A guide to Forex

Eden
Wealth Planning Ltd
Plan Cultivate Flourish

Contents

There are a few key things that anyone intending to be involved in this market should understand; the core elements are explained in this brochure.

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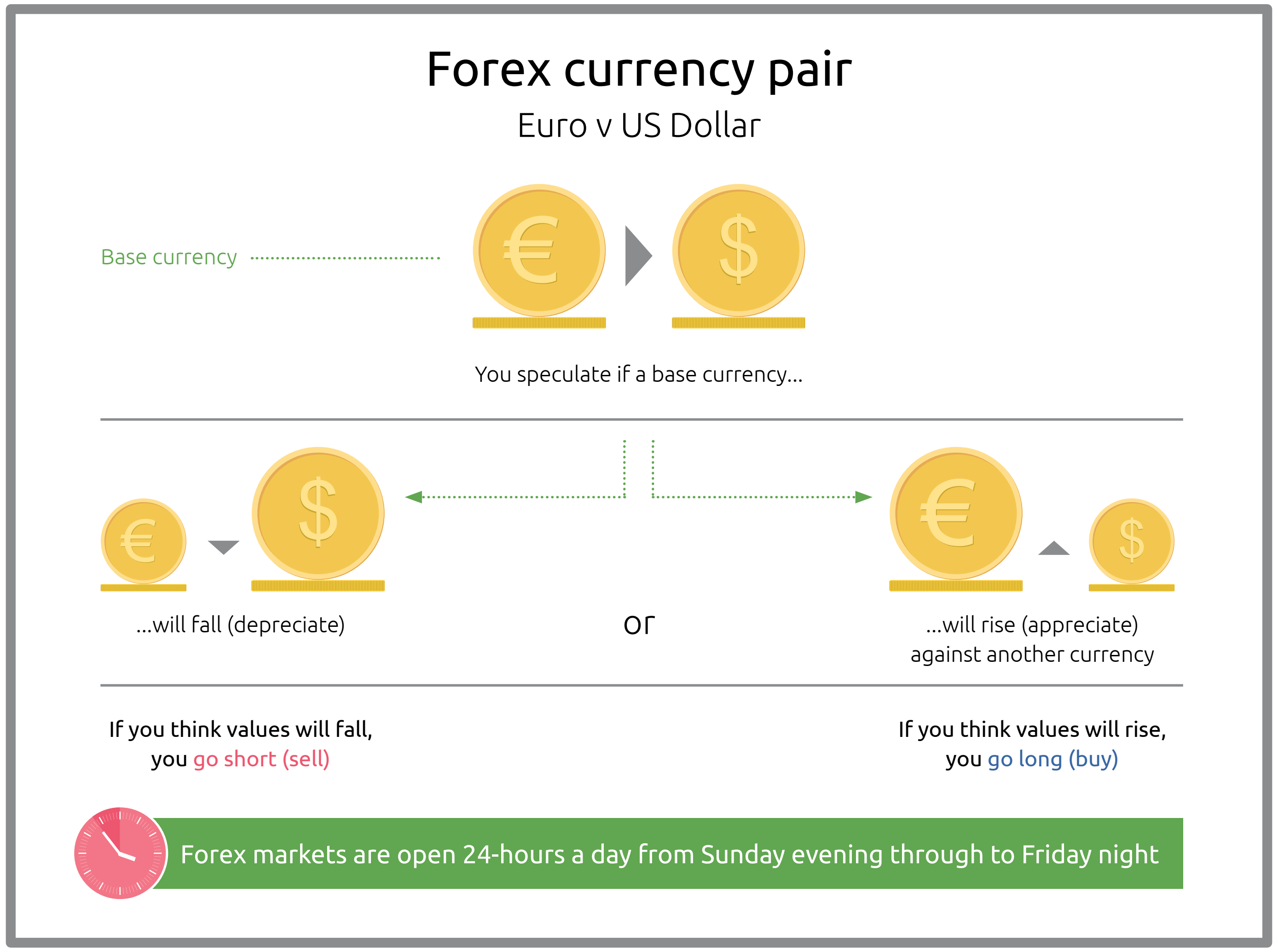
Overview Forex market

This brochure is brought to you by Eden Wealth Planning Ltd. It is intended to provide a greater understanding of Foreign Currency Trading.

