MARKET LITERACY TRACK · FREE EBOOK

Market Literacy for Forex Traders

All thirty-seven Market Literacy lessons — fundamentals vs. technicals, the economic calendar, central banks, currency history, commodities, chart reading, brokers, and the mechanics behind the price on your screen — collected into one document you can read start to finish, print, or save as a PDF.

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CHAPTER 01 OF 37

Fundamental vs. Technical Analysis

Almost everything in this lesson library falls under one of two broad approaches to reading the market: fundamental analysis, which looks at the underlying economic and political forces behind a price, and technical analysis, which looks at the price action itself. Understanding this split up front makes it easier to see how the other lessons in this library fit together.

Fundamental analysis

- Studies interest rates, economic data, central bank policy, and geopolitical events
- Asks: what should this currency be worth, given the underlying economic picture?
- Tends to operate on a longer time horizon — the effects of a rate decision can take months to fully play out
- Covered by the economic calendar and central bank lessons in this library

Technical analysis

- Studies price charts directly — trend, structure, support and resistance, patterns
- Asks: what is price actually doing right now, regardless of why?
- Works across much shorter time horizons — a chart pattern can play out in hours
- Covered by the price action, support and resistance, and chart pattern lessons in this library

Why this isn't really an either/or choice

In practice, most experienced traders draw on both, even if one dominates their day-to-day decisions. A trader using purely technical setups still benefits from checking the economic calendar to avoid entering right before a high-impact release. A trader focused on fundamentals still needs some technical sense of where to actually place an entry, stop, and target — fundamentals rarely tell you the exact price level to act on.

A common blend: fundamentals set the broader direction or context — is there a reason to expect this currency to strengthen or weaken over the coming weeks — while technicals decide the specific entry, stop, and target within that context.

Where each approach tends to struggle on its own

Pure fundamental analysis can correctly identify that a currency "should" move in a certain direction while being badly wrong about timing — markets can stay disconnected from fundamentals for longer than a position can survive. Pure technical analysis can produce a clean-looking setup that gets blown through entirely by an unexpected news release, precisely the scenario covered in the economic calendar lesson. Neither weakness is fatal, but both are worth knowing about before leaning entirely on one approach.

Which one to lean toward as you're starting out

There's no universally correct answer — it depends on your trading style, covered in an earlier lesson. Very short-term trading tends to lean more heavily technical, simply because fundamentals move too slowly to matter much within a single day. Position trading held over weeks or months tends to lean more fundamental, since the underlying economic picture has more time to actually play out. Most traders land somewhere between the two rather than at either extreme.

The takeaway: fundamental analysis studies why a currency should move; technical analysis studies what price is actually doing. Neither is inherently superior, and most traders end up blending both — fundamentals for broader context, technicals for the specific entry, stop, and target. Which one dominates your approach should follow from your trading style, not the other way around.

CHAPTER 02 OF 37

How to Read an Economic Calendar

An economic calendar lists scheduled data releases, central bank decisions, and speeches that can move markets — usually with a date, time, and country attached. Nearly every broker and financial site publishes one. The hard part isn't finding a calendar; it's knowing what to actually pay attention to.

Impact ratings: your first filter

Most calendars rate each event by expected impact — typically low, medium, or high. This is the fastest way to cut through the noise. A country's minor manufacturing survey rarely moves its currency meaningfully. A central bank interest rate decision almost always does.

Impact	Typical examples	What to expect
High	Interest rate decisions, Non-Farm Payrolls (US), CPI/inflation data, central bank press conferences	Can cause sharp, fast moves — sometimes within seconds of release
Medium	Retail sales, PMI/manufacturing surveys, unemployment claims	Can move price, especially if the result is far from expectations
Low	Minor regional surveys, secondary confidence indices	Usually limited or no lasting market impact

The number that actually matters: forecast vs. actual

Markets rarely react to the raw number on its own — they react to how it compares to what was expected. A report can come in objectively "good" and still cause a currency to fall, because it came in below the forecast economists had already priced in. This is one of the most common points of confusion for new traders: the market moves on the surprise, not the headline.

Most calendars show three figures side by side: the forecast (what was expected), the previous reading (last time this data was released), and the actual (what just came out). The gap between forecast and actual is usually what drives the reaction.

Which currencies are affected

A release only tends to move the currencies tied to that country or economic bloc directly — a US inflation report primarily affects USD pairs, a Eurozone release primarily affects EUR pairs. It can still cause secondary ripples elsewhere, but the primary reaction is usually concentrated in the relevant currency.

What to actually do with this information

You don't need to memorize every release. A more practical approach:

- Check the calendar for your traded pairs before your session starts — know what's scheduled and when.
- Be extra cautious around high-impact releases if you're not specifically trading the volatility — spreads often widen and price can move erratically in the seconds after release.
- Avoid placing new trades in the minutes immediately before a high-impact release unless that's a deliberate part of your strategy — the risk of a sudden move against you increases sharply.
- Note that "actual vs. forecast," not the raw number, is usually what to watch when the release hits.

The takeaway: not every calendar entry matters. Filter by impact rating first, then compare the actual result against the forecast — that gap is usually what moves the market, not the number in isolation. Knowing what's scheduled ahead of time is often enough to avoid being caught off guard.

CHAPTER 03 OF 37

Economic data that moves currencies: inflation, jobs and GDP

Currency prices respond to news about the economy. The reason is mostly indirect: economic data shapes what central banks are likely to do with interest rates, and interest rates are among the biggest drivers of a currency (see how central banks and interest rates move currencies). This lesson covers the reports to know, and how the market reacts to them.

The reports that matter most

REPORT	WHAT IT MEASURES	WHY TRADERS WATCH IT
Inflation (CPI)	How fast consumer prices are rising, usually shown year over year	Central banks aim for a target (often around 2%), so inflation shapes interest-rate decisions
Employment (jobs, unemployment rate, wages)	How many people are working and how pay is changing. In the US, the monthly payrolls report is released on a regular schedule	A strong job market can support higher rates. Wage growth feeds into inflation
GDP	The total output of the economy, usually reported quarterly	Shows whether the economy is growing or shrinking, and how fast
Retail sales and PMI surveys	How much consumers spend, and how business managers rate activity	Earlier, more frequent signals of where the economy is heading

Forecast versus actual: the surprise

Before each report, analysts publish a **forecast** (often called the consensus). Traders have already priced that expectation into the market. So the number itself is not what moves price. The **surprise**, the gap between the actual figure and the forecast, is.

As a rough guide, a result that suggests a stronger economy or higher inflation than expected can raise expectations of higher interest rates, and the currency tends to strengthen. A weaker result tends to do the opposite. But this is a tendency, not a rule. The market might have been expecting an even bigger number. The first reaction can reverse within minutes. Other details inside the report, such as revisions to earlier months, can matter more than the headline. And at times the same data is read differently depending on what the central bank is focused on.

From report to price

1. A report shows how the economy is doing relative to expectations.
2. Traders update their view of what the central bank will do with interest rates.
3. Money tends to move toward currencies with better expected returns, and away from those with worse.
4. The exchange rate adjusts, sometimes within seconds.

Handling release days in practice

- **Know when releases happen.** Check an economic calendar before you trade, and note the impact rating.
- **Expect faster, wider moves.** Volatility jumps at release time. Spreads often widen and orders can fill at worse prices (see slippage and requotes).
- **Do not try to guess the number.** Even professionals with models are often wrong. A common, simpler choice for newer traders is to stay out of a trade around major releases.
- **If you do trade it, size down.** A walkthrough of the practical side is in trading the news.

> **The takeaway:** inflation, jobs and GDP reports matter because they shape expectations for interest rates. The market moves on the surprise versus the forecast, not on the number alone. Know the schedule, expect volatility, and do not guess outcomes.

CHAPTER 04 OF 37

How Central Banks and Interest Rates Move Currencies

The economic calendar lesson covers how to read scheduled events by impact level. This lesson goes one layer deeper on the single event type that tends to move currencies more than almost anything else: a central bank's interest rate decision.

The basic mechanism

Higher interest rates tend to make a currency more attractive to hold, because money parked in that currency earns more. All else equal, this tends to draw capital toward a currency when its central bank raises rates (or is expected to), and away from it when rates are cut (or expected to fall). This is the same underlying force behind swap rates, covered in an earlier lesson — the interest rate differential between two currencies.

It's rarely just about the number itself

Markets are forward-looking, which means a rate decision that exactly matches what was already expected often produces very little movement — that expectation was already priced in before the announcement. What tends to actually move price is the gap between what was expected and what was delivered, or a shift in the tone and forward guidance that changes expectations for future decisions.

Scenario	Typical market reaction
Rate matches expectations, tone unchanged	Often a muted reaction — already priced in
Rate hike larger than expected	Currency often strengthens sharply
Rate held, but guidance turns more hawkish	Currency can strengthen even without an actual rate change
Rate cut larger than expected, or unexpected cut	Currency often weakens sharply

The major central banks worth knowing

- **US Federal Reserve (Fed)** — sets policy for the US dollar, involved in the majority of the most heavily traded pairs
- **European Central Bank (ECB)** — sets policy for the euro across the eurozone
- **Bank of England (BoE)** — sets policy for the British pound
- **Bank of Japan (BoJ)** — sets policy for the yen, historically known for an unusually long period of near-zero rates
- **Reserve Bank of Australia (RBA) and Bank of Canada (BoC)** — set policy for two currencies closely tied to commodity exports

What to actually watch beyond the headline rate

The rate decision itself is only part of the release. The accompanying statement, and especially the press conference that often follows, tends to carry as much or more market-moving information — language about future intentions, updated economic projections, and how policymakers characterize current conditions all shape expectations for the meetings still to come.

> **The takeaway:** interest rate differentials are a core driver of currency strength, but price reacts to the gap between expectation and outcome — not the rate in isolation. A rate decision that matches expectations can move markets less than a surprising shift in tone. This is exactly the kind of scheduled, high-impact event the economic calendar lesson recommends checking before entering a position.

CHAPTER 05 OF 37

Interest-rate differentials, carry and risk sentiment

The last lesson showed how data shapes expectations for interest rates. Here is the next step: why the gap between two countries' rates matters for a currency pair, what traders mean by a "carry trade", and how investor mood, called risk sentiment, can change everything quickly.

Interest rates and the rate differential

Each currency has a policy interest rate set by its central bank. Holding a currency that pays more interest is, all else equal, more attractive than holding one that pays less. The **interest-rate differential** is the gap between the two currencies in a pair. What matters most is not only today's gap, but where markets expect it to go. Currencies often move when expectations change, before the central bank itself acts (see central banks and interest rates).

The carry trade

A **carry trade** means buying a currency with a higher interest rate while funding the position with a currency that has a lower one. If the exchange rate stays put, the trader earns the difference, paid or charged daily as the **swap** (see swap rates and overnight financing). Small, steady interest can look attractive, especially on a chart that drifts gently higher.

There are limits. Brokers add their own markup to swaps, so you may earn less than the headline gap, and on some pairs you may pay on the side you wanted to hold. And the interest is only one part of the result. The exchange rate can move far more than the carry earned.

Risk-on and risk-off

Markets tend to swing between two moods:

- **Risk-on:** investors feel confident and buy growth-sensitive assets such as stocks. Higher-yielding and commodity-linked currencies, such as the Australian and New Zealand dollars, have often benefited.
- **Risk-off:** investors get nervous and move to assets seen as safer. Currencies such as the US dollar, Japanese yen and Swiss franc have often been used as havens.

These are habits, not laws. How a currency behaves in a risk-off move has changed over time, and it depends on what is driving the fear and on each central bank's policy. Stock markets are often used as a rough gauge of mood (see how forex correlates with stocks, bonds and commodities).

Why carry can unwind suddenly

Carry trades are often described as collecting small coins in front of a steamroller. Gains arrive slowly and steadily. Losses can arrive all at once. When fear rises, many traders close the same kind of positions together, which pushes the price against the carry trade and encourages more closing. Widely reported episodes include the 2008 financial crisis and the sharp unwind of yen carry trades in August 2024. In each case the price moves overwhelmed months of interest.

