Forex Trading Cheat Sheet

A comprehensive cheat sheet for Forex (Foreign Exchange) trading, covering terminology, strategies, risk management, and technical analysis tools.

Forex Basics & Terminology

Key Forex Terms

Currency Pair	The quotation of two different currencies, with the value of one currency being quoted against the other (e.g., EUR/USD).
Base Currency	The first currency listed in a currency pair. It represents how much of the quote currency is needed to purchase one unit of the base currency.
Quote Currency	The second currency listed in a currency pair. It represents the price one pays in order to buy the base currency.
Pip (Point in Percentage)	The smallest price increment a currency pair can move. Typically, it's 0.0001 for most pairs and 0.01 for JPY pairs.
Leverage	The use of borrowed funds to increase trading size and potential returns (or losses). Expressed as a ratio (e.g., 1:100).
Margin	The amount of money required in your account to open and maintain a leveraged position.
Spread	The difference between the bid (selling) and ask (buying) price of a currency pair. It represents the broker's commission.
Bid Price	The price at which a broker is willing to buy a currency pair from you.
Ask Price	The price at which a broker is willing to sell a currency pair to you.

Order Types

Market Order	An order to buy or sell a currency pair immediately at the best available price.
Limit Order	An order to buy or sell a currency pair at a specific price or better. Buy limit orders are placed below the current market price, and sell limit orders are placed above.
Stop Order	An order to buy or sell a currency pair when the price reaches a specified level. Buy stop orders are placed above the current market price, and sell stop orders are placed below.
Stop-Loss Order	An order attached to a position to limit potential losses if the price moves against you. Can be a Market or Limit order.
Take-Profit Order	An order attached to a position to automatically close the position when the price reaches a desired profit level.

Technical Analysis

Chart Patterns

Head and Shoulders	A reversal pattern indicating a potential downtrend. Characterized by a peak (left shoulder), a higher peak (head), and another peak roughly equal to the first (right shoulder).
Inverse Head and Shoulders	A reversal pattern indicating a potential uptrend. The inverse of the head and shoulders pattern.
Double Top	A reversal pattern indicating a potential downtrend. Price attempts to break a resistance level twice but fails.
Double Bottom	A reversal pattern indicating a potential uptrend. Price attempts to break a support level twice but fails.
Triangles (Ascending, Descending, Symmetrical)	Continuation patterns indicating a potential breakout in the direction of the prevailing trend.

Technical Indicators

Moving Averages (MA)	Calculates the average price of a security over a specific period. Used to identify trends and potential support/resistance levels. Common periods: 20, 50, 100, 200.
Relative Strength Index (RSI)	A momentum oscillator that measures the magnitude of recent price changes to evaluate overbought or oversold conditions in the price of a stock or other asset. Values range from 0 to 100. • Overbought: Above 70 • Oversold: Below 30
Moving Average Convergence Divergence (MACD)	A trend-following momentum indicator that shows the relationship between two moving averages of a security's price. Used to identify potential buy/sell signals. • Signal Line Crossover: Bullish when MACD crosses above the signal line; bearish when it crosses below.
Fibonacci Retracement	A tool used to identify potential support and resistance levels based on Fibonacci ratios (23.6%, 38.2%, 50%, 61.8%, 78.6%).
Bollinger Bands	Volatility bands placed above and below a moving average. Used to identify potential overbought/oversold conditions and price breakouts. • Price near upper band: Overbought • Price near lower band: Oversold

Trading Strategies

Common Forex Strategies

Scalping: A trading style that specializes in profiting off small price changes, generally after a trade is executed and becomes profitable. It often involves making hundreds of trades in a single day.

Day Trading: A strategy involving opening and closing positions within the same trading day, avoiding overnight exposure to market risk.

Swing Trading: A medium-term strategy involving holding positions for several days or weeks to profit from price swings.

Position Trading: A long-term strategy involving holding positions for months or years, focusing on fundamental analysis and long-term trends.

Trend Following: Identifying and trading in the direction of established trends. Combines technical and fundamental analysis.

Breakout Trading: Identifying and trading breakouts above resistance or below support levels. Requires quick execution and risk management.

Range Trading: Identifying and trading within a defined price range, buying at support and selling at resistance.

Risk Management

Risk Management Techniques

Position Sizing	Determining the appropriate size of your trades based on your account balance and risk tolerance. A common rule is to risk no more than 1-2% of your capital per trade.
Stop-Loss Orders	Placing stop-loss orders to limit potential losses on each trade. Critical for protecting your capital.
Take-Profit Orders	Setting take-profit orders to automatically close positions when a desired profit level is reached. Helps to secure profits and avoid emotional decision-making.
Risk-Reward Ratio	Assessing the potential profit relative to the potential loss on each trade. Aim for a risk-reward ratio of at least 1:2 or higher.
Leverage Management	Using leverage carefully and responsibly. Higher leverage can amplify both profits and losses. Beginners should start with low leverage.
Hedging	Opening offsetting positions in correlated currency pairs to reduce overall portfolio risk.
Diversification	Trading multiple currency pairs to spread risk and reduce exposure to any single currency.
Staying Informed	Keeping up-to-date with economic news, political events, and market trends that can impact currency prices. Use a reliable news source.