



The Opportunity

■ Induction Training Manual
for Beginners



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What is Forex?

That is the Million-Dollar question now would you not agree? Well, in actual fact, learning what Forex is, and how to trade in Forex does not have to become all that difficult to understand; it just takes a little logic, time and effort; thereafter, the puzzle pieces will start fitting together, giving you extra confidence to kick start your trading journey with ACM Gold.

The simplest answer to the question posed is to think about it as the **marketplace** where currencies are bought and sold – in essence, exchanged, albeit ACM Gold impressively offers you the ability to trade in *other* types of categories of what are commonly known as instruments.

In this training handbook, we will be introducing you to the concepts applied to the Forex Market, but it is helpful to know that most of the theory can ultimately be transposed into the other market types. Why? It is because they are almost identical to trade from a technical and fundamental perspective. That said, beware, there are a couple of significant differences between them and trade that can, and do have an impact in the way that you trade, so it is important that you understand these differences before you endeavor into an unfamiliar territory.

The easiest and most sensible place to begin your trading career, is habitually to trade with the big currency pairs and possibly gold; but no matter what trade, it will ultimately be your ability to control your emotions and your money management skills that will determine success. However, this two-pronged success criterion will not fall in the scope of this manual; for that you would need to invest in some real schooling, like the type provided by the renowned University of Forex and Gold. All right let us take a step back and have a brief look at the two categories of instruments that ACM Gold offers:

- Spot Forex: e.g. the Euro versus the US Dollar (EUR/USD)
- Spot Commodity Metals: e.g. Gold versus the US Dollar (XAU/USD)

Not sure yet what “Spot” means? Do not worry; we will soon get into explaining what they mean, while we dive a bit deeper. For now though, keep the two categories in the back of our minds and let us aim our focus at the title holding Spot Forex Market!

It is now common knowledge that Forex is a marketplace where *buyers and sellers* gather to barter in currencies, but what is also imperative to realize is that our modern-day method of trading means that you do not trade in any tangible currency and in addition, you are not required to trade through any exact location.

We all meet as various players in “cyberspace” through the most cutting-edge and sophisticated network ever created in order to purchase and vend electronic currency solely for having the chance to profit from fluctuations – awesome!

But what do we really mean by the phrase “no physical location”? To find out, we first need to understand the meaning of an over the counter market to fully grasp this.

OTC or Over the Counter Markets

In contrast with other financial markets such as the Stocks, Bonds or Futures markets, the Forex spot market has no physical location or central exchange. The Johannesburg Stock Exchange (JSE) and New York Stock Exchange is a fine example of a central exchange market– any transaction has to run through this central exchange, which in turn regulates and fixes the buy and sell prices. What do you think that does to the price tag for transacting? It makes it a lot more expensive of course!

The Forex market, on the other hand, is unique and considered an **Over-the-Counter (OTC)**, or “**Interbank**” market; this means the entire market is decentralized and run electronically, within a web of banks, continuously over a 24-hour period, 5 and a half days a week (contrary to popular belief, even traders need to rest over the weekends!).



This means that the Forex market is worldwide, allowing an exponentially growing quantity of daily volume as well as market players. As a result, this reaps incredible benefits such as the freedom to trade from anywhere around the globe, at a fraction of the cost of dealing in an exchange controlled environment.

In an OTC market, participants choose who to trade with depending on appeal of prices, reputation of the trading counterpart, and trading conditions.

Having such a decentralized system not only allows for exponential volume growth but also encourages competition because far more players can set the buy and sell price which then drastically reduces the cost to deal and forces better service and quality for the buyers and sellers.

So you see, trading with currencies and metals through ACM Gold is not going to cost you a small fortune. Actually, it is the best way to borrow money when you intend on making profit. Yes, you read right! You actually need to have very large values of currency to trade with in order for any sort of decent profit taking to make sense, in spot speculation currency trading.

Logically, if you do not have the funds to begin with, you need to borrow it. Ultimately, it is ACM Gold that advances you the money cost effectively to make this possible - so essentially, we become partners as you endeavor to trade successfully, so rest assured – we have your back.

Okay, now we know that the market is big-but how big is it really?

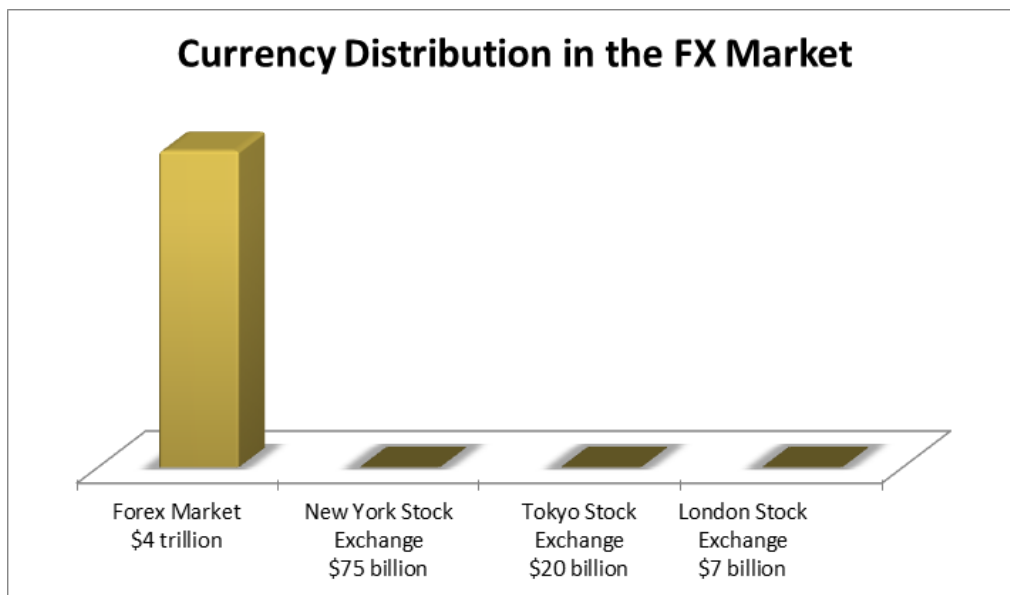
Forex Market Size

First and foremost, realize that, incredibly, this market has only become accessible to individual traders for the past 10 to 15 years, and in the grand scheme of all markets, it is the youngest by far, but has grown rapidly and is renowned for being the most dynamic and largest of all.

You could say that it is now the King of all markets, trading around 4 Trillion Dollars per day!



Let us bring this into perspective and take a look at the following chart of the **average daily trading volume** comparing the Forex market, New York Stock Exchange, Tokyo Stock Exchange, and London Stock Exchange.



The reality is that the currency market is over 50 times bigger than the other markets combined.

Now, \$4 Trillion is a very impressive number, but just out of interest as the retail traders, we trade the spot market, which accounts for around \$1.5 Trillion of that amount.

All the same, we are still trading the Giant of all markets as 1.5 Trillion still overshadows all the others.

Market Players

By joining the online trading revolution, you, as the individual speculator, can definitely consider yourself a pioneer, because the reality of it is that before the dawn of the new millennium (2000), only the big banks, large institutions and central banks could take advantage of the opportunities provided by this market.

The revolution changed fundamentally because of the shift of two key areas:

- Technology – the birth of the internet and digital technology, without which none of this would be possible.
- **Online trading firms** – the birth of a company such as ACM Gold. Believe it or not, it would not be viable for you to trade the markets without an online trading firm, so you could really think of ACM Gold as your partner in pursuit of making your dreams a reality.

Having introduced the assorted chief players in the market, we can now discuss them in a bit more detail:

1. Governments and Central Banks

Governments and central banks, such as the European Central Bank, the Bank of England, and the Federal Reserve, are frequently involved in the Forex market too. Just like companies, national governments take part in the Forex market for their operations, global trade payments, and managing their foreign exchange reserves.

In addition, central banks impact the Forex market when they adjust interest rates to control inflation and the supply of money. By doing this, they can affect currency valuation. There are also instances when central banks intervene, either directly or verbally, in the Forex market when they want to realign exchange rates. Sometimes, central banks think that their currency is priced too high or too low, so they start massive sell/buy maneuvers to adjust exchange rates.

