

finding the forex formula

WEALTH CREATOR SAT ON THE SIDELINES OF ETORO'S TRADING CHALLENGE LAST MONTH – HERE IS AN EXCLUSIVE LOOK AT THE WINNER'S STRATEGIES

In recent years financial trading has found itself in the spotlight – mostly for all the wrong reasons. Since the crash of the major Wall Street banks, which signaled the onset of the global financial crisis, all fingers pointed at unwholesome derivatives trading practices as the root cause of the fiasco. What the news headlines have failed to notice, is the astounding growth in retail financial trading in the wake of Wall Street disillusionment. Instead of the passive investment method of handing their savings over to the bank to do with as it pleases, capital owners have started taking things in their own hands and actively investing their money by speculating in various financial markets.

The advent of online trading onto the financial arena has made it that much easier to practice retail trading. Online trading platforms now provide private traders with instant access to all the financial markets in the world at the click of a button and automatic execution of their investment orders. The role of the broker has been reduced from the indispensable go-between, to a silent liquidity provider. In short, handling one's own capital has suddenly become perfectly manageable for the unskilled private investor.

The market that has demonstrated the largest growth by far in retail trading volume is the foreign exchange market. Its relative simplicity, limited number of instruments, unlimited liquidity and consistent opportunity generated by fluctuating currency values has attracted millions of private speculators world wide. Foreign exchange, or forex, trading has given investors with no financial background the opportunity to invest their money in a simple yet lucrative market place and to learn financial trading autonomously.

The forex market's growing popularity among online retail traders has led to another new phenomenon that some like to call "social trading". Johnathan Assia, chief executive of trading platform eToro, said social trading seemed to have evolved from combining online trading with web 2.0 style user community facilities.

"The great benefit of social trading is that it helps novice traders overcome any lack of self confidence or sense of disconnectedness that they might feel when starting out in

online trading. Trader communities help their new members get acquainted with the market, provide them with helpful tips and exposes them to their fellow traders' strategies, theories and opinions."

Platforms like eToro, for example, encourage user communities and provide users with several means of communications. Using the platform traders talk to each other through chats and forums, look at how other traders are trading through top traders' insight and compete together in prize bearing forex trading competitions.

Wealth Creator sat on the sidelines of one of eToro's Australian competitions last month to observe the strategies of the best performers.

FIRST PLACE chris pearson

"While I have no background in business I find trading FX very interesting – looking at and analyzing the underlying reasons why the markets move," Pearson explained.

Pearson is a 22 year old amateur race car driver from a small coastal town in News South Wales who had only been trading forex for four months before winning the eToro Australian FX trading challenge. The young trader was thinking about getting into the stock market only to realise that he didn't have enough capital to really give it a go. As an alternative he turned to eToro where he needed only \$50 to open a forex trading account.

"I found it very easy to understand – I could really see everything that was going on at all times and I didn't have any difficulties with it – looking at the charts and all of the buying and selling trends, details on how to get into a trade for example, it made it all very simple," he said.

According to Pearson, the strategy that won him the championship was following the Greece bailout and trading the EUR/USD currency pair accordingly.

"I followed the chat on eToro and used news and other FX related



sites to monitor upcoming news and world events which contributed to significant changes to currencies at the time," he explained.

As for social trading, Pearson is a big fan.

"It wasn't until I started reading the chat feature on the eToro platform that I realized that normal everyday people trade FX, not just the big financial companies. It made me realize that I had a chance at success, even though I still didn't think I would win," he said.

Pearson started out with a smart approach: using only small positions he was able to learn the dynamic nature of the FX market and protect his capital for the later stages in the competition. He traded multiple pairs including the EUR/USD, GBP/USD and gold – one of the most popular commodities among FX traders due to its large profit potential and as a hedge against the US dollar. Pearson's trades were active in the market for a number of hours and were based on an intraday swing trading methodology. He was always aware of any news and economic reports that were out as they could have adversely affected his trades and also used the news to his advantage actively trading the Euro Dollar which was affected by the sovereign debt worries coming from Greece. Pearson protected his profits by managing his positions closely during news releases or when his trades approached an important price level. After two successful weeks of trading with low risk, he was able to switch gears and open large positions of one million dollars and above. The result was extraordinary, with the trader quadrupling his profits.

END PROFIT: \$31,000

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SECOND PLACE
matthew gibbs

Gibbs is a 33 year old business consultant who runs his own consulting business, as well as being a family man with a wife and two children. Gibbs was surprised to find out how easy it was to start trading forex.

"I thought that it was only for professionals, not something that a normal person like myself could get into," he said.

"I have trialed another forex practice platform for a few days but did not like it. The eToro platform was different. As a beginner, it was easy to understand, quite easy to use and very visibly friendly.

"I liked the way the charts were set out, how the currencies were displayed and how my current trades were displayed. I also liked the options for extra info on the charts, such as Bollinger bands."

Once he got the hang of it, Gibbs was confident that using his business oriented mind set he could conquer the forex market and make an impact on the competition.