Using this as a beginner

- **Use it as background.** Knowing a pair's rate gap and where central banks are heading helps explain why a trend has persisted.
- **Check the swap before holding.** Your platform shows it, and it can be a cost.
- **Do not treat carry as free money.** The interest is small next to the price risk, especially with leverage (see leverage and margin).
- **Watch for mood shifts.** If markets turn risk-off, positions that depend on calm can reverse fast. A stop-loss and a modest size matter even more here.

The takeaway: interest-rate gaps help explain why currencies trend, and the carry trade earns that gap while markets are calm. But when sentiment turns risk-off, the

price can fall much faster than the interest was earned. Treat it as context, not as a guaranteed income.

CHAPTER 06 OF 37

Commodity currencies, gold and oil

The last lesson covered interest rates and investor mood. Another force sits beside them: the price of raw materials. Countries that earn a large share of their income by exporting commodities often see their currencies move with those prices. This lesson explains the idea, where gold and oil fit, and the limits of the link.

What a commodity currency is

A **commodity currency** belongs to a country whose economy and exports depend heavily on raw materials. When the price of those materials rises, the country earns more from selling them abroad. Foreign buyers need its currency to pay, which tends to support it. When prices fall, the effect often runs the other way. Economists call the balance between export prices and import prices the **terms of trade**.

The three currencies most often called commodity currencies are:

- **Australian dollar (AUD):** Australia exports iron ore, coal, natural gas and gold. China is its largest customer, so AUD is often sensitive to Chinese demand as well as to global risk sentiment.
- **Canadian dollar (CAD):** oil is among Canada's largest exports, and most of it is sold to the United States. CAD has often strengthened when oil rose, though not always.
- **New Zealand dollar (NZD):** dairy is a major export, so the regular Global Dairy Trade auctions are watched by NZD traders. Meat, wool and timber also matter.

The Norwegian krone (oil and gas) and several emerging-market currencies are sometimes grouped with them as well.

Why the link comes and goes

The link is a tendency, not a rule. Commodity prices are only one driver. Central bank decisions, interest-rate gaps, risk sentiment and the US dollar all push the same

currency at the same time, and they can outweigh the commodity effect for months. Correlations also change over time, which is why a pattern that held last year can disappear (see currency correlations and cross-asset correlations).

These currencies also tend to follow risk sentiment. In a risk-off phase, AUD and NZD have often fallen alongside stocks and commodities, even when their own exports had not changed.

Gold: money, metal and safe haven

Gold is quoted in US dollars as XAU/USD, much like a currency pair. It no longer backs any currency (that ended in the 1970s, covered in the next lessons), but many investors still treat it as a store of value. Gold has often attracted buying when investors are worried about inflation, financial stress or falling interest rates, and it has often moved opposite the US dollar.

"Often" matters. Gold hit about $850 an ounce in January 1980, then took until 2008 to pass that level in nominal terms. It can fall for long stretches, and it can be very volatile.

Oil and the US dollar

Oil and most other major commodities are priced in US dollars. A stronger dollar makes them more expensive for buyers using other currencies, which can weigh on prices, and a weaker dollar can do the opposite. This is another tendency that can break down.

Trading these markets

- **Know the contract.** Brokers define gold and oil contracts differently, including contract size, margin, spreads and financing charges. Read the specification before you trade.
- **Watch the calendar.** Inventory reports, producer-group meetings, Chinese data and dairy auctions can all move these markets (see the economic calendar).
- **Do not assume the link will hold.** Check what the pair is actually doing now, rather than what it did in a textbook example.

The takeaway: commodity currencies tend to follow the prices of the materials their countries export, while gold and oil are priced in dollars and react to the dollar and to risk sentiment. These are tendencies that shift over time, so treat them as context, not as a prediction. Educational content only, not financial advice.

CHAPTER 07 OF 37

From the gold standard to Bretton Woods

Today a currency pair moves every second. It was not always so. For most of the last 150 years, exchange rates were fixed by governments and defended by central banks. Knowing that history explains why the modern market exists, and why central banks still matter so much.

Money tied to gold

From roughly the 1870s until World War I, the major economies ran what is called the **gold standard**. Each currency was defined as a fixed weight of gold, and the government promised to swap paper money for gold on demand. Because every currency was a fixed amount of gold, rates between currencies were effectively fixed too. Before 1914, for example, one British pound was worth about $4.87.

The system gave stability and predictable trade. The cost was flexibility: the money supply was tied to the amount of gold available, and a country could not easily cut interest rates or print money to fight a recession.

The breakdown between the wars

World War I forced governments to suspend gold convertibility to pay for the fighting. Britain returned to gold in 1925, but the Great Depression put the system under heavy strain. Britain left gold in 1931. The United States restricted private gold ownership in 1933 and in 1934 raised the official price of gold from about $20.67 to $35 an ounce, a devaluation of the dollar.

During the 1930s, many countries cut the value of their currencies and raised trade barriers to protect their own industries. These **competitive devaluations** hurt trade for everyone. By the end of World War II, leaders wanted a system with stability and rules.

Bretton Woods, 1944

In July 1944, delegates from 44 Allied nations met in Bretton Woods, New Hampshire, to design the post-war monetary order. The main rules were:

- The **US dollar** was convertible into gold at **$35 an ounce** for foreign governments and central banks.
- Other currencies were **pegged** to the dollar at fixed rates, with a narrow band of about 1% either side. A country could change its rate only to correct a "fundamental disequilibrium".
- The **International Monetary Fund (IMF)** would lend to countries with temporary payment problems, and the **World Bank** would help finance reconstruction.

The dollar sat at the center because the United States was by far the largest economy and held the large majority of the world's monetary gold. In effect, the dollar became the world's reserve currency.

What it meant for currency markets

Under Bretton Woods, exchange rates changed in official steps, not every second. In November 1967, for example, the UK devalued the pound from $2.80 to $2.40, a drop of about 14%. Currency trading existed, but mostly for trade and investment. There was little of the continuous price movement that traders work with today.

The seeds of the problem

The system had a built-in tension. The world needed more dollars to grow trade, which meant the United States had to send dollars abroad, usually by running deficits. But as more dollars circulated, there were more of them than the US gold reserves could cover if everyone asked for gold at once. The next lesson shows how that tension ended the system.

The takeaway: for decades, exchange rates were fixed by governments, first through gold and then through the dollar. Bretton Woods gave stability, but it

depended on one country keeping its promise to swap dollars for gold. Educational content only, not financial advice.

CHAPTER 08 OF 37

1971 and the end of fixed rates: the floating era

The Bretton Woods system looked stable for years, but its central promise, that the US would swap dollars for gold at $35 an ounce, became harder to keep. This lesson covers how it ended, and why what replaced it is the market you can trade today.

Pressure builds in the 1960s

Through the 1960s the United States spent heavily at home and abroad, and more dollars flowed overseas. Foreign governments held growing piles of dollars and began to ask for gold in exchange. The US gold stock fell, and by the early 1970s there were many more dollars abroad than gold to cover them. Confidence in the $35 price was wearing thin.

The Nixon shock, August 1971

On 15 August 1971, President Richard Nixon announced that the United States would stop converting dollars into gold for foreign governments. He described the step as temporary, but convertibility never returned. The same package included a 10% surcharge on imports and a temporary freeze on wages and prices. The announcement is known as the **Nixon shock**.

Attempts to patch it, then the float

In December 1971 the **Smithsonian Agreement** tried to rescue fixed rates: the official price of gold rose to $38 an ounce (a devaluation of the dollar), several currencies were revalued, and the permitted bands widened from about 1% to 2.25%. It did not hold. The dollar was devalued again in early 1973 (gold to $42.22), and by March 1973 the major currencies were allowed to **float**, meaning their value was set by supply and demand in the market. The IMF's 1976 Jamaica Accords formally accepted floating rates.

Why this created today's market

Once rates floated, prices moved every day. Companies suddenly needed to protect themselves against currency swings, banks began to trade actively, and speculators saw opportunity. The market grew steadily over the following decades as technology improved, and today it turns over trillions of dollars a day. Retail access through the internet came much later, from the late 1990s.

Gold was freed too. Its price rose from $35 to a peak near $850 in January 1980, during a period of high inflation and oil shocks.

The Plaza Accord, 1985

Floating did not mean governments stopped caring about exchange rates. In the early 1980s the US dollar climbed strongly, helped by high US interest rates, which hurt American exporters. On 22 September 1985, finance ministers of the US, Japan, West Germany, France and the UK met at the Plaza Hotel in New York and agreed to push the dollar lower through coordinated action. The dollar fell sharply: USD/JPY dropped from roughly 240 to about 150 within about a year. In 1987 the **Louvre Accord** aimed to stabilize rates again.

The lesson for traders: even in a floating system, central banks and governments can move markets through intervention, interest rates and public statements (see central banks).

> **The takeaway:** the Nixon shock ended the dollar's link to gold, and by 1973 currencies floated. That is why exchange rates now move daily and can be traded. Floating does not mean unmanaged: governments and central banks still step in. Educational content only, not financial advice.

CHAPTER 09 OF 37

Pegs, crises and the euro: modern forex regimes

After 1973 each country had to choose how its currency would behave. Some let it float, others tied it to another currency, and some merged into a shared one. Each choice has had moments of stress. Four events show how pegs and regimes can break, and what that means for traders.

The main regimes

- **Free float:** the market sets the rate, with little intervention. The US dollar, euro, yen, pound and Australian dollar are examples.
- **Managed float:** mostly market-set, but the central bank steps in at times.
- **Peg:** the currency is held at a fixed rate or inside a narrow band against another currency. The Hong Kong dollar, held near 7.8 per US dollar, and the Saudi riyal at 3.75 are well-known examples.
- **Currency union:** several countries share one currency, as in the euro area.

A peg is a promise. Keeping it requires reserves and the willingness to adjust interest rates, and those can run out.

1992: Black Wednesday

The UK joined the European Exchange Rate Mechanism in 1990, keeping sterling within a band against the German mark. After German reunification, German interest rates were high, while the UK economy was weak and needed lower rates. Markets doubted the UK could keep the peg. On 16 September 1992, the Bank of England raised interest rates from 10% to 12%, announced a further rise to 15%, and still could not hold the line. The UK left the mechanism that evening. Italy's lira left as well, and sterling fell in the following weeks.

1997: the Asian crisis

Thailand had tied the baht closely to the US dollar. Businesses had borrowed heavily in dollars, and as pressure grew the central bank spent its reserves defending the rate. On 2 July 1997 Thailand let the baht float, and it fell sharply. The stress spread to Indonesia, South Korea, Malaysia and the Philippines. The baht lost about half its value against the dollar within months, and several countries turned to the IMF for support.

1999: the euro

On 1 January 1999, eleven European countries locked their currencies into the euro, and notes and coins followed in 2002. The euro floats against other currencies, but inside the union there is no exchange rate at all. Early on, the euro traded near 1.17 against the dollar and fell below 0.90 within two years, a reminder that a new currency can be volatile too.

2015: the Swiss franc shock

In 2011, as investors rushed into the franc, the Swiss National Bank set a floor of 1.20 francs per euro and defended it for more than three years. On 15 January 2015 it removed the floor without warning. EUR/CHF fell by roughly 30% at its low within minutes, and then recovered part of the drop.

Many stop-loss orders were filled far from their levels, because there were no prices in between. Some traders lost more than their deposits, and several brokers failed or needed rescue.

What retail traders can take from this

- **Calm is not safety.** A pair held by a peg or floor can look quiet for years. The risk is that it is released all at once.
- **Stops are not guaranteed.** In a gap, an order fills at the next available price, which can be much worse (see gaps and slippage).
- **Intervention still happens.** Japan, for example, stepped into the market to support the yen in 2022 and again in 2024.
- **Size positions for the worst case.** Use smaller sizes than your usual stop distance suggests, especially around pegs and major announcements.

The takeaway: floats, pegs and unions each work until they do not. When a peg breaks, the move can be large and instant, and stop-losses may not protect you. Educational content only, not financial advice.