2. The Big (and we mean big) Banks

Since the Forex spot market is decentralized, the largest banks in the world determine the exchange rates. Based on the supply and demand for currencies, they make the buying and selling prices (commonly known as the bid and ask price) by and large.

The large banks are collectively known as the interbank market and about 10 of them account for over 85% of all transactions. They deal with an immense quantity of Forex transactions daily for both their customers and themselves. A couple of these powerhouse banks include:

UBS, Barclays Capital, Deutsche Bank, and Citigroup and one of the biggest JP Morgan.



If we think about it in another way, we could really conclude that the interbank market is, for all intents and purposes are the foreign exchange market.

3. Large Commercial Corporations

Corporations take part in the foreign exchange market for two reasons:

a) The purpose of conducting business

An example of this would be BMW needing to exchange currency to purchase certain parts from Japan and China. Since the volume they trade is much smaller than those in the interbank market, this type of market player typically deals with commercial banks for their transactions and this can get very costly. Rest assured the way you will be trading you will essentially be paying 400 to 600 times less the cost of that type of deal. Now if that is not a motivation to get into the market, we are not sure what is!

b) Mergers and acquisitions (M&A)

M&A amongst companies can also create currency exchange rate fluctuations. In international cross-border M&A, a lot of currency conversations happen that, when combined, do influence the exchange rate.

4. The Speculators

We know that speculators are purely playing to win. Although not the case in the past, these days, speculators make up close to **85%** of all trading volume. Speculators come in all shapes and sizes. Some have fat pockets, some roll thin, but all of them engage in the Forex market simply to make as much profit as they can.

5. Retail Forex Brokers

Some time ago, only the big speculators and highly capitalized investment funds could trade currencies, but thanks to retail Forex brokers and the Internet, that is all in the past.

With hardly any barriers to entry, anybody could just contact a broker, open up an account,

deposit some money, and trade Forex from the comfort of their own home. Brokers basically come in two forms, but the important element is to realize that there are a variety of forms of brokers within these models.

1. **Electronic Communications Networks (ECN)**, who use the best bid and ask prices available to them from different institutions on the interbank market,
2. **Market makers and Brokers**, as their name suggests, “make” or set their own bid and ask prices themselves. There are however important variations that sets apart the difference between a market maker and a broker.

Electronic Communications Network

ECN Forex brokers additionally allow customers' orders to interact with other customers' orders. ECN Forex broker provides a marketplace where all its participants (banks, market makers and individual traders) trade against each other by sending competing bids and offers into the system. Players interact inside the system and get the best offers for their trades available during that time. All trading orders are matched between counter parties in real time. A small trading fee - **commission** - is always applied.

Very few individual traders can trade with ECN's because the opening balances for the few pure ECN brokers is very high – normally a minimum of \$20 000 - \$50 000 is required to participate. 95% of all Individual traders trade through a Market Maker or through a Broker.

Market Makers and Brokers

Let us say you wanted to go to Spain to do some real salsa lessons. In order for you to transact in the country, you need to get your hands on some euros first by going through a bank or the local foreign-currency exchange office. A market maker would take the opposite side of your transaction; you have to agree to exchange your home currency for euros at the price they set.

Like in all business transactions, there is a catch. In this case, it comes in the form of the **bid/ask spread**.

You could say that market makers are the **elementary building blocks** of the foreign exchange market.

Retail market makers basically make liquidity available by **“repackaging”** huge contract sizes from wholesalers into bite-size chunks. Without them, it will be very challenging for the average Joe to trade Forex.

Most of the various players' use the market either to hedge (protect themselves) alternatively speculate, which is to purely take the opportunity of making a profit. Ultimately, you will be a speculator when you start trading.

And of course, there is also a choice to take physical delivery of the chosen product, or not. This may seem like quite a negligible comment, but it turns out that it is the fact that there are categories of different products that allow us the choice not to take physical delivery; then we become true speculators.

Trading by not taking physical delivery means we need to buy and sell contracts, which allow you to benefit for changes of that contract value, and this is determined by the all too familiar EXCAHNGE rates. So we are then buying and selling contracts that are based on

an underlying physical asset such as a currency, gold or silver.

Since you are **not purchasing anything physical**, this kind of trading can be puzzling.

Think of buying a currency as buying a **share in a particular country**, kind of like buying stocks of a company. The price of the currency is a direct reflection of what the market thinks about the current and future health of the country in question's economy.

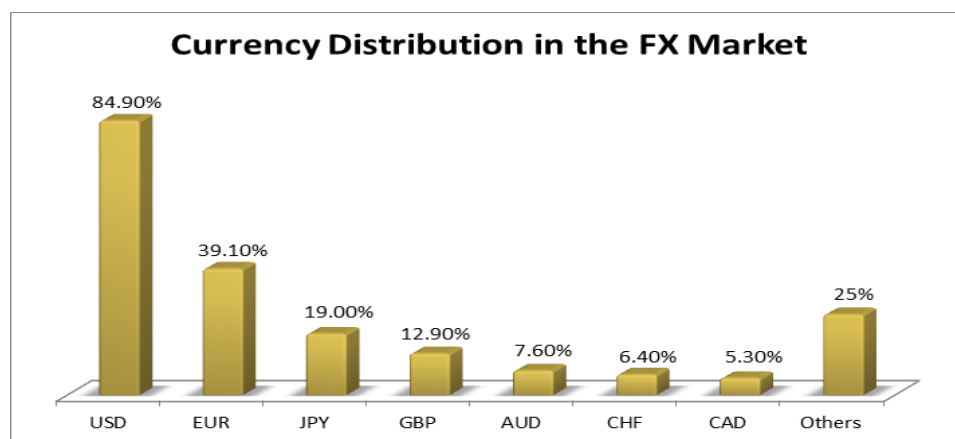
When you buy, say, the British Pound, you are basically buying a "share" in the British economy. You are betting that it is doing well, and will even get better as time goes. Once you sell those "shares" back to the market, hopefully, you will end up with a profit.

In general, the exchange rate of a currency against other currencies is a reflection on the condition of that country's economy, compared to other countries' economies.

This is the world of speculation and unsurprisingly; we are not here to use the Forex markets to travel, or the fulfillment of importing or exporting, but rather to work with ACM Gold as a trading partner.

The chart below shows the ten most actively traded currencies.

The dollar is the most traded currency, taking up **84.9%** of all transactions. The euro's share is second at 39.1%, while that of the yen is third at 19.0%. As you can see, most of the major currencies are controlling the top spots on this list!

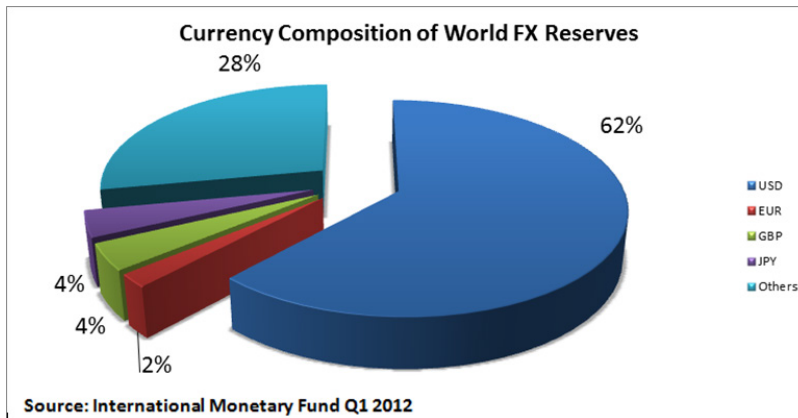


Because two currencies are involved in each transaction, the sum of the percentage shares of individual currencies totals 200% instead of 100%.

The chart above shows just how often the U.S. dollar is traded in the Forex market. It is on one side of a ridiculous **84.9%** of all reported transactions!

The Dollar is King

You have probably noticed how often we keep mentioning the U.S. dollar (USD). If the USD is one-half of every major currency pair, and the majors comprise 75% of all trades, then it is a must to pay attention to the U.S. dollar. The USD is clearly King!



In fact, according to the International Monetary Fund (IMF), the U.S. dollar comprises almost 62% of the world's official foreign exchange reserves! Because almost every investor, business, and central bank owns it, they pay attention to the U.S. dollar.

