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Online Margin Foreign Exchange Trading

Top 10 Trading Tips

Investing in foreign exchange markets has traditionally been the domain of large institutions and corporates to reduce currency risk. However, the FX markets have evolved significantly and increasingly are being seen as a source of returns for investors. Institutional investors such as hedge funds have played an important role in this development but as with most markets, retail investors are catching up and looking at FX as an interesting asset class with strong diversification and return-generating opportunities.

Deutsche Bank has found that over time, currency markets offer consistent investment returns, with a diverse FX investment portfolio delivering annualised total returns of 11 percent between 1980 and 2006.*

*Source: Deutsche Bank Currency Returns Index (DBCR)

Here's the top ten tips from dbFX (www.dbfx.com), the online retail currency trading platform from Deutsche Bank, on how to get started in online currency trading:

1 **Practise** before you start trading with real money. Could you imagine an athlete going to the Olympic Games without preparation and training? Make sure you have practised your trading on a demo platform and get comfortable with the platform and your trading style before committing real money.

2 **Know what moves currency markets.** Like any asset class, there are a number of factors that drive currency performance. A country's macroeconomic situation can have a major influence – economic data releases, policy decisions and political events can change an economist's outlook on the country, and therefore the currency. There are also technical factors such as interest rates, equity markets and international trade which may have an impact. Spend time getting to know these.

3 **Understand the strategies.** Yes there is a method to the madness. As a trader you need to be aware of three crucial trading strategies which are often used by currency traders; the carry, momentum, and value trade. Momentum tracks the direction of currency markets; the carry strategy sees investors selling currencies with low interest rates and buying those with high rates; and the valuation strategy takes a position based on the investor's view of a currency's value. However, the strategies that you use are up to you.

4 **Manage risk.** Like with any investment decision, you must decide what risk you're willing to accept. Ask yourself, "how much am I prepared to lose on this position?" If you don't have a convincing or comfortable answer then you should rethink the trade. Do not risk more than you can afford to lose. Think about how you can mitigate your downside risk; make use of trading strategies such as stop losses or limit orders.

5 **Stick to your knitting.** There are literally hundreds of currency pairs that can be traded in the currency markets, each of which have their own characteristics and considerations to understand and analyse. If you're participating in the market on a part time and non professional basis, it is probably better to concentrate on just a few pairs and commit to thorough and robust research on those, rather than superficial research on the many. Some key things to consider when analysing a currency pair are its liquidity, transaction costs (the spread) and its volatility. As a general rule, major currencies usually have better liquidity, tighter spreads and lower volatility, versus emerging market currencies which have poor liquidity, wide spreads and volatile movements.

6 **Plan your trade, and trade your plan.** It's one thing to have a plan, it's quite another to execute it. It is important in currency trading to not get caught up in the moment – the markets are fast moving and in the short term can be unpredictable. Rather than trying to make a quick profit, stick to your long term plan based on your research. Good currency traders make money in the long term by being disciplined, not necessarily by making short term bets.

7 **Research, research, research.** It's important to stay up to date. All currencies move quickly and checking the price once a week is not going to help you make strong long term returns. It is helpful to use an online provider that gives you up to the minute data and statistics. Traders use this data to constantly assess their trading positions.

8 **Keep your emotions in check.** Like many important decisions, it is vital to keep emotion out of any trading decision you make. If you're upset about missing out on an opportunity and want to trade yourself better, or want to go 'off-piste' to make up for a loss earlier in the day – reconsider, because you've got the warning signs of someone about to make a rash and irrational decision. If you do feel yourself getting emotionally involved in a particular trade, take a deep breath, review your strategy, and establish how such a decision will affect your overall approach before going anywhere near the 'execute' button.

9 **Don't expect to win on every trade.** That may not sound like much of a sales pitch, but even the most successful of traders don't win on every trade. What they do have is a robust plan and long-term strategy which carefully considers the risks. So don't necessarily be disheartened if a trade doesn't go your way; review why it went wrong and see if there is anything to learn from the experience. But don't think that currency trading is an option for those seeking quick money, because like any investment, it only should be played by those with a long-term end-game in mind.

10 **Don't put all your (nest) eggs in the currency basket.** Foreign exchange is only one of the many asset classes you should be considering as part of a balanced investment portfolio. FX trading is not suitable for every investor, so if you are committing all of your financial resources to FX trading be sure you are fully aware of the risks and rewards of doing so, because it's not recommended. The same applies for currency trading itself; spread your risk by not placing all your faith in a single trade because diversification is key; no matter what asset class you're investing with.

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