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| |  | | --- | | **Lesson 1: Setting Up Your Demo Forex Trading Account** | |  | |
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In our last lesson we finished up our module on the basics of forex trading with a look at the differing characteristics of the world’s main currencies. Now that we have this out of the way the rest of this course will be lessons on how to go about trading these currencies starting with an overview of the forex trading platform.  
  
One of the great things about the forex market for individual traders and one of the reasons we are starting with the forex market as our first market specific course is the availability of [real time forex demo accounts](https://www.aboutcurrency.com/brokers/forex_brokers.shtml). Unlike the equities and futures markets where one must pay the exchanges to get access to real time data, most forex brokers not only provide free real time quotes and charts but they also give you access to the same platform that their live traders trade on and the ability to trade there with virtual cash. This is a nice perk especially for beginner traders, as it allows them to get to know the market and the logistics of placing trades in a real time environment but without risking any real money.  
  
For the purposes of our lessons we will be using the FXCM demo platform and I have included a link to the free registration link where you can register to receive this demo as well if you would like to follow along for the rest of this course.  
  
If you are watching this video on InformedTrades.com then simply click the link above the video to get to the registration page and if you are watching on Youtube then simply click the link in the description section of this video which will also take you to the registration page.  
  
Once at the registration page fill out your information which will take you to a page where you get your username and password as well as download the software.  
  
After filling out your information and clicking submit the next page that comes up should have your demo username and password which you will want to make note of. Also on this page you should see the software download link where you want to click to download the installation file.  
  
This should take a minute to download and then once completed you can click the installation file on your desktop to begin the installation process.  
  
After doing this you should see an icon on your desktop that says “FXCM Trading Station II”. Click that icon which will launch the login box, enter the login information that you received when you downloaded the software and click login.  
  
After logging in you will see the exact same platform with the exact same real time quotes and charts as if you were trading live complete with $50,000 in virtual dollars to trade with.  
  
As we are now getting into the nitty gritty of things I am going to start giving out short homework assignments, the first of which is to play around with the platform for a few minutes to see if you can get a feel for how currencies are quoted and how you would go about buying or selling, which will be the topic of our next lesson so we hope to see you then.

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| **Lesson 2: How to Read Currency Quotes** |
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In our last lesson we started the second module of our forex trading course with a lesson on how to set up a free real-time [demo trading account](https://www.aboutcurrency.com/brokers/forex_brokers.shtml) so we can learn the logistics of trading forex in real-time without risking any money. In today’s lesson we are going to begin to learn the logistics of trading foreign exchange, with a discussion of how to read a currency quote.  
  
The first thing we are going to do here is login to our demo trading account so if you have not registered for a demo yet please pause the video here and click register for a free demo at the link above this video if you are watching on InformedTrades.com or in the description section if you are watching on Youtube.  
  
Once logged into the platform the first thing you are probably going to notice is the “Dealing Rates Window” which has a bunch of currency pairs listed and rates which are updating up and down. As you will also notice in this window each currency pair has two rates listed which are moving up and down together in tandem. This is what is known as the bid and ask quotes. For the purposes of this lesson we are going to look at only the ask or second quote for each currency pair as we are going to go over what the bid and ask is in a later lesson.  
  
The first thing that it is important to understand about trading the forex market is that currencies are quoted in pairs. Another way of looking at this is that the value of a currency is always determined by comparing it with another currency.  
  
So for example the first currency pair which you should see in your quotes window is EUR/USD or the Euro/US Dollar currency pair. As of this lesson as you can see in the quote window here the Euro Dollar currency pair is trading at right around 1.5700.  
  
In the foreign exchange market the first currency in the pair is referred to as the “Base” currency and the second currency in the pair is referred to as the counter currency. So with this in mind the quote that you see here is how many of the second or counter currency it takes to buy 1 of the first currency in the pair.  
  
In this example where we are looking at a quote for the EUR/USD of 1.5700 what this means is that it takes 1.5700 US Dollars to buy 1 euro.  
  
