The Beginners Guide to Trading the Markets

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The Beginners Guide to Trading the Markets

The eBook covers:

- How the markets work
- The different types of market
- How why and when markets go up and down
- Volume the key to trading
- How to pick your broker
- Things to consider before starting the trading process
- The TradeGuider Trading Solution explained

Chapter 1 - How the markets work

Welcome to the largest business in the world

Every day, billions of dollars exchange hands in the world's stock markets, financial futures and currency markets. Trading these markets is by far the largest business on the planet.

The average person has absolutely no idea what drives the financial markets. Even more surprising is the fact that the average trader doesn’t understand what really drives the markets either!

So, despite financial trading being the largest business in the world, it is also the least understood business in the world. Sudden moves are a mystery, arriving when least expected and appearing to have little logic attached to them. Frequently, the market does the exact opposite of a trader's intuitive judgement.

Even those who make their living from trading, particularly the brokers and the pundits, whom you would expect to have a detailed knowledge of the causes and effects in their chosen field, very often know little about how the markets really work.

Essentially the financial markets share a lot of similarities with any other type of market

If you look at a street market for example, it consists of 4 things:

The location - Items for sale - buyers & sellers.

The location is known as a place to buy and sell items. The prices advertised by the seller are based on what the seller thinks they can get based on the competition in the location and the demand for the products from the passing buyers. In a buyers market the prices fall, in a sellers market where demand is high, they rise.

The market trader who can create demand and sell into that demand wins, just as the buyer who knows when the prices are low as they're going to get, purchases and wins.

The financial markets are not much different.

Instead of antiques, clothes, and food, what's being sold are stocks Commodities currencies and derivatives.

Buyers purchase stocks and commodities through trading exchanges such as the New York Stock exchange or the Chicago Mercantile Exchange. The sellers also sell though the exchanges with both sides using Brokerage firms to transact the business.

Stock markets grew out of small meetings of people who wanted to buy and sell their stocks. These men realized it was much easier to make trades if they were all in the same place at the same time. Today people from all over the world use stock markets to buy and sell shares in thousands of different companies.

New issues of stock must be registered with the relevant exchange – such as the US SEC for US stocks or the London Stock Exchange for UK stocks. A prospectus, giving details about a company's operation and the stock to be issued and distributed to interested parties. Investment bankers buy large quantities of the stock from the company and then resell the stock on an exchange.

Sitting between the markets and buyers and seller are the brokerage firms. These firms act as an intermediary between the market and a buyer or seller. A potential buyer places an order with a broker for the stock he or she wishes to purchase. The broker then puts in the order to buy on the appropriate exchange, the transaction takes place when someone wants to sell and someone wants to purchase the stock at the same price. When you purchase a stock, you receive a stock certificate, the certificate which may be issued on paper or issued electronically, may be transferred from one owner to another or can be held by the broker on behalf of the investor.

There are several factors Which Affect Markets

The Actions of investors: Individual, institutional and mutual fund investors all affect market prices. For example, if a large number of people want to buy a certain stock its price will go up, just as if many people were bidding on an item at an auction.

Both the condition of an individual business and the strength of the industry it is in will effect the price of its stock. Profits earned, volume of sales, and even the time of year will all affect how much an investor wants to own a stock.

The government makes all kinds of decisions that affect both how much an individual stock may be worth (new regulations on a business) and what sort of instruments people want to be investing in. The governments interest rates, tax rates, trade policy and budget deficits all have an impact on prices.

General trends that signal changes in the economy are watched closely by investors to predict what is going to happen next. Indicators include the Gross National Product (how much production is going on in the country), the inflation rate (how quickly prices are rising), the budget deficit (how much the government is spending) and the unemployment rate. These indicators point to changes in the way ordinary people spend their money and how the economy is likely to perform.

Events around the world, such as changes in currency values, trade barriers, wars, natural disasters, epidemics and changes in governments, all affect how people think about the value of different investments and about how they should invest in the future.

Today, investments can be bought and sold around the clock. When the Tokyo market has just closed and the London market takes over, when London Closes the New York exchange takes over. When big moves in price occur in one market, other markets can be affected too.

A bull market and a bear market are terms used to describe the general market trends. A bull market is a period during which stock prices are generally rising. A bear market is a period when stock prices are generally falling. Each of these markets is fueled by investors' perceptions of where the economy and the market are going. If investors feel that they are in a bull market, they will feel confident investing, adding to the growth of the market. However, if investors think that the market is falling they will sell stock at lower prices. These trends may quickly change.

The first secret to learn in trading successfully is to forget about the intrinsic value of a stock, or any other instrument. What you need to be concerned with is its perceived value its value to the market, not the value it represents as an interest in a company. The intrinsic value is only a component of perceived value. This is a contradiction that undoubtedly mystifies the directors of strong companies with a low stock value! From now on, remember that it is the perceived value which is reflected in the price of a stock, and not, as you might expect, its intrinsic value.

In the next chapter we will outline the different markets that are available. The pros and cons of each one and some valuable hints and tips about how to choose the right market to trade.

Chapter 2 - The different types of market

There are 4 main types of markets

Stocks, Commodities, Futures and FOREX. Lets take a closer look at each one:

Stocks

Overview

Most stocks are traded on exchanges. Some exchanges are physical locations where transactions are carried out on a trading floor. The other type of exchange is virtual, composed of a network of computers where trades are made electronically.

The international stock markets are nothing more than a super-sophisticated farmers' market linking buyers and sellers. When you trade stocks you are trading previously-issued securities without the involvement of the original issuing-companies. It is important to understand that the trading of a company's stock does not directly involve that company.

Orders come in through brokerage firms. Brokerages act as market makers for various stocks. A market maker provides continuous bid and ask prices within a prescribed percentage spread for shares for which they are designated to make a market. They may match up buyers and sellers directly but usually they will maintain an inventory of shares to meet demands of investors.

There are many stock exchanges located in just about every country around the world. American markets are undoubtedly the largest, but they still represent only a fraction of total investment around the globe.

Advantages

Big returns: There is a huge potential to make big profits in the stock market. Many investors make a good return by buying the shares at a lower price and then selling them after the price rises.

Accessibility: There is a wide variety of company shares available in the market, anyone with sufficient capital can choose the best one for their investment.

Electronic exchange: You can buy and sell shares through an electronic exchange, which is a lot faster than going in person to the stock exchange.

