8 Day Intensive Course

Lesson 1: General Information and Introduction to Technical Analysis

A) Message From The Instructor

MESSAGE FROM THE INSTRUCTOR

Hello, and welcome to the FX "Intensive" Power Course. This course is designed to teach individuals the concepts of Technical and Fundamental analysis, and demonstrate how to apply these methodologies to your trading account. As the instructors, our role is to ensure that the class runs in a consistent and orderly manner, and that the experience is as rewarding as possible for all of the students enrolled in the course. In particular, this will involve moderating and initiating class discussions, reviewing and analyzing homework assignments, and offering additional insight into the topics presented in the forum. Our duties are aimed towards helping you to start thinking and acting like a trader, and to give you the proper tools and mind set to trade with confidence in the FX markets.

Students of the FX "Intensive" Power Course are encouraged to review and complete all lessons, quizzes and assignments in the course. (Note: When you enter into the Quiz Center, simply click on the word "Quiz" and it will allow you into the quiz for that day.)

In order to get the most out of this course it is absolutely vital that you post questions and trades in the forum. Having an experienced trading instructor review and comment on your trade is the best resource you could possible ask for when starting out in this market.

Students are also responsible for opening a Demo Account and practicing with each Technical Indicator that is covered in the course. This will entail applying each indicator to a trade. We recommend that students practice with at least 10 trades per indicator. These suggestions are to ensure that students properly understand and apply the trading methodologies covered in the course.

Over the next 8 lessons, we will provide you with information that we have found, when used properly, to be of great benefit to trading the foreign exchange market. Every person is different and naturally every person will trade differently, thus it is imperative that each and every one of you make a concerted effort to develop your own strategy. We will help you along the ways as much as we can (24 hours a day), but ultimately, your trading performance will be indicative of the plan that you put in place.

Saving the Lessons

Our advice would be to save each lesson to a MS Word file. On any given thread, click on the Printable Version of the page, then copy and paste the text to MS Word. If you revert back to the normal view of the page, you can right click to copy and charts, then move your cursor in the Word file to where the charts should be, and press Ctrl + V to paste the chart there. Charts in MS Word can be resized simply by clicking on the edge of the chart and dragging it larger or smaller.

If you have any issues pertaining to the course or how it is running, please feel free to contact us via email at instructor@fxpowercourse.com.

In conclusion, we'd like to welcome you once again to the FX "Intensive" Power Course. We're looking forward to getting started and interacting personally with each of you.

B) Tools of the Trade

Tools of the Trade

In addition to the Online Classroom, students will need a few other tools to get through the course. All the tools involved in the Power Course Online are aimed at helping you become a better trader -- so it is to your advantage to use all the tools outlined below to your fullest advantage.

Demo Account

A demo trading account -- or a virtual trading account that provides you with virtual cash to practice trading in the FX market -- is the best tool any aspiring currency trader can use to improve his/her skill in the market. You can download the software and sign up for a demo account at this link:

http://www.fxcm.com/getting-started.jsp

The one of the most important things you can do if become familiar with the FX Trading Station before entering into a trade, even a practice trade. Here is a link to a preview on how to use the trading platform:

http://www.fxcm.com/software-preview.jsp

If after watching this preview there is still some things you aren't sure of about using the FX Trading Station, we recommend you contact FXCM by phone and ask for a product walkthrough of the software. Knowing how to use this tool is a key to trading success. Here is a link to the main FXCM contact page:

http://www.fxcm.com/contact-fxcm.jsp

Fxtrek Desktop Charts

Fxtrek is offering a free month long subscription to their desktop charts for all students in the course. These are excellent charts, and you will find that most of the examples that the instructors post are from these charts. Your login ID and password for the charts will come in a separate email. You can download the actual software from the following link:

http://fxcmpc.fxtrek.com/misc/download.asp

Here is a link to help with any technical problems you may encounter when accessing the charts:

http://www.fxtrek.com/aboutEN/technicalfaqs.asp

You can also contact FXtrek directly at support@fxtrek.com.

If you do not receive login information by the start of the course, please send an email to instructor@fxpowercourse.com and we can get you set up.

Other Charting Packages

You can use any charting package you want, to include the Intellicharts from FXtrek. However, you can see the other free charting packages that use the FXCM price feed at this link:

http://www.fxcm.com/charting-options-exchange.jsp

Supplemental Web Site

In addition to the material presented in the Online Classroom, the course Online also includes a supplemental Student Site filled with additional trading strategies and advanced market topics. This material, while supplemental to the course, is invaluable to the student looking for more advanced material that will help them refine their trading strategy. Here is the link to access the supplemental Student Site:

http://www.learncurrencytrading.com/pc_student/

C) How Do Our Students Benefit When They Open A Live Account?

Most of our students open a live account shortly before they graduate from the course. FXCM offers 2 types of trading accounts: Standard Account (100K) and Mini Account (10K). You need as little as $300 to get started in trading the FX market. **However, in order to risk only a small portion of the account on any one trade, we suggest starting with at least $1,000 to $2000. There is no maintenance fee or inactivity fee.** Even if you are not fully ready to trade live yet, you could still open up a live account **before the course concludes** and enjoy the full benefits of having a live account which are:

1. Get the course for Free!
By opening an account **before** the course concludes, the course fee will be reimbursed to you. Simply email orders@fxpowercourse.com and let us know you opened an account. Even if you open a mini account with the $300 minimum, you will be reimbursed for the course.