Moving across the quote window to the right the next currency pair that we should see is USD/JPY or the US Dollar Japanese Yen currency pair. Notice that in this example the US Dollar is the base currency and the Japanse Yen is the counter currency. As of this lesson the USD/JPY currency pair is trading at 102.36.  
  
So remembering that the currency quote shows how many of the counter currency in the pair it takes to buy 1 of the base currency we know that a quote of 102.36 for USD/JPY means that it currently takes 102.36 JPY to buy 1 USD.  
  
As we discussed in our lesson on the main currencies of the world, the Euro, Yen, Pound, Swiss Franc, Australian Dollar, New Zealand Dollar, and Canadian Dollar are the most actively traded currencies in the world, and the ones that can be traded actively 24 hours a day as a result. As you can see in the quote window here they are all there quoted against the USD.  
  
As you will also notice here however there are currency pairs which include two of these currencies and which do not include the US Dollar. An example here would be EUR/CHF. Currency pairs which do not include the US Dollar are referred to as cross currencies; however the quoting convention works exactly the same.  
  
So as one final example here as of this lesson EUR/CHF is trading at 1.5921. From the above examples we know that this quote is how many of the counter currency it takes to buy one of the base currencies. So with this in mind we know that this quote means that it takes 1.5921 CHF to buy 1 EUR.  
  
For tonight’s homework session I would like everyone to pick two currency pairs quickly and simply list what the current quote is and what that means as I have just done above. If you would like feel free to list it in the comments section just below this video. That’s our lesson for today.  
  
In tomorrow’s lesson we are going to look at what it means when a quote for a particular currency pair increases and what it means when it decreases so we hope to see you in that lesson.

**Lesson 3: Understanding Currency Rate Movements**

In our last lesson we learned how to read a currency quote. In today's lesson we are going to continue our discussion on the logistics of trading forex with a look at what an increase or decrease in a currency quote means to us as traders.  
  
Now that we understand how to read a currency quote the next thing that it is important to understand is what an increase or decrease in the quote for a particular currency pair tells us about the value of the currencies which make up that pair. As we discussed in our last lesson, currencies are quoted in pairs or in terms of how much one currency is worth in terms of another currency. When we read a currency quote what we are seeing is how much of the second or counter currency in the pair it takes to buy one of the first or base currency in the pair.  
  
With this in mind if the quote for a particular currency pair increases this means that it now takes more of the counter currency to buy 1 of the base currency. Another way of looking at this is that when the quote for a particular currency pair increases this means that the first or base currency in the pair has strengthened and the second or counter currency in the pair has weakened.  
  
Conversely, when the quote for a particular currency pair decreases this means that it now takes less of the counter currency to buy 1 of the base currency. Another way of looking at this is that when the quote for a particular currency pair decreases this means that the first or base currency in the pair has weakened and the second or counter currency in the pair has strengthened.  
  
Although a simple concept, this is one of the most confusing aspects of trading foreign exchange and something that people still mix up even after years of following the market. From my own experience the best way to think of things is simply that if the rate is increasing this means that the base currency is strengthening which automatically means that the counter currency is weakening. Conversely if the rate is decreasing this means that the base currency is weakening, which automatically means that the counter currency is strengthening.  
  
To help solidify our understanding of forex quote movements lets login to our demo trading platforms and look at a few different currencies pairs on a price chart. If you have not done so already I encourage you to pause this video now and register for a free demo trading account by clicking the link above this video if you are watching on InformedTrades.com or in the description section of this video if you are watching on YouTube.  
  
After logging into your real time [demo trading account](https://www.aboutcurrency.com/brokers/forex_brokers.shtml) you should see a button in the upper right hand corner of the trading station that looks like a yellow clock circle and says create market shot over it. Select that button which should bring up a chart preferences window. Select 5 minute there for the timeframe and then click create market shot.  
  
After doing this you should see get a realtime 5 minute chart of the EUR/USD. Lets take the example on this chart of earlier today when the market for the EUR/USD went from xxx to xxx. From the above we should now no that this increase in price means that the EUR has strengthened against the USD during this time period. Conversely if we look at the time period from xxxx to xxxx we can see a decline in price from xxx to xxx. We should now also know that this means that the EUR has weakened against the USD in this example.  
  