CHAPTER 10 OF 37

Trading the News: A Practical Walkthrough

The lesson on reading an economic calendar covers what the events mean and why they matter. This one is about the mechanics of actually being near your charts when one of them hits — because a scheduled release changes market behavior in specific, predictable ways regardless of what the number turns out to be.

Before the release: the 15 minutes that matter

Pull up the exact scheduled time and the market's consensus forecast beforehand — not to predict the outcome, but to have a reference point for how the actual number compares once it prints. In the minutes immediately before a high-impact release (centered on items like interest rate decisions, inflation data such as CPI, or major employment reports like NFP), liquidity providers tend to pull back their quotes defensively. This alone — before any number is even released — tends to widen spreads and thin out the order book. If you have an open position that isn't specifically built to hold through this kind of volatility, this is the point to decide whether to reduce size, tighten (or deliberately widen) a stop, or close it outright. Deciding in the calm 15 minutes before is a plan; deciding in the first violent seconds after is a reaction.

At the moment of release

The handful of seconds right at release time is usually the worst possible moment to place a new order. Spreads are at their widest, slippage is common even on supposedly "guaranteed" stops, and the first price spike frequently reverses sharply as the market digests the number — a pattern sometimes called a "fakeout" or "news spike fade." Placing a fresh market order in this window means trading at the worst available price, against the most unpredictable short-term direction, with the least reliable execution. There is rarely a good reason to be the one taking that trade in the first thirty to sixty seconds.

Reacting in the first spike

Entering the instant the number prints, chasing the initial direction. Highest slippage, highest spread, highest odds of a reversal catching you offside within minutes.

Waiting for the dust to settle

Letting the first one to two minutes of volatility pass, then assessing whether a genuine, sustained directional move has actually formed before considering any entry.

After the number: separating noise from signal

Once the initial spike and frequent reversal have played out — typically within the first few minutes — spreads normalize and a clearer picture starts to form. This is the point to compare the actual released figure against both the forecast and the prior reading, and to look at how price is behaving relative to the levels discussed in the support and resistance and price action lessons. A number that beat forecast but still saw the currency sell off is telling you something about what was already priced in; it's worth noting, not ignoring.

A practical sequence for a scheduled release

- **T-15 minutes:** check the forecast and prior figure; decide on any existing position's fate before volatility picks up
- **T-0 to T+1 minute:** do nothing. Let the initial spread widening and potential fakeout run its course
- **T+2 to T+5 minutes:** reassess with normalized spreads; look for confirmation in price action rather than acting purely on the headline number
- **Afterward:** log the event and your response in your trading journal — what the forecast was, what printed, and what you actually did, regardless of outcome

The takeaway: trading the news isn't about predicting the number — it's about respecting the mechanical reality of widened spreads, thin liquidity, and frequent initial reversals around scheduled releases. The safest, most repeatable approach for most traders is to manage existing exposure beforehand and avoid placing fresh

orders in the first violent minute, rather than trying to be fastest to react to a headline.

CHAPTER 11 OF 37

Understanding Trading Sessions and Market Hours

Forex trades 24 hours a day, five days a week, which makes it easy to assume every hour is roughly equivalent. It isn't. The market is really four overlapping regional sessions — Sydney, Tokyo, London, and New York — and conditions shift substantially depending on which of them are open at any given moment.

Why the overlaps matter more than any single session

Liquidity — the volume of buyers and sellers actively trading — isn't constant throughout the day. It builds as a session opens, and it's highest when two major sessions are open simultaneously. The London/New York overlap accounts for a large share of the day's total forex volume on its own, since it combines Europe's largest financial center with the world's largest single currency market.

Window	What tends to happen
Sydney / Tokyo (Asian session)	Generally the quietest stretch — tighter ranges, lower volume, more prone to choppy, directionless movement
Tokyo / London overlap	A modest pickup in activity as European desks come online
London / New York overlap	The highest-liquidity window of the day — the tightest spreads and the largest, most decisive moves tend to happen here
Late New York / early Sydney	Volume tapers off again as US desks wind down before Sydney reopens

What this means practically

A strategy that relies on clean breakouts or strong trending moves tends to perform differently — often better — during the London/New York overlap than during the quieter Asian session, simply because there's more genuine participation driving price. Conversely, range-based approaches that rely on price bouncing between levels may

find the quieter Asian session more suitable, since it's less prone to the sharp, liquidity-driven moves that can blow through a range.

This also connects directly to the lesson on economic calendars: high-impact news releases are scheduled around specific regional business hours, which is part of why volatility clusters so heavily around session opens and overlaps rather than spreading evenly across the day.

> **The takeaway:** not all trading hours are equivalent. The London/New York overlap consistently carries the highest liquidity and often the most decisive price action, while the Asian session tends to be quieter and more range-bound. Matching your strategy's style to the session you're actually trading in is worth as much attention as the setup itself.

CHAPTER 12 OF 37

Weekend Gaps and Holiday Trading

The forex market feels continuous. From Sunday evening to Friday afternoon (New York time), trading passes from Sydney to Tokyo to London to New York. But it does close for the weekend, and news doesn't stop on Saturday. When trading reopens, the first price can be different from where the market closed. That difference is called a gap.

What a weekend gap is

A gap is a jump from one price to the next with no trading in between. Often the gap in major pairs is small, because little happened over the weekend. But if something significant does, such as an election result, a surprise policy announcement or a geopolitical event, the market can reopen well away from Friday's close.

Why gaps matter for your stop-loss

A stop-loss only works while the market is trading. If price gaps past your stop, your order is generally filled at the first price available after the gap, which can be worse than the level you chose. It's the same effect described in the slippage lesson, just larger. Some brokers offer guaranteed stops, usually for an extra cost and with conditions, so check your broker's terms.

AN ILLUSTRATIVE EXAMPLE (SIMPLIFIED)

You hold a long position into the weekend with a stop-loss 50 pips below the Friday close. News over the weekend pushes the Sunday open 120 pips below that close, past your stop.

Your stop triggers at the first available price, about 120 pips below. The loss is roughly 2.4 times the 50 pips you planned for.

Other times when liquidity thins out

- **The Sunday evening open:** few participants are active at first, so spreads are often wider and prices can jump around.
- **The daily rollover, around 5 p.m. New York time:** many brokers show wider spreads for a short time, and this is when swap charges are applied.
- **Holidays:** on days like Christmas, New Year's Day and Good Friday, many major financial centres are closed. Trading may still be available, but with thinner liquidity and sometimes wider spreads. Some brokers also change their hours around major holidays.

What you can do about it

- **Decide before Friday** whether you want to hold a position over the weekend at all. Day traders and swing traders often answer differently (see trading styles).
- **Plan for a worse fill.** If you do hold, size the trade as though your stop could fill past its level. This is part of position sizing.
- **Check the economic calendar** for events scheduled around the weekend or the week's open.
- **Look up your broker's holiday hours** ahead of time, so a closed or thin market doesn't catch you off guard.

The takeaway: a stop-loss is an instruction, not a guarantee. Gaps are an ordinary risk of holding positions while the market is closed, and the best defence is deciding in advance how much of that risk you're willing to take.

CHAPTER 13 OF 37

Major, Minor, and Exotic Currency Pairs

Forex pairs are commonly grouped into three tiers — majors, minors, and exotics — based on how heavily traded they are. This isn't just terminology. Which tier a pair sits in has a direct, practical effect on the cost of trading it and how predictably it behaves.

The three tiers

Tier	What defines it	Examples
Majors	Pairs involving USD and another top global currency; by far the most heavily traded	EUR/USD, GBP/USD, USD/JPY, USD/CHF, AUD/USD, USD/CAD, NZD/USD
Minors	Pairs between two major currencies that don't include USD, sometimes called "crosses"	EUR/GBP, EUR/JPY, GBP/JPY, AUD/JPY
Exotics	A major currency paired with a currency from a smaller or emerging economy	USD/TRY, USD/ZAR, USD/MXN, EUR/TRY

Why the tier matters beyond just terminology

Liquidity — how many buyers and sellers are actively trading a pair at any moment — drops sharply as you move from majors to minors to exotics. Lower liquidity typically means wider spreads (a direct cost on every trade), less predictable execution, and price gaps that can be more severe around news events. A strategy that works smoothly on EUR/USD can behave very differently applied to USD/ZAR, even if the chart pattern looks identical.

Exotics carry risks beyond just cost

Exotic pairs are also more exposed to factors majors rarely face to the same degree: capital controls, political instability, and central bank interventions in smaller

economies can move these currencies sharply and with less warning than the deep, heavily-arbitraged major pairs. The wider spread isn't just a cost — it's partly compensation for genuinely higher volatility and event risk.

A reasonable approach for most traders

Building experience on major pairs first is a common and sensible approach — tighter spreads mean transaction costs interfere less with evaluating whether a strategy actually works, and majors' relatively higher liquidity makes execution more predictable while you're still learning. Minors and exotics aren't off-limits, but the wider spreads and larger potential moves mean position sizing (covered earlier in this library) deserves extra care when trading them.

> **The takeaway:** majors offer the tightest spreads and most predictable execution; minors sit in the middle; exotics carry the widest spreads and the most event risk. None of these tiers is inherently off-limits, but the cost and risk profile changes meaningfully as you move from one to the next — factor that into position sizing, not just the setup itself.

CHAPTER 14 OF 37

Pips, Lots and Pip Value: The Basics

Forex prices move in tiny steps, so traders needed a standard way to talk about them. That unit is the pip. Once you know what a pip is, what a lot is, and how the two combine, most of the numbers on your trading platform start to make sense.

What a pip is

A pip is the usual smallest step used to describe a price move. For most currency pairs it's the fourth decimal place, 0.0001. If EUR/USD moves from 1.1000 to 1.1001, that's a move of one pip. For pairs that include the Japanese yen, such as USD/JPY, a pip is the second decimal place, 0.01.

Many brokers show one more decimal place than the pip. That extra digit is a tenth of a pip, sometimes called a pipette. If your platform shows 1.10005, the last 5 is half a pip.

What a lot is

A lot is the size of your trade. The usual sizes are:

- **Standard lot:** 100,000 units of the currency you're buying or selling.
- **Mini lot:** 10,000 units (0.10 lots on most platforms).
- **Micro lot:** 1,000 units (0.01 lots).

Brokers can differ on the smallest size they allow, and some accounts, such as cent accounts, work differently, so check your account's trading specifications.

Putting them together: pip value

Pip value is how much money one pip is worth on your position. The bigger the lot, the more each pip is worth. For a pair where the US dollar is the second currency, such as EUR/USD, the pip values are:

- 1 standard lot: about $10 per pip
- 1 mini lot (0.10): about $1 per pip

- 1 micro lot (0.01): about $0.10 per pip

For other pairs, the pip value is first worked out in the pair's second currency, then converted into your account currency at the current exchange rate. For example, one pip on USD/CAD with a standard lot is 10 Canadian dollars. If your account is in CAD, that's simple. If it's in USD, it's converted. Your platform or broker normally shows the exact figure.

AN ILLUSTRATIVE EXAMPLE

You buy EUR/USD at 0.10 lots, so each pip is worth about $1. The price moves 25 pips against you: that's roughly a $25 loss.

Now suppose you want to risk $100 with a stop-loss 50 pips away. That means each pip can be worth $2, which is 0.20 lots. This is the idea behind position sizing.

Why this matters

- **Spreads are measured in pips.** A spread of 1.2 pips on one standard lot of EUR/USD costs about $12 to open the trade (see spread and commission).
- **Stops and targets are set in pips,** so knowing pip value tells you what a stop really costs in dollars.
- **Lot size and leverage work together.** Leverage lets you open a large lot with a small deposit, which also means pips can move your account quickly (see leverage and margin).

The takeaway: a pip is a unit of price movement, a lot is the size of your trade, and pip value connects the two to real money. Before any trade, know what one pip is worth on that position.

CHAPTER 15 OF 37

Understanding Currency Correlations

A trader opens positions on EUR/USD, GBP/USD, and AUD/USD, all long. On paper, that looks like three separate trades spread across three currency pairs. In practice, it's often closer to one large bet — because these pairs tend to move together, especially when the US dollar is the common factor driving all three.