Liquidity: Stocks traded in the market have high liquidity, which mean you can easily convert company stocks into cash by selling them to other traders in the market. This has made stocks a more attractive investment vehicle for many investors.

The Down side

High risk: There is a risk of uncertainty involved in share trading. If a company goes bankrupt and you bought their stock, your stock may be worthless.

Extra cost for brokerage services: A traditional brokerage firm will offer a broad range of services but it is often more expensive due to the higher commission structure.

Losses: Investors can face huge losses if the value of shares drop dramatically. Many factors can impact the prices of shares, such as natural disaster, negative rumors, profit downgrade, etc can lead to a fall in share prices.

Commodities

Overview

A commodity market is a market that trades in primary rather than manufactured products. Soft commodities are agricultural products such as wheat, coffee, cocoa and sugar. Hard commodities are mined, such as gold, rubber and oil.

Futures contracts are the oldest way of investing in commodities. Futures are secured by physical assets. Commodity markets can include physical trading and derivatives trading.

A derivative is a contract between buy and seller based upon the value of the underlying asset. Its value rises or falls as the underlying asset fluctuates.

Farmers have used a simple form of derivative trading in the commodity market for centuries for price risk management.

A commodities exchange is an exchange where various commodities and derivatives are traded. Most commodity markets across the world trade in agricultural products and other raw materials (like wheat, barley, sugar, maize, cotton, Cocoa bean, coffee, milk products, pork bellies, oil, metals, etc.) and contracts based on them.

Advantages

Protection against inflation: When the economy is less, governments often have additional print money to stimulate the economy. Money is worth less and inflation occurs. If more money is reprinted, the amount of money invested in commodities is getting bigger. Demand for commodities is therefore greater so the price of raw materials will enter the height.

Commodities are often viewed as an essential component of a diversified investment portfolio. Often, the values of commodities such as gold and silver will rise as the shares on the stock market go down.

The economic growth of emerging countries such as China, India and Brazil, have seen demand for raw materials increase significantly. The stronger the economy grows, the greater the demand for commodities.

The Disadvantages

Commodities are a physical investment and therefore require special treatment. Raw materials must be stored in a proper way, just think of storing physical gold bars in a vault. Moreover, you also provide a robust security of your investment, thus providing cost may entail.

If an economy weakens, The demand for some commodities such as oil will fall. As a result, the price of the commodities could fall too as demand decreases.

Futures

Overview

A futures contract is a standardized contract between two parties to buy or sell a specified Stock, Currency pair, or Commodity for a price agreed upon today (the futures price) with delivery and payment occurring at a specified future date, the delivery date.

The contracts are negotiated at a futures exchange, which acts as an intermediary between the two parties.

While the futures contract specifies a trade taking place in the future, the purpose of the futures exchange institution is to act as intermediary and minimize the risk of default by either party.

Thus the exchange requires both parties to put up an initial amount of cash (performance bond), the margin. Additionally, since the futures price will generally change daily, the difference in the prior agreed-upon price and the daily futures price is settled daily also (variation margin).

The exchange will draw money out of one party's margin account and put it into the other's so that each party has the appropriate daily loss or profit. If the margin account goes below a certain value, then a margin call is made and the account owner must replenish the margin account. This process is known as marking to market.

Advantages

Futures are highly leveraged investments. To ‘own’ a futures contract an investor only has to put up a small fraction of the value of the contract (usually around 10%) as ‘margin’. This is an excellent return compared to buying a physical commodity like gold bars, coins or mining stocks.

Speculating with futures contracts is basically a paper investment. You don’t have to take delivery.

An investor can make money more quickly on a futures trade. Firstly, because he is trading with around ten-times as much of the commodity secured with his margin, and secondly, because futures markets tend to move more quickly than cash markets.

Most futures markets are very liquid, i.e. there are huge amounts of contracts traded every day. This ensures that market orders can be processed very quickly as there are always buyers and sellers of a commodity.

Commission charges are small compared to other investments and are paid after the position has ended.

The Down Side

If a trader picks the wrong direction for a futures contract, he can lose a large portion or all of the margin deposit in a very short time.

Futures contracts are complicated and can be difficult for new traders to understand. Each contract has a different size and different price movement amounts.

Even though the margin requirement is a small percentage of the contract value, the dollar amount can be large for new investors. These amounts can be too large for the new trader trying to learn futures trading.

FOREX

Overview

Foreign exchange, commonly known as ‘Forex’ or ‘FX’, is the exchange of one currency for another at an agreed exchange price on the over-the-counter market. Forex is the world’s most traded market, with an average turnover in excess of US$4 trillion per day.

Essentially, forex trading is the act of simultaneously buying one currency while selling another, primarily for the purpose of speculation. The common goal of forex traders is to profit from these changes in the value of one currency against another by actively speculating on which way forex prices are likely to turn in the future.

The FOREX markets trade 24-hours a day through a global network of businesses, banks and individuals. This means that currency prices are constantly fluctuating in value against each other, offering multiple trading opportunities.

All forex is quoted in terms of one currency versus another. Each currency pair has a ‘base’ currency and a ‘counter’ currency. The base currency is the currency on the left of the currency pair and the counter currency is on the right.

The Up Side

Low barriers to entry (ie: low account margins, free real-time price quotes, free and sophisticated charting programs).

Accessible market hours – open 24 hours per day 5 days per week

Not a lot off choices to trade allowing traders to focus on several instruments instead of 1000s.

Very liquid market allowing for good fills.

The Down Side

No centralized market allowing some unprofessional brokers to essentially trade against their clients.

Largely unregulated compared to stock and futures markets allowing some brokers to manipulate data and client trades.

Not a lot of choices of instruments to trade from vs. stocks which have 1000s.

Very complicated fundamentals which must be studied on a global scale vs. stocks which are specific to one company in one industry.

So which market is right for you as a beginner?

Well it depends on 2 things

how much money you can afford to trade.

What timescale you want to hold your trades

If you have a minimum of $10,000 in your trading fund then the best option is to hold physical stocks or commodities. These are assets you own – whether they rise or fall in price.

If you have less than this then the most secure markets are the Futures markets because unlike the FOREX markets they are regulated. The down-side is that they are leveraged and if the market goes against you, you can very quickly lose not only your current trade investment but your entire trading account.