The important thing to remember here is that if the price is going up in the quotes window and therefore the chart this means that the base currency is getting stronger and the counter currency is getting weaker. If the price in the chart is going down this means that that the base currency is getting weaker and the counter currency is getting stronger.  
  
Next lets switch the chart to a 5 minute chart of the USD/JPY currency pair. Here we can see that the price for the USD/JPY currency pair has decreased from xxxx to xxxx. As the USD is the base currency in this case this means that the USD has weakened in relation to the JPY. Conversely we can also see that from xxxx to xxx the rate for the USD/JPY currency pair has increased which means that the USD has gotten stronger and the JPY has gotten weaker.  
  
That's our lesson for today. In tomorrow’s lesson we are going to learn about the bid and ask quotes and something which is known as the spread so we hope to see you in that lesson.

**Lesson 4: Understanding Forex Bid Ask Spread**In our last lesson we looked at what an increase or decrease in the quote for a particular currency pair means to us as traders of the forex market. In today's lesson we are going to continue our discussion on the logistics of forex trading with a look at what the bid and ask for each currency pair means. In most financial markets there are always two prices for a particular financial instrument at any one time which are known as the bid and the ask price. The bid price is the price at which the market maker (the actual entity that is on the other side of your trade) will buy and therefore the rate at which you the client can sell. The ask price is the price at which a market maker will sell and therefore the rate at which you the client can buy.  
  
The difference between the rate at which you can sell (the bid) and the rate at which you can buy (the ask) is referred to as "the spread". Market makers such as the people that sit on the floor of the New York Stock Exchange in the stock market make their money from the spread, or buy charging traders more when they sell a stock than they do when they buy a stock.  
  
Although this is changing with the advent of online trading platforms, the concept of a bid and ask price is foreign to most, because traders are most familiar with the stock market where they have traditionally called their brokers whenever they wanted to place a trade who then placed the trade on their behalf with the market maker. When they call their broker they say they would like to buy x amount of xyz stock, the stock broker simply gives the client the ask price for that stock since the client has asked to buy.  
As you can see here however on this online stock trading platform, when requesting a quote for Jet Blue stock the quote window returns two prices, showing both the bid and the ask.  
  
The stock market is in the process of going from indirect access where clients trade through a broker to get to the market maker to a more direct access environment where online trading platforms allow them to trade directly with the market maker. As the forex market for individual traders really started with the internet, the market did not have to go through the same transition. Because of this most forex trading platforms show both the bid and the ask price and make their money through the spread, charging clients zero commissions to trade.  
  
Now that we understand this lets login to our real-time demo trading platforms and look at some examples. If you have not registered for a free demo trading account yet I encourage you to pause this video now and click the free demo registration link above this video if you are watching on InformedTrades.com or in the description section of this video if you are watching on Youtube so you can follow along as well.  
  
Once logged into the platform you will see the quotes window where you can see that the current bid price for the EUR/USD currency pair is 1.5760 and the current ask price is 1.5763. This means that currently you can sell the EUR/USD at 1.5760 and buy at 1.5763. The difference between those prices is the spread.  
  
Moving to the right across the currency window we see that the USD/JPY currency pair is currently trading at 101.89 by 92 which is another way of saying that the bid for the USD/JPY is and the ask is 101.89 and the ask is 101.92 . This means that we can currently sell USD/JPY at 101.89 and buy at 101.92.  
  
As some of you may have noticed, there is a fifth digit there that I have not included in my examples. Don't be confused about this at this point as we are going to learn about in a future lesson.  
  
Now that we have a solid understanding of currency pairs, the currency quote, and the bid and ask prices the next thing that we are going to do is look at actually placing some currency trades. With this in mind the homework assignment for tonight is to place a trade on your demo trading account which would reflect the opinion that you think that the EUR is going to Strengthen against the US Dollar.

