

UNDERSTANDING FOREX TERMINOLOGIES

LONG / SHORT

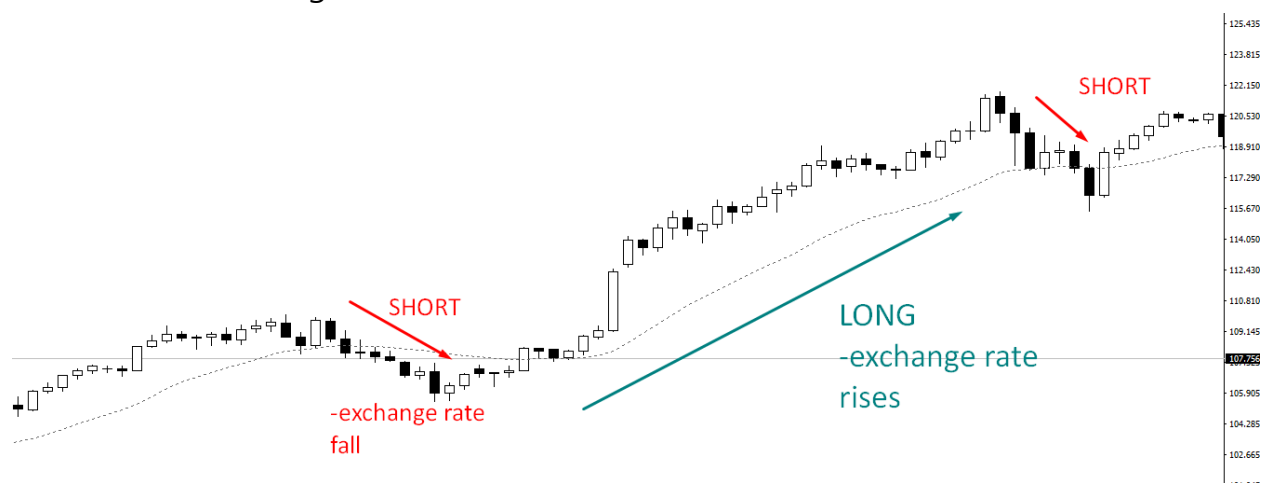
For a quick recap, BUYING a currency pairs means you buy the base currency and sell the quote currency, believing that the base currency will rise in value and then you would sell it back at a higher price.

If you are SELLING currency pairs, it means you sell the base currency and buy the quote currency), you are expecting that the base currency exchange rate will fall in value and you want to buy it back at a lower price or lower exchange rate.

Long and Short is a term that represents the BUY and SELL in trading. Going "Long" is initiated when you buy a currency pairs with the expectation to sell it a higher price.

While a short trade is initiated by SELLING, before buying, with the intention to repurchase a currency pair at a lower price and realize a profit.

As the name implies, Long – Mahaba (exchange rates extending and rises) and Short Maikli (exchange rates decline):



Bid, Ask and Spread,

Currency pairs are quoted with two prices, Bid and Ask

Bid is the price at which your broker is willing to buy the base currency in exchange with the quoted currency.

It is the best available selling price for us retail traders if we want to sell in the market, or simply this is the price your broker are willing to buy it from you when you are selling.

Ask is the price at which your broker is willing to sell the base currency in exchange with the quoted currency.

It is the best available buying price for us retail traders if we want to sell, or simply this is the price your broker are willing to sell it from you when you are buying...

Ask simply means the "offer" price.

Spread - is the difference between the Bid and ask, which is normally how brokers make money from us traders.

