

Interim internship report

Business



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CHAPTER -1 INTRODUCTION 1. 1ABOUT THE COMPANY Cosmo Tradex Pvt. Ltd is an introductory broker of Kerford Fx of UK, in India. It was started in the year 2002 and is spread all over the states in India. It has opened 246 branches all over India with 500 agencies and more than 1000 franchises. Cosmo offers specialized trading and execution services to individuals and institutional clients. It works as a brokering and consulting house of Kerford Fx for Indian clients and helps in carrying out its full-fledged operations in the following three trading platforms: 1 1. International Commodity Market- It is a 24-hour market. There is no lock-in period for funds invested in this market. It is a two-way market i. e.

the market may either run Bull or Bear phase. Commodities are classified into two categories i. e. a) Agro-based- Soya, Cotton, Cocoa, Coffee etc b) Energy Based- Crude Oil, Heating Oil, Natural Gas etc 1 2. Bullions Market- It deals with Gold, Silver, Copper, Platinum and Palladium. 2 3.

Forex Market- it is also a 24-hour market. It deals with the following currencies: US Dollar (USD), Swiss Franc (CHF), Australian Dollar (AUD), Japanese Yen (JPY), Great Britain Pound (GBP), Euro (EUR). It gives an opportunity to trade in the following major exchanges:- * NEWYORK BOARD OF TRADE (NYBOT) * CHICAGO METAL EXCHANGE (CME) * LONDON METAL EXCHANGE (LME) * CHICAGO BOARD OF TRADE (CBOT) * COMMODITY EXCHANGE (COMEX) * NEWYORK MERCHANTILE EXCHANGE (NYMEX) WHY COSMO TRADEX? * Cosmo Tradex consistently provides liquidity to the client base via a real time internet based trading platform. * Cosmo Tradex clients also enjoy 24 hours trading, competitive dealing spreads and minimal

transaction or commission fees. * Kerford Investment, parent organization of CosmoTradex has gained a strong position in the online trading arena and has clients in more than 50 countries worldwide.

* Cosmo Tradex offers its revolutionary online trading platform to client to deal directly from live streaming quotes. 1. 2 ABOUT KERFORD FX “ Explore Ways with Kerford for a better future” Kerford Investment Ltd. Was founded by Financial Market Veterans to offer online traders, a direct access to the Global Foreign Exchange, Exchange for Physical (EPP), metals and OTC (Over the Counter) Markets. Thus, Kerford Ltd.

acts as the moderator of a platform where investors from around the world can trade safely and serve their own appetite for risk and return. Its mission is to provide clients the best combination of trading software with the benefits of getting fast and accurate prices, real-time price charting, technical indicators and other fundamental news(updated) to facilitate an individual to take decisions and value added products and services at very competitive and reasonable costs . * It provides online traders direct access to the Global Foreign Exchange, Exchange for Physical Metals and OTC market. It provides its clients complete confidentiality regarding personal information and transactions in customer trading account. * Clients have complete control over their position as to open, close or to hedge their positions to reduce risk.

* It has fast and efficient back office operations as in opening new accounts and processing client withdrawals simultaneously. * To better serve its International client base, Kerford is building and expanding regional

headquarters in the major financial sectors of Europe, Asia, Africa and North America. 1. 3 PURPOSE OF THE PROJECT The main aim of this Project in real time is to direct and guide investors towards the attainment of Critical market knowledge so as to determine where to invest and where to exit with profits. In this process, there is certainly a lot of risk involved as future is uncertain, so our attempt is to minimize that risk by careful market analysis and adoption of several technical tools and fundamental news for predicting the entry and exit into the market. The Project work involves a critical analysis of the historical data relating to Euro (EUR) and Great Britain Pound (GBP), with the use of dvanced technical tools, retrieved from creditworthy sources.