If you are a longer term investor who will be investing for the longer term, then a stocks portfolio is a better option performance-wise.

If your plan is to start benefitting from shorter term trades then Futures or FOREX is more suitable.

One final thing anything you trade is called an instrument. An instrument could be a stock – such as BP, or it could be a currency pair, commodity pr futures contract.

In the next chapter we will show you How why and when markets go up and down.

Chapter 3 - How why and when markets go up and down

All markets move up and down, none stay static.

Why?

They move as a result of market forces. Essentially all markets are moved by supply and demand

The law of supply and demand

If more people want to buy (demand) than sell (supply), then the price moves up. Conversely, if more people wanted to sell than buy, there would be greater supply than demand, and the price would fall.

The law of demand states that, if all other factors remain equal, the higher the price of an item, the less people will demand that item. In other words, the higher the price, the lower the quantity demanded. The amount of n item that buyers purchase at a higher price is less because as the price of the item goes up, so does the opportunity cost of buying that item. As a result, people will naturally avoid buying a product that will force them to forgo the consumption of something else they value more.

The Law of Supply

Like the law of demand, the law of supply demonstrates the quantities that will be sold at a certain price. But unlike the law of demand, the supply relationship shows an upward slope. This means that the higher the price, the higher the quantity supplied. Producers supply more at a higher price because selling a higher quantity at a higher price increases revenue.

So who trades the markets?

The markets are traded by 3 types of trading entity

Retail traders – people like you and me who trade the markets either as a full time job, or part time for a second income, or as a hobby. If we are trading full time then we will places trades in the live markets. If we trade as a hobby we might take positions on a daily basis.

The second are the pension funds who trade longer term positions, often holding stocks for weeks and months

The final group control about 85% of the money in the markets and they are what we call the “Smart Money”. They are made up of Hedge Funds, trading Syndicates and Investment Banks. These entities have the power to move the markets. These professional players sell at the top of the market and buy at the bottom. In between they have to move the markets by making them rise and fall using the 3 universal laws.

They also use the emotions of greed and fear to heard the majority of traders into the wrong side of the market. They have developed many ways to wrong foot the retail investor and trader and one of their biggest weapons is the media. Here are a few examples:

Lets begin with the British Petroleum oil spill disaster in 2010. On the 25th June that year the shares fell to just under 27 dollars. the news was grim the pundits and reporters were talking in terms of huge losses and a possible break up of the company and everyone who had shares was looking to sell in full expectation that prices were plummeting.

And sell they did - straight into the hands the smart money professionals who bought cheap.

Within six months the price of the stock doubled - buy cheap, sell back when the market rises. That's how the game is played.

On May 6 2010 something very strange happened in the financial markets. This day is now referred to as the flash crash because no credible explanation has been provided by the regulatory authorities as to exactly what caused the crash or who was responsible.

In fact many investors begin to suspect the all was not what it seemed to be.

CNBC's closing bell anchorwoman Maria Bartiromo was reporting on the day the flash crash happened. Fellow reporter Matt Nesto was explaining some unusual anomalies in a number of stocks - even though the mainstream media claims that is was caused by a lone trader hitting the wrong button

B for billion instead of m for million - Maria Bartiromo saw through it straightaway and sensationally described it as Market Manipulation on prime-time TV.

What we actually witnessed on May 6 was a giant shakeout of the market. The smart money were expecting higher prices and wanted to catch the retail traders, by marking the price down heavily, before moving the price up. They were bullish the stocks were going to rise and they want to buy at the best possible price - wouldn't you want to do the same?

Buy at the lowest price name knowing you could sell it later for much more than you bought it for

That's the trading game - buy low sell high. Be a predator a clever predator that understands exactly how the prey think and act

It's like herding sheep - steering them rounding them up and then locking them in a pen.

In 2008 the gas and petrol prices skyrocketed around the world and oil was supposed to be in scarce supply. Some of the world's top oil analysts were predicting a price of two hundred

dollars a barrel. You can appreciate for yourself just how influenced one becomes when you see and hear information that all points in one direction.

In this case oil was to go two hundred dollars a barrel and many traders and investors and indeed even the airlines got caught up in this maelstrom of higher prices. An oracle of oil predicted two hundred dollars a barrel of crude On May 21st 2009 exactly three weeks later the price of oil plummeted.

In April 2011 silver was very much in the news as the commodity to invest in. The price had steadily risen towards fifty dollars and all the news was about the relentless rise of Silver.

This commodity had a very bullish medium-term outlook once again retails traders bought in abundance, anxious not to miss out. Later in 2011 Silver crashed once the smart money had finished distributing at the highest price so maximizing their profit.

"JP Morgan scores big in the latest quarter" is the headline on October 14th 2009 "the world's strongest performance" and "towered above Wall Street expectations" are used directly below the headline. All the news is now bullish the stock has been going up and up because it is in an uptrend. To the retail trading and investing community the appeared to be a great opportunity to buy the stock because everything lined up and if you didn't go into the market by now you'd miss the move, okay so, bye bye bye

What happened? the stock plummeted spectacularly and the uninformed retail traders said byby to their capital.

These are just a very few examples. The reality is that all markets are moved to a greater or lesser extent the same way and it is why only a small enlightened minority of retail traders are successful in the markets.

So we have seen how markets rise and fall and we have seen why they fall, but how do you know when the markets will change direction?

Traditionally there have been 2 ways to predict price movement

Technical Analysis and Fundamental Analysis

Lets begin with Technical Analysis

Wikapedia defined technical analysis as "a security analysis discipline for forecasting the future direction of prices through the study of past market data"

Another definition, this time from City Index Brokerage is the "Analysis of a financial market by charting its performance, using historical patterns, and focusing on trends"

There are many technical analysis tools and methodologies out there. Some, like Bollinger Bands, MACD and Stochastics use mathematical formulas to identify trends. Others like Fibonacci and Elliot Wave use historical patterns.

In summary technical analysis tools look at historical price movements, and, based on the price action, can determine to some level where the price will go. By looking at charts, you can identify trends and patterns which can help you find good trading opportunities.

Fundamental Analysis is a way of looking at the market through economic, social and political forces that affect supply and demand. In other words, you look at whose economy is doing well, and whose economy is strong. The idea behind this type of analysis is that if a country's economy is doing well, their currency will also be doing well. This is because the better a country's economy, the more trust other countries have in that currency.