Correlation measures how closely two things move in relation to each other, on a scale from -1 to +1. A correlation near +1 means two pairs tend to move in the same direction together. A correlation near -1 means they tend to move in opposite directions. A correlation near 0 means there's little consistent relationship at all.

Why this matters for risk, not just strategy

The earlier lesson on position sizing assumed each trade's risk was independent. Correlation breaks that assumption. If three of your open positions are all highly correlated and the market moves against that shared direction, all three lose at roughly the same time — meaning your real risk on that trade cluster is much higher than the sum of each individual "1% risk" would suggest.

Common correlation patterns in forex

Pair relationship	Typical tendency
EUR/USD and GBP/USD	Often positively correlated — both are USD-quote pairs against European currencies
EUR/USD and USD/CHF	Often negatively correlated — USD sits on opposite sides of each pair
AUD/USD and Gold	Often positively correlated — Australia is a major gold exporter
USD/JPY and US equity indices	Correlation varies by market regime — worth checking rather than assuming

These tendencies aren't fixed laws — correlations shift over time depending on what's driving markets at any given moment. A pair of currencies that moved together for months can decouple when a country-specific event (like a surprise rate decision) breaks the usual pattern. Treat correlation as a current condition to check, not a permanent fact to memorize.

What to actually do with this

- Before opening several positions at once, ask whether they're all really independent bets, or variations on the same underlying view (like "USD will weaken").
- If several open trades are highly correlated, consider that your effective risk is closer to their combined size than each position in isolation.
- Many trading platforms and third-party tools display live currency correlation tables — worth checking periodically rather than assuming yesterday's relationship still holds.

> **The takeaway:** "diversifying" across multiple currency pairs doesn't automatically reduce risk if those pairs move together. Check the relationship between your open positions, not just their names — three trades on the same underlying bet carry the risk of one large trade, not three small ones.

How Forex Correlates with Stocks, Bonds, and Commodities

Currencies don't move in isolation from the rest of the financial system. Equity markets, bonds, and commodities all interact with currencies through real economic channels — trade flows, interest rate expectations, and risk appetite among them. Understanding a few of the more persistent relationships adds useful context beyond the currency-to-currency correlations covered earlier.

Risk-on / risk-off, the underlying thread

Many of these relationships trace back to a single recurring dynamic often called "risk-on / risk-off." During periods of confidence and rising risk appetite, capital tends to flow toward higher-yielding assets — equities, commodity-linked currencies like AUD and CAD — and away from traditional havens. During periods of stress, that flow tends to reverse: money moves toward perceived safety, including currencies like the US dollar and Japanese yen, and away from riskier assets.

The yen as a risk barometer

The Japanese yen's tendency to strengthen during risk-off periods is partly tied to a practice called the "carry trade," where investors borrow yen (historically a low-interest-rate currency) to fund investments in higher-yielding assets elsewhere. When risk appetite falls, those trades often get unwound, which involves buying back yen — reinforcing its safe-haven behavior.

Commodity currencies and their underlying exports

AUD, CAD, and NZD are often called commodity currencies because their economies are meaningfully tied to specific commodity exports — iron ore and other metals for Australia, oil for Canada, dairy and agriculture for New Zealand. Moves in those underlying commodity prices can spill over into the corresponding currency.

Why this matters for risk, not just curiosity

The same lesson from the currency-pair correlations discussion applies here at a broader scale: if a portfolio holds a long AUD/JPY position, a long equity index position, and a short position in a haven currency, all three may move together during a risk-off shock — not because they were chosen as related trades, but because they all sit on the same side of the same underlying risk sentiment. What looks diversified across "different markets" can still be one concentrated bet.

These relationships aren't fixed

Like currency-to-currency correlations, cross-asset relationships shift over time and can weaken, strengthen, or occasionally reverse depending on the broader macro environment. Treat the patterns above as generally persistent tendencies worth being aware of, not fixed rules to trade mechanically.

> **The takeaway:** currencies interact with equities, bonds, and commodities through real economic channels, and many of these relationships trace back to broad risk-on/risk-off sentiment. A portfolio spread across different asset classes can still be more concentrated than it looks if those positions all move together during the same kind of market stress.

Reading a candlestick chart: open, high, low, close

Open almost any trading platform and the chart is made of small colored bars called candlesticks. They look cryptic at first, but each one is a short summary of what price did during one period. Once you know four numbers and two shapes, you can read any of them.

One candle, four prices

A candlestick records four prices for a single period, such as one hour:

- **Open:** the price when the period began.
- **High:** the highest price reached during the period.
- **Low:** the lowest price reached during the period.
- **Close:** the price when the period ended.

The thick part, the **body**, runs from the open to the close. The thin lines above and below, the **wicks** (also called shadows), reach to the high and the low. If the close is above the open, the price rose during the period. If the close is below the open, it fell.

Colors vary by platform. Many default to green for up and red for down, but some use other colors or hollow versus filled bodies, so check what your chart uses.

One candle is one period

Every candle covers the same amount of time, set by the **timeframe** you pick: 1 minute, 15 minutes, 1 hour, 4 hours, 1 day and so on. A 1-hour chart shows one candle for each hour. The same market looks different on each timeframe, and looking at several is a standard habit (see reading multiple timeframes).

The latest candle is still forming. Its close is not final until the period ends, so its shape can change while you watch. Also, a "day" begins and ends at a time set by your broker's server, and many brokers use the New York close, so daily candles can differ slightly between brokers.

What common shapes suggest

SHAPE	WHAT IT SHOWS	CAUTION
Long body, short wicks	Price moved strongly in one direction through the period	A strong candle can be followed by a reversal
Small body, wicks on both sides	Price moved around but ended near where it started: little net direction	Often just a pause, not a signal
Long upper wick	Price rose a long way, then was pushed back down	A hint of selling pressure at that level, not a guarantee
Long lower wick	Price fell a long way, then recovered	A hint of buying interest at that level, not a guarantee

Reading candles in context

One candle on its own says little. It becomes more useful alongside the things around it: the recent trend, nearby support and resistance, and the timeframe. Named patterns such as the doji, hammer or engulfing candle are simply combinations of these shapes. They are worth recognizing, but they are better treated as context than as signals (see reading price action and common chart patterns).

Common mistakes

- Treating a single candle as a forecast.
- Judging a candle before it has closed.
- Ignoring the timeframe: a big candle on a 1-minute chart is a tiny move on a daily chart.
- Memorizing dozens of pattern names instead of understanding what the four prices say about buyers and sellers.

The takeaway: a candlestick is a four-price summary of one period: open, high, low and close. The body shows where the period began and ended, the wicks show

how far price traveled. Read it in context, on a closed candle, with the timeframe in mind.

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Candlestick patterns: doji, hammer, engulfing and stars

You can already read a single candle (see reading a candlestick chart). Candlestick patterns go one step further: they give names to shapes made by one, two or three candles in a row. This lesson covers the most common ones, what they describe, and how to use them without over-trusting them.

Where the patterns come from

Candlestick charts come from Japan, and the patterns were introduced to Western traders in the early 1990s, largely through Steve Nison's books. A pattern is a description of the fight between buyers and sellers during those candles. It is not a prediction.

Single-candle patterns

- **Doji:** the open and close are almost equal, so the body is tiny and the wicks can be long. It shows indecision: neither side won the period. After a long move, it can hint that momentum is fading, but it can also be just a pause.
- **Hammer:** a small body near the top and a long lower wick, appearing after a decline. Sellers pushed price down but buyers drove it back up, so the low was rejected.
- **Shooting star:** the mirror image after a rise: a small body near the bottom and a long upper wick, showing that higher prices were rejected.

Two- and three-candle patterns

- **Engulfing:** the second candle's body completely covers the first candle's body and has the opposite color. A bullish engulfing candle follows a down candle, and a bearish one follows an up candle. It shows a sudden shift in who is in control.

- **Morning star:** a large down candle, a small candle (the star), then a large up candle. It describes selling losing steam and buyers taking over.
- **Evening star:** the mirror image at the top: a large up candle, a small star, then a large down candle.

How to use them sensibly

- **Context first.** The same shape means different things in a trend, at a support or resistance level, or in a quiet range (see support and resistance). A hammer at a level that has held before is more interesting than one in open space.
- **Wait for the candle to close.** A candle that looks like a hammer mid-period can end up as something else.
- **Look for confirmation.** Many traders wait for the next candle to move in the expected direction before acting.
- **Use the pattern to define risk.** The extreme of the pattern, such as below the hammer's wick, gives a logical place for a stop-loss, which also tells you the size of the risk before you enter.
- **Check the timeframe.** Patterns on higher timeframes carry more weight than the same shape on a one-minute chart (see multiple timeframes).

What the evidence says

Research on candlestick patterns has mixed results, and studies that find a reliable edge after costs are hard to come by (see what research says about trading). Patterns are best treated as vocabulary for describing price, not as a system that wins by itself.

> **The takeaway:** a candlestick pattern names what buyers and sellers just did. It can add context at a meaningful level, but it is not a signal, and no pattern works every time. Educational content only, not financial advice.

CHAPTER 19 OF 37

Reading Price Action Without Indicators

Most new traders load their charts with indicators before they've spent much time just looking at price. That's backwards. Every indicator is a calculation derived from price — meaning it's always a step behind the raw information already sitting on the chart. Learning to read that raw information first makes indicators (if you use them at all) far more useful, because you'll know what they're actually summarizing.

Start with structure: highs, lows, and trend

Before anything else, price action is about identifying structure. A market making a series of higher highs and higher lows is in an uptrend. A series of lower highs and lower lows is a downtrend. A market that isn't doing either — bouncing between a similar high and a similar low — is ranging. This alone, without a single indicator, tells you the basic character of what you're looking at.

Support and resistance

Support is a price level where buying pressure has historically stepped in and pushed price back up. Resistance is the opposite — a level where selling pressure has pushed price back down. These aren't exact lines so much as zones, and they matter because price tends to react at levels it has reacted to before — other traders are watching the same zones.

Candlestick shape

A single candle tells you the open, high, low, and close for that period, plus something about the battle between buyers and sellers within it. A candle with a small body and long wicks on both ends suggests indecision — price moved a lot but ended up close to where it started. A candle with a large body and short wicks suggests one side (buyers or sellers) was in clear control for that period.

Momentum, read visually

You don't need an indicator to see momentum — it's visible in how price is moving. Large, decisive candles in one direction with few pullbacks suggest strong momentum. Small, choppy candles with lots of overlap suggest a market that's hesitant or losing steam, even if the overall trend hasn't reversed yet.

Why this matters more than indicator settings

Indicators are often marketed with claims about the "right" settings — the perfect moving average length, the ideal RSI threshold. In practice, all indicators are derived from the same underlying price data, just processed differently. If you can already read what price is doing directly, you can evaluate whether an indicator's signal actually matches what you're seeing on the chart, rather than trusting it blindly.

> **The takeaway:** before adding indicators, practice reading a chart with nothing on it — just candles. Identify the trend, mark obvious support and resistance zones, and notice where momentum is picking up or fading. This raw reading skill makes every tool you add afterward more useful, not less necessary.

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Support and Resistance in Depth

Support and resistance are among the first concepts anyone learns in technical analysis, and also among the most commonly misapplied — usually by treating them as exact lines rather than the zones they actually are, and by assuming they'll hold indefinitely rather than eventually breaking.

Why these levels form at all

Support and resistance aren't magic lines the market respects out of tradition — they form because real orders cluster at them. A price that previously reversed at a certain level attracted buyers or sellers who remember it, and often placed orders anticipating a similar reaction next time. The more traders watching the same zone, the more self-fulfilling it becomes, at least until something changes the underlying picture enough to overwhelm it.

Zones, not exact lines

Price rarely reverses at the exact same value twice. Treating support and resistance as a zone — a range spanning a handful of pips or points — rather than a single precise price accounts for this naturally, and avoids the common mistake of dismissing a level as "broken" the moment price pokes slightly past it before reversing.