2. Free One Year E-mail support from FX Powercourse Instructors

Learning is an ongoing process. Even though you've graduated from the Powercourse, the chances are that you will have questions from time to time. By opening up a live account before the course concludes, you enjoy a full 1 year email access to the FX Powercourse Instructor. When you have questions regarding the fundamental news releases, technical trade setups or anything about trading the FX market, you may ask your course instructors via email 24 hours a day 7 days a week. It makes you feel more confident when having experienced instructors on your side. They can be reached at instructor@fxpowercourse.com

3. Free access to DailyFX+.

DailyFX+ is a complete suite of professional trading tools similar to those used by institutional trading desks. **DailyFX+ is FXCM's premium resource website available FREE to live to FXCM clients.**

DailyFX+ includes:

1. Guest Trade Ideas
2. Buy/Sell Signals
3. Intraday Analytics
4. Technical Analyzer
5. Real-time charts
6. Live market news
7. Technical trading levels
8. Comprehensive Economic Calendar

Once you have a live account, you can login to DailyFX directly from the trading station by clicking on the "Research Button" This will take you to DailyFX+ which offers a complete suite of trading tools plus real time news, fundamental analysis, global economic a calendar and free charting all in one convenient place, 24 hours a day. For a short presentation that describes the benefits of DailyFX+ please click here:
https://plus.dailyfx.com/tnews/loginForm.jsp

4. Eligible to win thousands of dollars by participating in our trading contests

Contest 1: The King of Mini Trading Contest

Each month over $4000 will be awarded to the top 5 mini account holders with the highest percentage gain. This is a live trading competition open to all live mini account holders. At the beginning of each month, the slate is wiped clean and traders have a new opportunity to win the monthly prizes. **To qualify, just have at least $1000 in your account by the last day of month by 4:59pm EST. This will automatically enroll you into the contest.**

1st place: $2,500 2nd place: $1,000 3rd place: $500
4th place: $250 5th place: $100

To view the full contest rule, please visit
http://www.fxcm.com/mini_trading_acc...test-rules.htm

Contest 2: The Powercourse Alumni Trading Contest

FXCM sponsors a trading contest exclusively for FX Power Course graduates

on top of the King of Mini Trading Contest. Each month $1700 will be awarded to the top 3 mini account holders with the highest percentage gain. **This is a live trading competition open to all FX Powercourse alumni with live mini accounts that have at least $1000 in that account before the new month starts (by 4:59 EST the last day of the month).** At the beginning of each month, the slate is wiped clean and traders have a new opportunity to win the monthly prizes. We will find more detail in the Powercourse Alumni Forum. Alumni Contest rules are the same as the King of Mini Contest rules.

1st place: $1,000 2nd place: $500 3rd place: $200

D) Introduction to Forex Trading

Introduction to Forex Trading

Kathy Lien, Chief Strategist at DailyFX and Boris Schlossberg, Senior Currency Strategist at DailyFX would like to introduce you to the world of Forex trading. Here is a link to their video:

http://www.fxcm.com/forex-trading-video.jsp

What is Forex Trading?

Overview
FXCM provides an online trading platform for individuals that want to speculate on the exchange rate between two currencies. In doing so, traders buy and sell currencies with the hope of making a profit when the value of the currencies changes in their favor, whether from market news or events that take place in the world. The forex market is the largest market in the world with daily reported volume of over 1.9 trillion making it one of the most exciting markets for trading.

Market Hours
The spot FX market is unique to any other market in the world, as trading is available 24-hours a day. Somewhere around the world, a financial center is open for business, and banks and other institutions exchange currencies, every hour of the day and night with generally only minor gaps on the weekend. Essentially foreign exchange markets follow the sun around the world, giving traders the flexibility of determining their trading day.

<u>How Market Hours Work</u>
Time Zone............New York...GMT

Tokyo Open..........7:00 PM....0:00

Tokyo Close.........4:00 AM....9:00

London Open........3:00 AM....8:00

London Close......12:00 PM....17:00

NY Open............8:00 AM....13:00

NY Close............5:00 PM....22:00

How an FX Trade Works

In this market you may buy or sell currencies. The objective is to earn a profit from your position. Placing a trade in the foreign exchange market is simple: the mechanics of a trade are virtually identical to those found in other markets, so the transition for many traders is often seamless.

Example of How FX Trade Works

Trader's Action.. ....Euros.....US Dollars
A trader purchases 10,000 Euros in the beginning
of 2001 at the EUR/USD rate was .9600........................+10,000....-9,600

In May of 2003 the trader exchanges his 10,000
Euro back into US Dollars at the market rate of 1.1800......-10,000...+11,800

In this example, the trader earned a gross profit of $2,200.........0.....+2,200

Quoting Conventions

Currencies are quoted in pairs, such as EUR/USD or USD/JPY. The first listed currency is known as the base currency, while the second is called the counter or quote currency. The base currency is the “basis” for the buy or the sell. For example, if you BUY the EUR/USD, you buy Euros while at the same time sell US Dollars. You would do so in expectation that the Euro will appreciate (go up) relative to the US Dollar.