Both these analysis models can provide valuable help to traders and investors. The question arises "Well if they're good why do over 90% lose money in the market?"

Well the actual day to day movement of the markets is shrouded in deep, dense fog, which is why the technical and fundamental analysis approach cannot be sufficiently successful on their own.

That fog is deliberately generated by the market makers and the trading syndicates – to force you, the retail trader on to the wrong side of the trade.

Lets show you how – we'll take Technical Analysis first. Technical analysis tools try to predict price movement by analyzing in various ways what the market is going to do, based on what it did historically. It's a bit like trying to predict what the weather is going to do tomorrow based on what it did during a similar weather period historically. That would be a very successful approach if the market nearly always behaved consistently. Unfortunately it appears to be very unpredictable. The reason for this is that the "Smart Money" trading professionals constantly monitor both sides of the market and know exactly when to move the market so that it wrong-foots the retail traders.

They do it in very subtle, clever ways which are invisible – hidden in the fog. This means that just when your technical Analysis indicators tell you to enter the market, the market turns and you've lost. And when they tell you to come out of the market you are locked in. So technical Analysis on its own cannot alert you to the real movements in the market because the market does not work in a vacuum.

Going back to real market if you were not an enlightened expert knowing exactly what to look for, how likely are you to find a bargain when the people you are buying it from are full time experienced market traders. The same is true in all the financial markets

Fundamental analysis relies on research – whether its researching an economy, its currency, its commerce, or individual company performance. That research requires reading articles, reports and listening to the news.

Taking too much notice of incoming news stories, reports in the media is one of the main reasons why so many traders get the markets all wrong!

Here's an example:

The chairman of the Federal Reserve appears on the television and makes what appears to be a bearish statement – the market falls alarmingly in response to this news.

Newscasters appear grim faced on television, reporting why the market has fallen today: "The market has fallen dramatically today, on negative statements made by the chairman of the Federal Reserve". To add to the impact and drama of the announcement, any other negative information is collected to support the story.

Now why is this news release leading you astray and harming your trading? Because this is how the news should have been reported:

"The market has fallen alarmingly today. Bearish statements made by Mr Greenspan, the chairman of the Federal Reserve, caused the professionals to mark the market down, in a manoeuvre to discount the negative news. This had an effect on weak holders and uninformed traders, causing them to panic sell their holdings to professional traders, who have been waiting for this opportunity to buy at lower prices.

Professional traders were aware of the forthcoming press release well in advance of the announcement, and were ready to absorb a huge amount of stock. They stand to profit handsomely in the days ahead, as a result of this successful and expertly timed operation".

So Fundamental Analysis cannot accurately point to price movement because the media is all too often manipulated and used by the "Smart Money" traders to wrong foot the retail trader. Remember its perceived value not actual value.

There is one other methodology which is the missing piece of the Jigsaw. It is called Volume Spread Analysis and it forms the basis of Tradeguider's educational and trading systems.

Volume Spread Analysis "Lifts the Fog" on what is really happening in the markets. It identifies when the "Smart Money" traders are entering the market, Exiting the market or not actively participating in the market.

In the next chapter we will show you how it works.

Chapter 4 - Volume the key to trading

In the last chapter we looked at how the markets are moved by the actions of the “Smart Money” In this chapter we show how the Volume Spread analysis methodology can track that activity.

We know that around 80% of world-wide trading activity in terms of volume is generated by the actions of the Smart Money. This means buying at the lowest price possible, and reselling at the highest price possible. This is what the “Smart Money” do.

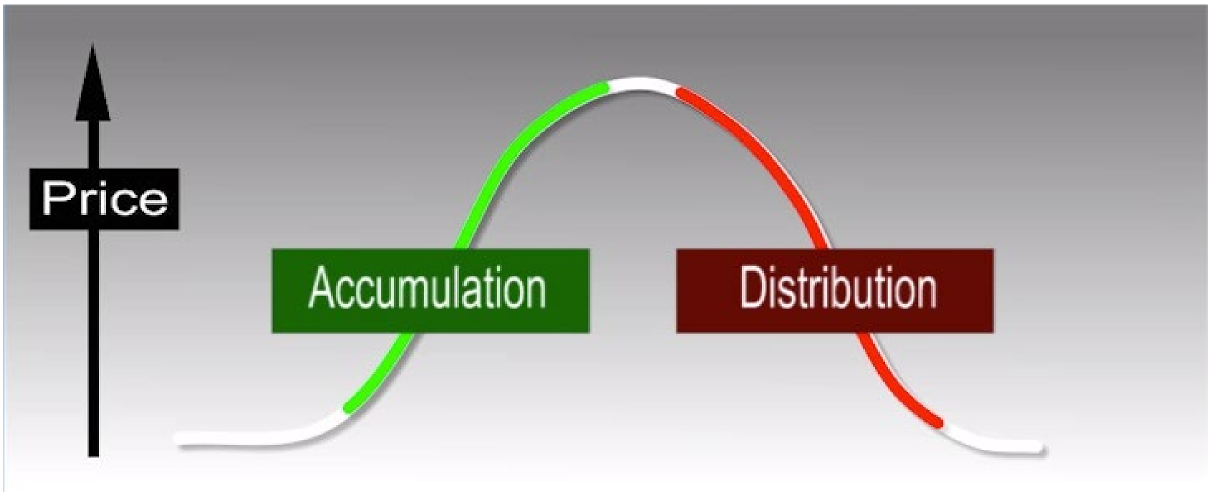
Professional Traders operating in all markets are very much aware of the emotions that drive you in your trading. You will need to take a contrarian view of the market. Remember the “herd” follow the news and use technical analysis, you will need to move in the opposite direction and follow the Smart Money.

Because of the huge volume of trading each day generated through professional buying or selling, it stands out making it easy for us to see this activity if we know where and how to look for it. It is professional activity that makes a difference large enough for us to see the variations in the volume.

These traders by their very nature will have little interest in your financial well-being. In fact not only are they looking for profits they are also predators looking to catch you out and mislead you into a poor trade given the slightest opportunity. Remember the market needs losers, so the winners can win!

Volume Spread Analysis seeks to establish the cause of price movements and from the cause, predict the future direction of prices. The cause is quite simply the imbalance between supply and demand in the market, which is created by the activity of the “Smart Money”

Accumulation and Distribution is accomplished by taking full advantage of the retail traders and investors, who the “Smart Money” call the 'herd'.