There are also other significant reasons why the U.S. dollar plays a central role in the Forex market:

- The United States economy is the **largest** economy in the world.
- The U.S. dollar is the reserve currency of the world.
- The United States has the largest and most liquid financial markets in the world.
- The United States is the world's sole military superpower.
- The U.S. dollar is the medium of exchange for many cross-border transactions. For example, oil is priced in U.S. dollars. So if Mexico wants to buy oil from Saudi Arabia, it can only be bought with U.S. dollar. If Mexico does not have any dollars, it has to sell its pesos first and buy U.S. dollars.

Currency symbols always have **three letters**, where the first two letters identify the name of the country, and the third letter identifies the name of that country's currency.



Take NZD, for instance. **NZ** stands for New Zealand, while **D** stands for dollar. Easy enough, right?

The currencies included on the chart above are called the "**majors**" because they are the most widely traded ones.

We would also like to let you know that “buck” is not the only nickname for USD.

There is also: greenbacks, bones, benjis, benjamins, moolah, dead presidents, and cash money.



Currencies Are Traded in Pairs

Forex trading is the simultaneous **buying** of one currency and **selling** another.

Currencies are traded through a broker or dealer, and are traded in pairs; for example, the euro and the U.S. dollar (EUR/USD) or the British pound and the Japanese yen (GBP/JPY).

When you trade in the Forex market, you **buy or sell in currency pairs**.

Imagine each pair constantly in a “**Tug of war**” with each currency on its own side of the rope. Exchange rates fluctuate based on which currency is stronger at the moment.

Major Currency Pairs

The currency pairs listed below are considered the “majors.” These pairs all contain the U.S. dollar (USD) on one side and are the most frequently traded. The majors are the most liquid and widely traded currency pairs in the world.

Pair	Countries	FX Geek Speak
EUR/USD	Euro zone / United States	"euro dollar"
USD/JPY	United States / Japan	"dollar yen"
GBP/USD	United Kingdom / United States	"pound dollar"
USD/CHF	United States/ Switzerland	"dollar swissy"
USD/CAD	United States / Canada	"dollar loonie"
AUD/USD	Australia / United States	"aussie dollar"
NZD/USD	New Zealand / United States	"kiwi dollar"

There are also other types of pairs besides the major currencies which are less traded and come in the form of:

- 1) **Major Cross Currency Pairs** – Major Currency pairs that do not contain the US Dollar which are also referred to as Minor Currency Pairs. Example is the Euro versus the Japanese Yen (EUR/JPY)
- 2) **Exotic Currency Pairs** – Major currency versus an emerging economy. Example the US Dollar versus the Mexican Peso (USD/MXN)

Characteristics of Forex

No commissions – under normal circumstances!

No clearing fees, no exchange fees, no government fees, no brokerage fees. Most retail brokers are remunerated for their services through something called the “bid-ask spread,” but be warned some intermediaries can charge commission on top of the spreads, although ACM Gold does **not** charge any additional commissions. The crucial element is to define whether a broker is subject to financial regulations in their appropriate jurisdictions as this defines their capital requirements, anti-money laundering policies and general financial regulation policies.

No fixed lot size.

In the futures, markets, lot or contract sizes are determined by the exchanges. A standard-size contract for silver futures is 5,000. In spot Forex, a trader determines their own lot, or position size. This allows traders to participate with small accounts and effectively control their risk and reward precisely.

Low transaction costs

The trade transaction cost (the bid/ask spread) is **typically less than 0.1%** under normal market conditions. At larger dealers, the spread could be as low as 0.07%. Of course, this depends on your leverage and all of this will be explained later.

A 24-hour market

There is no waiting for the opening bell. From the Monday morning opening in Australia to the afternoon close in New York, the Forex market never sleeps. This is awesome for those who want to trade on a part-time basis, because you can choose when you want to trade: morning, noon, night, during breakfast, or in your sleep.

No one can corner the market

The foreign exchange market is so huge and has so many participants that no single entity (not even a central bank) can control the market price for an extended period of time.

High Liquidity

Because the Forex market is so colossal, it is also extremely liquid. This means that under normal market conditions, with a click of a mouse you can immediately buy and sell at will as there will usually be someone in the market willing to take the other side of your trade.

You are never “stuck” in a trade. You can even set your online trading platform to automatically close your position once your desired profit level (a limit order) has been reached, and/or close a trade if a trade is going against you (a stop loss order).

Forex Market Structure

For the sake of comparison, let us first examine a market that you are probably very familiar with: the stock market. This is how the structure of the stock market looks like:



By its very nature, the stock market tends to be very monopolistic. There is only one entity, one authority that controls prices. All trades must go through this **specialist**. Because of this, prices can easily be altered to benefit the authority, and not traders.

How does this happen?

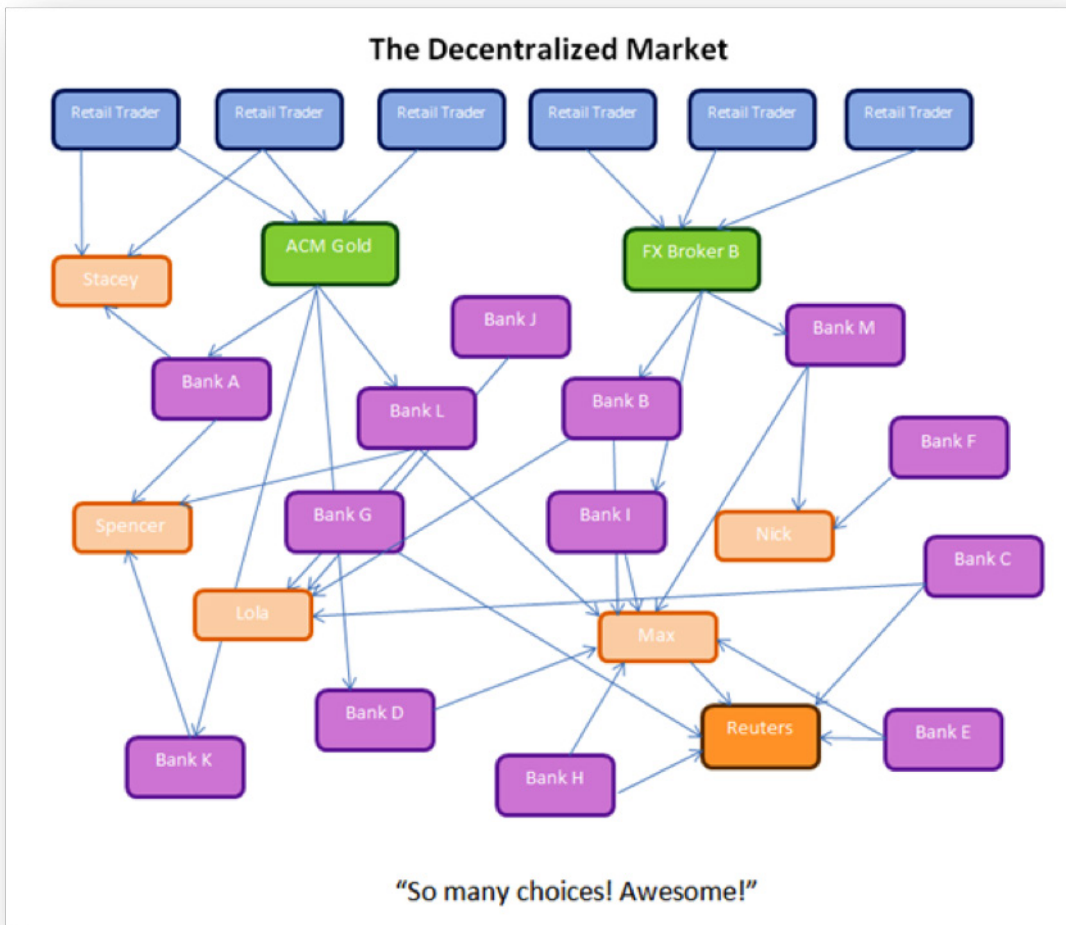
In the stock market, the specialist is forced to fulfill the order of its customers. Now, let us say the number of sellers suddenly exceeds that of the buyers. The specialist, the sellers in this case, is left with a bunch of stock that he cannot sell-off to the buyer side.