Currency Abbreviations

Symbol......Definition
EUR..........Euro
GBP..........British Pound
JPY...........Japanese Yen
USD..........US Dollar
CAD..........Canadian Dollar
CHF..........Swiss Franc
NZD..........New Zealand Dollar
AUD..........Australian Dollar

EUR / USD

In this example Euro is the base currency and thus the “basis” for the buy/sell.

If you believe that the US economy will continue to weaken and this will hurt the US dollar, you would execute a BUY EUR/USD order. By doing so you have bought euros in the expectation that they will appreciate versus the US Dollar. If you believe that the US economy is strong and the Euro will weaken against the US Dollar you would execute a SELL EUR/USD order. By doing so you have sold euros in the expectation that they will depreciate versus the US Dollar.

USD / JPY

In this example the US Dollar is the base currency and thus the “basis” for the buy/sell.

If you think that the Japanese government is going to weaken the yen in order to help its export industry, you would execute a BUY USD/JPY order. By doing so you have bought U.S dollars in the expectation that they will appreciate versus the Japanese Yen. If you believe that Japanese investors are pulling money out of U.S. financial markets and repatriating funds back to Japan, and this will hurt the US Dollar, you would execute a SELL USD/JPY order. By doing so you have sold U.S Dollars in the expectation that they will depreciate against the Japanese Yen.

GBP / USD
In this example the GBP is the base currency and thus the "basis" for the buy/sell.

If you think the British economy will continue to be the leading economy among the G7 nations in terms of growth, thus buying the pound, you would execute a BUY GBP/USD order. By doing so you have bought British Pounds in the expectation that they will appreciate versus the US Dollar. If you believe the British are going to adopt the Euro and this will weaken pounds as they devalue their currency in anticipation of the merge, you would execute a SELL GBP/USD order. By doing so you have sold British Pounds in the expectation that they will depreciate against the US Dollar.

USD / CHF
In this example the CHF is the base currency and thus the "basis" for the buy/sell.

If you think the Swiss Franc is overvalued, you would execute a BUY USD/CHF order. By doing so you have bought US Dollars in the expectation that they will appreciate versus the Swiss Franc. If you believe that due to instability in the Middle East and in U.S. financial markets the dollar will continue to weaken, you would execute a SELL USD/CHF order. By doing so you have sold US Dollars in the expectation that they will depreciate against the Swiss Franc.

Buying / Selling
First, the trader should determine whether they want to buy or sell. If they want to enter a short order – whereby they will profit if the exchange rate falls – they simply need to click on the SELL rate. The opposite holds true for traders who enter buy orders: they can simply click on the BUY rate, and thus will profit if the exchange rate goes up.

Buying and Selling Prices
Just like in all markets, there are two prices for every currency pair. The difference between these two prices is the spread, or the cost of the trade. In this example, the spread is two pips. On a mini account, a pip on the EUR/USD currency pair is worth $1, while in a standard account, each pip is worth $10. You buy at the higher price and sell at the lower price. **It is the sell side price that is printed on the various charting packages, so it is important to keep in mind that if you buy a currency pair based on the chart price, you will be filled at a higher price than the price that is on the chart.**

Margin
The margin deposit is not a down payment on a purchase of equity, as many perceive margins to be in the stock markets. Rather, the margin is a performance bond, or good faith deposit, to ensure against trading losses. The margin requirement allows traders to hold a position much larger than the account value. FXCM's online trading platform has margin management capabilities, which allow for this high leverage. In the event that funds in the account fall below margin requirements, the FXCM Dealing Desk will close all open positions. This prevents clients' accounts from falling into a negative balance, even in a highly volatile, fast moving market.

Example of How Margin Works
Since the trader opened 1 lot of the EUR/USD, his margin requirement or Used Margin is $1000. Usable Margin is the funds available to open new positions or sustain trading losses. If the equity (the value of his account) falls below his Used Margin due to trading losses, his position will automatically be closed. As a result, the trader can never lose more than he/she deposits.

Rollover
For positions open at 5pm EST, there is a daily rollover interest rate that a trader either pays or earns, depending on your established margin and position in the market. If you do not want to earn or pay interest on your positions, simply make sure it is closed at 5pm EST, the established end of the market day. Since every currency trade involves borrowing one currency to buy another, interest rollover charges are an inherent part of FX trading. Interest is paid on the currency that is borrowed, and earned on the one that is purchased. If a client is buying a currency with a higher interest rate than the one he/she is borrowing, the net differential will be positive – and the client will earn funds as a result. To see the amount credited or debited at the daily close, see the Simple Dealing Rates Window of the FX Trading Station. An example would be, in the Simple Dealing Rates window of the FX Trading Station II, we can see that we earn $12.90 a day when we buy one standard lot of the USD/JPY ("Roll B" for buy) and must pay $13.10 a day when we sell one standard lot of the USD/JPY ("Roll S" for sell). The credit or debit takes place at the 5PM Eastern close of each trading day.