You can see it on the "trading platform"

Market Watch: 04:45:09		
Symbol	Bid	Ask
USDCHF	0.98578	0.98608
GBPUSD	1.25836	1.25866
EURUSD	1.12928	1.12958
USDJPY	107.739	107.769
USDCAD	1.30548	1.30578
AUDUSD	0.70431	0.70461
EURGBP	0.89720	0.89750
EURAUD	1.60392	1.60462
EURCHF	1.11331	1.11361
EURJPY	121.630	121.660
GBPCHF	1.24048	1.24118
CADJPY	82.482	82.562
GBPJPY	135.547	135.617
AUDNZD	1.04817	1.04937

MARGIN

In a grocery, you cannot buy just one piece of an egg, they come in dozens or "lots" of 12.

In Forex, you can't just buy or sell 1 euro or 1 usd, they also come in lots:

1000 units of currency (micro - lot)

10,000 units of currency (mini-lot)

100,000 units of currency (standard lot)

“But I don’t have enough money to buy 10,000 euros! Can I still trade?”

Yes You still can, it is possible with **MARGIN TRADING**

Margin trading is simply the term used for trading with borrowed capital which is offered by most brokers.

Example:

If the margin requirement allowed by your brokers is 2%, let say you buy 1,000 units of EUR/USD at an exchange rate of 1.2000. Your 1000 units of GBP is worth 1200 USD.

The 2% of 1200 is \$24 and that \$24 dollar will be set aside to open a trade which means you can now control a 1,000 units worth Euro with just 24 USD.

It gives you the ability to enter into positions larger than your account balance.

With a little bit of cash, you can open a much bigger trade and then with just a small price change in your favor, you have the possibility of ending up with a huge profits.

However, most of the time, this does not happen for most of the retail traders especially for beginners because they usually don’t know what they’re doing.

They take advantage of Margin and over used it then later realize that too much usage of Margin can be a destructive once you trade are against you..

What is PIP?

Pip is the unit of measurement to express the changes in value between two currencies. This is usually the 4th decimal place of the currency quote.



Each currency has its own pip value, it means that as the pip changes, it has a corresponding amount of value.

Here's an example:

$$1 \text{ EURO} = 1.2000 \text{ USD}$$

To compute the amount of pip value for EURUSD,

(the value change of the quoted currency or the last 4 decimal) multiplied by the exchange rate ratio

$$0.0001 \text{ USD} \times 1 \text{ USD} / 1.2000 \text{ USD}$$

$$= 0.0000833$$

If we traded, 1000 EUR/USD, the one pip change will be equivalent to (0.0000833x 1000 units) = 0.083

This is the approximate value of each pip move/s.

What is LOT?

This is the specific amount traded in forex, basically the specific number of currency units you buy or sell

Standard lot = 100,000 units

Mini lot = 10,000units

Micro lot = 1000 units

Most of the brokers represented it by the following

Standard lot = 1

Mini = 0.1

Mirco = 0.01

The change in currency value relative to other currency is measured by pips, which is actually very small changes only.

Now to take advantage of this small change in value, we need to trade a large amounts of particular currency in order for us to see any significant profit or loss.

Normally for the USD currency pairs such as EUR/USD

1 standard lot represents \$10 per pip value change

1 mini lot represents \$1 per pip value change

1 micro lot represents \$0.1 per pip value change.

So if example you BUY 1,000units of EURO/USD at an exchange rate of 1.2000, and it increases to 1.2300

$$\text{Pip change} = 1.2300 - 1.2000 = 300\text{pips}$$

So how much is your potential profit?

Remember 1000units or 1 micro lot is equal to \$0.1 per pip value change,

$$= 300\text{pip} * \$0.1$$

$$= \$30 \text{ (you profit)}$$

If it is 1 standard lot

$$= 300\text{pip} * \$10$$

$$= \$3,000$$

Make sense??

Pip value may changes as the exchange rate also fluctuates, but you don't have to worry about the manual computation in the actual trading. You just have to understand how it is derived so you are aware about how much you should only trade relative to what your account is capable.

What is LEVERAGE?

If you are wondering how retail or small time traders can participate in the world largest financial market - is it due to the "Leverage".

Leverage simply means an amount that the brokers are willing to lend you.