What tends to define a strong level

- **Number of touches** — a level tested and respected multiple times has more traders watching it than one tested once
- **Round numbers** — psychologically significant prices (like a clean 1.1000 on EUR/USD) often act as informal support or resistance simply because more orders cluster around round figures
- **Prior significant highs and lows** — a major swing high or low, especially on a higher timeframe, tends to carry more weight than a minor one on a short timeframe

- **Confluence with other tools** — a level that lines up with a round number, a prior high, and a trendline simultaneously tends to be more significant than any single reason alone

What happens after a level breaks

A broken resistance level often becomes new support, and a broken support level often becomes new resistance — this is sometimes called "role reversal." It happens because the same crowd psychology that respected the level before still exists on the other side of it: buyers who missed the breakout may look to enter on a retest, effectively turning old resistance into a new floor.

> **The takeaway:** support and resistance form because real orders cluster around levels the market has reacted to before — treat them as zones, not exact lines, and pay attention to how many times a level has been tested. A level that finally breaks after repeated tests often reverses roles, becoming support or resistance from the opposite direction going forward.

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Common Chart Patterns

Chart patterns are recurring price shapes that traders have named and studied for decades. They aren't guarantees of what happens next — no pattern is — but they're common enough, and tied closely enough to genuine shifts in buying and selling pressure, that recognizing them is a useful addition to the price action and support/resistance concepts covered elsewhere in this library.

Head and shoulders

Three peaks — a left "shoulder," a taller "head," and a right shoulder roughly matching the left. Commonly read as a potential reversal signal after an uptrend, especially once price breaks below the "neckline" connecting the two troughs between the peaks.

Double top / double bottom

Two peaks at roughly the same level (double top) or two troughs at roughly the same level (double bottom), with a pullback in between. Reads as the market failing twice to push through a level — often interpreted as a sign the prior trend is losing momentum.

Triangle (converging range)

Price swings that get progressively smaller, bounded by two converging trendlines. Reflects a market compressing into a narrower range as buyers and sellers reach a temporary equilibrium — often followed by a breakout in either direction once the range gets tight enough.

Flag (brief pause within a trend)

A sharp, near-vertical move (the "pole"), followed by a brief, mild counter-trend consolidation (the "flag"), often followed by a continuation in the original direction. Reads as a pause to digest a strong move, rather than a full reversal.

Why these patterns show up repeatedly

Chart patterns aren't mystical — they're visual summaries of common crowd behavior. A double top reflects the market genuinely failing twice at the same level. A flag reflects a strong move pausing as early participants take some profit before others join in. The patterns recur because the underlying psychology — momentum, exhaustion, consolidation — recurs, not because the shapes themselves have predictive power independent of that psychology.

What these patterns don't guarantee

Every pattern described here fails to play out as expected some meaningful portion of the time — a "textbook" head and shoulders can simply not reverse, and a triangle can break in the opposite direction from what looked more likely. Treat a recognized pattern as one input that adds to a case for a trade, evaluated alongside support and resistance, broader trend, and the setup criteria in your own trading plan — not as a signal to act on by itself.

The takeaway: chart patterns are recognizable shapes reflecting recurring crowd behavior — momentum, failed breakouts, consolidation after a strong move. They're a useful addition to reading a chart, but none of them work reliably enough on their own to trade blindly; combine pattern recognition with the support/resistance and risk management concepts covered elsewhere in this library.

CHAPTER 22 OF 37

Reading Multiple Timeframes

Open EUR/USD on a 5-minute chart and it might look like a clear downtrend. Switch to the daily chart and the same prices might look like a small dip inside a long uptrend. Neither chart is wrong. They show the same prices, just grouped into different chunks of time. Looking at more than one timeframe is how traders put a single trade in context.

What a timeframe is

A timeframe is how much time each candle on your chart covers. On a 1-hour chart, each candle is one hour of price movement. On a daily chart, each candle is one day. Shorter timeframes show more detail and more noise. Longer timeframes show the bigger picture and change more slowly.

The basic idea: big picture first, timing second

A common approach is to use a longer timeframe to see which way the market has been moving and where the important levels are, then drop to a shorter one to decide when to act:

- **Higher timeframe (such as daily or 4-hour):** Which way is the trend? Where are the major support and resistance levels?
- **Lower timeframe (such as 1-hour or 15-minute):** Where could an entry and a stop-loss fit, given what the bigger chart shows?

A SIMPLE EXAMPLE

Daily chart: price has been making higher highs and higher lows for several weeks, so the trend is up.

4-hour chart: price is pulling back toward a level where it turned around before.

1-hour chart: you wait for a clear sign the pullback may be ending, and place your stop-loss beyond the recent low.

Nothing about this guarantees the trade works. It simply means the trade is placed with the bigger picture in view, not against it. Your position size is still worked out the usual way, from the distance between your entry and your stop.

Keep it to two or three

A common rule of thumb is to choose timeframes about four to six times apart, such as daily, 4-hour and 1-hour. Past three charts, the extra views mostly add confusion, because each new chart is another chance to find a signal that agrees with what you were already hoping for.

Common mistakes

- **Timeframe shopping.** Switching charts until one agrees with the trade you already want. If the higher timeframe disagrees with your idea, that is useful information, not an obstacle to work around.
- **Too many charts.** Four or five timeframes usually produce conflicting signals and slow decisions.
- **Ignoring your style.** A day trader and a long-term position trader don't need the same charts. Pick timeframes that fit how long you plan to hold trades (see choosing a trading style).
- **Changing the rules mid-trade.** If you entered using the 1-hour chart, don't switch to the 5-minute chart later just to justify moving your stop.

The takeaway: multiple timeframes aren't a way to predict the market. They help you avoid trading against the bigger picture by accident. Pick two or three, decide in advance what each one is for, and write it into your trading plan.

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Head and shoulders, double tops and double bottoms

The earlier lesson on chart patterns introduced the idea. Here are three classic reversal patterns in more detail: head and shoulders, the double top and the double bottom. Each describes a trend that tried to continue, failed, and may be about to turn.

Head and shoulders

A **head and shoulders top** appears after an uptrend. It has three peaks: a left shoulder, a higher peak called the head, and a right shoulder at roughly the height of the left one. The troughs between the peaks are joined by a line called the **neckline**.

- **What it suggests:** buyers pushed to a new high (the head), then could not do it again (the lower right shoulder). Momentum is fading.
- **Confirmation:** most traders wait for a candle to close below the neckline. Before that, the pattern is only a possibility.
- **Measured target:** a common rule of thumb measures the distance from the head to the neckline and projects it down from the break. It is a guide, and price often stops short or goes beyond.
- **Inverse head and shoulders:** the upside-down version after a downtrend, with the neckline break upward.

Double top and double bottom

A **double top** (shaped like an "M") is two peaks at about the same level, with a trough between them. Price tried twice to pass the same area and failed. It is confirmed when price closes below the trough, which acts as the neckline. The **double bottom** (a "W") is the mirror image after a downtrend, confirmed by a close above the peak between the two lows. The measured target is usually the height of the pattern, projected from the neckline.

The honest limitations

- **They are subjective.** Two traders can draw the neckline or pick the peaks differently. Patterns are easy to see after the fact and harder in real time.
- **False breakouts are common.** Price can close below the neckline and then snap back. Waiting for confirmation reduces this but does not remove it.
- **Many patterns fail.** Some never complete, and some complete and then fail. No reliable success rate applies to every market and timeframe.
- **Waiting costs something.** Confirmation means entering after part of the move has already happened, so the stop is usually further away and the position size should be smaller to keep the same risk (see multiple timeframes for context).

Using them in a plan

If you trade these patterns, put the rules in writing before you enter: what counts as the pattern, what confirms it, where the stop goes (typically beyond the right shoulder or the second top) and how much you risk. Check the larger trend and nearby levels (see support and resistance). Test your rules on past charts before using real money.

> **The takeaway:** head and shoulders, double tops and double bottoms describe a trend losing strength, and the neckline break is the confirmation. They are subjective and often fail, so risk should be set before entry. Educational content only, not financial advice.

CHAPTER 24 OF 37

Moving Averages and Trend-Following Basics

The price action lesson made the case for reading raw charts before adding indicators. A moving average is often the first indicator worth adding once you've done that, precisely because it's built directly from price itself — it's a smoothed summary of what price has already been doing, not a separate, independently-derived signal.

What a moving average actually is

A moving average takes the average price over a set number of recent periods and plots it as a line, updating with each new period. A 20-period moving average, for instance, constantly recalculates the average of the last 20 closes. The result is a smoother line that filters out some of the noise in raw price, making the underlying trend direction easier to see.

The core tradeoff: responsiveness vs. smoothness

A shorter moving average (fewer periods) hugs price more closely and reacts faster to new moves, but stays noisier. A longer moving average is smoother and filters out more short-term noise, but reacts more slowly, meaning it confirms a trend change later. Neither length is universally correct — it's a direct tradeoff between speed and reliability that depends on your trading style, covered in an earlier lesson.

How moving averages get used

Trend direction

Price consistently above a moving average is often read as a sign of an uptrend; consistently below, a downtrend. The moving average's own slope adds further context — a rising average reinforces an uptrend reading, a flattening one suggests the trend may be losing strength.

Dynamic support and resistance

In a trending market, price sometimes pulls back toward a moving average and bounces off it, similar to the static support and resistance zones covered in an earlier lesson — except this "level" moves along with the trend rather than staying fixed.

Crossovers

When a shorter moving average crosses above a longer one, it's often read as a bullish signal; crossing below, bearish. This is a lagging signal by nature — since both lines are built from past price, a crossover confirms a trend change has likely already been underway for a while rather than predicting one about to start.

What moving averages don't tell you

A moving average is backward-looking by construction — it can't predict the next move, only summarize recent ones. In a genuinely ranging market with no real trend, moving average crossovers tend to generate frequent false signals, whipsawing back and forth as price oscillates around the average rather than trending cleanly through it. This is why trend-following tools like moving averages tend to work best specifically in trending conditions, and less well in the ranging conditions covered in the price action lesson.

> **The takeaway:** a moving average is a smoothed summary of recent price, useful for reading trend direction and as a dynamic reference level — not a predictive signal on its own. Shorter averages react faster but noisier; longer averages are smoother but slower to confirm a change. Like any lagging tool, it works best in genuinely trending conditions and produces more false signals in a ranging market.

CHAPTER 25 OF 37

RSI and Oscillators: Reading Overbought/Oversold

Where a moving average, covered in the previous lesson, tracks price directly, an oscillator like the Relative Strength Index (RSI) measures something different: the speed and magnitude of recent price changes, expressed on a fixed scale from 0 to 100. It's one of the most widely used tools in this category, and one of the most commonly misread.

What RSI actually measures

RSI compares the size of recent upward moves to the size of recent downward moves over a set period, commonly 14, and expresses the result as a single number between 0 and 100. Readings above 70 are conventionally labeled "overbought," and readings below 30 "oversold." The number is a measure of momentum intensity — not a prediction of what happens next.

Why "overbought" doesn't mean "about to fall"

A strong, genuine trend can push an oscillator into overbought or oversold territory and keep it there for an extended stretch, precisely because strong momentum is what overbought readings are measuring in the first place. Treating an overbought reading as an automatic sell signal during a real uptrend is one of the most common ways this tool gets misapplied — it can mean exiting a winning trend early, over and over, rather than catching an actual reversal.

Where oscillators are more genuinely useful

Ranging markets

In a market bouncing between support and resistance rather than trending, overbought and oversold readings tend to align more reliably with actual turning points, since there's no strong sustained momentum pushing the reading to stay pinned at an extreme.

Divergence

When price makes a new high but the oscillator makes a lower high than its previous peak, that's called bearish divergence — momentum failing to confirm the new price high, sometimes read as an early warning that a trend is losing strength. The reverse pattern at lows is bullish divergence. This tends to be considered a more nuanced signal than the raw overbought/oversold reading alone.

Combining oscillators with trend context

The practical fix for the overbought-in-a-trend problem is checking trend context first, using the tools from earlier lessons — trend structure, or a moving average — before treating an oscillator reading as meaningful. An overbought reading during a clear uptrend carries very different implications than the same reading in a market with no clear trend at all.