Thus, the Project work is being accomplished under the purview of Forex Market and involves regular monitoring of the currency pair EUR/GBP. Forex Market is known for its volatility and uncertainty. The Euro/GBP has always been a stable pair but the last month has been turbulent for the EURO as it has declined against the pound due to the Greece Debt crisis. Viewpoints of market critics have been used to determine what future trends are expected for Euro/GBP. The paramount goal of the project is to study the market movements carefully so as to determine the entry points.

In line with the achievement of this goal, various Trend as well as Range analysis have been used to determine the most profitable points for taking a position (long or short). These tools include various trend lines, volatility bands, oscillators, moving averages etc. The role of fundamental factors in determining market prices on the date of entry points has also been carefully observed, as technical tools coupled with fundamental factors gives the best

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market predictions. Then, through the use of some theories, we have tried to determine the future price, so that we can play with the market changes. In addition to all this, a thorough implementation and analysis of the concept of 3-Way Arbitrage, also known as the triangular arbitrage is being discussed and a study is being conducted with an attempt to identify that whether this 3-way arbitrage is realistic and profitable for an individual trader or not.

To be very concise, the Project work at hand is all about “ The near-accurate prediction of the market and means to understand the underlying price drivers so as to make quick yet substantial profits. 1. 4 SCOPE OF THE PROJECT The scope of the Project is in accordance of the purpose and the Objective. It is as follows: * To perform a Candlesticks study for the currency pair EUR/GBP. * To indicate where a trader must enter “ BUY” or “ SELL” into the forex market with the help of extensive technical tools * To study the impact of fundamental news releases on the currency price movements.

* To forecast the future price of EUR/GBP by adoption of Elliot Wave Theory and Fibonacci Retracement on the historical prices. * To study the impact of 3- way Arbitrage by finding out the profit for an investor and check its feasibility. 1. 5LIMITATIONS OF THE PROJECT The Price movements of EUR/GBP are affected by both fundamental and technical factors. Price movements of Euro and GBP are affected by both fundamental news and technical factors.

As the forthcoming fundamental news and other risk factors are not taken into account, the technical analysis study may not give accurate entry points all the time. * Our forecast of future prices of Euro-GBP will be based on

historical price movements, thus it may or may not hold true in all the cases.

* A dummy account will be used for analysis purpose, thus real time trading with actual money will not been experienced. Only some of the fundamental news will be taken into account like the news on the days of entry points which may ignore some other aspects for a better study. * Candlesticks study cannot be relied 100% as a standalone tool for trading, therefore, a judicial mix of technical tools and fundamental news should be taken into account. * There would always be a certain unavoidable lag between the real time prices and internet updated prices.

1. 6DATA COLLECTION & SOURCES The data used for the study purpose is the secondary data collected from various credible sources. Historical prices and candlesticks patterns have been taken from [www. etdania. com](http://www.etdania.com) which has been used mainly for the analysis purpose. The fundamental factors and the news that was required for the study has been taken from [www. forexfactory. com](http://www.forexfactory.com) & [www. fxstreet. com](http://www.fxstreet.com). Apart from that, several other literatures including the research papers have been followed which are mentioned later as references. The data collection table which would be used for the technical analysis for the determination of entry points is as follows:

forexfactory. com & www. fxstreet. com. Apart from that, several other literatures including the research papers have been followed which are mentioned later as references. The data collection table which would be used for the technical analysis for the determination of entry points is as follows:

TECHNICAL TOOL USED| TIME PERIOD| ANALYSIS TIME PERIOD| NO.

OF DATA POINTS| PRICES| MOVING AVERAGES| 1 min. 5 min. 15 min. hour8
hourDailyWeekly| 5th April 2010, (21: 15 –23: 20)5th April 2010, 18: 00 to
6th April 2010, 05: 3031st March 2010, 08: 00 – 1st April 2010, 13: 005th
March 2010, 21: 30- 10th March 2010, 22: 306th July 2009 – 9th November
200918th December 2009 – 5th April 20106th October 2008 – 29th March

2010| 130150120803158080| Open, Low, High, Close| DMI| 15 min
 Hourly
 DailyMonthly| 6th April 2010, 08: 30 – 7th April 2010, 18: 30
 23rd March 2010, 13: 30 to 30th March 2010, 05: 30
 7th December 2009 – 6th April 2010
 1st January 1986 to 1st April 2010| 14012090298| Open, Low, High, Close| ADX| 15 min.