The amount of your capital deposited is usually the "margin" and leverage may vary on each brokers, and what you are comfortable with.

Think of brokers as banks that willing to lend you money.

It is like loaning a house and lot from them but not to the point that you will actually own it.

If you will buy a house and lot, typically you will need a down payment for you to own it, and the remaining balance will be paid by the bank. The bank will pay for the property while you only put a small deposit and then you will amortize it.

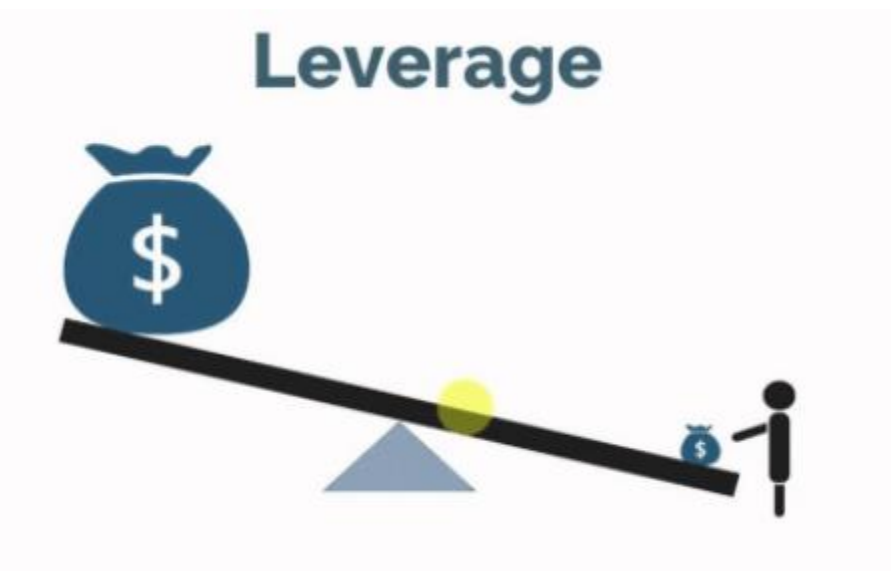
In trading, it has the same concept the only difference is that you don't need to amortize what the broker lends you.

They will only lend you the amount you need so you can hold a trade even if you do have a small amount of capital deposited.

Think of your broker as a bank who basically fronts you \$100,000 to buy currencies.

All the bank asks from you is that you give a \$1,000 as a good faith deposit, which it will hold for you but not necessarily keep.

Source:tradingonlineguide.com



This how leverage works in Trading.

Leverage is usually represented in ratio such as 1:50, 1:100, 1:200, 1:500

Which means that if you have a deposit of \$1,000 and you choose to use 1:100 leverage,

Your \$1,000 initial deposit can control \$100,000 worth of currency.

And the margin required (in percentage) for you to open that trade considering \$1,000 capital is base from leverage,

In this case 1:100 or $1/100 = 1\%$

So if example you want to open a trade worth of 10,000 units of currency or 0.1mini lot,

1% of 10,000 units is 100, the broker will set aside \$100 from your trading capital in order for you to open a trade position worth 10,000. **Sounds clear?**

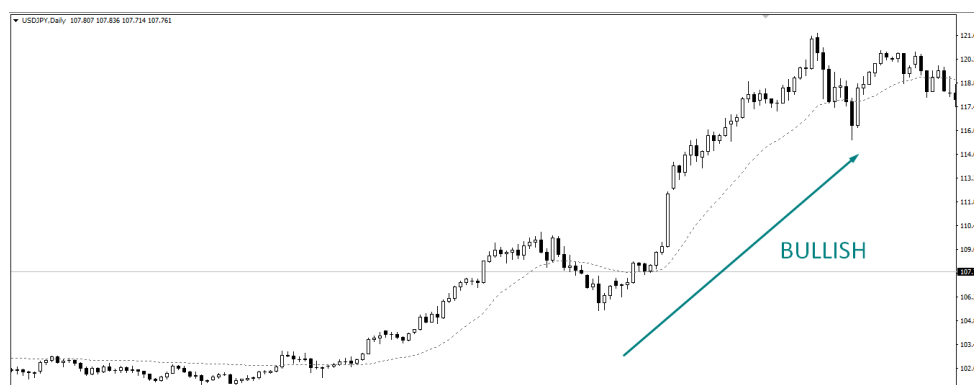
That 100 set aside by your broker is not a FEE, it is actually a deposit so you could temporarily own that 10,000 worth currency