They buy when the 'herd' has panicked on 'bad news' and then sell back to the 'herd' at the tops of bull markets when good news and euphoria is in plentiful supply. In the meantime they slowly move the markets up or down buying or accumulating at low prices and selling – distributing at higher prices.

Accumulation means the slow, virtually invisible absorption of a market without putting the price up against your own buying.

Distribution is the slow transfer back to the “herd” without lowering the price against your own selling

In both cases it’s a careful process.

In its simplest form, to analyse a market we need to look at the volume and decide if the volume is low, average or high, and on this amount of volume what exactly happened to the price

So if the volume is high and as we know the majority of that volume – activity is “Smart Money” – we know the professionals have been acting in the market.

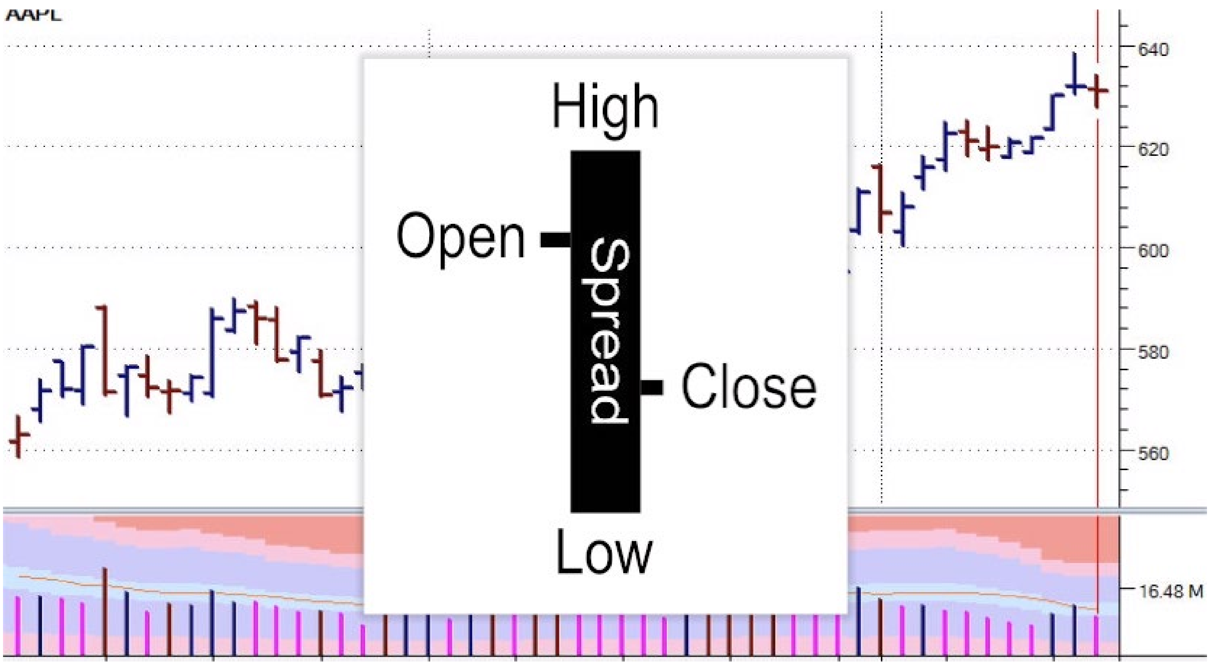
So lets see how we can track Smart Money activity. To do this we need to introduce you to a price chart.

Here is a simple price chart. Along the bottom is datetime and vertically we are measuring price.

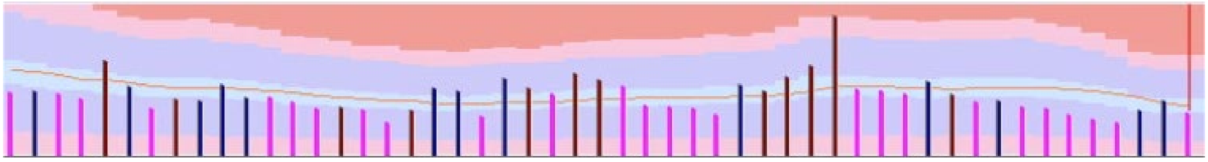
Lets add an instrument - this is the stock off apple.

Each of these bars represents a unit of time. The chart I am using is a 1 hour chart so each of these bars represents 1 hour.

I could bring up a chart with a different time-frame from 1 minute through to 1 day, 1 week and 1 month – even a year.



Lets take a closer look at the individual bar this is the price level the bar opened at. This is the highest level the price went during this 1 hour period. Here is the lowest value it went to. The difference between the high and the low is called the spread, or range. Here is the price point at which the bar closed, the Close.



Here is another area of the chart. This is the volume, or activity. This is the level of activity – the buying and selling that occurred during this 1 hour period. Now we know that most of that activity is the Smart Money. So if the volume is relatively low, we know the Smart Money are not actively trading this instrument.

Volume Spread Analysis is the analysis of the interrelation between the Volume, the Spread and the close. It is this interalation compared back over a range of bars in the background which alerts us to whether the professionals are buying, selling or not interested.

If they are buying then you should be looking to buy, if they are selling that's what you should be doing and if they are not participating then neither should you.

The TradeGuider Volume Spread Analysis Tool Set analyses these bars so the activity of the Smart Money is revealed directly on the chart.

To track all this activity and start to interpret supply and demand in any time frame down to a one minute chart, we first need to look at the daily chart of the instrument you are interested in so as to determine the overall likely direction of the market for the next few days, then at least you are trading with the likely trend. Get into the habit of looking at the volume carefully and on that amount

To read the chart and understand supply and demand we first need to realise three crucial points:

For every trade there is somebody else on the other-side of the trade. As you sell, then somebody else is buying what you have sold. If you have bought then somebody else is selling to you.

The second point to realise is that it takes professional trading on a large enough scale to change the volume figures large enough for us to easily detect these changes on our chart.

Finally we are not interested in the news, rumours, and impressive experts on television. Our only question is. What is professional money doing? This is the group we want to understand and if possible join in.

Chapter 5 – How to pick your Broker

Lets begin this chapter by outlining what a broker does.

A brokerage firm is in effectively the Middle Man between you the trader and the exchange offering the trading instrument you wish to engage with.