> **The takeaway:** RSI and similar oscillators measure momentum intensity, not direction or an automatic reversal signal. "Overbought" can mean a market is in a genuinely strong trend, not that it's about to fall — check the broader trend context first, and treat oscillator extremes as more reliable in ranging conditions than in strongly trending ones.

CHAPTER 26 OF 37

Ichimoku cloud: reading the five lines

Ichimoku Kinko Hyo is a chart indicator that draws five lines on top of price. The name is usually translated as "one glance equilibrium chart": the idea is that one look tells you the trend, where support and resistance may sit, and whether momentum is with the trend. It is a close relative of moving averages, with a few twists. This lesson explains how it is built and how it is read, and is honest about its limits.

Where it comes from

Ichimoku is generally credited to the Japanese journalist Goichi Hosoda (pen name Ichimoku Sanjin), who published it in Japan in 1969 after many years of work. It reached many Western traders much later, mainly through books and charting platforms in the 2000s. Nearly every charting platform now includes it, with no setup beyond adding the indicator.

The five lines

Every line uses the *midpoint of a high-low range*, that is, (highest high + lowest low) / 2 over a number of bars, rather than an average of closes. With the standard settings of 9, 26 and 52:

- **Tenkan-sen (conversion line):** the midpoint of the last 9 bars. It is the fast line and reacts quickly.
- **Kijun-sen (base line):** the midpoint of the last 26 bars. It is the slower line, and many traders treat it as a short-term trend or equilibrium level.
- **Senkou Span A (leading span A):** the average of Tenkan-sen and Kijun-sen, plotted 26 bars *ahead* of the current bar.
- **Senkou Span B (leading span B):** the midpoint of the last 52 bars, also plotted 26 bars ahead.
- **Chikou span (lagging span):** today's closing price, plotted 26 bars *back*.

The shaded area between Senkou Span A and Senkou Span B is the **Kumo**, Japanese for "cloud". It is usually colored one way when Span A is above Span B and another way when it is below.

The numbers 9, 26 and 52 are often explained by the old Japanese six-day trading week (about a week and a half, a month, and two months). Many traders keep them even on forex, which trades around the clock on weekdays, and some adjust them. There is nothing special about the values, so changing them changes the signals.

How traders read it

- **Price versus the cloud (trend bias).** Price above the Kumo is read as an upward bias, below it as a downward bias, and inside it as an unclear or sideways market.
- **The cloud as support and resistance.** The edges of the cloud are watched as possible support (when price is above) or resistance (when price is below). A thick cloud is read as a stronger zone than a thin one. See support and resistance for the general idea.
- **Tenkan/Kijun cross.** When the fast line crosses above the slow line, some traders read it as a shift toward strength, and the reverse as a shift toward weakness. This is similar to a moving average crossover, and the cross is considered more meaningful when it happens on the right side of the cloud.
- **Kijun-sen slope.** A flat Kijun-sen suggests a range, and a sloping one suggests a trend.
- **Cloud color and shape.** Because the cloud is drawn 26 bars ahead, a color change (Span A crossing Span B) is read as a possible change in the balance between buyers and sellers. The cloud's future shape is calculated from past prices, so it is not a forecast of future prices.
- **Chikou span as confirmation.** If the lagging span is above the price from 26 bars ago, momentum is described as favoring buyers. If it is below, it favors sellers. If it is tangled in old price action, there is little clear direction.

A simple, honest way to use it

- **Use it to describe, not to predict.** "Price is above a rising cloud and above the Kijun-sen" describes a market that has been rising. It does not say it will

keep rising.

- **Look at a higher timeframe first.** Check the cloud on a daily chart before reading an hourly one (see multiple timeframes).
- **Decide your exit before the entry.** The far side of the cloud or the Kijun-sen is sometimes used as a stop reference, with position size set so the loss is a small planned amount.
- **Test it on past charts with fixed rules.** Write down exactly what you would trade, and include spreads and costs, before using it with real money.

Limits you should know about

- **It lags.** Every line is built from past prices. By the time price breaks out of the cloud, a good part of the move may already be done.
- **Ranges cause whipsaws.** In a sideways market price keeps crossing the cloud and the lines, creating many false signals. The indicator works best, if at all, in trending markets.
- **Five lines, many readings.** With so many possible signals, it is easy to find one that "confirms" what you already wanted to do.
- **Evidence is limited.** There is little independent, rigorous testing showing that Ichimoku gives an edge after costs, and claims from sellers of courses or systems deserve caution (see what the research says).
- **It does not manage risk.** A clean-looking setup can still lose. Leverage, slippage and gaps work against you the same way as with any other tool.

Takeaway: Ichimoku combines two moving midpoint lines, a cloud and a lagging line to describe trend, support and resistance on one chart. The standard 9/26/52 settings are a convention, the cloud is built from past prices, and it lags and whipsaws in ranges. Treat it as a way to organize what you see, not as a source of signals, and keep the risk on each trade small. This is education, not financial advice.

CHAPTER 27 OF 37

Fibonacci Retracements, and Why They Work (When They Do)

Fibonacci retracements show up on more charts than almost any other tool, usually with very little explanation of where the numbers actually come from or why they'd have anything to do with currency prices. The honest answer: they don't, directly. What they do have is a large enough following that the levels function as a shared reference point — and that's worth understanding clearly, rather than either dismissing the tool outright or treating it as a hidden law of markets.

Where the ratios come from

The Fibonacci sequence (0, 1, 1, 2, 3, 5, 8, 13, 21…) is built by adding each number to the one before it. Divide numbers in the sequence against each other and a few ratios appear repeatedly: roughly 0.618, 0.382, and 0.236. Traders added 0.5 (not a Fibonacci ratio at all, just the halfway point) and 0.786 to round out a standard set. These ratios show up in nature — spiral shells, flower petals — which is part of why they caught on as a trading idea decades ago. There is no established mechanism by which a currency pair's price should respect a ratio derived from sunflower seed spirals.

How the tool is actually drawn

You pick a clear price swing — a swing low to a swing high in an uptrend, or the reverse in a downtrend — and the tool draws horizontal lines at each ratio between those two points. In an uptrend, the 61.8% line sits closer to the low; the 23.6% line sits closer to the high. The idea is that after the initial move, price often pulls back partway before continuing, and these levels mark the common "partway" points.

Why the levels sometimes "work" anyway

The honest mechanism isn't mystical: if enough traders are watching the same 61.8% level and placing orders around it — entries, stop-losses, take-profits — that collective positioning can genuinely influence short-term price behavior near that level. It's a self-reinforcing pattern born from shared attention, similar to the psychological weight

of round numbers covered in the lesson on support and resistance, not a property of the market discovered through the number sequence itself.

Where it tends to fail

Treated alone, Fibonacci levels generate a huge number of lines on a chart, and price will eventually touch most of them by coincidence. Used as a standalone signal — "price hit 61.8%, therefore buy" — it produces a poor, close-to-random hit rate in practice. The tool only earns a meaningful edge when a retracement level lines up with something else: a prior support or resistance zone, a round number, a trendline, or a specific candlestick pattern at that exact level. That overlap is usually called "confluence," and it's the overlap doing the real work, not the Fibonacci ratio in isolation.

> **The takeaway:** Fibonacci retracements aren't nonsense, but they aren't a predictive formula either — they're a shared reference point that gains relevance mainly where it overlaps with other, more fundamental levels on the chart. Draw it on a clear swing, treat the levels as zones of interest rather than precise triggers, and look for confirmation elsewhere before acting on one alone.

CHAPTER 28 OF 37

Harmonic patterns: Gartley and ABCD explained

Harmonic patterns combine price swings with Fibonacci ratios (see Fibonacci retracements). The idea is that price often moves in legs whose sizes relate to each other by specific ratios, and that when a pattern completes, a reversal may follow. This lesson covers the two best-known shapes, and where the idea runs into trouble.

Where the idea comes from

The Gartley pattern is named after H. M. Gartley, who described a version of it in his 1935 book *Profits in the Stock Market*. In the late 1990s and 2000s, Scott Carney expanded the approach into a family of patterns with names such as Bat, Butterfly, Crab and Cypher, which is what people usually mean by "harmonic trading".

The ABCD pattern

The simplest harmonic shape has four points. In a **bullish ABCD**, price rises from A to B, pulls back to C, then rises again to D. The core idea is that the CD leg is about the same size as the AB leg. C commonly retraces about 61.8% to 78.6% of AB, though the ratios are loose guides. D is where traders watch for the move to run out of steam.

The Gartley pattern

The **Gartley** adds a fifth point, X, at the start. In a **bullish Gartley**, price goes from X up to A, then back down to B, up to C and down to D. The commonly cited ratios are:

- **B** retraces about 61.8% of the XA leg.
- **C** retraces between 38.2% and 88.6% of the AB leg.
- **D** completes near 78.6% of the XA leg. This is the **potential reversal zone** where traders look for a bounce.

The **bearish Gartley** is the same shape upside down. If price falls past X, the pattern is considered invalid, which gives a logical place for a stop-loss.

How traders use them

- **Find the swings,** measure the legs and check whether the ratios roughly fit.
- **Watch the zone around D** rather than one exact price, and look for confirmation such as a reversal candle (see candlestick patterns).
- **Place a stop beyond the invalidation point** (for a bullish Gartley, below X) and size the position so that loss is a small, planned amount.

The honest limitations

- **Swing points are chosen by you.** On any chart, many highs and lows could be A, B, C and D. Picking them after the fact makes almost any chart look like a pattern, a form of hindsight bias.
- **The ratios have tolerances.** With ranges such as 38.2% to 88.6% allowed, a lot of price action qualifies, so a pattern that "fits" is not rare or special.
- **The evidence is thin.** Rigorous, independent testing of harmonic patterns is limited, and results from sellers of indicators or courses should be treated with caution (see what research says about trading).
- **Complete patterns still fail.** A pattern that fits perfectly can still be followed by a move through the zone.

If you explore harmonics, treat them as one more way to find areas of interest, test them on past charts with fixed rules, and keep the risk per trade small.

> **The takeaway:** harmonic patterns such as ABCD and Gartley use Fibonacci ratios to mark possible reversal zones. The ratios are flexible and the swing points are subjective, so the evidence for them is weak. They do not predict the future. Educational content only, not financial advice.

CHAPTER 29 OF 37

Types of Forex Brokers, Explained

Every forex broker fits into one of a few basic execution models, and the model matters more than most beginners realize — it determines how your order actually gets filled, who's taking the other side of it, and where potential conflicts of interest can show up. The marketing terms brokers use ("ECN," "STP," "raw spread") are really describing this underlying plumbing.

The core split: dealing desk vs. no dealing desk

The most important distinction is whether a broker operates a "dealing desk." A dealing desk broker can take the other side of your trade internally — when you buy, the broker's own book can effectively sell to you, rather than routing your order out to the wider market. A no-dealing-desk broker instead passes your order through to external liquidity providers, banks, or an exchange-like network, so your trade is matched with other real market participants.

Market Maker Dealing desk

Sets its own bid/ask prices and can fill client orders internally rather than routing them to the broader market. This lets market makers offer fixed spreads and very small (or no) minimum deposits, since they aren't paying external liquidity providers per trade. The tradeoff is a structural conflict of interest: on some trades, the broker's profit and the client's profit are directly opposed, since the broker may be the counterparty. Reputable, regulated market makers manage this with internal controls and hedging, but it's worth understanding the structure exists.

ECN No dealing desk

Electronic Communication Network brokers route orders directly into a pool of liquidity from multiple banks, financial institutions, and other traders, matching buyers and sellers electronically. Pricing reflects the real market — spreads float and can be extremely tight, but brokers typically charge a separate commission per trade since they aren't earning from a spread markup.

STP No dealing desk

Straight Through Processing brokers automatically route client orders directly to their liquidity providers (often banks or larger brokers) without any dealing desk intervention. It's similar in spirit to ECN — no internal counterparty conflict — but STP brokers may route to a smaller set of liquidity providers rather than a full open network, and often build their fee into the spread rather than charging commission separately.