You will get it back once you close a trade, including the amount deducted if you lost a trade or additional amount if you win a trade

The reason the broker requires the deposit is that while the trade is open, there's the risk that you could lose money on the position!

BULLISH / BEARISH

Bullish and Bearish – Bullish is the term used if the price **trend** is rising or in an upward condition and Bearish if the price **trend** is declining or on a downward move.





Market Execution or Market Order or Instant Execution

It is just a term that represents when you are about to enter a trade, it means that it will get you to the trade immediately with the current market price. This is typically used when you are confident with your analysis and setup and you don't want to miss a potential move.

Limit Order or Pending Order – Your trade will be executed only if the market has come to your desire price.

Example:

If the EUR/USD exchange rate is at 1.2350 and you place a buy limit order at 1.2200. Your trade will be executed once it comes to 1.2200, if not, then you'll not be in the trade and you may miss the opportunity if your analysis goes on your favor.

Below is some illustration between Buy and Sell Limit order:

Buy Limit Order - You'll enter a long position only if the market trades low enough to your desired price level. It simply means that you'll have to wait for price to go down before moves up again.



Sell Limit Order - You'll enter a short position only if the market trades high enough to your desired price level. It simply means that you'll have to wait for price to go up before moves down again.



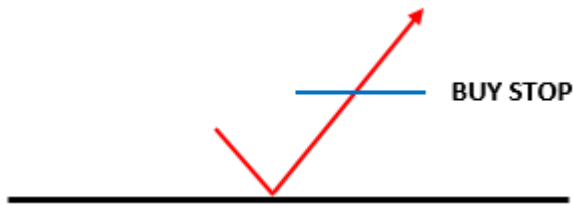
This order is usually used by short-term or swing traders because they want to get the best possible entry price as it improves their risk to reward.

Stop Order – This is the opposite of a limit order, your trade will be executed only along with the current market trend or the breakout. You are expecting that the price will continue to move and you will ride the momentum.

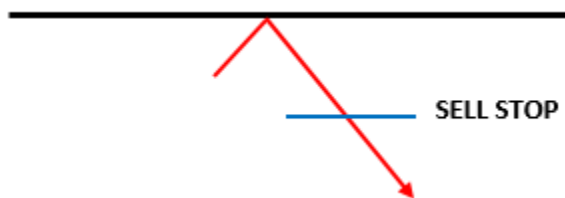
For example:

If EURUSD is trading at 1.2350 and you place a buy stop at \$1.2450. This means you'll only get filled if EURUSD trades up to 1.2450, else you'll not be in the trade.

Buy Stop Order - You'll enter a long position only if the market trades high enough to trigger an entry then continuously goes up.



Sell Stop Order - You'll enter a short position only if the market trades low enough to trigger an entry then continuously goes down.



How can we participate in trading?

We can participate in the largest financial market through brokerage firms. Brokerage firms will be our gateway to place our order in the forex market.

Basically we just have to open a trading account from them just like opening a bank account and later deposit a trading capital which would be used as a margin for you to hold a trade.