The broker takes a commission for brokering the business. The brokerage firms does this in one of two ways.

For stocks, futures and commodities they will charge a standard fee. It charges when you open the trade and then when you close it. We call it a round turn.

Commission fees are generally higher for stocks and Commodities that for the Futures contracts.

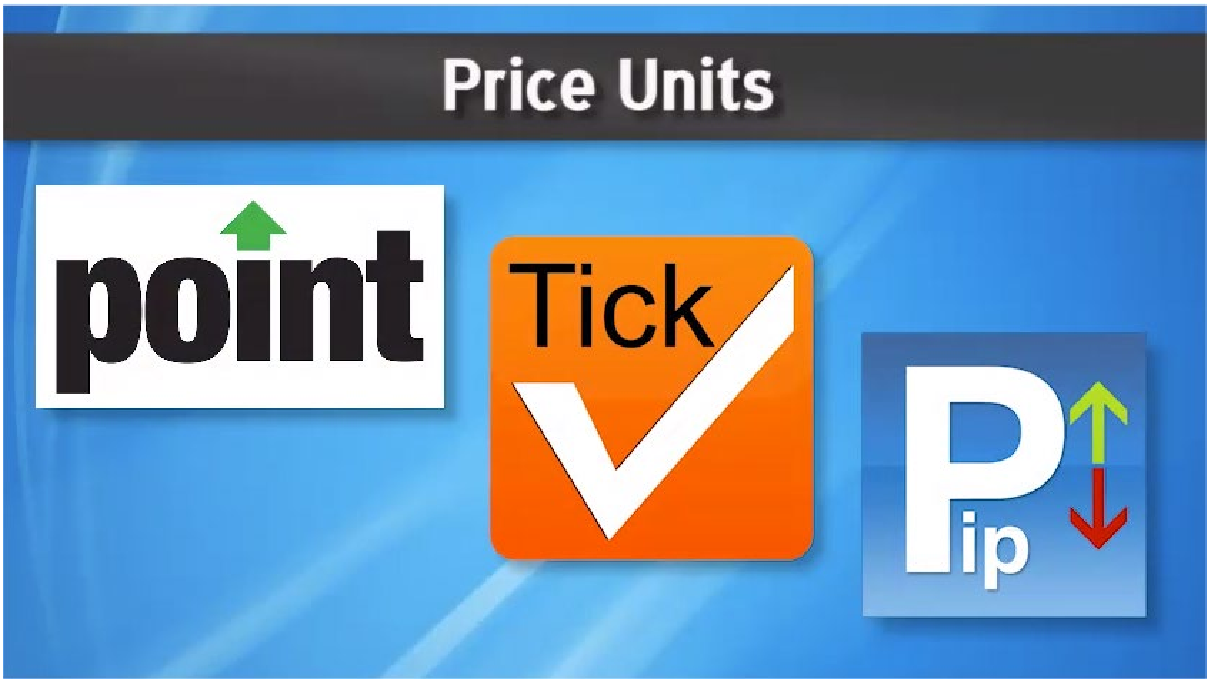
The second way a Brokerage can take their commission is by way of the daily spread. The spread is the gap between the price at the exchange and the price they charge you.

Lets look at this in a bit more detail:

The spread is the amount of pips between the bidding price and the asking price is called the spread. The spread is what forex brokers use to make money on every forex trade placed through their network. For example, the forex broker may be paying a price of 1.3600 for buying or selling. The broker will then allow you to buy the currency for 1.3601 or sell it for 1.3599.

The spread always stays around the actual price that the forex broker is paying. So when you buy, you get one end of the spread and when you sell you get the other end of it, and vice versa. By the time you close your trade, you will have always paid the spread.

Finally before we discuss how to select a broker and open account lets deal with the units that are used to describe a price change, there are 3 of them: Points, Ticks and Pips.



A point is the largest of the three terms, and is the smallest possible price change on the left side of the decimal point. For example, the ES futures market might experience a price change from 1314.00 to 1315.00, which would be a price change of 1 point.

Ticks - A tick is the smallest possible price change for the market in question, and may be anywhere on the right side of the decimal point. For example, the ES might experience a price change from 1314.00 to 1314.25, which would be a price change of 1 tick.

A pip is the same as a tick (the smallest possible price change for the market in question), but is specifically used for the Forex markets. For example, the EURUSD (EUR to USD currency market) might experience a price change from 1.2500 to 1.2501, which would be a price change of 1 pip.

Okay so let’s put a check list together to choose a broker:

Here are 10 critical factors you'll want to consider:

First is the level of service. There are 2 levels to consider:

Full-service brokers

These brokers tend to offer a wider variety of financial products, investment advice, and research than discount brokers. They may offer stocks, bonds, derivatives, annuities, and insurance. In exchange, they charge considerably higher fees.

Full-service brokers solicit business and are paid mostly by commissions. This means they get compensated not according to how well your portfolio does, but by how often you trade. In turn, that means it's in your broker's interest to have you trade as often as possible -- one of the main reasons why we at The Motley Fool eschew full-service brokerages.

Discount brokers

Discount brokerages offer no advice or research -- they simply transact your trades with no frills. Because they manage fewer products than their full-service counterparts, discounters charge considerably lower fees. They also often offer online order-entry services. Live brokers at these brokerages are usually paid a fixed salary to execute your trades. They don't solicit, and they aren't paid commissions. Discount brokerages make money by doing business in volume, competing mostly on price and "reliability" of the service: Whoever has the lowest prices and the best service gets the most trades.

If you are looking to learn how to trade then the likelihood is that you will be better suited to a discount broker.

Availability is key. Try hitting the company's website at different times throughout the day, especially during peak trading hours. Watch how fast their site loads and check some of the links to ensure there are no technical difficulties.

The broker's background matters. What are others saying about the brokerage? Just as you should do your research before buying a stock, you should find out as much as possible about your broker.

Price isn't everything. Remember the saying "you get what you pay for"? As with anything you buy, the price may be indicative of the quality. Don't open an account with a broker simply because it offers the lowest commission cost. There may be fine print in the ad specifying which services the advertised rate will actually entitle you to. In most cases, there will be higher fees for limit orders, options and those trades over the phone with your broker. You might find that the advertised commission rate may not apply to the type of trade you want to execute.

