

An Overview Of Forex Investing Strategies

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FOREX trading refers to an international, 24/7, over the counter, exchange market where currencies of different nations are bought and sold. Trading is always done in pairs assuming the price of currency bought to go up and that sold to fall down. It is the largest liquid financial market making it impossible for any single investor to influence the prices of currencies.

There are two kinds of FOREX investing strategies:

TECHNICAL ANALYSIS

FUNDAMENTAL ANALYSIS

TECHNICAL ANALYSIS:

Technical analysis is mostly undertaken by small and medium size investors.

A technical analysis considers factors that are actually affecting the market rather than factors that can affect it. Thus the price quoted reflects all the factors that have influenced it. Only market generated facts and figures are taken into account and factors like fear, hope, expectations or other changes are not considered. Thus the analysis is generally based on these suppositions:

- Price reflects all actual market movements. That means price includes everything known to the market like supply and demand of foreign exchange, political factors, trade agreements etc. It is not concerned with what resulted in change rather deals with actual changes. It works on the assumption that price can take only one of the three directions:

Upward

downward

sideward

- It rest on those market patterns that have been identified as significant. That means those factors which are repetitive in nature or will produce desired results.
- History always repeats itself as human psychology changes very slowly with time. That is market movements are predictable.

VARIOUS TECHNICAL INDICATORS ARE:

1. RELATIVE STRENGTH INDEX:

It takes into account the ratio of upward and downward movements in index and expresses it in the range of zero to hundred.

2.CHARTS:

Charts include various hills, slopes, curves that develop on a chart over a time and reflect some major and minor changes in pattern. Some of the chart formations include:

- TRIANGLE
- RECTANGLE
- HEAD AND SHOULDERS

- DOUBLE TOP AND BOTTOM
- SAUCERS
- V

3.GAPS:

A gap represents area on a bar chart where no trading took place.

- UPGAP: it is formed when the lowest price on a particular day is more than the highest price of previous day.
- DOWNGAP: it is formed when highest price of a certain day is less than the lowest price on previous day.

NUMBERS:

Various number theories are used in technical analysis like:

- Fibonacci theory
- GANN

STOCHASTIC OSCILLATOR:

This indicates the overbought or/and undersold condition. It uses a scale of zero to hundred percent.

FUNDAMENTAL ANALYSIS:

It is the one where current economic, political, financial situation of the country of currency is studied. A country's economical and political condition depends upon many factors like the interest rate, unemployment level, exports and imports, per capita income, percentage of population living above and below the poverty line, inflation, trade relations with other countries, tax policies etc.

A fundamental analyst studies and evaluates all these factors before coming to any decision. Thus it helps in long term decision making and making profits in short term by extra ordinary developments.

Some of the indicators that help in fundamental analysis include:

1. GROSS DOMESTIC PRODUCT:

It reflects total market value of all the goods and services produced in a country during a given year.

2. RETAIL SALES:

This reflects total receipts by all the retail stores in a country.

3. CONSUMER PRICE INDEX:

It reflects change in prices of consumer goods.

4. BUSINESS CYCLE:

It reflects various phases through which a business passes. These phases include:

- EXPANSION
- PEAK
- RECESSION
- DEPRESSION

5. MONETARY POLICY:

It controls the supply of money in an economy.

Trading successfully needs knowledge, time and understanding of a market. You cannot earn continuously in a Forex market due to its volatile nature. Thus as a trader you should try to consider both technical and fundamental strategies of forex trading and make decision based on market expectations and trends. Try trading with money that you can afford to lose without any regrets. Trade with logic and if you are not sure quit and take rest for some time.

About Rupansh Ashwani



Rupansh Ashwani is the author of 'The Sojourn' and 'Pulchritude - An Eternal Love Story'. He is also the singer/composer/lyricist of 'Proud to be a CA', 'Love can go so Far', 'Show me the way' and 'You are in my dreams.'

Rupansh Ashwani is CA,MBA,CFA,MFA,DISA,B.Com Hons. He also topped CA exams in India in 2011. He is also a certified career counsellor and study abroad counsellor.