Everything You Need To Know About Making Serious Money Trading The Financial Markets

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SAMPLE

Psychology Of Trading

The Competition

As in life in general, in trading as well it is important to know who you are up against, because trading is a zero sum game as far as each individual is concerned: one either wins or one loses, over time, and, ultimately, it will always be at someone else's expense.

The market consists broadly of two types of investors: **institutional ones (huge) and retail ones (small)**. The general parameters of this investment universe are simple enough: in 2009, it was measured that retail traders (RT) on average are responsible for about USD110bn in currency flows across options, swaps, futures and spot forex in total per day; the figure for institutional investors (II), though, was around USD3.2trn. Nowadays, the proportions are basically the same, according to the latest (2013) Triennial FX Survey from the Bank for International Settlements in Basel, although the retail sector's share has increased slightly as the development of retail trading platforms has picked up pace, and the total amount of FX trading on average per day was USD5.3trn at the time of the Survey.

One key factor that all retail traders should bear in mind, and a principal reason for reading this book, is that around 90% of all retail traders lose all of their trading money within about 90 days. The 90% that lose it are those who have little grasp of the realities, technicalities, psychology and nature of all major traded financial markets around the globe; a solid knowledge of these is an absolute, unequivocal prerequisite to being one of the 1% of retail traders who make very serious, life-changing amounts money by trading the global financial markets. The other 9% can look forward to making significant money from such trading, even on a part-time basis, IF they know the cornerstones that have defined trading activity ever since it began.

More specifically, to begin with then, the retail trader would be well advised to learn how to read the psychology behind these institutional investment flows and ride along with them, at least in the beginning. However, within this idea, the retail investor also needs to recognise that not all institutional investors (II) are the same. Again, in broad terms, one can regard IIs as being either **'real money funds' (RMFs)**, which encompasses those funds looking to generate steady, sustainable returns over time for their investors (such as pension funds, insurance companies and so on) and **hedge funds (HFs)**, which, despite the conservative nature implied in the nomenclature, are usually at the end of sharper, shorter, more violent moves in the market.

Looking at the charts below, I have delineated the nature of the types of move that both of these sorts of funds might typically be behind.

Before we get cracking, though, for those who have traded non-FX assets in the past or have not traded at all, here's a reprise of the basic conventions of FX trading:

- In any single FX transaction there is a base currency (quoted on the left) and a counter-currency (quoted on the right). For example: US dollar (base currency) vs Japanese yen (counter-currency);
- All currencies have a three letter dealing code, the first two letters of which are generally an abbreviation of the country of origin (in the above case US or JP) and the final one is the first letter of the actual currency (in the above case D or Y). Therefore, the above currency pair would have the designation of USDJPY;
- The standard market practice is to take the currency that has historically been the dominant one as the base (USD is common, but the notable exceptions to this are GBP, which is nearly always the base, and EUR, which is now generally taken as the base against any other currency against which it is quoted);
- The price quoted will be the number of the counter-currency units to a single unit of the base currency. For example, in the above case, USDJPY87.65 means that one has to sell 87.65 yen for each dollar purchased;
- In the above example, the pair is quoted to just two decimal places, which is normal for the yen in particular, but usually FX quotes are to four decimal places. For example, EURUSD would be quoted as EURUSD1.2570/75; and
- In this quote, dealers give a bid price (the price at which they will buy euros and sell USD) on the left and an offer price (the price at which they will sell euros and buy USD) on the right. Rather than saying EURUSD1.2570 1.2575, the offer price is shortened to just the last two decimal places; so, "70, 75."

So, here we go on dealing proper.

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