Dealing Desk or Non-Dealing Desk broker? Does the broker offer fixed or non-fixed spreads? How wide are the spreads? These questions are more significant to those traders who like to take quick profits on a few pips. Large and/or variable spreads can cut into the profits of this type of trading strategy.

Minimum deposits may not be minimal. See how much of an initial deposit the firm requires for opening an account. Beware of high minimum balances: some companies require as much as $10,000 to start. This might be fine for some investors, but not others.

Product selection is important. When choosing a brokerage, most people are probably thinking primarily about buying stocks. Remember there are also many investment alternatives that aren't necessarily offered by every company. This includes CFDs, municipal bonds, futures, options and even gold/silver certificates.

Customer service counts. There is nothing more exasperating than sitting on hold for 20 minutes waiting to get help. Before you open an account, call the company's help desk with a fake question to test how long it takes to get a response.

Return on cash is money in the bank. You are likely to always have some cash in your brokerage account. Some brokerages will offer 3-5% interest on this money, while others won't offer you a dime. Phone or email the brokerage to find out what it offers. In fact, this is a good question to ask while you're testing its customer service!

Extras can make a difference. Be on the lookout for extra goodies offered by brokerages to people thinking of opening an account. Don't base your decision entirely on the $100 in free trades, but do keep this in mind.

Finally check that a broker is registered with a regulating authority such as the CFTC in the US or the FCA in the UK.

There are many articles and reports on the internet which compare brokers for the various markets.

Chapter 6 – Things to do before starting the trading process

Here is the TradeGuider 3 point process for starting you trading journey:

1, Build your personal trading plan

Trading is similar to any other business. For a business to be successful it must be planned properly and start on strong foundations.

Any trading plan must contain all the parameters which define your trading activities going forwards.

To start with you have to have a strategy. What do you want your trading to achieve over the next few months and years.

This is very much linked in with what you as a person and as afvamily want to achieve because if you get the trading right then it will have the ability to help you achieve it.

You also have to be realistic about your current situation, so it is a good idea to a SWOT analysis to identify the good and not so good things which as a trader you are going working with.

The plan needs to set out what market or markets you are going to trade

In order to trade your chosen markets you are going to need to define the trading strategies you are going to follow.

Alongside the strategies are deciding the time frames you are going to trade

Finally a very key part of the plan outlines your money management strategy. This defines your fund size, your attitude to risk, your trade management framework.

2. Set up a demo account with your chosen brokerage

Initially you are going to require a paper trading account. This account will usually be available to you free for 1 month from many of the discount online brokerage companies.

After the first month you will need to fund an account to keep using the paper trading facility.

What is paper trading? It's an idea that basically means working with pretend money, but doing it with real numbers in real time.

By combining the internet with the idea of paper trading, we have a really great package for online trading that helps us develop ourselves as investors, without taking any real money risk. We can also trade paper money without incurring the kind of emotional trauma when we use real money and we know that we don't know what were doing.

When you start investing you want to see that the effects are going well for you before you go out and start investing with real money. You want to have the benefit of doing some real trades before you start using real money because, trading for beginners can be scary using real money when you've never done it before.

3, Select your Trading Platform and Tools

To start trading you need a charting and trading platform.

The trading platform consists of 3 aspects

The first is the price chart which shows the instruments you are analysing.

The second is the trading dom which is where you enter, manage and exit your trades

The 3rd area contains trading logs, account summaries and other notification panels.

Most generally available trading platforms have these 3 main areas.

The trading platform will be provided by your chosen brokerage as part of their package.

Finally you are ready to get started.

So how do you go about completing this 3 step process. The good news is that this is all covered in our TradeGuider Trading Packages. They contain everything you need to get from where you are now to start to trade for yourself.

In chapter 7 we will introduce you to them.

Chapter 7 – TradeGuider Trading Solutions Explained

Tradeguider Works for any market, any trading style, any level of experience.

Get the Wyckoff VSA Package that's right for you. Tradeguider offers 3 trading complete, proven trading solutions for whatever market or markets you would like to trade.

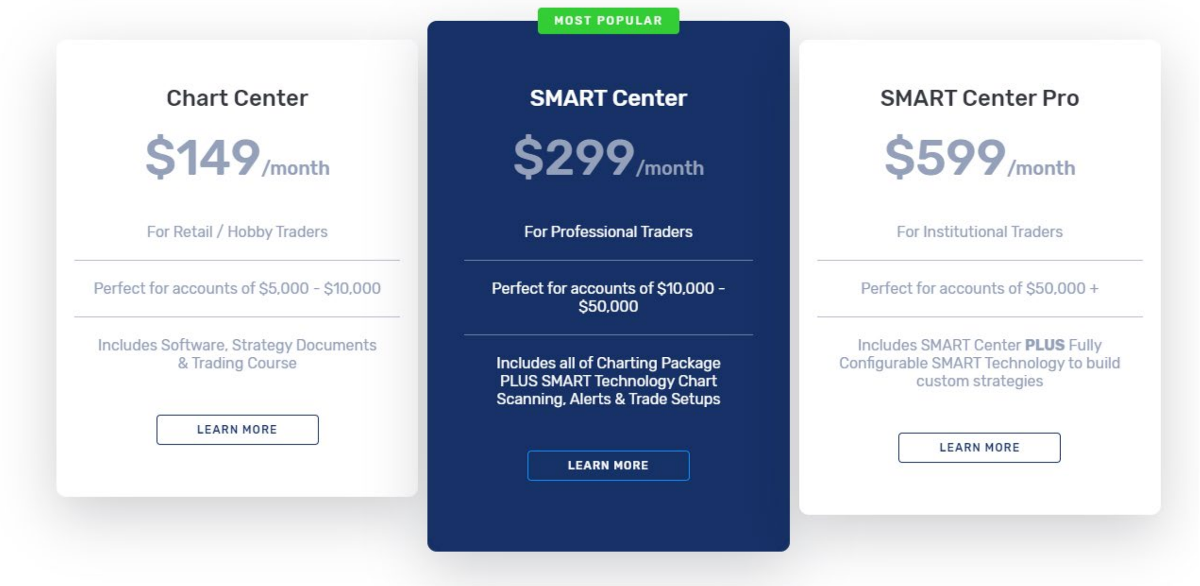


Chart Center

Chart Center is aimed at retail / hobby traders trading accounts of $5,000 upwards. At its core is the unique Volume Spread Analysis methodology which has been helping successful traders for over 20 years.