"I had a feeling that I would do quite well," he admitted. Gibbs used multiple trading strategies in the first week of

the competition, testing out different methods that he picked up in the eToro trader forums and chat until he found one that suited his style and was consistently profitable. He made the bulk of his money in the final days of competition using the skills he had picked up over the previous week and a half. The strategy was simple but he was able to achieve great results by applying it in the market extensively (1585 trades in two weeks) and using some creative money management techniques. Gibbs made his trading decisions based on his own technical analysis using his favorite indicator - Bollinger bands. He would trade the outer parameter or the bands where overbought and oversold conditions existed. Like most other top competitors, Gibbs preferred to be in and out of trades quickly and his results showed that he was most profitable when he stayed in the market for a shorter period of time. This method of consistently scalping a few pips at a time is extremely effective in forex due to the low cost of trading (the spread).

END PROFIT: \$13,500

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THIRD PLACE: michael kwong

Kwong is a qualified accountant who prefers to spend his time trading the markets rather than crunching numbers since, in his own words, “accountancy can be a bit of a dull area, trading the markets is a lot more interesting and dynamic.”

A full time professional trader for 10 out of his 38 years, Kwong got his trading education by taking courses in such subjects as the Australian Securities Institute, technical analysis, brokerage, taxation and more as part of his Masters degree in taxation. Having started trading in the stock market at a young age, Kwong describes retail forex trading as “a leap forward in financial trading”. As a full time trader, he knows all about the advantages making his bread and butter in the financial markets.

“There are many benefits to trading from home: I don’t have to leave the house, I can trade when I want to and can spend more time with my four year old son,” he explained.

When asked to give advice to new traders hoping to develop a long and lasting career trading forex, Kwong said “ I think part of being a successful long term trader is that while there is a lot of ongoing action on the markets, you can’t be in front of the screen all the time – so you learn how to put trades on in different markets overnight. If however there is important

economic data being released in the UK or US or Germany I might stay up all night monitoring the news and trade on the more important new events.”

He also recommended trading with platforms like eToro which he finds “very clean and user-friendly for the first time user.” Kwong was one of the competition’s more experienced traders and it showed in his disciplined approach to the market and the increased focus he placed on risk management. Kwong employed a number of technical analysis tools on which to base his trading decisions, including support and resistance, Fibonacci, moving averages and price pattern analysis. He also engaged in fundamental research to understand any factors that may influence his trades. Kwong predominantly used his strategy on the major pairs (EUR/USD, AUD/USD, USD/JPY, GBP/USD, USD/CHF) which he traded during the European hours when the markets were more volatile and provided more opportunities. Kwong’s commitment to his trading is best demonstrated by his willingness to manage his trades overnight and the time he spends analyzing the market.

END PROFIT: \$12,000

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FOURTH PLACE paul kemp

Kemp hails from Queensland where he manages a series of butcher shops, takes care of his two children and since January this year, trades currencies in the FX market. Kemp is living proof that if at first you don't succeed, take an online course and try again.

"I had to learn the art of patience. When I first started trading I wasn't at all patient and didn't meet with much success," he said.

"I then decided to learn more about FX and took the online courses which I found to be very informative. I wish I had taken the courses at the outset. I also started following the markets and trends and reading financial newspapers and began to approach my trades with much more patience."

Kemp is another newcomer to forex who had only started trading after seeing the eToro platform and realizing how easy it was to learn the workings of the FX market. His personal investment in furthering his forex trading education certainly paid off when Kemp found himself leading the scoreboard in the eToro Australian trading challenge. However, Kemp's dramatic rise to the top encountered an equally dramatic setback when he was taken to the hospital to undergo an operation, where he spent the last days of the competition. Still, his determination and unbelievable results from the beginning of the challenge secured him a respectable fourth place.

Kemp initially opened a demo account to refine his skills after completing the eToro e-course and was actually unaware that he was competing in a trading competition. In one session Kemp achieved an incredible 40 trade win streak, a feat most professional traders would be humbled by. Kemp traded a number of currencies but found the GBP/USD provided the most opportunities during his preferred trading time, which is around 5pm, when the European market begins to open and the major liquidity providers begin pumping money into the FX markets. He was able to trade the British Pound's large daily range effectively using a short term trend trading strategy that included using the eToro platform's variable leverage function for maximum profit and to help manage his risk.

END PROFIT: \$8,200

HONORABLE MENTION gary robinson

Robinson, aged 43 from Queensland, started out with a common misconception: "A year or 2 ago I didn't know or understand forex at all. I thought it was for Wall Street type of people."

Having discovered that non-Wall Street type people were also allowed to take advantage of opportunities in the financial markets, Robinson cleared some time off in his busy schedule of real estate sales and pest control to take a shot at the FX market.

"I have never ever been into share trading as I find the FX market more interesting, volatile and quicker," he explained.

Robinson preferred to trade with a short-term strategy throughout the competition and used his local knowledge to help him make big profits trading the Aussie dollar. His knowledge of the Australian economy provided him with opportunities to profit from news releases such as the RBA interest rate announcement. Robinson focused on two currency pairs throughout the competition: the AUD/USD as he could use his local knowledge to take positions and the USD/JPY as it provided good volatility which enabled him to make some quick profits. Robinson liked to use the 5, 15 and 60 minute technical charts to make his trading decisions and like many other traders would start on the larger time frame and then zoom in on the market with a smaller time frame. Using this technique Robinson was able to capture intraday trends and put himself on the right side of the trade. He used the MACD technical indicator on the charts across all timeframes, which helped him to identify the direction of the trend and made his trading more profitable.

END PROFIT: \$7,500



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