**Lesson 5: Placing Your First Forex Trade**In our last lesson we continued our forex trading course by learning about the bid ask spread. Now that we have some of the terminology and basic logistics out of the way it is going to get a little exciting as we look at actually placing some forex trades.  
  
At the end of our last lesson I gave the homework assignment of placing a trade which reflected an opinion that the Euro is going to strengthen against the US Dollar.  
  
If you remember from our lesson on currency rate movements, if the rate for a particular currency pair is going up this means that the base currency in the pair is getting stronger and the counter currency in the pair is getting weaker. With this in mind, if we are seeking to place a trade which reflects the opinion that the Euro is going to strengthen against the US Dollar, then we want to place that trade so we benefit from an increase in the quote for the EUR/USD currency pair.  
  
If you think of all currency pairs in terms of the base currency then you can use the same rationale to trade the forex market as you would any other market. If my analysis tells me that the base currency should strengthen against the counter currency, this means that I am expecting the quote for the currency pair to increase, which means I want to buy to enter the position.  
  
Conversely, if I my analysis tells me that the base currency should weaken against the counter currency then this means I am expecting the quote for the currency pair to decrease, which means I want to sell to enter the position.  
  
With this in mind we should now know that to execute a trade which reflects the opinion that the Euro is going to strengthen against the US Dollar, we are going to buy to enter the position.  
  
Let’s go ahead and login to our real time demo trading accounts and do just that. If you have not registered for a free [demo trading account](https://www.aboutcurrency.com/brokers/forex_brokers.shtml) yet then I encourage you to pause this video and click the free demo registration link directly above this video if you are watching on InformedTrades.com or to the right of this video are watching on Youtube so you can get a free demo and follow along as well.  
  
Luckily, most forex trading platforms including this one make it very easy to execute a trade once logged in. There are several ways to do this on this particular platform but the easiest in my opinion is to simply left click on the buy rate for the EUR/USD currency pair in the dealing rates window, which will bring up a market order window already filled out with everything you need to enter the trade. Once that is up simply click ok and you have executed your first real time virtual currency trade!  
  
As noted above we will now benefit if the quote for the EUR/USD increases which would indicate that the Euro has strengthened against the US Dollar.  
  
If we were expecting the Euro to weaken against the US Dollar this would have meant that we were expecting the rate to decrease so we would have sold to enter the position. The key thing to remember here is that if you are expecting the base currency in any currency pair to strengthen then buy to enter. If you are expecting the base currency in any currency to weaken then sell to enter.  
  
For tonight’s homework assignment establish a fake or real opinion on what you think is going to happen with a particular currency pair and place some trades which reflect that opinion. If you would like to list your trades in the comments section below we would love to see them.  
  
That’s our lesson for today. In tomorrow’s lesson we are going to be covering something which is known as a PIP as well as the different contract sizes in the forex market so we hope to see you in that lesson.