In order to prevent this from happening, the specialist will simply widen the spread or increase the transaction cost to prevent sellers from entering the market. In other words, the specialists can manipulate the quotes it is offering to accommodate its needs.

Trading Spot FX is decentralized.

Unlike in trading stocks or futures, you do not need to go through a centralized exchange like the Johannesburg Stock Exchange (JSE) and New York Stock Exchange with just one price. In the Forex market, there is **no single price** for a given currency at any time, which means quotes from different currency dealers, will definitely vary.

Below is an example of what the decentralized Forex market structure might look like:

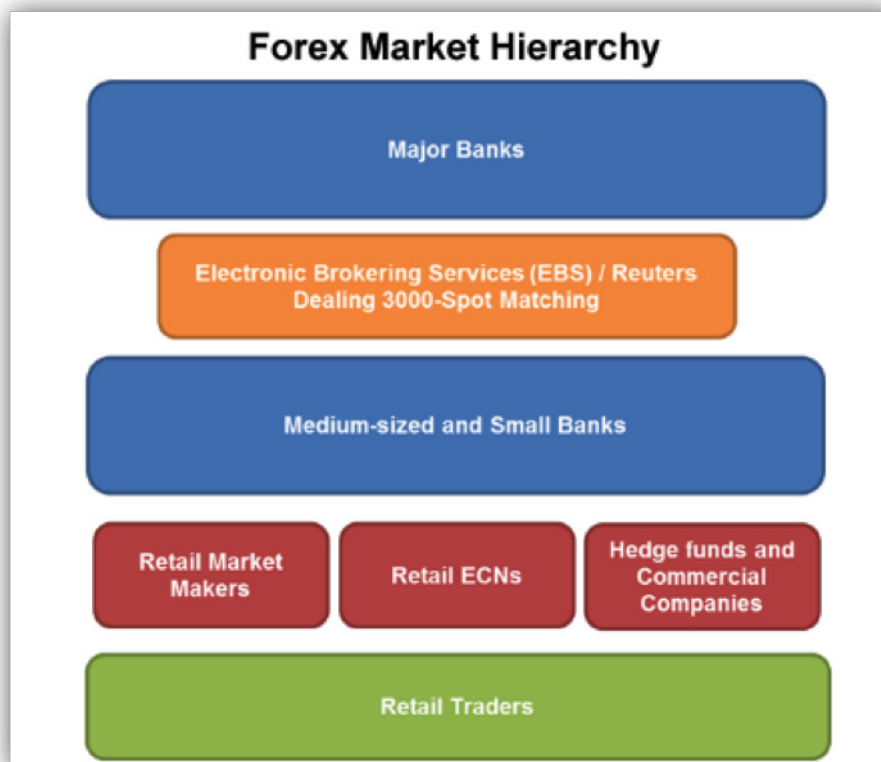


This structure may seem overwhelming at first, but this is what makes the Forex market so unique! The market is so huge, and the competition between dealers is so fierce that you get the **best deal** more or less every single time.

Furthermore, one cool thing about Forex trading is that you can do it anywhere, as long as you have an internet connection and access to your trading platform.

The FX Ladder

Even though the Forex market is decentralized, it is not pure and utter chaos! The participants in the FX market can be organized into a **ladder**, better referred to as Tiers to professional traders. To better understand what we mean here is a clear illustration:



At the very top of the Forex market ladder is the **interbank market**. It is made up of the largest banks of the world and some smaller banks, and the participants of this market trade directly with each other or electronically through the Electronic Brokering Services (EBS) or the Reuters Dealing 3000-Spot Matching.

The competition between the two companies - the EBS and the Reuters Dealing 3000-Spot matching - is similar to Samsung and iPhone. They are in constant battle for customers and continually try to one-up each other for market share. While both companies offer most currency pairs, some currency pairs are more liquid on one than the other.

For the EBS platform, EUR/USD, USD/JPY, EUR/JPY, EUR/CHF, and USD/CHF are more liquid. Meanwhile, for the Reuters platform, GBP/USD, EUR/GBP, USD/CAD, AUD/USD, and NZD/USD are more liquid.

All the banks that are part of the interbank market can see the rates that each other is offering, but this does not necessarily mean that anyone can make deals at those prices.

Like in real life, the rates will be largely dependent on the established CREDIT relationship between the trading parties.

Next on the ladder are the hedge funds, corporations, retail market makers, and retail ECNs. Since these institutions do not have tight credit relationships among the participants of the interbank market, they have to do their transactions via commercial banks. This means that their rates are slightly higher and more expensive than that who is part of the interbank market.

At the **bottom of the ladder** are the retail traders. It used to be very hard for individuals to engage in the Forex market but thanks to the advent of the internet, electronic trading, and retail brokers; the difficult barriers to entry in Forex trading have all been taken down. This gave the individuals a chance to play with those high up the ladder.

Now that you know the Forex market structure, let us get to know about the trading hours' times:

Market Hours

Before looking at the best times to trade, we must look at what a **24-hour day** in the Forex world looks like.

The Forex market can be broken up into four major trading sessions: the Sydney session, the Tokyo session, the London session, and the New York session. Below are tables of the open and close times for each session, near South African Time:

Time Zone	EST	GMT
Sydney Open Sydney Close	4:00 PM 1:00 AM	9:00 PM 6:00 AM
Tokyo Open Tokyo Close	6:00 PM 3:00 AM	11:00 PM 8:00 AM
London Open London Close	3:00 AM 12:00 PM	8:00 AM 5:00 PM
New York Open New York Close	8:00 AM 5:00 PM	1:00 PM 10:00 PM

Let us take a look at the average pip movement of the major currency pairs during each trading session.

How You Make or Lose Money in Forex

In the Forex market, we trade by speculating on the cash or spot price by **buying or selling currencies at different exchange rates**.

Placing a trade in the foreign exchange market is simple: the mechanics of a trade are very similar to those found in other markets (like the stock market), so if you have any experience in trading, you should be able to pick it up fairly quickly.

The **object** of Forex trading is to exchange one currency for another in the expectation that the price will change, so that the currency, you bought will increase in value compared with the one you sold.

An exchange rate is simply the ratio of one currency valued against another currency. For example, the EUR/USD exchange rate indicates how many Euros can purchase one US Dollar (in this case 1.9197), or how many US Dollars you need to buy one Euro.

How to Read a Forex Quote

Currencies are always quoted in pairs, such as GBP/USD or USD/JPY. The reason they are quoted in pairs is because in every foreign exchange transaction, you are **simultaneously buying one currency by selling another first**. Here is an example of a foreign exchange rate for the Euro versus the U.S. dollar:



The first listed currency to the left of the slash (“/”) is known as the **base currency** (in this example, the Euro), while the second one on the right is called the **counter or quote currency** (in this example, the U.S. dollar).

When buying a currency pair, the exchange rate tells you how much you have to pay in units of the quote currency to buy one unit of the base currency. In the example above, you have to pay 1.2906 U.S. dollars to buy 1 Euro.

When selling a currency pair, the exchange rate tells you how many units of the quote currency you get for selling one unit of the base currency. In the example above, you will receive 1.2906 U.S. dollars when you sell 1 British pound.

The base currency is the “*basis*” for the buy or the sell. If you buy EUR/USD this simply means that you are buying the base currency and simultaneously selling the quote currency. In caveman talk, “buy EUR, sell USD.”

You would buy the pair if you believe the base currency will appreciate (gain value) relative to the quote currency. You would sell the pair if you think the base currency will depreciate (lose value) relative to the quote currency.