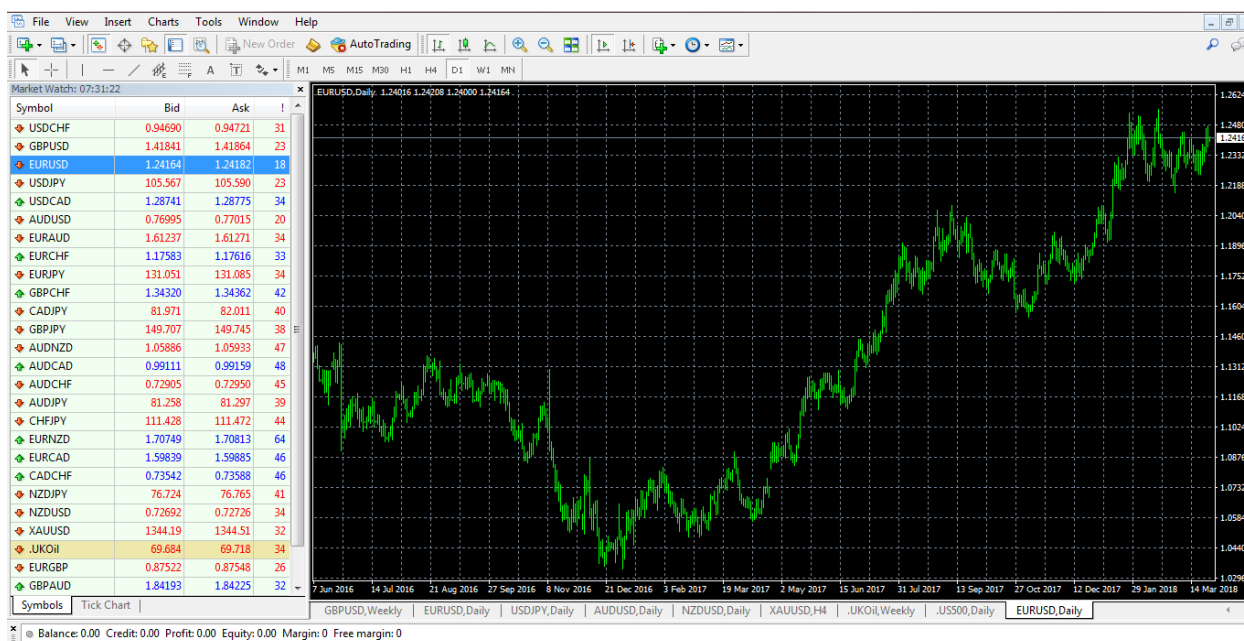
One great advantage of trading is that you can actually start and test it without spending a single cent. Brokers typically offer a "demo trading account" (virtual money use) which offers an advantage especially for those that are really new to trading to practice, learn first, familiarize and understand first how the forex market works.

And actually, it is highly recommended to do so before going and open a real trading account. *“Mahirap naman sumubak sa labanan ng wala kang ka-idi-idea sa haharapin mo”*.

Every broker will provide on what we call a **“trading platform”**, basically an application on where we could place our transaction virtually, check and monitor our position or trades.

And the most popular trading platform software trader’s used is the “MT4” – metatrader4.

Here is the snapshot of the basic platform (an MT4 type); you can tweak, adjust some parameters and settings to improve and have clearer view depending on your preference.



This trading platform is an application where you can place your buy and sell orders, watch and monitors the market price movement and fluctuation. This is where your trading business will operates.

It is a **“FREE”** downloadable software that you can easily downloaded on each brokers, website. There is also a mobile application that you can install on your phone. However, I don't recommend it especially for beginners with regards to charting. I highly recommend at least a screen wide enough to view the overall market price.

Here are some of the brokers that you can start with, it is just purely a recommendation based on my personal experience which I have previously used it.

[IC Market Account Opening \(my current broker\)](#)

[Pepperstone](#)

[Blueberry Markets](#)

[Oanda](#)

[XM](#)

Again, I am not affiliated with this international broker, I only have experience with them. You are still responsible on selecting your preferred one.