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| **Lesson 6: Calculating Your Position Size** In our last lesson we learned how to place our first forex trade using our real time demo trading accounts. In this lesson we are going to continue our discussion on the logistics of forex trading with a look at how positions are sized in the forex market.  As with any market you need to specify the amount of a currency pair that you are going to trade as a part of the trading process. Although technically in the spot FX market there are no contract standards since the market trades over the counter, most Forex Trading firms standardize the minimum position size in which you can trade. Once this minimum position size is established then the trader can trade the minimum or any increment thereof going up from there.  Although it varies by firm, most forex trading firms offer at least one of, if not all of, the following options for position sizing:  **Option 1: Standard Account** A standard account trades "standard" contract sizes which in the retail fx market are 100,000 of the base currency. So for example if you are trading EUR/USD then the minimum position size you could trade would be 1 contract which would equal 100,000 Euro's against the equivalent amount in US Dollars. As the EUR/USD is trading at 1.5678 as of this lesson that would be 100,000 EUR against 156,780 US Dollars.  As a second example if you were trading USD/JPY in a standard account then the minimum you could trade would be 100,000 US Dollars against the equivalent amount of Japanese Yen. As the Japanese Yen is currently Trading at 101.27 against the US Dollar this would be 100,000 USD against 10,126,000 JPY.  **Option 2:Mini Account** A mini account trades "mini" contract sizes which are 1/10th the size of standard contract sizes or 10,000 of the base currency. So using our examples above if you were trading EUR/USD the minimum you could trade on a mini account would be 10,000 EUR against $15,678 USD.  If you were trading USD/JPY in in a mini account then the minimum amount you could trade would be 10,000 USD against 1,012,700 JPY.  **Option 3 Flexi Account:** A flexi account allows you to trade any size you would like. So for example instead of having to trade a fixed position size in a flexi account you could trade a position size of 5,765 EUR/USD which would be 5,765 EUR against the equivalent amount of USD.  As you can see from these examples one of the great things about the forex market is the ability to trade very small position sizes, which allows traders to start with a smaller account balance and avoid being over leveraged, something we will discuss in later lessons.  Secondly, as normally the spread which you pay does not increase as the trade size gets smaller and there are no commissions, the transaction cost you pay for the trade gets smaller as the trade gets smaller as well.  As a quick example lets login to our demo trading accounts and place another quick trade. If you have not done so already I encourage you to pause this video now and register for a free demo trading account which you can do by clicking the link above this video if you are watching on InformedTrades.com or to the right of this video if you are watching on YouTube.  Once logged into the account choose the currency pair that you want to trade and click in the dealing rates window to bring up the market order box. In this box you will see a line that says "Amount K". As you will notice if you pull down the drop down menu there it goes in increments of 100K or 100,000 of the base currency. As you should now know from learning about the three types of accounts that we just covered as we are trading a contract size of 100,000 of the base currency we are currently on a standard account.  As you can see from the market order window if you would like to trade more than 100K then simply pull down the drop down menu and select the amount you would like to trade in any increment of 100,000 of the base currency and you are good to go.  Thats our lesson for today, in our next lesson we will learn what a pip is as well as something known as fractional pip pricing how to calculate profits so we hope to see you in that lesson.  As always if you have any questions or comments please post them in the comments section below, and have a great day!  **Lesson 7: An Explanation of Pips and Fractional Pips** In our last lesson we learned about the different position sizing options available to retail forex traders. In today's lesson we are going to continue our forex trading course with a look at what pips and fractional pips are.  Traditionally a 1 pip move in the market was the smallest move that a currency could make. Another way of looking at this is that a 1 pip move in the market is a move up or down by 1 of the number sitting the furthest to the right of the decimal point in the forex quote.  As most currency pairs have 4 decimal places a 1 pip move in the market would be a move up or down by 1 of the number sitting in the 4th decimal place spot in the quote. So for example the EUR/USD currency pair is trading at 1.5678 as of this lesson so a move to 1.5679 would be a 1 pip increase in the quote and a move to 1.5677 would be a 1 pip decrease.  In the JPY based currency pairs where there are two decimal points, a 1 pip move in the market would be a move up or down by 1 of the number sitting in the second decimal point spot. So for example as of this lesson USD/JPY is currently trading at 101.28. With this in mind a move to 101.29 would be a 1 pip move up in the market and a move to 101.27 would be a 1 pip move down in the market.  