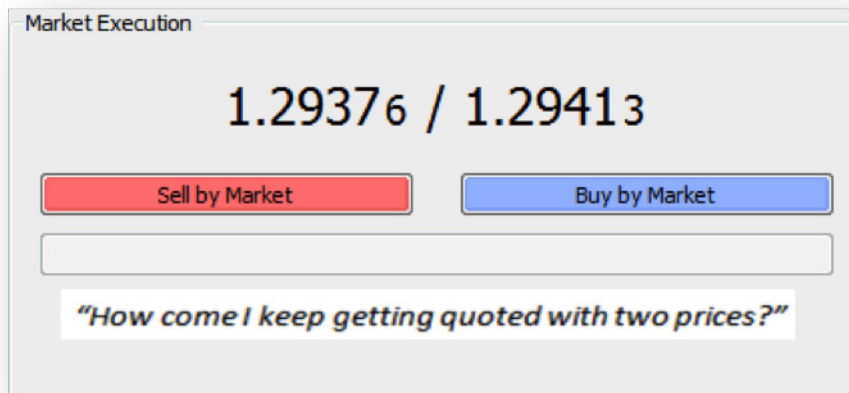
Long/Short

First, you should determine whether you want to buy or sell.

If you want to buy (which actually means to buy the base currency and sell the quote currency), you want the base currency to rise in value, and then you would sell it back at a higher price. In trader’s talk, this is called **“going long” or taking a “long position.”** Just remember: **long = buy.**

If you want to sell (which actually means to sell the base currency and buy the quote currency), you want the base currency to fall in value, and then you would buy it back at a lower price. This is called **“going short” or taking a “short position.”** Just remember: **short = sell.**

Bid/Ask



All Forex quotes are quoted with two prices: the **bid** and **ask**. For the most part, the bid is lower than the ask price.

The **bid price** is the price at which your broker is willing to buy the base currency in exchange for the quote currency. This means the bid is the best available price at which you (the trader) will sell to the market.

The **ask price** is the price at which your broker will sell the base currency in exchange for the quote currency. This means the ask price is the best available price at which you will buy from the market. Another word for ask is the offer price.

The difference between the bid and the ask price is popularly known as the **spread**.

Traditionally, brokers have used 2, 4 decimal place quotation systems. This meant that for all currency pairs except for where the Yen is involved, the quotation system will be 4 decimal places. An example would be GBP/USD quoting at 1.6786, if it moved to 1.6787 then this is regarded as a 1 pip movement. Any currency where the Yen is involved (because of the way, the Yen operates) currencies would use a 2 decimal place quotation system. An example of this would be USD/JPY where if the pair moved from 107.34 to 107.33 then this is regarded as a 1 pip movement.

In reality, the interbank's between themselves have always worked on an extra decimal place for both types of quotation systems, and this is referred to as **interbank fractional pricing**. By adding an extra fraction into the quote, it really means that you get a better spread. ACM Gold has strived hard to ensure that their customers also get the benefit of this and hence why you see an extra fraction on all the quotes.

So for example on the EUR/USD quote, a bid price would be displayed as **1.29376** and the ask price is **1.29413**. The pip is still calculated on the 4th decimal pip but here the spread would actually be 3.7 pips instead of 4 pips if it were just using 4 decimal places.

It is important to remember that currency quotes are variable and do adjust during the trading day depending upon the volatility and the liquidity at any given time.

If you want to sell EUR, you click "Sell" and you will sell euros at 1.29376. If you want to buy EUR, you click "Buy" and you will buy euros at 1.29413.

The purpose of this induction training, we will mainly use the traditional 2/4 quote systems to make life slightly easier, but it should only take a day or two's practice with the ACM Gold trading platform for a day with fractional pricing to become a master at the difference. After all, it is been done for your benefit to give you a better pricing system!

Rollover

No, this is not the same as rollover minutes from your cell phone carrier!

For positions open at your brokers, if you are buying a currency with a higher interest rate than the one, you are borrowing, then the net interest rate differential will be positive (i.e. USD/JPY) and you will earn funds as a result.

Conversely, if the interest rate differential is negative, then you will have to pay.

Every broker or dealer has specific and different policies regarding a rollover.

Cut-off time" (11.pm SA time), 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 they are all closed before **11 pm SA time**, the established end of the market day.

Since every currency, trade involves borrowing one currency to buy another, interest rollover charges are part of Forex trading. Interest is paid in the currency that is borrowed, and earned on the one that is bought.

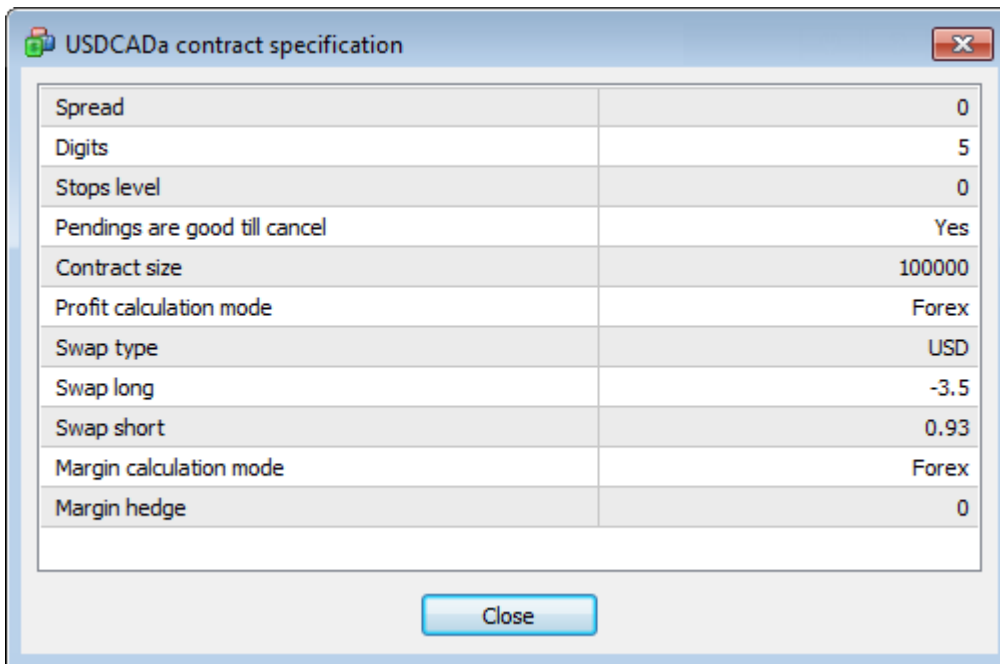
Also note that many retail brokers do adjust their rollover rates based on different factors (e.g. account leverage, interbank lending rates). Please check with your broker for more information on rollover rates and crediting/debiting procedures.

Here is an example chart of the interest rate differentials of the major currencies, which naturally are continuously fluctuating.

Benchmark Interest Rates

Country	Interest Rate
United States	0.25%
Euro zone	1.00%
United Kingdom	0.50%
Japan	0.10%
Canada	1.00%
Australia	3.50%
New Zealand	2.50%
Switzerland	0.00%

In ACM Gold's trading platform however, it is really easy to see if you can earn or pay interest. All you need to do is check out the contract specifications' page for each pair and it is immediately available:



USDCADa contract specification	
Spread	0
Digits	5
Stops level	0
Pendings are good till cancel	Yes
Contract size	100000
Profit calculation mode	Forex
Swap type	USD
Swap long	-3.5
Swap short	0.93
Margin calculation mode	Forex
Margin hedge	0

Close

In the above example, we can see that if we went long, or bought the USD/CAD pair, we would pay 3.5 pips per 1 Standard Lot or Contract of 100 000 Units (of USD) every night, but if we were too short, or sell the pair, then we would actually earn 0.93 pips per evening for every 1 standard lot.

On ACM Gold’s platforms, the system is set that a trading size of 1 is equal to 100 000 units or 1 Standard Lot. We will address this in more detail shortly.

Calculating the Value of Pips

Although we have discussed what a pip is previously, it is worth reminding ourselves that it is the unit of measurement to express the change in value between two currencies is called a “Pip.” If EUR/USD moves from 1.2902 to 1.2903, that is **one pip**.

For calculation purposes, it is far easier to use 4 decimal points for all currency pairs without the Yen, and 2 decimal points wherever the Japanese Yen is part of the pair.

To work out how much a pip is actually worth in currencies where the U.S. dollar is quoted first, the calculation would be as follows:

USD/CHF at 0.9327 .0001 divided by exchange rate = pip value $.0001 / 0.9327 = 0.000010721$
USD/CAD at 0.9657 .0001 divided by exchange rate = pip value $.0001 / 0.9657 = 0.000010355$
USD/JPY at 77.77 Notice this currency pair only goes to two decimal places (most of the other currencies have four decimal places). In this case, 1 pip would be .01. .01 divided by exchange rate = pip value $.01 / 77.77 = 0.0000128$

Just bear in mind that this is what we would be earning if we were to be trading 1 unit of the base currency.