Curre...	Sell	Buy	High	Low	Roll S	Roll B	Pip C...	MMR	Time
EUR/USD	1.3817	1.3820	1.3845	1.3779	4.15	-4.80	10.00	1,000.00	13:11:04
USD/JPY	121.10	121.13	122.45	120.85	-13.10	12.90	8.26	1,000.00	13:11:06
GBP/USD	2.0548	2.0552	2.0590	2.0479	-3.00	2.00	10.00	1,000.00	13:11:06
USD/CHF	1.2003	1.2007	1.2068	1.1981	-8.20	7.70	8.33	1,000.00	13:11:02
AUD/USD	0.8763	0.8767	0.8836	0.8752	-2.25	1.75	10.00	1,000.00	13:11:01
USD/CAD	1.0479	1.0483	1.0500	1.0412	-2.40	2.15	9.54	1,000.00	13:11:06
NZD/USD	0.7940	0.7945	0.7995	0.7925	-6.20	5.80	10.00	1,000.00	13:11:05
EUR/GBP	0.6724	0.6727	0.6741	0.6714	5.10	-6.60	20.55	1,000.00	13:11:05
EUR/JPY	167.33	167.37	168.89	167.23	-13.20	12.80	8.26	1,000.00	13:11:06
GBP/JPY	248.86	248.94	251.17	248.58	-30.00	28.50	8.26	1,000.00	13:11:06
CHF/JPY	100.86	100.90	101.66	100.80	-3.90	3.50	8.26	1,000.00	13:11:06
EUR/CHF	1.6588	1.6592	1.6636	1.6583	-6.35	6.15	8.33	1,000.00	13:11:01
GBP/CHF	2.4668	2.4674	2.4763	2.4643	-19.90	17.90	8.33	1,000.00	13:11:05
EUR/AUD	1.5763	1.5770	1.5783	1.5651	8.70	-9.30	8.77	1,000.00	13:11:02
EUR/CAD	1.4480	1.4487	1.4511	1.4377	1.20	-1.80	9.54	1,000.00	13:11:06
AUD/CAD	0.9184	0.9192	0.9217	0.9170	-4.85	4.15	9.54	1,000.00	13:11:06
AUD/JPY	106.13	106.18	107.78	106.02	-12.90	12.20	8.26	1,000.00	13:11:06
CAD/JPY	115.55	115.58	117.35	115.38	-10.75	10.25	8.26	1,000.00	13:11:06
NZD/JPY	96.17	96.23	97.40	96.07	-17.00	16.00	8.26	1,000.00	13:11:06
GBP/AUD	2.3442	2.3452	2.3475	2.3243	3.00	-4.00	8.77	1,000.00	13:11:06
AUD/NZD	1.1032	1.1040	1.1108	1.1024	4.00	-4.30	7.94	1,000.00	13:11:05
EUR/NZD	1.7393	1.7404	1.7420	1.7297	15.40	-16.90	7.94	1,000.00	13:11:05
USD/SGD	1.5113	1.5132	1.5140	1.5090	-10.00	5.00	6.61	1,000.00	13:11:02
USD/HKD	7.8195	7.8216	7.8230	7.8185	-5.90	0.90	1.28	1,000.00	13:09:28
AUD/CHF	1.0520	1.0527	1.0619	1.0513	-9.90	8.40	8.33	1,000.00	13:11:03

Free Webinars
Every weekday, Kathy Lien, Boris Schlossberg and a Power Course instructor conduct a free webinar on trading the Forex markets. Here is a link to the schedule and titles:

http://www.fxcm.com/webinars-page.jsp

E) Why Do Most Traders Lose Money?

Why Do Most Traders Lose Money?

The fact is that most traders, regardless of how intelligent and knowledgeable they may be about the markets, lose money. What could be the cause of this? Are the markets really so enigmatic that few can profit or are there a series of common mistakes that befall many traders? The answer is the latter, and the good news is that the problem, while it can be emotionally and psychologically challenging, can be solved by using solid money management techniques. Most traders lose money simply because they do not understand or adhere to good money management practices. Part of money management is essentially determining your risk before placing a trade. Without a sense of money management, many traders hold on to losing positions far too long but take profits on winning positions prematurely. The result is a seemingly paradoxical scenario that in reality is all too common: the trader ends up having more winning trades than losing trades, but still loses money.

Money Management is the Key

Key Money Management Practices

So, what can traders do to ensure they have solid money management habits? There are a few key guidelines that every trader, regardless of their strategy or what instrument they are trading, should keep in mind:

Risk-Reward Ratio. Traders should establish a risk-reward ratio for every trade they place. In other words, they should know much they are willing to lose, and how much they are seeking to gain. Generally, the risk-reward ratio should be at least 1:2. This means risk should equal no more than one-half of the potential reward. An example would be that if you are risking 50 pips on a trade, you should look for profit of at least 100 pips. This allows you to be consistently profitable if you win half of your trades, which should be your goal. Having a solid risk-reward ratio can prevent traders from entering positions that ultimately are not worth the risk.

