Here are 5 of the most infamous investors in the world:

BENJAMIN GRAHAM

This individual has a tremendous impact on the financial education sector. That is because he was a financial educator but his teachings still resonate with the same vigor today as they did in the past: so much that he is labeled the father of value investing. That is because he introduced the concept and adopted it as a strategy for the entirety of his life.

What value investing entails is that investments, no matter what kind should have more worth than an investor is willing to pay for them. And it is only through the effective use of value investing will an investor be able to accurately gauge the prospects of companies. According to him, companies that have strong balance sheets make ideal candidates for investments with minimal risks.

JOHN TEMPLETON

The second person on this list is considerably one of the top contrarians of the past century. He was the founder of the famous Templeton n Growth Fund. His investing approach was one of the main strategies he employed for his stock trades.

According to his method, an investor shouldn't have to join the bandwagon and move in the same direction as the trend in the market. Rather, the opposite was what an investor should do and then hold on to the stock for a few months or years and then sell the stock to make a profit.

PETER LYNCH

During the time of his managing the Fidelity Magellan Fund from 1977 to 1990, the fund's assets had a tremendous growth that saw $18 million grow into $14 billion in assets.

Another of his greatest feat was his beating the S&P 500 index for close to 11 years. There were quite a few trading strategies that he used during his lifetime but those worthy of note are two — pick up stocks that you understand and always do your own research.

GEORGE SOROS

Founder of the hedge fund company called Soros Fund Management Mr Soros is famed for being a master at translating broad-brush economic trends into highly leveraged killer plays in both bonds and currencies. Most notably, he made huge short-term bets in the direction of the financial market.

The Soros hedge fund came to be known as Quantum Fund, which he aggressively managed successfully for a period spanning decades. The returns reported by this firm were used to boast about excesses of more than 30% per annum.

WARREN BUFFET

There is a reason this investor has been saved for last on this list. Mr Buffet is arguably the most famous investor out of all the other lot. Ask any top trader about this investor and you would hear how influential he is in the global market.

Known as the "Oracle of Omaha", most of his investments are done via his company— Berkshire Hathaway, the majority of which have been instrumental in his acquiring a multibillion fortune.

Mr Buffet has a particularly keen eye for investing in companies that have gone on to become multi-billion dollar corporations. This couldn't be further from the truth because investors who invested $10,000 in Berkshire Hathaway in 1965 are currently above the $165 mark.

There you have it, there is no clear-cut approach for an investment strategy that works for all investors. Learning how to forge your path that works adequately in the long term will help you carve something substantial for yourself.

DEVELOPING YOUR TRADING STRATEGY

To carve something that would fit your trading needs, you will need to have a few components that will work in your favor.

There are;

Market Selection

Randomly chasing currency pairs is not usually a good way to approach the market as a beginner. A trader with big plans should be able to identify a currency pair and learn how to stick with it for a while.

Position Sizing

This helps traders to determine the correct amount of units to buy or sell a currency pair.

Entry Points

Knowing when to enter a long or short position in the market is essential for traders to learn.

Exit Points

Not knowing when to cut your profits or losses is not a behavior that would sustain the accounts of any trader who wants to be in it for the long haul.

Also note that after developing a strategy and it doesn't seem to pan out for some reason, then it might be time to change it. For a strategy to work, you have to understand its effectiveness and how it works. Keep in mind that there is no easy way to go about it. You have to understand that your capital is at play here.

STARTING OUT

You will need to develop a trading system in a program like MetaTrader when starting. This is after you have registered with a broker and tried your hands-on demo trading.

If having a limited capital is likely a barrier or if you are unsure as to how it works, you can ask your broker about the kind of leverage that is offered by them.

Another important thing to consider is the regulation of the broker you will be signing up with. Don't let anyone coerce you into believing that regulations don't. They do. That is what separates the brokers that genuinely want to offer services to you to help you improve and those who are only concerned with taking your money.

CONCLUSION

You have made it to the end. This speaks volumes about your personality. And we are confident with the right approach and preparation, you will sooner than later acquire the skills needed to help you make an impact on your trading journey.

Acquiring said skills couldn't have come at a better time when almost anyone with an internet connection and a smartphone can get to work. That's right, the barriers to entry are lax. Gone are the days when only multi corporations could partake. Those are the days when only your bank and a few other noticeable places could indulge. You read that right. If you didn't know your bank partakes in trading. Be it on your behalf or on behalf of itself. Who's capital do you think is used for it? How about you take up this question and ponder on it?

Finally, keep persevering, keep learning, and keep finding the most efficient capital management techniques you will use so that your risks and trading plan are all laid out in front of you.

If you have any further enquiries that you would like to have tackled, get in touch with tixee here.

tixee is your trusted and regulated broker. Our mandate hinges upon being transparent so that our clients can trade with the utmost ease. This is a regulated brand and as such, your safety and security are vital for our sustainability as a firm.

With a global client network of satisfied customers originating from more than 90 countries worldwide, tixee offers an exciting range of trading tools for all traders.

Additionally, we have a global team of industry experts who are dedicated to your needs so that your experience is seamless.

Come along and JOIN US to see if we would be a good fit for you.

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