And in choosing a broker, you have to consider the following,

- Security and Regulation

At the very beginning you have to understand the security of your money, you will not just put in a broker without a high degree of security. And those brokers that with high level of security is regulated by the following bodies:

- ✓ United States: National Futures Association (NFA) and Commodity Futures Trading Commission (CFTC)
- ✓ United Kingdom: Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA)
- ✓ Australia: Australian Securities and Investment Commission (ASIC)
- ✓ Switzerland: Swiss Federal Banking Commission (SFBC)
- ✓ Germany: Bundesanstalt für Finanzdienstleistungsaufsicht (BaFIN)
- ✓ France: Autorité des Marchés Financiers (AMF)
- ✓ Canada: Investment Information Regulatory Organization of Canada (IIROC)

- Transaction Cost

In any business, transaction cost are normal, and in trading this will most probably be the "spread" and "the commission" that you'll have to pay in each of you trades.

It's all about finding the correct balance between security and low transaction costs. The lower the spread, the better.

- Deposit and Withdrawal

It should always hassle free! For us in the Philippines, I do recommend to find a broker who uses a Paypal for deposit and withdrawal. It is by far the most

convenient for me. Then from Paypal, I transfer my withdrawal to G-Cash and/or to my local bank account link to my Paypal.

- Execution

It is a mandatory that your brokers will execute your trade at the best possible price. In times of liquidity and volatility, there is no reason for your brokers not to execute your trade in a relatively close to what you have set. The speed at which your orders get filled is very important because of how fast the price movement is.

- Customer Service and Support

Along the way, you might experience problem and technical difficulties and therefore you must pick a broker that you could easily rely and contact when problems arise. It is as important as their performance on executing your trades.

Here is a simple step to open a "DEMO Account".

I will let my current broker be the example since it is the one I am very much familiar with.

Here are the simple step on opening a demo account:

1. Go to any "Forex Online Broker", if you still don't have a preferred broker, this might be a good start, just click and follow this link [ICMARKETS](https://www.icmarkets.com). You don't have to follow my recommendation, it just that, it is my current broker who handle my account. You have the options to choose yours, however, you have to choose it wisely as there are brokers that are being link as SCAM.

Be your best trader with the
world's largest True ECN
 forex broker

START TRADING **TRY A FREE DEMO**

EURUSD		AUDUSD	
Bid	1.13 69 ⁷	Bid	0.70 23 ¹
Ask	1.13 70 ⁰	Ask	0.70 23 ⁸
Spread	0.3	Spread	0.7
	BUY SELL		BUY SELL
GBPUSD		XAUUSD	
Bid	1.26 95 ⁸	Bid	1409.46
Ask	1.26 97 ³	Ask	1409.81
Spread	1.5	Spread	3.5
	BUY SELL		BUY SELL

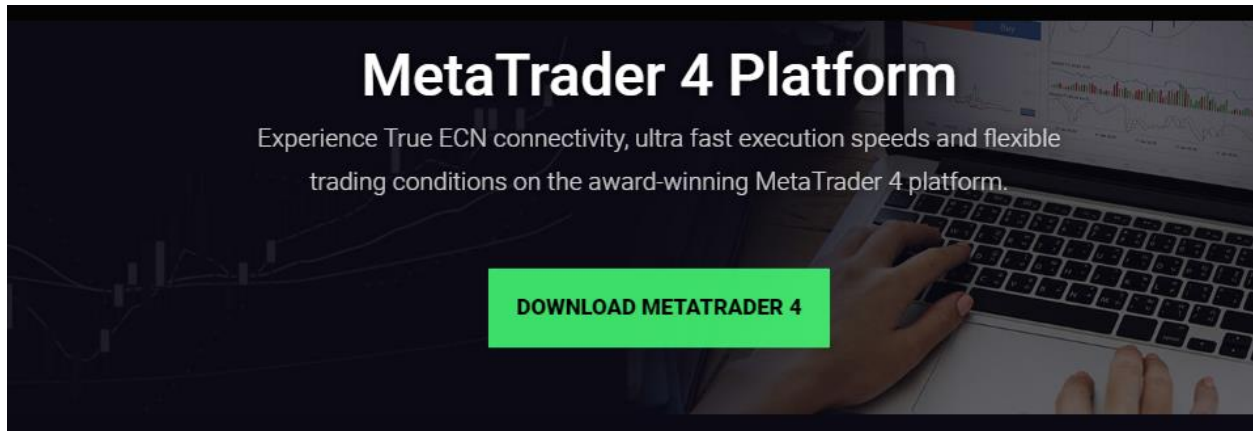
2. Click the "Try a Demo Account" or Open a demo account – it will redirect you to the application page.