HourlyWeeklyMonthly| 6th April 2010, 10: 00 – 7th April 2010, 20: 30
 4th March 2010, 01: 30 to 10th March 2010, 13: 30
 1st November 2007 – 1st February 2010
 1st July 1986 to 1st April 2010| 140120120300| Open, Low, High, Close| ADX & DMI| 1 min
 15 minWeeklyMonthly| 13th April 2010, 12: 25 to 13th April 2010, 14: 45
 8th April 2010, 4: 30 to 9th April 2010, 21: 30
 August 2004 to April 2010
 1st July 1986 to 1st April 2010| 150155300300| Open, Low, High, Close| RSI| 30 min.
 hourDailyWeekly| 18th March 2010, 05: 30 – 23rd March 2010, 05: 30
 20th March 2010, 01: 30 – 29th March 2010, 13: 30
 1st August 2009 – 25th March 2010
 1st July 2006 – 1st April 2010| 155140155200| Open, Low, High, Close| BOLLINGER BANDS| 5 min
 10 min15 minMonthly| 8th April 2010, 2: 30 to 9th April 2010, 10: 30
 1st March 2010, 1: 30 to 3rd April 2010, 1: 30
 13th March 2010, 7: 00 to 13th March 2010, 23: 00
 1st July 1986 to 1st April 2010| 200300200300| Open, Low, High, Close| 1.

7 METHODOLOGY The entire study of our Project comprises of the following Phases. Step 1- We have descibed in detail about the two main factors (fundamental and technical) that drive the Forex Market. This part also comprises the study of technical analysis along with a brief insight to candlesticks and their study. * Step 2- We have collected historical prices of Euro-GBP for 5 minutes, 10 minutes, 15minutes, 30 minutes, 1 hour, 2 hour, 4 hour, daily , weekly, monthly from the website www.

netdania. com. These prices have been collected for different time periods (starting from the recent data and then moving backwards) depending on the number of data points required for analysis. Step 3- Critical analysis of current price movement of Euro-GBP and superimposition of various technical tools on the price charts formed for above mentioned time intervals. This helped in computation of entry points (buy and sell signal) for the trader. The various technical tools that have been used are: Moving Averages (SMA and EMA), ADX and DMI, RSI, Bollinger Bands, William's % R.

Remaining tools like Keltner channel, MACD, Parabolic SAR etc will be discussed in the final report. * Step 4- Study of major fundamental indicators of Euro-GBP on the days of entry points. Some indicators of Euro are Trade Balance, Employment change, French CPI, MBA Mortgage Applications etc and for GBP are Public Sector Net Borrowing, M4 Money Supply, CBI Industrial Order Expectations, BRC Retail Sales Monitor etc. These fundamental factors have been used to confirm, or in some cases outbound the trend being followed due to technical tools. * Step 5-Identification of regions following EWT in the monthly chart of the currency pair Euro-GBP and Calculation of average price change for determination of future price through both Elliot Wave Theory and Fibonacci Retracements.

This will be discussed in the final report. Step 6- Understanding 3-way arbitrage process for making quick profits. Collection of 12: 00 GMT data for the pairs EUR/USD, GBP/USD and EUR/GBP for 61 days and calculation of the 3-Way arbitrage. Profitability ; Feasibility using arbitrage will also be discussed in the final report. CHAPTER -2 LITERATURE STUDY 2.