Whether you want to invest longer term or position trade, or you want to trade intra-day the package has everything you need to trade.

The package consists of 3 main elements

1. The ABC's of VSA trading course which is designed to get you to the stage where you can start to trade.
2. The Tradeguider Chart Center software which contains the Volume Spread Analysis software toolset, scanners and trading tools
3. The ABC's Trading Strategy Document.

Lets look at these 3 elements in more detail.

The ABC's of VSA core trading course will support and guide you at every step of the process. It covers all the main aspects of trading an investing. And you can view the modules on any device from an iPhone to a pc.

There are 4 main sections featuring up to 25 short modules.

The 2nd element of the package is the VSA software toolset.

The software offers a complete charting solution. With this unique system you can trade in 3 simple steps

The VSA scanners simultaneously and automatically scan the markets in different time-frames, searching for high probability low risk trading opportunities. In this example we are viewing 1minute, 5 minute, 15 minute, 1 hour, 4 hours and 1 day. If the trends align in several time-frames then this is a potential trading candidate.

When a key VSA indicator or VSA Sequence is identified as part of the system will email you a notification

To place a trade you need to wait for the confirmation signals to appear as the market unfolds. When they do it is then down to you skills as a trader to place the trade.

The next step is to analyse the chart to identify confirmation signals which will help you define when you need to open the position. To help you do this the ToolSet contains a number of other highly effective tools.

The red and green VSA indicators alert you to Smart Money activity. Clicking them reveals dialogue boxes written by tom Williams – the inventor of VSA. They explain the background behind the triggering of the indicator, what the indicator signifies and what to look out for.

The medium and short term trending tools identify the current short and medium term trend and alert you when the trend is about to change – crucial information when defining an entry and exit point

The Relative volume tool provides you with very important information about relative volume used in VSA Methodology to identify and activity of the Smart Money.

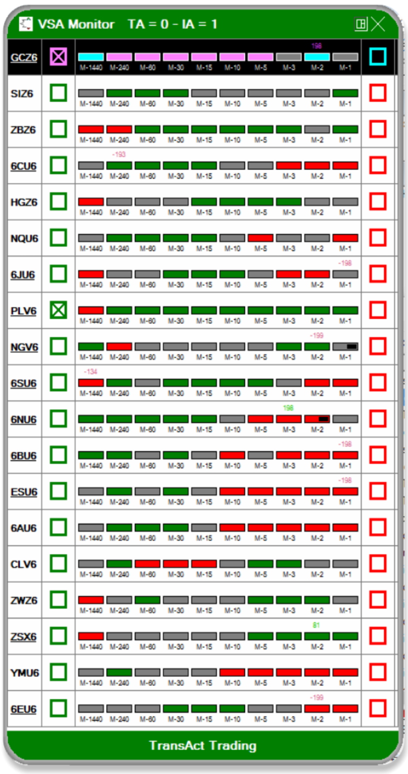
Once you are in a trade the Stop Management tool helps you manage the trade and the trending tools and indicators help you stay in the trade for as long as your risk management strategy will allow.

The 3rd element is the ABC's trading Strategy Doc. This is a rules-based trading strategy which takes the whole trading process and distils it into a structured trading approach. This approach simplifies the learning process so you can start trading in hours, rather than dats or even weeks.

Tradeguider SMART Center

The package is aimed at Serious traders who are trading for an income, or 2nd income.

It includes all the features of the Chart Center, plus the addition of SMART technology which turns the package into a semi-automated trading system.



Tradeguider's SMART technology has refocused the entire trading process. Until the invention of SMART technology 80% of the time was spent in market analysis and chart reading and only 20% on actual trading. With SMART that ratio has reversed.

Now everything is scanned, managed and monitored in one place.

For the first time the trending tools and the volume tools are now analyzed automatically with the SMART process.

In a nutshell the system will scan the larger time-frames and alert you when there is alignment across time-frames and trends.

Once you see this you can then ask the system to scan for VSA confirmation signals.

The system will alert you when the signals have been triggered.

You can then look at the chart and enter the trade.

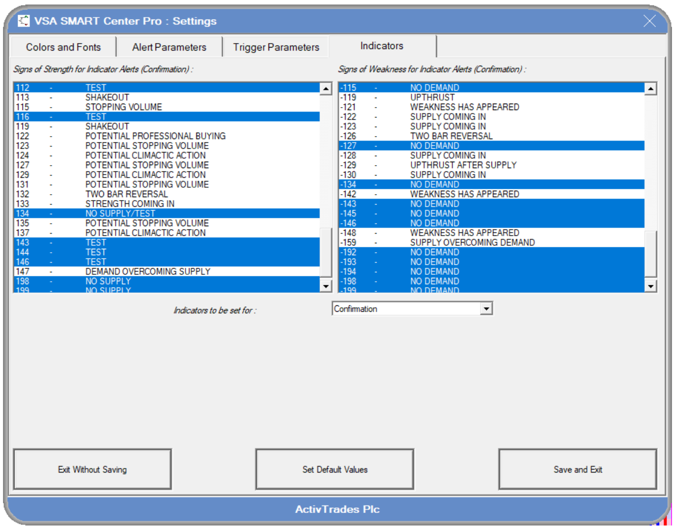
The system alerts you with visible and audio alerts so you do not need to be tied to the trading platform any more!

A complete game-changer for all traders

Tradeguider SMART Center Pro

The 3rd package is aimed as professional traders and institutional clients.

The package is fully configurable with advanced trading filters to maximise the accuracy of the trading signals. Traders can develop their own strategies and save them for use in their trading.



So what else is required?

You need 2 other facilities

A Trading platform and a brokerage account.

The Tradeguider packages plug into several of the industry's leading trading platforms:

Metatrader 4 which is the number 1 platform for trading FOREX

Metastock which is a well established platform for trading all markets

NinjaTrader which is a popular trading platform for trading all markets

Sierra Chart which is a platform for trading any markets

And finally TradeStation for trading any market

The choice of platform is down to your personal preference. The platform packages consists of 3 elements

The trading platform

The data-feed to power the platform

A brokerage facility to facilitate the trading activity.

Each platform offers various data-feed and brokerage packages.

Choose your platform, choose your package and the VSA software tool set plugs straight in.

For full details go to www.tradeguider.com