Stop Loss Orders. Traders should also employ stop-loss orders as a way of specifying the maximum loss they are willing to accept. By using stop-loss orders, traders can avoid the common scenario where they have many winning trades but a single loss large enough to eliminate any trace of profitability in the account. After having identified your entry price on the trade, you should identify your protective stop and then look for twice the in setting your limit order to take profits. **Never trade without having a protective stop order entered at all times.**

F) The Logic of Technical Analysis

The Logic of Technical Analysis

What is Technical Analysis?

· Technical analysis involves the forecasting of exchange rate movement based solely upon statistics and price patterns

Simply put, technical analysis is the analysis of the market based on price action. While fundamental analysis looks at economic factors and geopolitical conditions (such as economic numbers, capital flows, and key political events) in an attempt to forecast exchange rates, technical analysis relies on the statistics and patterns in price movement for its forecast. Technical analysis has gained great popularity in recent history, especially as trends in computerized trading continue to develop and active traders continue to refine their strategies to best assess what is going on in the market at all times. In today's marketplace, technical analysis has become an essential tool for any aspiring trader.

Why Technical Analysis Works

· Extremely popular, and hence offers insight into what many traders are doing
· More clear-cut and less controversial than fundamental analysis
· A simple way of making trading decisions

Many traders believe that technical analysis is a self-fulfilling prophecy – in other words, it works solely because it is popular and is used by many traders. For example, many technical traders put a 20 day moving average line on charts not because the moving average itself is statistically important, but rather because it is an extremely common indicator used by active traders of all sizes. The rationale is simple: if so many traders are basing their decisions off moving averages and other indicators, then those indicators must be watched closely, for they offer insight into what a vast majority of traders in the market are doing.

Because of this rationale, traders should focus on the most popular indicators in the trading community, and should use them in the most common way. This is the best way of tapping into the "psychology" of the market – in other words, it is a simple but highly effective way of understanding what other traders are up to, and how the market may move because of it. Contrary to popular belief, it is NOT a study that requires complex mathematics or computer algorithms. Rather, it is a study that requires looking at the same tools other traders use to understand what is happening in the market.

Below is a list of the most common indicators, all of which will be covered in the lessons that follow:

- Key Candlestick Patterns
- Fibonacci Retracements
- Moving Averages
- RSI
- Stochastics
- MACD
- Bollinger Bands

While it may seem intimidating, technical analysis is actually fairly simple – often far simpler than fundamental analysis. It simply requires an abundance of the two traits that are most necessary to be a successful trader: discipline and patience.

Different Time Frames

Technical analysis tools will be valid on all time frames, but we strongly recommend using daily charts for most of your analysis. Medium term positions based on daily charts, using hourly charts for more precise entry points, have two advantages over short term positions based on 5 or 15 minute charts.

1) The spread is less significant for a longer term position. 5 pips out of a price target of 20 is a huge obstacle to overcome on trade after trade. 5 pips out of a 100 pip target is manageable.

2) Longer term charts are statistically much more reliable, since they are based on more data. Indicators have a higher degree of reliability on a daily chart than on an hourly chart or 15 minute chart.

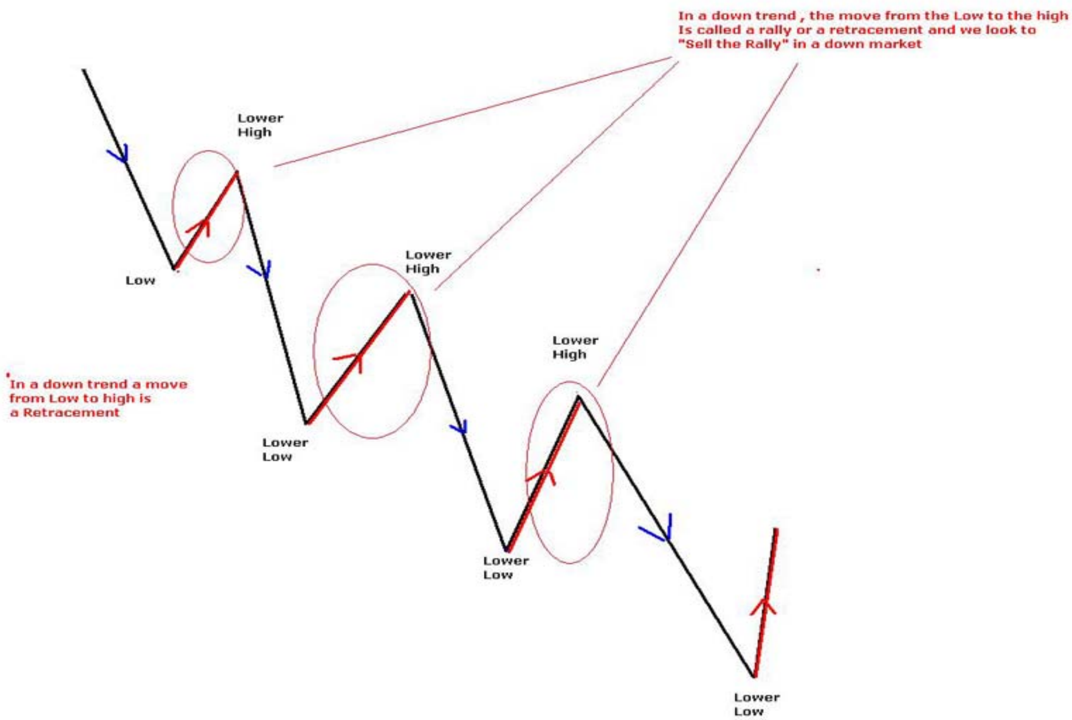
Trading on a weekly or monthly chart would likely be more accurate from a technical standpoint than a daily chart would be, but a slower time frame also means less precise entry points, and the wider stops necessary to trade a monthly chart are often beyond the capacity for many accounts. We recommend as a general rule risking no more than 2% of your account balance on a single trade, and this is sometimes difficult with a monthly or weekly chart.