1FOREX MARKET OVERVIEW Foreign Exchange is a platform where a nation's currency is exchanged for that of another. This is also referred to as the FX, Spot FX or Currency Market. The Foreign Exchange Market (FX market) is a worldwide, decentralized financial market for the trading of currencies. It operates on a 24-hour basis spanning from one zone to another across the major financial centers around the globe. It also refers to the currency market in which over 4600 international banks and 1000's of small & large speculators participate.

Everyday this worldwide market exchanges more than 1.5 \$ trillion in dozens of different currencies. With the current growth rate, the market is projected to grow by more than 2 trillion \$ per day. This exciting and rapidly growing financial market provides an entrepreneur with the opportunity to generate profits with the largest market in the world. The FX market is more than 3 times the size of the US equities & treasury markets combined.

Unlike, other financial market, the Forex market has no physical location and no Central Exchange. It operates through an electronic network of banks, corporations, institutions, investors and individuals trading one currency with another. The lack of Foreign exchange enables the Forex Market to operate on a 24-hour basis across all sectors from one zone to another around the globe. **WHY TRADE IN FOREX?** * 24-hour market- Since the Forex market is worldwide; trading is continuous as long as there is a market open somewhere in the world. It is usually carried out 5 days a week.

In India trading starts from Monday to Friday. * High Liquidity- In Forex liquidity means we can move large amounts of money into and out of foreign

currency with minimal price movement. * Low Transaction Cost- There are low brokerage commission fees for each FOREX transaction. The retail transaction cost (BID/ASK SPREAD) is typically less than 0.1% (i.

e. 10 pips or points) under normal market condition. For all the other major currency pairs, the spreads could be normally 4-5 pips. * Leverage- Forex brokers allow traders to trade the market using leverage. Leverage is the ability to trade more money on the market than what is actually in the trader's account.

For e. g. if you were to trade at 50: 1 leverage, you could trade \$50 on the market for every \$1 that was in your account. This means one can control a trade of \$50,000 using only \$1000 of capital. * Profit potential from rising and falling prices- The Forex market has no restrictions for directional trading.

This means, if you think a currency pair is going to increase in value; you can buy it, or go long. Similarly, if you think it could decrease in value you can sell it, or go short. * Lower Transaction Costs- There are low brokerage commission for each Forex transaction. The retail transaction cost is typically the equivalent of bid/ask spread and is less than 0.1% (10 pips or points) under normal market conditions.

For all the major currency pairs, the spread could be normally between four to five pips. * Uncorrelated to the Stock Market- The Forex Markets are independent of the behavior and daily business of the Stock market. The Forex markets deal with instruments that are completely different from those traded in stock markets. * Interbank Market- The backbone of FX market
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consists of global network of dealers. They are mainly commercial banks that communicate and trade with one another & with their clients through electric network and telephones.

There are no organized exchanges to serve as a central location to facilitate transaction the way the NYSE serves the equity and commodity markets. The FX market operates in a manner similar to the NASDAQ market in the US operates. Thus, it is often referred to as the OTC (Over the Counter) market.

* No one can corner the Market- A well trained trader can make profits of 20% to 25% on any currency in any period. The Forex market is so huge and so many transactions take place everyday that no single player in the Forex market is big enough to determine the direction of the market.

This means that the Forex markets are 100% monopoly proof. 2. 2CURRENCY PAIRS An exchange rate is the ratio of one currency value against another. Two trading currencies are called a currency pair featuring a base currency, that is always on the left side of the pair and a secondary currency, which is the alternate/quoted currency, is situated on the right hand side of the pair. For e. g.

to represent currency trading of Euro against Great Britain Pound, we write as EUR/GBP. For this currency pair, the exchange rate prevailing in the market specifies how many EUROS are required for purchasing one Great Britain Pound or conversely how many Great Britain Pounds are required to buy one EURO. The currency that has the higher value when compared to its other pair member is treated as the direct currency and the other currency is treated as the indirect one. All currencies are assigned an International

Organization for Standardization (ISO) quotes. Some of the major currency pairs are: S.