3. Fill out the necessary information that is needed. Basically it only requires your full name, email address, the amount and currency you want to start to trade. I highly recommend that you put the amount similar to the capital you'll deposit when you trade "live". Start your demo trading account at least \$500 – \$1,000 and it depends on your preference.

4. Check your email for your account login, trader's password and the server of your trading.

5. Download the mt4 trading platform, which is also located on the page where you click the "open demo account". Just simply install it on your laptop and desktop. You have a choice to also download it on your mobile, but I highly discourage you trading on mobile.

<https://www.icmarkets.com/en/forex-trading-platform-metatrader/metatrader-4>

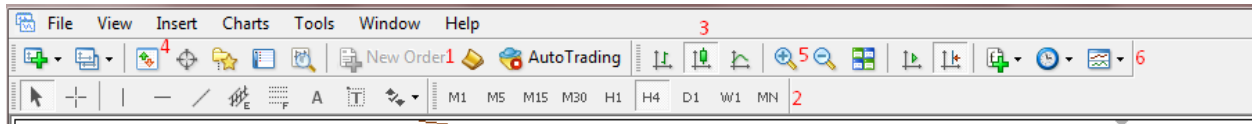


After installing, just input all the information provided to your email by the broker and viola, you can start demo trading.

And your trading journey begins!

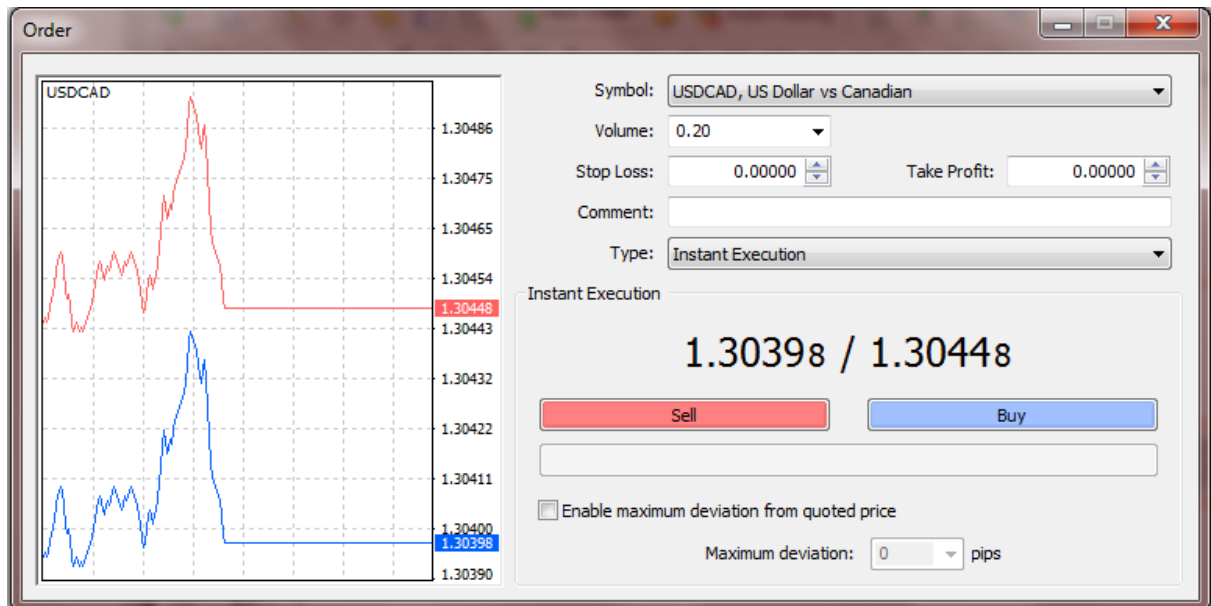
I will put a short video course on how you can basically navigate the trading platform and this will be uploaded on the "members area".