G) Technical Analysis Theory: Range-bound vs. Momentum

Technical Analysis Theory: Range-bound vs. Momentum

Support and Resistance

Support and Resistance are the basis of most technical analysis chart patterns. Identification of key support and resistance levels is an essential ingredient to successful technical analysis. Even though it is sometimes difficult to establish exact support and resistance levels, being aware of their existence and location can greatly enhance analysis and forecasting abilities. If a pair is approaching an important support level, it can serve as an alert to be extra vigilant in looking for signs of increased buying pressure and a potential reversal. If a pair is approaching a resistance level, it can act as an alert to look for signs of increased selling pressure and a potential reversal. If a support or resistance level is broken, it signals that the relationship between supply and demand has changed. A resistance breakout signals that demand (bulls) has gained the upper hand and a support break signals that supply (bears) has won the battle.



Support

Support and resistance represent key turning points where the forces of Sellers (supply) and buyers (Demand) meet. In the financial markets, prices are driven by excessive supply (down) and demand (up). Supply is synonymous with bearish, bears and selling. Demand is synonymous with bullish, bulls and buying. Support is the price level at which demand is thought to be strong enough to prevent the price from declining further. The logic dictates that as the price declines towards support and gets cheaper, buyers become more inclined to buy and sellers become less inclined to sell. By the time the price reaches the support level, it is believed that demand will overcome supply and prevent the price from falling below support. Support is the price level at which demand is thought to be strong enough to prevent the price from declining further and the logic dictates that as the price declines towards support and gets cheaper, buyers become more inclined to buy and sellers become less inclined to sell. By the time the price reaches the support level, it is believed that demand will overcome supply and prevent the price from falling below support

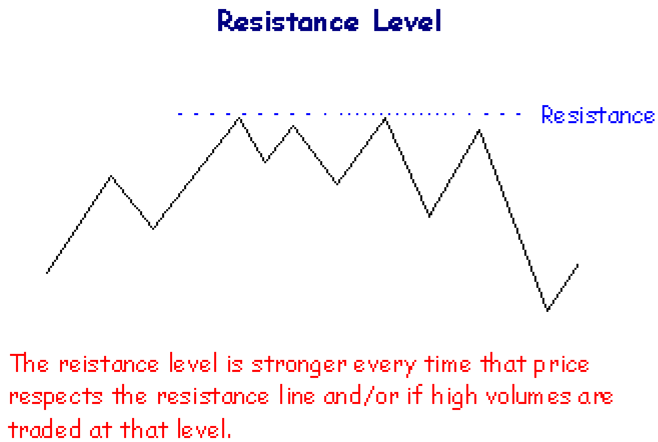
In all markets the excessive supply will drive prices down, while demand will drive the markets up. As demand increases, prices advance and as supply increases, prices decline. When supply and demand are equal, prices move sideways as bulls and bears slug it out for control.

The market has a memory. When price falls to a new low and then rallies, buyers who missed out on the first trough will be inclined to buy if price returns to that level. Afraid of missing out for a second time, they may enter the market in sufficient numbers to take away from sellers. The result will be a rally, reinforcing perceptions that price is unlikely to fall further and creating a support level.

A decline below support indicates a new willingness to sell and/or a lack of incentive to buy. A break of support and making new lows signal that sellers have reduced their expectations and are willing sell at even lower prices. In addition, buyers could not be tempted into buying until prices declined below support or below the previous low. Once support is broken, another support level will have to be established at a lower level

Resistance

Resistance is the price level at which selling is thought to be strong enough to prevent the price from rising further and the logic dictates that as the price advances towards resistance, sellers become more inclined to sell and buyers become less inclined to buy. By the time the price reaches the resistance level, it is believed that supply will overcome demand and prevent the price from rising above resistance.



The market has a memory. When price makes a new High and then retreats, sellers who missed the previous peak will be inclined to sell when price returns to that level. Afraid of missing out a second time, they may enter the market in numbers sufficient to overwhelm buyers. The resulting correction will reinforce market perceptions that price is unlikely to move higher and establish a resistance level.

Resistance does not always hold and a break above resistance signals that the bulls have won out over the bears. A break above resistance shows a new willingness to buy and/or a lack of incentive to sell. Resistance breaks through and new highs are made that would indicate that buyers have increased their expectations and are willing to buy at even higher prices. In addition, sellers could not be tempted into selling until prices have rallied above resistance or above the previous high. Once resistance is broken, another resistance level will have to be established at a higher level.