DMA No dealing desk

Direct Market Access gives traders the most transparent view of the underlying market — orders go straight into the real order book of the liquidity venue, and traders can often see the actual depth of buy and sell orders at different price levels. It's typically aimed at more advanced or higher-volume traders who want maximum transparency into pricing.

Hybrid

Many brokers today don't fit neatly into one category — they may operate a hybrid model, routing larger or more sophisticated accounts to ECN/STP execution while handling smaller retail accounts through a dealing desk. This is common enough that it's worth asking a broker directly which model applies to your specific account type, rather than assuming from their marketing.

Model	Who sets the price	Typical cost structure	Counterparty conflict?
Market Maker	The broker	Fixed or wider spread, often $0 commission	Possible
ECN	The open market	Tight floating spread + commission	No
STP	Liquidity providers	Floating spread, sometimes + commission	No
DMA	The order book directly	Market spread + commission	No

Why this matters more than the marketing terms suggest

None of these models is automatically "the best" — a regulated market maker can be a perfectly reasonable choice, especially for a smaller account where commission-based ECN pricing might actually cost more overall. What matters is understanding which model a broker uses, so you know how their pricing works and whether a structural conflict of interest is part of the arrangement. That's a more useful question than chasing whichever label sounds most professional.

> **The takeaway:** the label a broker uses — market maker, ECN, STP, DMA — tells you who sets your price and whether the broker can be the other side of your trade. None of these is inherently better for everyone; the right fit depends on your account size, trading style, and how much you value cost simplicity versus maximum market transparency.

CHAPTER 30 OF 37

Market Depth and Liquidity Providers

The diagram in the broker types lesson showed a no-dealing-desk order routing through to an "external market" — banks, other traders. This lesson looks more closely at what that actually consists of: a layered structure of liquidity providers and the order book, or "market depth," that results from it.

What liquidity providers actually are

Liquidity providers are large institutions — typically major banks and other financial firms — that continuously quote prices they're willing to buy and sell at, in significant size. An ECN or STP broker aggregates quotes from multiple liquidity providers simultaneously, and routes a client's order to whichever source offers the best available price at that moment.

Why depth matters beyond the best price

The single best bid and ask — what most platforms display by default — only tells you the price for a small amount of volume. Market depth shows what's available at prices beyond that best level, which matters for larger orders: a large order can "walk the book," filling partly at the best price and partly at progressively worse prices as it consumes available size at each level. This is a direct, structural cause of the slippage covered in an earlier lesson, distinct from the connection-delay cause covered there.

Thin books and low-liquidity instruments

Exotic pairs and less liquid instruments, covered in the currency pair categories lesson, typically have thinner order books — less size available at each price level — which is part of why they tend to have wider spreads and more slippage on larger orders.

Why liquidity concentrates during session overlaps

The trading sessions lesson covers how liquidity peaks during the London/New York overlap. That's a direct reflection of more liquidity providers actively quoting

simultaneously during those hours, deepening the order book and typically tightening spreads as a result.

Why this is mostly invisible to retail traders — and why that's fine

Most retail trading platforms don't display full market depth by default, and for typical retail position sizes, the best bid and ask are usually sufficient — the order sizes involved rarely move deep enough into the book to matter. Market depth becomes more directly relevant at larger position sizes, or when trying to understand why a specific fill came in slightly worse than expected on a large or fast-moving order.

> **The takeaway:** behind every broker's quoted price sits an order book aggregated from multiple liquidity providers, with more size available at some prices than others. Most retail-sized trades never interact with more than the best available price, but understanding that depth exists explains both why large orders can experience more slippage and why liquidity — and spreads — vary so much by instrument and time of day.

CHAPTER 31 OF 37

Spread vs. Commission: What You're Actually Paying

The broker account tables covered elsewhere in this library show spread and commission as separate line items, and it's tempting to compare brokers by looking at just one of the two. That's a mistake — they're two ways of charging for the same thing, and only the combined total tells you what a trade actually costs.

What each one actually is

- **Spread** — the gap between the price you can buy at and the price you can sell at, at any given moment. It's built into the price itself rather than charged as a separate fee, which is part of why it's easy to underestimate.
- **Commission** — a separate, explicit fee charged per trade, usually per lot, shown clearly as its own line item rather than hidden inside the price.

Why this matters for comparing brokers

A broker advertising "$0 commission" isn't offering trading for free — the cost is built into a wider spread instead. A broker advertising "raw spreads from 0.0 pips" isn't necessarily cheaper either, if the commission on top brings the total back up to roughly the same place. The account comparison tables on the brokers page already show both figures side by side for exactly this reason — always add them together before judging which is actually less expensive for how you trade.

Trading style	Which structure tends to matter more
High-frequency, many small trades	Total cost per trade compounds quickly — worth comparing very carefully
Longer-term, fewer trades	Total cost per trade matters less in aggregate, though still worth checking
Very small position sizes	A flat commission can represent a larger percentage of a small trade than a proportional spread would

A practical way to compare

Convert both structures to a single number — total cost in dollars (or your account currency) for a standard lot on the instrument you trade most — before comparing brokers. The position size and P/L calculators on the tools page can help translate a pip-based spread into an actual dollar figure, making it directly comparable to a stated commission.

> **The takeaway:** spread and commission are two different ways of charging for the same underlying cost of trading — neither number alone tells you what a trade actually costs. Add them together, convert to a dollar figure for your typical trade size, and compare that total, not either component in isolation.

CHAPTER 32 OF 37

Slippage and Requotes: What Actually Happens

Between clicking "buy" and the trade actually executing, the market can move — sometimes by a meaningful amount. What happens next depends on the broker's execution model, and understanding the mechanics removes a lot of the confusion (and occasional suspicion) that comes with an unexpected fill price.

What slippage actually is

Slippage is the difference between the price you expected when placing an order and the price you actually got filled at. In calm, liquid conditions, slippage is usually negligible — a fraction of a pip, if any. During fast-moving conditions, particularly around the high-impact news releases covered in the economic calendar lesson, slippage can be meaningfully larger, in either direction.

Why it happens

Price moves between click and execution

Even a fast connection has some delay between when an order is sent and when it reaches the market. In a rapidly moving market, price can shift during that gap — sometimes in your favor, sometimes against it.

Insufficient liquidity at the requested price

An order can be larger than what's available at the exact requested price, requiring the remainder to fill at the next best available price — more common with larger orders or in less liquid instruments, covered in the lesson on currency pair categories.

Requotes, specifically

A requote is a specific response some broker execution models use: instead of automatically filling at the next available price, the broker asks you to accept a new

price before proceeding. This was historically more common with dealing-desk market maker models, covered in the broker types lesson, and is less common with modern ECN/STP execution, which more often fills automatically at the next available price (with slippage) rather than requiring a manual re-confirmation.

Positive slippage exists too

Slippage isn't always against you — a fill can also occur at a better price than requested, particularly on limit orders in fast-moving conditions. Reputable brokers apply the same execution logic in both directions rather than only passing along unfavorable slippage, which is worth confirming as part of choosing a broker.

What this means practically

- Expect slippage to be more likely, and potentially larger, right around scheduled high-impact news releases — the economic calendar lesson's advice to be cautious around these times applies directly here
- A stop-loss can also experience slippage in genuinely fast markets, meaning the actual loss on a stopped-out position can occasionally exceed the planned risk — one more reason the risk-per-trade sizing covered earlier shouldn't be pushed right up against your absolute limits
- Consistent, unexplained negative slippage with no corresponding positive slippage is worth raising directly with a broker, or treating as a signal worth investigating further

The takeaway: slippage is the normal, usually small gap between requested and filled price, driven by market movement during execution — it's rarely meaningful in calm conditions and more likely around fast-moving news events. A requote is a specific broker response asking for price re-confirmation rather than auto-filling. Neither is inherently a sign of a problem, but expect both to be more likely exactly when the economic calendar lesson already recommends extra caution.

CHAPTER 33 OF 37

How to Pick a Broker That's Right for You

Broker marketing tends to emphasize whatever sounds most impressive — "award-winning," "lightning-fast execution," "trusted by millions." None of that tells you what you actually need to know before opening an account. The questions below are the ones worth answering for any broker you're considering, in roughly the order they matter.

01

Is it properly regulated, and by whom?

Look up the specific regulator named (ASIC, FCA, CySEC, FSCA, and similar) and confirm the broker's license is active on the regulator's own website — not just claimed on the broker's site. Different regulators have very different levels of enforcement and client protection, so the name of the regulator matters as much as the fact that one exists.

02

What's the actual cost to trade?

Look at spread and commission together, not separately — a "$0 commission" account with a wide spread can cost more per trade than a tight-spread account with a small commission. Compare the total cost for the instruments you'll actually trade most.

03

What execution model do they use?

Dealing desk, ECN, STP, or hybrid — covered in the previous lesson. Ask directly if it's not clear from their site, especially for the specific account type you're considering.

04

Does the minimum deposit match your plan?

A low minimum is convenient, but make sure the account type you actually want (not just the cheapest one to open) fits your available capital and intended

position sizes.

05

How easy is it to withdraw funds?

Read the broker's own withdrawal policy — processing times, fees, and supported methods — before depositing. A broker that makes deposits effortless and withdrawals slow or complicated is a pattern worth noticing early.

06

What happens when something goes wrong?

Check what support channels exist and how responsive they are — before you need them, not after. This is also where going through an Introducing Broker can help, since you have a second point of contact if the broker's own support is slow.

Watch for these patterns

Common warning signs

- No regulator named clearly, or a regulator that turns out to be unverifiable or offshore with minimal oversight
- Guaranteed returns, "signals" bundled with account opening, or pressure to deposit more than you planned
- Withdrawal terms that are vague, hidden, or only explained after you've already deposited
- Reviews that are overwhelmingly generic and positive, with no mention of specific account features — often a sign of paid or fake reviews

There's no single "best" broker

The right broker depends on your account size, your trading style, and what you personally value — some traders prioritize the tightest possible spread, others want the lowest minimum deposit, others care most about platform tools or customer support responsiveness. Working through the checklist above for two or three brokers side by side, rather than picking the first one you find, is usually enough to make a confident decision.

The takeaway: regulation, real all-in cost, execution model, and withdrawal experience matter more than the marketing claims on a broker's homepage. Check them directly, compare a few brokers side by side, and treat vague answers to any of these questions as a reason to look elsewhere.

CHAPTER 34 OF 37

What "Regulated" Actually Means

The broker lessons elsewhere in this library repeatedly flag regulatory status as a key factor. This lesson unpacks what that word actually means in practice, because "regulated" covers an enormous range — from genuinely rigorous oversight to registration paperwork with almost no ongoing enforcement.

What a real regulator typically requires

- **Segregated client funds** — client money kept separate from the broker's own operating capital, so it can't be used to cover the company's expenses or losses
- **Minimum capital requirements** — the broker must hold enough of its own capital to remain solvent under stress
- **Regular audits and reporting** — ongoing verification, not a one-time license granted and never checked again
- **A compensation or investor protection scheme** — some funds recoverable if the broker fails, up to a defined limit
- **Restrictions on leverage and marketing** — limits on how much leverage can be offered to retail clients, and rules against misleading promotional claims

Regulatory tiers, broadly

Tier	What tends to be true	Examples
Tier 1	Rigorous capital requirements, active enforcement, meaningful investor compensation schemes, regular audits	FCA (UK), ASIC (Australia), NFA/CFTC (US)
Tier 2	Real oversight and enforcement, generally solid, sometimes lighter capital requirements than Tier 1	CySEC (Cyprus), FSCA (South Africa), FMA (New Zealand)

Tier 3 / offshore	Registration exists, but enforcement and capital requirements are often minimal — sometimes closer to a business license than genuine financial oversight	Various Caribbean and small island jurisdictions

Why the tier matters more than the word itself

A broker operating under a Tier 3 offshore license can accurately claim to be "regulated" — the license is real — while offering a fraction of the protection a Tier 1 license provides. This is exactly the pattern covered when several brokers on Evenline's own roster were flagged for operating dual entities: a strong primary license for some clients, and a much lighter offshore entity for others, often without the distinction being obvious from the broker's marketing.