What is Forex?
Foreign Exchange, commonly known as 'Forex' or ' FX', is the exchange of one currency for another at an agreed exchange price on the over-the-counter (OTC) market. Forex is the world's most traded market, with an average turnover in excess of US$4 trillion per day. Compare this to the New York Stock Exchange, which has a daily turnover of around US$50 billion and it's easy to see how the foreign exchange market is the biggest financial market in the world.

Essentially, Forex trading is the act of simultaneously buying one currency while selling another, primarily for the purpose of speculation. Currency values rise (appreciate) and fall (depreciate) against each other due to a number of factors including economics and geopolitics. The common goal of Forex traders is to profit from these changes in the value of one currency against another by actively speculating on which way Forex prices are likely to turn in the future.

Unlike most financial markets, the OTC (over-the-counter) Forex market has no physical location or central exchange and trades 24-hours a day through a global network of businesses, banks and individuals. This means that currency prices are constantly fluctuating in value against each other, offering multiple trading opportunities.



Overview Forex market

24-Hour Forex Trading
One of the key elements behind Forex's popularity is the fact that Forex markets are open 24-hours a day from Sunday evening through to Friday night. Trading follows the clock, opening on Monday morning in Wellington, New Zealand, progressing to Asian trade spearheaded out of Tokyo and Singapore, before moving to London and closing on Friday evening in New York.

The fact that prices are available to trade 24 hours a day helps to ensure that price gapping (when a price jumps from one level to the next without trading in between) is less and ensures that traders can take a position whenever they want, regardless of time, though in truth there are certain 'lull' times when volumes are below their daily average which can widen market spreads.

Leverage
Foreign exchange is a leveraged (or margined) product, which means that you are only required to deposit a small percentage of the full value of your position to place a Forex trade. This means that the potential for profit, or loss, from an initial capital outlay is significantly higher than in traditional trading.

Pricing
All Forex is quoted in terms of one currency versus another. Each currency pair has a 'base' currency and a 'counter' currency. The base currency is the currency on the left of the currency pair and the counter currency is on the right. For example, in EUR/USD, EUR is the 'base' currency and USD the 'counter' currency. Forex price movements are triggered by currencies either appreciating in value (strengthening) or depreciating in value (weakening). If the price of EUR/USD for example were to fall, this would indicate that the counter currency (US dollars) was appreciating, whilst the base currency (Euros) was depreciating.

When trading Forex prices, you would buy a currency pair if you believed that the base currency would strengthen against the counter currency. Alternatively, you would sell a currency pair if you believed that the base currency would weaken in value against the counter currency. Some examples of major currency pairs are:

- EUR/USD (the value of 1 EUR expressed in US dollars)
- USD/CHF (The value of 1 USD expressed in Swiss Francs)

PIPs (Percentage in Points)
PIP stands for Percentage in Points. Most of our currency pairs are quoted to 5 decimal places with the change from the 4th decimal place (0.0001) in price commonly referred to as a 'PIP'. For example, if the price of the EUR/USD Forex pair moved from 1.33800 to 1.33920. It is said to have climbed by 12 'PIPs' (92-80=12)

Spread
The difference in the BID/ASK of the currency pairs is referred to as the 'spread'. An example would be EUR/USD dealing at 1.33800/1.33808 (in this case the spread is 0.8 pips or 0.00008). The exceptions to this are the JPY pairs, which are quoted to just 2 decimal places. A USD/JPY price of 97.41/97.44 displays as a 3 pip 'spread'.

What affects forex prices?
Forex prices are influenced by a multitude of different factors, from international trade or investment flows to economic or political conditions. This is what makes trading Forex so interesting and exciting. High market liquidity means that prices can change rapidly in response to news and short-term events, creating multiple trading opportunities for retail Forex traders.

Some of the key factors that influence Forex prices are:

- Political and economic stability
- Monetary Policy
- Currency Intervention
- Natural disasters (earthquakes, tsunamis etc.)

Investments in Forex and the income from them will be at risk and you may lose some or all of the funds invested.