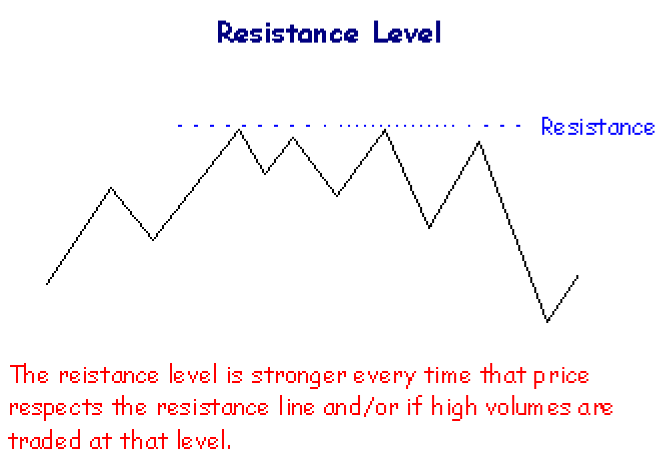
Another principle of technical analysis stipulates that support can turn into resistance and visa versa. Once the price breaks below a support level, the broken support level can turn into resistance. The break of support signals that the forces of supply have overcome the forces of demand. Therefore, if the price returns to this level, there is likely to be an increase in supply, and hence resistance.

The other side is resistance turning into support. As the price advances above resistance, it signals changes in supply and demand. The breakout above resistance proves that the forces of demand have overwhelmed the forces of supply. If the price returns to this level, there is likely to be an increase in demand and support will be found.

Therefore we first plot long-term charts and begin by analyzing the daily and weekly charts going back for a couple of years. This provides more visibility and a better long-term perspective on a market. Once the long-term has been has been established then review the daily and the intra-day charts. A short-term market view alone can often be deceptive. Even if you only trade the very short term, you will do better if you're trading in the same direction as the intermediate and longer-term trends. Take in the general view of the chart to determine the direction of the trend, and follow it. We need to try to identify support and resistance levels, the best place to buy a market is near support levels that support is usually a previous reaction low. The best place to sell a market is near resistance levels. Resistance is usually a previous peak. After a resistance peak has been broken, it will usually provide support on subsequent pullbacks. In other words, the old "high" becomes the new "low." In the same way, when a support level has been broken, it will usually produce selling on subsequent rallies -- the old "low" can become the new "high."

It is very important to make sure that we trade in the direction of that trend. We “Buy dips if the trend is up” and “Sell rallies if the trend is down” But in each case, let the bigger time frame chart determine the trend, and then use the shorter-term chart for timing entry. Find support and resistance levels; the best place to buy a market is near a support level, and that support is usually a previous reaction low. The best place to sell a market is near resistance levels. Resistance is usually a previous peak. After a resistance peak has been broken, it will usually provide support on subsequent pullbacks. In other words, the old "high" becomes the new "low." In the same way, when a support level has been broken, it will usually produce selling on subsequent rallies -- the old "low" can become the new "high." Stops are best placed after we first identify support and resistance on the charts and you place yours stop beyond those levels and at that time you decide if the risk reward on the trade is acceptable to you

When price makes a new High and then retreats, sellers who missed the previous peak will be inclined to sell when price returns to that level. Afraid of missing out a second time, they may enter the market in numbers sufficient to overwhelm buyers. The resulting correction will reinforce market perceptions that price is unlikely to move higher and establish a resistance level.



Trading Range

Trading ranges can play an important role in determining support and resistance as turning points or as continuation patterns. A trading range is a period of time when prices move within a relatively tight range, between support and resistance. This signals that the forces of supply and demand are evenly balanced. When the price breaks out of the trading range, above or below, it signals that a winner has emerged. A break above is a victory for the bulls (demand or Buyers) and a break below is a victory for the bears (supply or sellers).

The simplest way of using support and resistance in trading is to simply trade the range: in other words, traders can simply buy at support, and sell at resistance. A key advantage of this is that the market is range-bound approximately 80% of the time, making it a very viable strategy for most market conditions.

The downside of range-bound trading, though, is twofold:

· Range-bound trading generally does not yield substantial gains on a per-trade basis.
· When the market breaks out of the range, it often will make big moves. As a result, traders using range-bound strategies can suffer overwhelmingly large losses when the market breaks out of the range. The chart below illustrates the concept of range-bound trading

Note how this pair repeatedly fails to cross beyond certain support and resistance levels, and simply fluctuates between an upper and lower band.

Support and Resistance Zones

Because technical analysis is not an exact science, it is sometimes useful to create support and resistance zones. Each pair has its own characteristics and the analysis should reflect the intricacies of the pair. Sometimes exact support and resistance levels are best and sometimes zones work better. Generally, the tighter the range, the more exact the level. If the trading range spans less than 2 months and the price range is relatively tight, then more exact support and resistance levels are probably best suited. If a trading range spans many months and the price range is relatively large, then it is probably best to use support and resistance zones. These are only meant as general guidelines and each trading range should be judged on its own merits.