If you noticed at the beginning of this lesson I said that a 1 pip move in a currency pair has traditionally been the smallest move that a currency pair could make. I say this because as electronic platforms have brought greater price transparency to the forex market and price competition has heated up some platform including the one that we have been using have added an additional decimal place to their quotes. Known as Fractional pips, now many of the currency pairs which have traditionally been 4 decimal places quoted out to 5 decimal places and the pairs which have traditionally been quoted out to 2 decimal places quoted out to 3 decimal places.  Lets quickly login to our demo trading platforms to see what I am talking about. If you have not done so already I encourage you to pause this video now and click the demo registration link above this video if you are watching on InformedTrades.com or to the right of this video if you are watching on Youtube.  Once logged into your demo trading platform you can see this extra digit in the upper right hand corner of the quote for each currency pair. Fractional pip pricing is an advantage to the individual trader as it allows the market maker to quote in increments of less than 1 pip, offering for example a spread of 2.5 pips on EUR/USD instead of 3 and saving the trader a half a pip on the trade.  Thats our lesson for today, in tomorrow's lesson we will look at how to calculate profits and losses in the forex market so we hope to see you in that lesson.  **Lesson 8: How to Calculate Profits and Losses in the Forex Market** In our last lesson we continued our discussion on the logistics of forex trading with a look at what a pip is as well as fractional pip pricing. In today's lesson we are going to continue our free forex trading course with a look at how to calculate profits and losses in the forex market.  As the forex market does not have a standardized trade size and because many currency pairs are not quoted in terms of US Dollars the method for calculating profits in the forex market is a little more difficult than in many other markets.  Luckily most forex trading platforms list out how much the value of a 1 pip move in the market is on the platform so clients do not have to calculate this themselves. With this in mind lets quickly login to our real time demo trading platforms so we can see where this is listed. If you have not done so already I encourage you to register for a free realtime demo account which can be done above this video if you are watching on InformedTrades.com or in the description section if you are watching on Youtube.  Once in the platform you will see the dealing rates window and in that window you should see two tabs at the top, one that says "advanced dealing rates" and one that says "simple dealing rates". Click the tab that says simple dealing rates, which will switch over to a different looking dealing rates window with a bunch of columns in it. If you scroll over to the right you will see a column that says "pip cost". The numbers listed under this column are the value of a 1 pip move in the market for each currency pair.  To calculate your profit or loss all you really need to do is take that number and multiply it by the number of pips of potential profit and loss you have on the trade, and then multiply that by the number of contracts you are trading. This will give you the total potential profit and loss on the trade in US Dollars.  As an example lets say that I am trading 3 standard contracts of USD/CHF. My profit target on this trade is 100 pips and my stop loss is 50 pips away from my entry price. To get the total dollar amount of potential risk and reward on this trade, I would simply multiply the pip value of USD/CHF which as of this lesson is $9.95 by 100 which would give me $995. This is my potential profit on the trade per 1 contract. As I am trading 3 contracts I would then multiply $995 times 3 which would give me $2985 in potential profit on the trade.  To get my potential loss on the trade I would simply multiply the pip value of 9.95 by 50 which would give me a potential loss of $497.50 for each contract traded. As I am trading 3 contracts I would then multiply that $497.50 by 3 which would give me $1492.50 in potential loss on the trade.  As you will notice if you scroll down the Pip Cost column of the realtime demo trading platform, the value of a 1 pip move in currency pairs where the US Dollar is the counter or second currency in the pair is always $10. This is because, as we have learned in earlier lessons, a currency quote represents how many of the second currency in the pair it takes to buy 1 of the first currency. As we are trading contract sizes of 100,000 of the base currency a 1 pip move in 4 decimal place currency pairs is equal to .0001 \* 100,000 which equals $10 in currency pairs where the USD is the second currency in the pair.  As you will also notice for currency pairs where the US Dollar is not the second currency in the pair the value of a 1 pip move in the market varies. This is because in those instances the counter currency is not the US Dollar and therefore the value of a 1 pip move has to be converted back into US Dollars at the current exchange rate.  So for example if we are trading USD/CHF and a 1 pip move in the market is equal to .0001 CHF \* 100,000 which gives you 10 CHF. So, as just stated, in order to get the pip value for the USD/CHF currency pair in US Dollars you must then convert the 10 CHF back into US Dollars.  Since the calculations are done for you on the platform we are not going to get into all the math here it is simply important to know that for any currency pair where the US Dollar is the second currency in the pair then the value of a 1 pip move in the market will always be $10. For any currency pair where the US Dollar is not the counter currency, the value of a 1 pip move in the market will vary depending on the exchange rate of whatever currency is the second currency in the pair and the US Dollar.  Thats our lesson for today, in our next lesson we will learn about leverage and something which is known as trading on margin so we hope to see you in that lesson. |
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