So for the above Swiss Franc example, we would only be earning \$0.00001071 per 1 unit of USD that is converted. No much of a profit there, which is precisely why we will soon show you that we have to trade much larger values in order to make a decent amount of profit per pip.

Now in the case where the U.S. dollar is not quoted first, and we want to get the U.S. dollar value, we have to add one more step.

EUR/USD at 1.3034 .0001 divided by exchange rate = pip value So $.0001 / 1.3034 = \text{EUR } 0.00007672$ BUT we need to get back to U.S. dollars so we add another calculation which is EUR x Exchange rate So $0.00007672 \times 1.3034 = 0.00009999$ When rounded off it would be 0.0001
GBP/USD at 1.6207 .0001 divided by exchange rate = pip value So $.0001 / 1.6207 = \text{GBP } 0.0000617$ BUT we need to get back to U.S. dollars so we add another calculation which is GBP x Exchange rate So $0.0000617 \times 1.6207 = 0.0000999$ When rounded up it would be 0.0001

So in essence whenever you see a major currency pair where the USD is the quote currency, you will earn a fixed value per point, whereas when the USD is the base currency as the previous examples – the value of what you earn will be variable according to the exchange rate.

You are probably rolling your eyes back and thinking “Do I really need to work all this out?” Well, the answer is a big **NO**. Nearly all Forex brokers will work all this out automatically, but it is always good for you to know how they work it out.

If a broker does not happen to do this, do not worry - you can use our Pip Value Calculator! Are we not awesome?

In the next section, we will discuss how these seemingly insignificant amounts can add up.

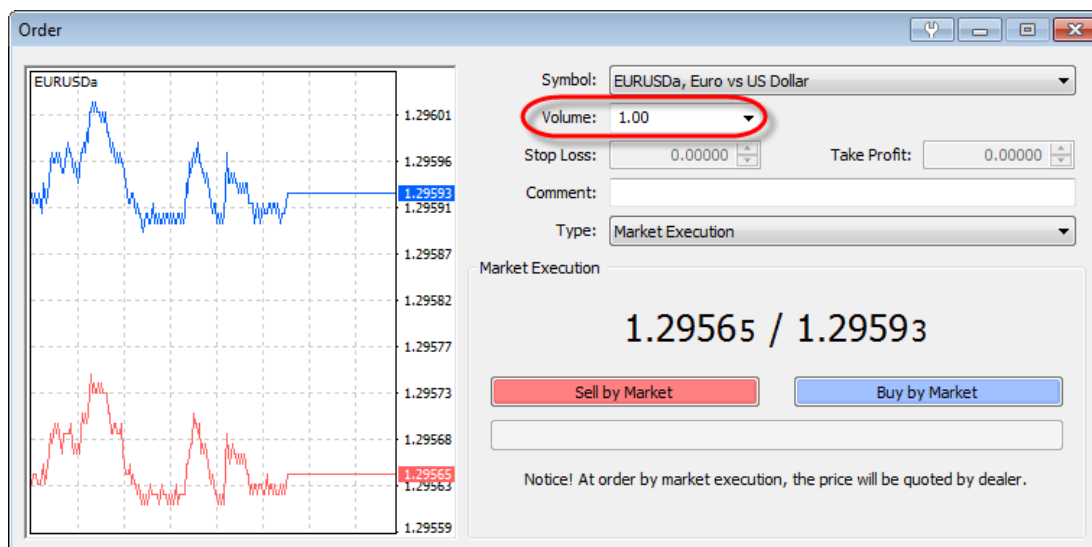
Lots, Leverage, and Profit and Loss

Having touched on the various types of lots sizes, let us break it down again just to ensure that we have a good idea.

Lot	Number of Units
Standard	100,000
Mini	10,000
Micro	1,000
Nano	100

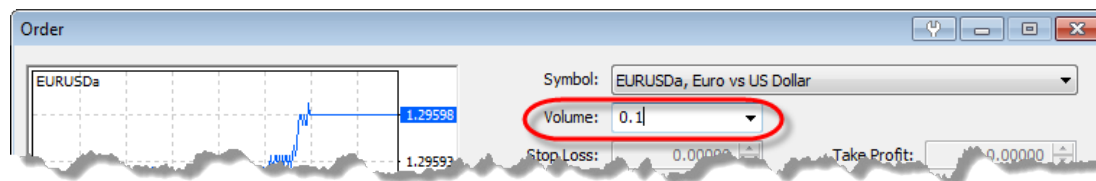
Do not forget that we can trade fractions of these, so as an example trading 120,000 units we would say that we are trading 1.2 lots and trading with 18,000 units would be 1.8 lots.

On the ACM Gold system, 1 standard contract would be represented as a volume of 1:

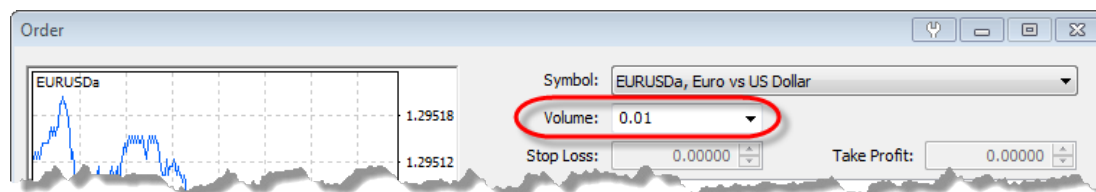


The screenshot shows an 'Order' window for the EURUSDa pair. The 'Volume' field is set to 1.00, which is circled in red. The 'Type' is set to 'Market Execution'. The current market price is shown as 1.29565 / 1.29593. There are 'Sell by Market' and 'Buy by Market' buttons. A notice at the bottom states: "Notice! At order by market execution, the price will be quoted by dealer."

For trading a mini lot then, the volume would be represented as:



And for trading Micro lots the volume would be represented in the following range:



As you already know, currencies are measured in pips, which is the smallest increment of that currency.

To take advantage of these tiny increments, you need to trade large amounts of a particular currency in order to see any significant profit or loss.

Let us assume we will be using a 100,000 unit (standard) lot size. We will now recalculate some examples to see how it affects the pip value.

USD/JPY at an exchange rate of 78.12 $(.01 / 78.12) \times 100,000 =$ **\$12.80 per pip**

USD/CHF at an exchange rate of 0.9280 $(.0001 / 0.9280) \times 100,000 =$ **\$10.78 per pip**

In cases where the U.S. dollar is not quoted first, the formula is slightly different.

EUR/USD at an exchange rate of 1.3107 $(.0001 / 1.3107) \times 100,000 = 7.63 \times 1.3107 =$ **\$10.000641 rounded up will be \$10 per pip**

GBP/USD at an exchange rate or 1.6225 $(.0001 / 1.6225) \times 100,000 = 6.16 \times 1.6225 =$ **9.9946 rounded up will be \$10 per pip.**

If we traded different contract sizes, then the calculation stays the same, all we need to do is change the **amount** of currency units.

In the last example if we now traded **2.5** standard lots (250 000 units) instead of 100 000 units or 1 standard lots, then the calculation per pip would be:

GBP/USD at an exchange rate or 1.6225 $(.0001 / 1.6225) \times 250,000 = 15.40 \times 1.6225 =$ **24.99 rounded up will be \$25 per pip.**

Great so we know we will be earning more per pip if we trade higher amounts, but the question is how are we able to trade higher amounts if we do not have it. Well, that is where the concepts of Leverage come into play.

Looking at Leverage and margin in more detail

You are probably wondering how a small investor can trade such large amounts of money. Think of your broker (who uses a primary broker such as, for example, JP Morgan) as a bank that basically fronts a trader \$100,000 to buy currencies. All the bank asks from you is that you give it \$1,000 as a good faith deposit, which he will hold for you but not necessarily keep.

The amount of leverage you use will depend on your broker and what you feel comfortable with.

Typically, the broker will require a trade deposit, also known as “**account margin**” or “**initial margin**.”