Support and Resistance in Momentum Markets

Another way to use support and resistance is to trade outside of the range; in other words, to anticipate a breakout. This involves placing orders to buy above resistance and to sell below support. The rationale is that the market will gain momentum once it breaks out of the range, and thus by placing orders just below/above support/resistance, traders will be able to make big gains when the market moves out of the range. Momentum trading is a bit counter-intuitive, as it involves buying at a higher price and selling at a lower price.

Below is a chart that illustrates the concept of momentum trading. Note how the pair accelerates once it breaks out of a narrow range:

Risk-Reward Ratios

Is the estimated potential loss of a trade (risk) to the estimated potential gain (reward).

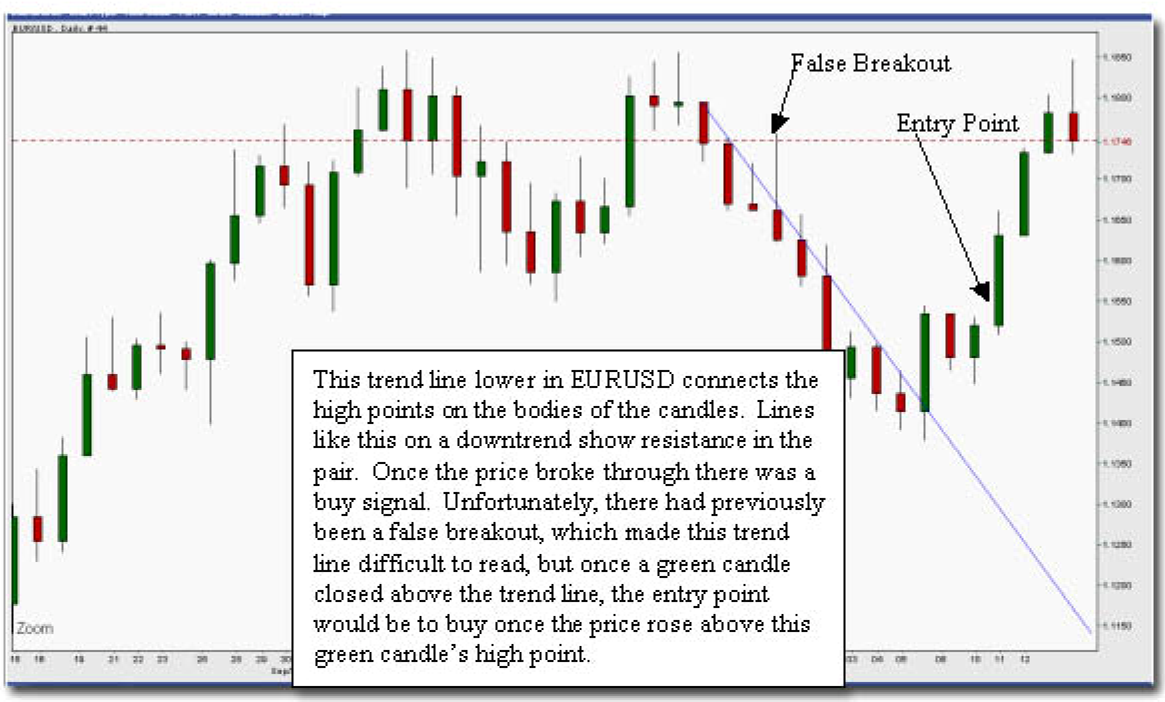
Before entering into any trade, good traders first think about how much risk to take on any particular trade. We try to apply the 1:3 risk/ reward, for example if your average gain on winning trades is $1000 and you have consistently risked $300 per trade then your risk-reward ratio would be 3.3 to 1 (i.e. $1000 / $300). Since no one can win on every trade therefore your profits would cover your losses and at the end of the day you will be a winner.

H) Price Channels

Price Channels

Support and Resistance do not have to be horizontal lines, and often in a market that is moving higher or lower, trend lines effectively connect the high points or the low points to create a price channel that acts similarly to a horizontal range. Support and resistance levels function in the same manner in a trending market as in a rangebound one. However the line that is following the trend--support in an uptrend or resistance in a downtrend) should be considered by far the stronger of the two. Only when there is a trade with minimal risk involved should you enter a position based only on the resistance line above the price in an uptrend.

The same trend lines can be drawn in a bear market where the price is continuously moving lower.



There is no exact formula for drawing such lines. Some traders prefer to connect only the bodies of the candles and to exclude the high and low points outside of the open and close, but that is not a requirement. If the line does not look valid to you, chances are it is not relevant, because other traders are using the same charts.

I) Question of the Day

Question of the Day

1. Now that you have read about support and resistance, where would you place buy and sell orders relative to these levels when trading a breakout strategy? You can cite a specific chart if you would like to propose a specific support or resistance level and an order you would place.

2. Where would you place a stop-loss order once you initiate the position (relative to support and resistance)?

J) Assignment

ASSIGNMENT: Technical Analysis relies on the use of charts, so the purpose of this assignment is to build confidence and gain familiarity with charts. Open any of the charting packages available at http://www.dailyfx.com/charts/ and select any currency pair that you want. Display a daily chart and decide based on the chart whether you would use a trending strategy or a range-trading strategy for that currency pair. If there is a clear trend line or visible support and resistance , add that to your chart as well. If you are able, post a screen shot of the chart.