How to actually check

1. Identify the specific regulator and license number the broker states applies to your account — not just to the brand generally
2. Look up that license number directly on the regulator's own public register, not just trust the broker's claim
3. Confirm which entity you'd actually be contracting with, since brokers with a global footprint often route different regions to different legal entities under the same brand name

The takeaway: "regulated" is not a single standard — it spans everything from rigorous, actively-enforced oversight to light-touch offshore registration. The specific regulator and license number matter far more than the word itself. Look up the license directly on the regulator's own register, and confirm which legal entity actually holds your account before depositing.

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The "% of Accounts Lose Money" Warning, Explained

If you've shopped around regulated brokers, you've likely noticed a strange pattern: nearly every one of them discloses that a large majority of their retail clients lose money. It's not a marketing mistake — it's a legal requirement in the EU, UK, and several other jurisdictions, and the consistency of the number across completely unrelated companies is worth understanding rather than glossing over.

~57–89%

The range of "percentage of retail accounts that lose money" disclosures currently published across CySEC and FCA-regulated CFD brokers. Most cluster in the 70s. Every regulated broker publishes their own figure, and it can shift from quarter to quarter.

Where this number comes from

Regulators including CySEC (Cyprus) and the FCA (UK) require brokers offering CFDs to calculate and publish the actual percentage of their own retail client accounts that were unprofitable over a set period, then display it prominently wherever the product is advertised. It's not an estimate or an industry rumor — it's each broker's own real client data, audited and disclosed because regulators concluded that traders were consistently underestimating how difficult these products are to trade profitably.

Does this mean the broker wants clients to lose?

This is the most common — and most reasonable — assumption, but it's usually not accurate for the reason people expect. Whether a broker benefits from client losses depends heavily on its execution model, covered in more depth in the lesson on broker types.

Broker model	Does the broker profit when you lose?

Pure dealing-desk market maker	Potentially yes — the broker can be the direct counterparty to your trade
ECN / STP / DMA (no dealing desk)	No — the broker earns from spread or commission on volume, regardless of your outcome

Most regulated brokers today, including ECN and STP providers, are largely indifferent to any individual client's win or loss — their revenue comes from you trading, not from you losing. If anything, a broker with this model benefits more from a client who stays funded and active for years than one who loses everything in a month. The high loss-rate disclosure isn't evidence of a rigged game; it reflects something structural about the product itself.

The real drivers behind the number

Leverage cuts both ways, but losses tend to compound faster

Leverage doesn't just make winning trades bigger — it makes losing trades bigger too, and a common behavioral pattern (covered in the FOMO and overconfidence lesson) is holding losing positions too long while closing winners too early, which erodes the very asymmetry leverage was supposed to provide.

Transaction costs compound against frequent trading

Every trade carries a spread, and often a commission or overnight financing charge. These costs are small individually but accumulate quickly with high trade frequency, creating a persistent headwind that a trading strategy has to overcome before it becomes profitable at all — not just break even on price movement alone.

Retail traders are one side of a zero-sum short-term game

For every leveraged short-term position, there's a counterparty on the other side — often better-capitalized, faster, and working with more market information. Over short timeframes, this is closer to a zero-sum contest than an investment, and retail participants are competing against professional order flow, not just "the market" in the abstract.

Survivorship bias skews what you actually see and hear

Profitable traders post their wins; struggling traders mostly go quiet. The visible online conversation around trading is heavily weighted toward success stories, which makes the base rate feel far more achievable than the disclosed statistics suggest.

Behavioral mistakes compound at population scale

Individually common mistakes — oversized positions, no exit plan, revenge trading after a loss — are covered elsewhere in this lesson library. Applied across an entire population of retail traders, these same patterns are a large part of what produces a headline number this consistent across so many unrelated brokers.

What this should actually change about how you trade

This statistic isn't a reason to conclude trading is impossible — a meaningful minority of accounts are profitable, and the number itself proves that outcome exists. What it should change is your starting assumption: treat profitable trading as a skill with a real, disclosed failure rate, not a shortcut that "just works" if you follow the right guru or strategy. That reframing is exactly why position sizing, a trading journal, and realistic expectations matter as much as they do elsewhere in this library — they're direct responses to the actual mechanics behind this number, not generic advice.

The takeaway: the high percentage of unprofitable retail accounts is a real, regulator-mandated disclosure — not marketing, and usually not evidence the broker is working against you. It reflects leverage, transaction costs, competing against better-capitalized participants, and common behavioral mistakes, all compounding across a large population. Knowing the real base rate is the first step to sizing your risk and expectations honestly.

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What the Research Actually Shows

The "percentage of retail accounts that lose money" warning on a broker's website is real data, but it's self-reported by the broker about its own clients over a short, specific window. A separate body of work exists outside the brokerage industry entirely: academic researchers who obtained anonymized trading-account data — sometimes an entire country's — and tracked what actually happened to real traders over years, not quarters. The findings are strikingly consistent across very different markets, countries, and time periods.

Taiwan: an entire country's trading losses, measured

Barber, Lee, Liu & Odean, *Review of Financial Studies* (2009)

"JUST HOW MUCH DO INDIVIDUAL INVESTORS LOSE BY TRADING?" — TAIWAN STOCK EXCHANGE, 1995–1999

Taiwan is one of the only places in the world where a government maintains complete, anonymized trade-level records for every investor on its stock exchange — giving researchers a rare, full-population dataset rather than a sample from one broker. Over the five years studied, individual investors lost a combined NT$935 billion (about US$32 billion), equal to roughly 2.2% of Taiwan's entire GDP over the period. Institutional investors, trading against those same individuals, came out ahead by about 1.5 percentage points a year after costs.

2.2% of GDP

What individual investors in Taiwan lost through trading, in aggregate, over five years — equivalent to roughly 170% of the country's total household spending on fuel and power over the same period. Of that total, roughly two-thirds was commissions and transaction taxes, paid whether the trade won or lost; the remaining third was losses from the trades themselves and from market timing.

Brazil: almost nobody made a living at it — and experience made it worse

Chague, De-Losso & Giovannetti, FGV working paper (2020)

"DAY TRADING FOR A LIVING?" — BRAZILIAN MINI INDEX FUTURES (BM&FBOVESPA), 2013–2015

This study followed roughly 20,000 individuals who started day trading futures on Brazil's exchange, tracking every one of them for two years. **97% of them lost money.** Only 0.4% earned more than Brazil's minimum wage from trading — and the single best performer in the entire sample earned about $310 a day while carrying enormous risk to do it. The researchers' own description: day trading "resembles rather a casino game: the longer you stay there, the more you lose."

That pattern is the opposite of what most people assume about skill and practice. It doesn't mean experience is worthless — it means the traders who were already losing kept trading anyway, long past the point a profitable trader usually would, which drags the "experienced" group's numbers down. It's a sorting effect, not proof that practice makes you worse. But it's also a direct warning against the common belief that simply putting in more screen time will eventually turn a loss into a profit.

The United States: trading less would have meant earning more

Barber & Odean, *The Journal of Finance* (2000)

"TRADING IS HAZARDOUS TO YOUR WEALTH" — OVER 60,000 US DISCOUNT-BROKERAGE HOUSEHOLDS, 1991–1996

This is one of the most-cited studies in behavioral finance. The average household in the sample underperformed the market by 1.8 percentage points a year — not catastrophic on its own. But the most active traders, the top 20% by turnover, underperformed the market by roughly 7 percentage points a year after costs. The households that traded the most, trying hardest to beat the market, did the worst against it. The authors attributed this to overconfidence: trading more because you believe you can time entries and exits, when the evidence says that belief is usually wrong.

Forex specifically: a 65% win rate that still loses money

Heimer & Simon (2012), using MyFXBook and broker account data

`MULTIPLE RETAIL FOREX DATASETS, APPROXIMATELY 5,700 TO 103,000 ACCOUNTS, 2009–2014`

Across several independent retail forex datasets, between 17% and 33% of accounts were profitable over the periods studied, depending on the broker and timeframe. The more striking finding: individual trades were winners 63–67% of the time — a win rate most traders would consider strong — yet the accounts still lost money overall, because losing trades were, on average, roughly twice the size of winning ones. It's the same math covered in win rate and profit factor: a high win rate with a poor risk-reward ratio is still a losing system.

The common thread

Four studies, four countries, four completely different markets and time periods — stock exchange, futures exchange, discount brokerage, retail forex — and the same pattern shows up in every one: trading more often correlates with worse results, not better ones, and the majority of active individual traders underperform a simple buy-and-hold alternative or lose money outright. None of these researchers were selling a trading course or a broker's services. They were economists with access to real account data and no stake in the answer.

- This isn't an argument that trading can't be done well — institutions and a minority of individuals profited in every one of these studies. It's evidence about base rates, not a verdict on any one person's odds.
- The "more screen time eventually pays off" assumption doesn't hold up in the Brazilian data — the traders who lasted longest did worse, not better, as a group.
- A win rate alone says almost nothing about profitability — the forex-specific data shows a 65% win rate losing money overall, for the same reason covered in risk of ruin.
- Costs compound against you regardless of outcome — in Taiwan, roughly two-thirds of all individual losses were commissions and taxes owed whether the trade won or lost.

The takeaway: this isn't a reason to avoid trading — it's a reason to take seriously everything else this lesson library covers: strict risk management, realistic expectations, treating it like a business rather than a hobby, and judging a strategy by its numbers over a large sample rather than by a gut feeling after a good week. The traders who show up in the profitable minority of these studies didn't get there by trading more — they got there by trading more carefully.

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Can a Personality Test Predict Trading Success?

It's a natural question: is there a type of person who's built for trading? A ten-minute personality quiz that tells you is an appealing shortcut. This lesson looks at what the evidence actually says. The short version: your four-letter type doesn't predict whether you'll profit, but certain habits do.

What the MBTI is

The Myers-Briggs Type Indicator (MBTI) sorts people into one of 16 four-letter types, such as INTJ or ENFP. It's popular in workplaces for team-building and self-awareness. Two things matter here:

- Its own publisher says it isn't designed to predict job performance.
- Many people get a different type when they retake it a few weeks later, so the label isn't very stable.

Is there proof that one type trades better?

We looked for solid research that gave traders the MBTI and compared their types to real profits, and we didn't find any. You may see websites claiming a certain type, often INTJ, is far more likely to be profitable. The ones we could trace didn't name a study, a sample size, or a method. Treat those claims as opinion, not evidence.

What research does find

Researchers have studied real traders, just not by type. Two well-known examples:

> Lo, Repin & Steenbarger (2005)
>
> 80 DAY TRADERS FOLLOWED FOR FIVE WEEKS
>
> Traders whose emotions swung more intensely with their wins and losses did noticeably worse. The researchers also found no single "trader personality."

They suggested that people with many different personalities can trade well with training and practice.

Fenton-O'Creevy and colleagues (2003)

107 PROFESSIONAL TRADERS AT INVESTMENT BANKS

Traders who believed they could control outcomes that are really random earned less and were rated lower by their managers.

The evidence at a glance

What research has linked to trading results.

TENDS TO GO WITH WORSE RESULTS

- Strong emotional swings after wins and losses
- Believing you can control or predict the market
- Overconfidence, which leads to trading too often

TENDS TO GO WITH BETTER RESULTS

- Staying calm and handling emotions before they build
- Stopping to double-check a gut feeling before acting

NO EVIDENCE FOUND

- Your MBTI type predicting whether you'll profit

These are small studies, so treat them as useful hints rather than rules. They do point the same way, though: what matters is how you behave, not which type you are.

What to do with this

A personality test can be a useful mirror if it gets you to look at your own habits. Your trading journal will show them more honestly than any quiz. Ask yourself:

- How do I act after a loss, and after a big win?
- Do I trade more than my plan says? (See overtrading.)
- Do I check my gut feeling against my rules before I place the order? (See FOMO and overconfidence.)

> **The takeaway:** no personality type is a green light or a red light. The habits that matter, like managing emotions, avoiding overconfidence and trading less often, can be tracked in a journal and improved with practice.

THAT'S THE MARKET LITERACY TRACK

From here, the next track is Staying steady (also available as its own free ebook) — or browse the full lesson library.