Any individual with access to the Internet can start an account and begin to trade in the Forex market. The market is therefore open to significant abuse and those operating in this market may not have the skills or experience to understand the risks. Therefore, you should always take independent advice before considering an investment in Forex.

RISK: Trading in Forex products involves significant risks. Forex products carry a high degree of risk; any transaction involving currencies is exposed to, among other things, changes in a country's political condition, economic climate and acts of nature for example, all of which may substantially affect the price or availability of a given currency.

Leverage What is leveraging?

Leverage (often referred to as gearing) can be described as any technique that multiplies gains and losses and allows exposure to the financial market, whilst tying up a relatively small amount of capital*.

Leveraging may involve buying the majority of an asset by using borrowed funds, with the expectation that the asset or asset price appreciation will be more than the cost of borrowing. However, there is always a risk that borrowing costs will be larger than the income from the asset or the value of the asset will fall, leading to incurred losses or that the asset value will not appreciate as expected. Profit or loss is based on the full position; therefore the amount you gain or lose may seem very high in relation to the sum invested. It could even be much greater than your initial outlay.

Potential for greater profits and losses relative to the initial outlay.

* http://en.wikipedia.org/wiki/Leverage_(finance)

Leverage How it works

Without leverage

You pay: £1,000

You buy: 1,000 shares at £1 per share

Cost to you: £1,000

If the share price increases by 20p per share, you can sell at 1,000 shares x £1.20 Equal to £1,200

Gains for you or losses: £200 (20%) ROI

With leverage

You pay: margin (deposit) of £100 (10%)

A 10% margin means that for £100, you could gain the same exposure as a £1,000 Investment. This represents leverage of 10 times.

You buy: 1,000 shares at £1 per share

Cost to you: £100

If the share price rose from £1 to £1.20, You would still make the same profit (£200) as if you had bought the shares outright.

Gains for you or losses: £200 (100%) ROI

Margins will vary depending on calculations. The profit would be the same in both examples; however using leverage, only £100 deposit would be required as margin instead of the full £1,000. The return on investment would therefore be 100%, as opposed to just 20% if you had purchased directly.

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SOURCES:
Leveraged Equities: http://www.leveraged.com.au/gearing_explained/benefits.asp
http://www.ig.com/uk/leverage-articles

The margin

The initial investment is required to cover the margin or deposit obligation and to cover or part-cover any potential losses that may be incurred, and is therefore the amount necessary to open a trade.

The margin is a fraction of what it would cost to buy the assets directly, but the exact size depends on various factors, for example a more liquid and less volatile market will require a smaller margin (e.g. 5%), whereas a volatile market may require a larger margin. Hence this is balanced with risk.

Margin and Leverage can be seen as a double-edged sword. When your win percentage is high,margin and leverage will create a welcome boost to profits, however if the overall win percentages are low then it will not take long for the account to be wiped out.

Statistics show that the initial success for new Forex traders is low. This is for numerous reasons, which include; A lack of experience, unreasonable expectations, absence of a sound trading plan, lack of discipline, failure to include stop-loss and take-profit instructions, excessive leverage, holding too many open trades, holding losing positions too long, ignoring rate spread fluctuations and the impact spreads have on profitability, and thinking about the 'big win' more than the effective cash management.

These are the key contributing factors towards losses which can improve over time with experience. After a series of losses, many new traders will give up, believing that Forex trading is simply not for them. However, it does not have to be this way, strong performance can be achieved in the market with a knowledgeable and experienced trader.

Experienced traders use several different orders to enter and exit their trades, and one of these orders is a stop-loss order, the benefit of which is that you can only lose a pre-defined amount. A stop-loss is an exit order that is used to limit the amount of loss that a trader will take on a trade, if the trade goes against them. For example, if a trader is in a long trade, they want the price to move upwards, so they will use a stop-loss to exit the trade, if the price moves downwards too far. Using knowledge, leverage and stop losses therefore is expected to mitigate risk to a certain degree.