Once you have deposited your money you will then be able to trade. The broker will also specify how much they require per position (lot) traded.

For example, if the allowed leverage is 100:1 (or 1% of position required), and you wanted to buy 1 mini contract of EUR/USD worth 10 000 where the current exchange rate is 1.3800, but you only have \$5,000 in your account, how could you do it? Well, you would need to put down some margin.

To calculate the margin (or deposit) that is required to take out the position is calculated using the following equation:

$$\frac{\text{Number of lots} * \text{Amount of Currency} * \text{Currency Exchange Rate}}{\text{Leverage}}$$

So therefore our margin above would there be

$$\frac{1 * 10\,000 * 1.3800}{100}$$

This would then work out to \$138, meaning that to borrow \$13 800 in sell it and convert it to 10 000 Euro's, we will have to put down \$138 in margin.

How to Calculate Profit and Loss?

So now that you know how to calculate pip value and leverage, let us look at how you calculate your profit or loss.

Let us buy U.S. dollars and Sell Swiss francs.

The rate you are quoted is 0.9268 / 0.9272. Because you are buying U.S. dollars you will be working on the “ask” price of 0.9272, or the rate at which traders are prepared to sell.

So you buy 1 standard lot (100,000 units) at 0.9272.

A few hours later, the price moves to 0.9292 and you decide to close your trade.

The new quote for USD/CHF is 0.9292 / 0.9296. Since you are closing your trade, and you initially bought to enter the trade, you now sell in order to close the trade so you must take the “bid” price of 0.9292. The price traders are prepared to buy at.

The difference between 0.9272 and 0.9292 is .0020 or 20 pips.

Using our formula from before, we now have $(.0001/0.9292) \times 100,000 = \10.76 per pip
 $\times 20$ pips = \$215.20

Remember, when you enter or exit a trade, you are subject to the spread in the bid/offer quote. When you buy a currency, you will use the offer or ask price and when you sell, you will use the bid price.

When you decide to close a position, the deposit that you originally made is returned to you and a calculation of your profits or losses is done.

This profit or loss is then credited to your account.

What is even better is that, with the development of retail Forex trading, ACM Gold now allows its traders to have **custom lots**. This means that you do not need to trade in micro, mini or standard lots!

This helps tremendously to get the correct risk reward ratios. There is always a balance between how much risk a customer should be prepared to trade compared to how much he is investing.

A beginner customer should always use a stop loss, and a novice trader should not be trading more than **1 mini contract per \$1000 capital invested** at any given point of time in the market. This means if a 30 pip stop loss is hit, this equals \$30 which is 3% of the traders account.

So as an example, if you invest \$8000 on the market, then you should not be exposing more than 8 mini contracts at any point in time. You could do 1 full trade of 8 mini contracts or chose to trade 2 trades with 4 mini contracts each, but the point is that you should not breach.

Advanced and professional traders can normally afford to double this rule by trading a maximum of 2 mini contracts per \$1000 capital invested.

We are now finally at the point where we can consolidate our understanding, of how we can make profits or loss on the Forex market, no matter whether we chose to buy or sell a currency pair.

To truly gain a good understanding, we have broken the explanations into different scenarios as to whether the US Dollar is the base or quote currency, whether we bought or sold a currency pair and naturally if we made a profit or loss on each scenario by using standard, mini or micro lots.

Do not forget to remember that what you earn per pip can either be a fixed value, e.g. \$10 per pip for standard lots if the USD is the quote currency, or it can fluctuate all the time according to the exchange rate if the USD is the base currency. Refer to these calculations in a previous explanation above if you do not recall this, but it an essential part of knowing what you make or lose on a trade, which we encourage you to work through thoroughly on your own:

Scenario 1a: calculating a profit or loss by buying a currency pair where the USD is the quote currency.

Let us say, for instance, you decide to purchase 100 000 euros (1 Standard Lot) at the EUR/USD exchange rate of **1.3021/24**

Profit Scenario on buying a USD quote pair where the exchange rate increases in value:

Trader's Action	EUR	USD
You purchase 100 000 euros at EUR/USD exchange rate of 1.3024 (100 000x1.3024 – being the ask price or price we buy at)	+100 000	-130 240
A day later, you exchange your US dollars back into 100 000 Euros at the exchange rate of 1.3074 .	-100 000	+130 740
You end up earning a profit of \$500 .(50 pips *\$10 per pip)	0	+500

Loss Scenario on buying a USD quote pair where the exchange rate decreases in value:

Trader's Action	EUR	USD
You purchase 100 000 euros at EUR/USD exchange rate of 1.3024 (100 000x1.3024 – being the ask price or the price we buy at)	+100 000	-130 240
A day later, you exchange your US dollars back into 100 000 Euros at the exchange rate of 1.3018 .	-100 000	+130 180
You end up making a loss of \$60 .(6 pips*\$10 per pip)	0	-60

Scenario 1b: calculating a profit or loss by selling a currency pair where the USD is the quote currency.

Now let us say you sell 10 000 euros (1 mini lot) at the EUR/USD exchange rate of **1.3030/33**

Profit scenario on selling the USD quote pair where the exchange rate decreases in value:

Trader's Action	EUR	USD
You sell 10 000 euros at EUR/USD exchange rate of 1.3030 (10 000 x1.3030 being the bid price or the price we sell at)	-10 000	+13 300
A day later, you exchange your U.S. dollars back into 10 000 Euros at the exchange rate of 1.3015 .	+10 000	-13 150
You end up earning a profit of \$15 .(15 pips * \$1 per pip)	0	+15

Loss scenario on selling a USD quote pair where the exchange rate increases in value:

Trader's Action	EUR	USD
You sell 10 000 euros at EUR/USD exchange rate of 1.3030 (10 000 x1.3030 – being the bid price or the price we sell at)	-10 000	+13 030
A day later, you exchange your U.S. dollars back into 10 000 Euros at the exchange rate of 1.3028 .	+10 000	-13 028
You end up making a loss of \$2 . (2 pips * \$1 per pip)	0	-2

Scenario 2a: calculating a profit or loss by buying a currency pair where the USD is the base currency.

Let us say, for instance, you decide to purchase 250 000 Swiss francs (2.5 standard lots) at the USD/CHF exchange rate of **0.9287**.

Profit scenario on buying a USD base pair where the exchange rate increases in value:

Trader's Action	USD	CHF
You purchase 250 000 francs at USD/CHF exchange rate of 0.9287 (100 000x0.9287)	+250 000	-232 175
An hour later, you exchange your francs back into 250 000 U.S. dollars at the exchange rate of 0.9305 .	-250 000	+232 625
You make a profit of Fr450	0	+450
**Which is \$483.61 (18 pips *\$10.74 *2.5 lots = \$26.86 per pip)		

****You end up earning a profit of 450 Swiss francs.**

However, to understand the value of your profit, you have to do a conversion back to dollars as your trading account is always denominated in US Dollars!

This is how you do it.

CHF profit/ exchange rate (450/0.9305) = **\$483.61**

Loss scenario on buying a USD base pair where the exchange rate decreases in value:

Trader's Action	USD	CHF
You purchase 250 000 francs at USD/CHF exchange rate of 0.9287 (100 000x0.9287)	+250 000	-232 175
An hour later, you exchange your francs back into 250 000 U.S. dollars at the exchange rate of 0.9282 .	-250 000	+232 050
You end up making a loss of Fr125 .	0	-125
**Which equals \$134.33 (5 pips *\$10.77 * 2.5 lots = \$26.93 per pip)		

****You end up earning a profit of 125 Swiss francs.**

CHF loss/ exchange rate (125/0.9282) = **-\$134.66**

Scenario 2b: calculating a profit or loss by selling a currency pair where the USD is the base currency.

Now let us say you sell 6500 USD (6 and a half micro lots) at the USD/CHF exchange rate of **0.9230**.