Basic MT4 Tab Navigation



In the mt4 platform, on the upper part is the tabs that will help you in everything you need on trading, and I just numbered those that are most commonly used. Anyway, you can try it when you are practicing a demo account.

1. "New Order" button – when clicking this button, this is where you will execute your order.



Let's dive on each of the parameters.

Symbol: This is where you would choose the Instrument traded or the currency that you will buy or sell

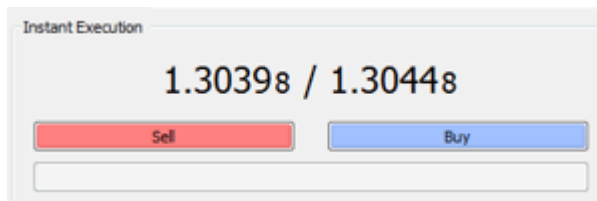
Volume: This is the Lot size or the Position size

Stop Loss: This will be your exit price if your trade goes wrong to protect your capital

Take Profit: This will be your exit price target where you will make a profit and when your trade goes on your favor.

Type: This is the Order type either Instant Execution, Pending Orders (will discuss it further on the coming slides)

For Instant Execution:



The numbers on the left is the "CURRENT SELLING PRICE" and on the right is the "CURRENT BUYING PRICE".

Basically for instant execution, your trade will be executed at the current market price.

2. "Time Frame" button – this is where you can select each time frame that will represent each market price from a certain time period.



3. "Type of Chart" – there are 3 kinds of chart representation, which I will discuss later. But basically these are Line, Bar and Candlestick chart.



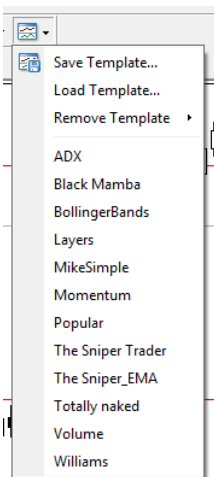
4. "Market Watch" button – this button will show all the currency pairs including their current market price

Symbol	Bid	Ask
USDCHF	0.97716	0.97766
GBPUSD	1.30748	1.30798
EURUSD	1.16396	1.16446
USDJPY	113.391	113.441
USDCAD	1.30374	1.30424
AUDUSD	0.72073	0.72123
EURGBP	0.89001	0.89051
EURAUD	1.61562	1.61632
EURCHF	1.13743	1.13793
EURJPY	131.962	132.012
GBPCHF	1.27753	1.27883
CADJPY	86.915	87.015
GBPJPY	148.255	148.325
AUDNZD	1.08895	1.09015
AUDCAD	0.93933	0.94033
AUDCHF	0.70394	0.70494
AUDJPY	81.679	81.779
CHFJPY	115.917	116.017
EURNZD	1.75944	1.76064
EURCAD	1.51790	1.51910

5. "Zoom In, Zoom Out" button – it will help you view the market price history in a wider range.



6. "Templates" - this is where you can save your chart templates,



MT4 platform is a very user friendly, all you have to do is try first on the demo and see what's inside and what are the function on most of the buttons.