SOURCES:
http://www.ig.com/uk/leverage-articles
http://fxtrade.oanda.co.uk/learn/top-10-ways-new-forex-traders-lose-money
http://daytradingabout.com

Our partners

Pacific Financial Derivatives (PFD), Pepperstone and Squared Financial

The trader can use a series of brokers for the transaction. Eden Wealth are currently using the three partners below to spread the risk:

Pacific Financial Derivatives Ltd ("PFD"), a New Zealand registered company bearing number 973842, is 100% beneficially owned and controlled by a Japanese investor Narumi Yoshioka, who has experience in running similar large derivative institutions in Japan.

PFD has been authorized by the Financial Markets Authority (FMA) as an Authorized Futures Dealer to carry on the business of dealing in Futures Contracts. PFD is also a member of the NZ Financial Service Provider Register and the NZ Financial Dispute Resolution.

Pepperstone Group Ltd, a company registered in Australia bearing number 147 055 703, is an Online Forex (FX) Trading Broker, providing traders across the globe with cutting edge Forex trading technology to offer unmatched top tier liquidity, institutional grade spreads and the security of tight financial regulation. Pepperstone offers online Forex trading through multiple Forex trading platforms, including Metatrader 4, Webtrader and Apps for iPhone and Android.

Squared Financial Services Ltd, a company registered in Ireland bearing number 399289, provides clients with some of the most competitive spreads available in the OTC market. Leveraging liquidity relationships and market knowledge to the maximum has resulted in markets of exceptional quality and consistency.

Past performance cannot be relied upon and is not an indication of future success.

SOURCES: https://www.pfd-nz.com/about

The risk balance

Risk options explained

Leverage
For example 20-1 means for every $1,000 traded, this is scaled up to $20,000, as the risk level decreases so does the leverage.

Maximum drawdown
Each trade taken has an individual stop loss and take profit. Stop-loss is a point at which the trade will close if not achieving the desired results, this is typically between 2%-10% on every trade, Take profit is calculated independently by the software, which judges market conditions however is usually circa 2-4%. The Maximum Drawdown is a guarantee that the client cannot lose more than the drawdown amount. If a client's account was ever to reach a loss of 60% of the highest fund value, the system would automatically close any open trades and cease trading completely. This is an extreme example, as for this to happen, several trades in conjunction would need to be losing trades.*

Lot size
A standard "Lot" is classed as $100,000. To trade at 0.2 lots means trading with $20,000. Given the 20-1 leverage this would require a deposit of $500 from the funds. The lot's size is calculated on a percentage of the account Equity, this never changes and as the fund increases, compound growth is gained, compounding every single trade.

Target net client return
This applies to the predicted returns expected. This is completely variable, therefore there can be no consistent result, and each month will differ.

*All stop losses and Stock loss positions are dependent upon broker execution and possible slippage. Slippage is out of the systems control and can occur on volatile trades which may mean that this level is surpassed.

We reserve the right to adjust account risk settings and/or leverage at any given moment without notice to the client to ensure client funds are traded in the safest manner.

How it works

Unlike most other Forex trading platforms, the investor will have control of the account. The investor can allow for trading at any time, however, ultimately the investor has the control to stop trading, withdraw part or entire monies, and close the account.

Investor

Investor opens new trading account with a regulated broker
Funds are held in a segregated trust account with major banking institutions

Software designers
This trading software can be run on any platform with any broker

Money Working Ltd

Investor provides the funds

PFD/Pepperstone/Squared Financial (regulated brokers)
Brokers for the transactions utilise industry standard platforms to allow trader/software to make a trade

Broker chosen based on expertise of the software designer

Eurotrader:
Trades on the EUR/USD only.
Available with 4-risk settings

and

2 Pair:
Trades on the EUR/USD (Differs to the Eurotrader) and the GBP/USD.
Available with 4-risk settings

Multiple gains or losses received

Investors have complete control of the account and can add or withdraw funds at any time. Clients can instruct the broker to remove the account from the systems control with immediate effect

Next steps

There are two different ways of trading Forex, manual and electronic. Eden Wealth Planning Ltd uses an electronic Algorithm based trading system that has been in use since January 2013.

If this is of interest to you and you understand in principle how the process works, then visit: **www.tradingsystems.info**

For more information please visit
www.tradingsystems.info

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