Profit scenario on selling a USD base pair where the exchange rate decreases in value:

Trader's Action	USD	CHF
You sell 6500 francs at USD/CHF exchange rate of 0.9349 (6500 x 0.9349)	-6500	+6076.85
4 hours later, you exchange your francs back into 6500 U.S. dollars at the exchange rate of 0.9240 .	+6500	-6006.00
You end up earning a profit of Fr70.85 .	0	+70.85
Which is a profit of \$76.67		

Loss scenario on selling a USD base pair where the exchange rate increases in value:

Trader's Action	USD	CHF
You sell 6500 USD at USD/CHF exchange rate of 0.9349 (6500 * 0.9349)	-6500	+6076.85
4 hours later, you exchange you are your francs back into 6500 U.S. dollars at the exchange rate of 0.9351 .	+6500	-6078.15
You end up making a loss of Fr1.3	0	-1.3
Which is a loss of \$1.39		

Ok great, now you should have much firmer understanding of how profits are generated on the forex market. To end off, it is important and useful to have a good understanding of the various types of orders that you will be using when trading.

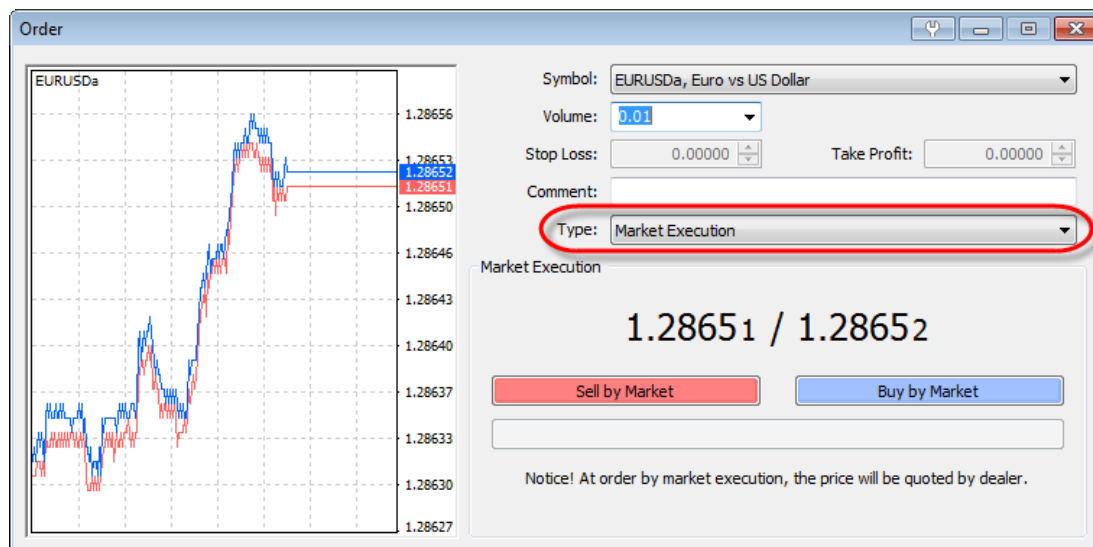
Types of Orders

The term "order" refers to how you will enter or exit a trade. Here we discuss the different types of orders that can be placed into the foreign exchange market, and specifically with the ACM Gold trading platform.

Market order

A market order is an order to buy or sell at the best available price, commonly known as market execution.

For example, the bid price for EUR/USD is currently at 1.28651 and the ask price is at 1.28652. If you wanted to buy EUR/USD at market, then it would be sold to you at the ask price of 1.28652. You would click **Buy by Market** and your trading platform would instantly execute a buy order.



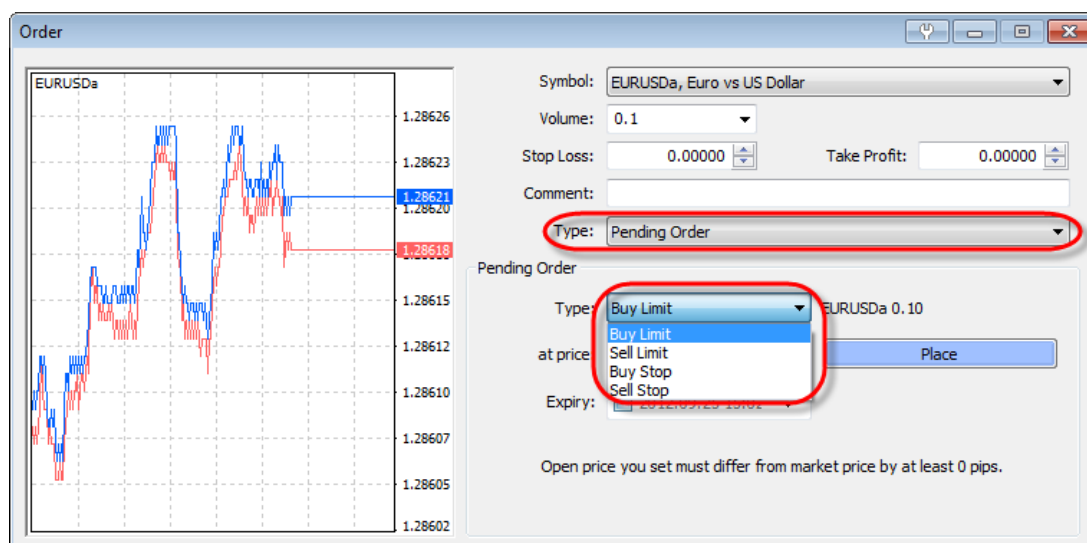
Pending Orders

A pending order is an order placed to either buy below the market or sell above the market at a certain price.

This type of order can get quite complex, however the ACM Gold platform makes life quite easy to execute directly on the graph's themselves.

Pending orders come in the form of:

- 1) Buy limit entry orders
- 2) Buy stop entry orders
- 3) Sell limit entry orders
- 4) Sell stop entry orders



For example, EUR/USD is currently trading at 1.2803. You want to go short if the price reaches 1.2833. You can either sit in front of your monitor and wait for it to hit 1.2833 (at which point you would click a sell market order), or you can set a sell limit order at 1.2833 (then you could walk away from your computer to attend your ballroom dancing class).

If the price goes up to 1.2834 (it has to breach your price by 1 pip to execute the order), your trading platform will automatically execute a sell order at the best available price.

You use this type of entry order when you believe the price will reverse upon hitting the price you specified!

In order to establish the difference between the various pending orders, it is critical to study the trading platforms and practice.

Stop-Loss Order

A stop-loss order is a type of order linked to a trade for the purpose of preventing additional losses if the price goes against you. **Always use a stop loss to protect yourself in the market!** A stop-loss order remains in effect until the position is liquidated or you cancel the stop-loss order.

For example, you went long (buy) EUR/USD at 1.3108. To limit your maximum loss, you set a stop-loss order at 1.3138. This means if you were dead wrong and EUR/USD drops to 1.3138 instead of moving up, your trading platform would automatically execute a sell order at 1.3138, the best available price, and close out your position for a 30-pip loss.

Profit Limit Order

A profit limit order is specifically designed to execute an order when you are in a certain amount of profit. Now why would you want to do that? Well remember that while your trade is in the market you are in actual fact in a floating profit – meaning that you have not realized your profits.

Since the market prices fluctuate up and down, it is natural and important to 'bank' profits at a certain stage. Using a profit limit also gives you the power to not have to monitor the markets the whole time which is not really healthy, while still having the reassurance that when the prices hit a certain profit target price, you will be taken out the market in profit.

A professional trader knows that a trade is not really a trade at all if a stop loss or a profit limit is not part of the trade. Remember that the key is that professional trade always uses positive Risk Reward Ratios of about 1:2 to 1:3 – meaning that for every 1 point loss that they are prepared to lose – for every trade they do, they are aiming to make 2 to 3 pips depending on the market volatility.

For example if a pro trader is aiming to make 60 pips profit target with a profit limit, then the stop loss value would be around 20 to 30 pips depending.

Most, if not all novices do the exact opposite by taking very little profit and letting losses run big time. This all has to do with emotions and psychology, which essentially is what successful trading is all about – controlling those emotions!

Trailing Stop

A trailing stop is a type of stop-loss order attached to a trade that moves as the price rises and falls.

For instance, if you have decided to short USD/JPY at 77.91, with a trailing stop of 20 pips, this would mean that originally, your stop loss is at 78.11. If the price goes down and hits 77.61, your trailing stop would move down to 77.81.

Using trailing stops requires a lot of experience and practice, so we would advise starting with traditional stop loss and profit limit orders.

Contact us

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