NO| CURRENCY NAME| ISO ABBREVIATION| NICKNAME| 1| EURO| EUR| -| 2| GREAT BRITAIN POUND| GBP| CABLE| 3| US DOLLAR| USD| GREEN BACK| 4| SWISS FRANC| CHF| SWISSY| 5| JAPANESE YEN| JPY| -| 6| CANADIAN DOLLAR| CAD| LOONEY| 7| NEWZEALAND DOLLAR| NZD| KIWI| 8| AUSTRALIAN

DOLLAR| AUD| AUSSIE| Some of the most commonly traded currency pairs are- * US Dollar & Japanese Yen (USD/JPY) * EURO & US Dollar (EUR/USD) * US Dollar & Swiss Franc (USD/CHF) * British Pound & US Dollar (GBP/USD)

Currency pairs are generally traded as 100, 000 units of the base currency.

For example, if you were buying EUR/USD at 0. 5 you would be paying

Dollars for Euros as follows: $100,000 * 0.95 = \$95,000$ for 100, 000 Euros

Because currencies always trade in pairs, when a trader makes a trade he or she is always long one currency and short the other. For example, if a trader sells one standard lot (equivalent to 100, 000 units) of EUR/GBP, he would, in essence, have exchanged Euros for Great Britain Pounds and would now be “Short” Euro and “Long” Great Britain Pounds. 2.

3BASIC TERMINOLOGIES IN THE FOREX MARKET * Bid: It is the price at which the trader will buy his base currency in. e. g. if the quote for the EUR/USD is 1. 342/47. It means that the trader will sell EUR for 1.

2342 USD. * Ask: It is the rate at which the trader will sell his base currency in. e. g. if the quote for EUR/USD is 1.

2342/47. It means that the trader will buy EUR for 1. 2347 USD. * Spread: Spread is the difference between purchases and sell rates. Spread is always positive i.

e. sell rates will be more than the purchase rates. In this way banks and brokers earn profits from their clients. If a currency is highly liquid then the spread will be low. This is a resultant factor of high trade and speculative transactions.

Basis: Basis is the difference between cash price and future price. * Pip: It is the smallest incremental movement in the exchange rate. Pip stands for “Percentage in Point”. It is as small as 100th part of a percent i. e.

equal to 0. 0001 of a unit. * Direct Quote: It is expressed as how much of domestic currency is required to get one unit of foreign currency. For INDIA (INR) FX direct quote is USD/INR = 50. Rupees 50 is needed to get 1 dollar.

* Indirect Quote: It is expressed as how much of foreign currency can be bought by 1 unit of domestic currency. For India (INR) FX indirect quote is INR/USD = 0. 02 i. . 0.

02 dollar can be bought with 1 rupee. * Profit from Trading: Profit can be obtained by trading in currencies. However, trading principles differ when currency is quoted in direct or indirect quote. a) Gain in direct quote: Buy at low and sell at high. I.

e. buy when quote is 50 and sell when quote is 52. So gain = 2. b) Gain in indirect quote: Buy at high and sell at low i. e. buy when quote is .

02 and sell when quote is . 04 . So gain = . 02. * Cross rate: Cross rate is observed by converting simultaneously two currencies such that rates of another currency pair are obtained. E.

g. lets say $USD/JPY = 94.343$ and $GBP/USD = 1.2342$ so cross rate for $GBP/JPY = USD/JPY * GBP/USD = 116.3039$. * Leverage: Leverage means buying more than what a trader has in his account.

Say a trader takes a position worth \$100000 with a margin of 1% = \$ 1000. So, leverage is equal to 100: 1. 2. 4FUTURES TRADING Futures Contracts are purchased when the investor expects the price of the indulging security or commodity to rise. This is known as “ Going Long” because he has purchased the obligation to buy goods at the current price.

The holder will profit if: a) The price goes up, allowing him to sell his futures contract for a profit.) Take delivery of the goods on the future date at the lower price. The opposite of “ Going Long” is “ Going Short”. In this case, the holder acquires the obligation to sell the underlying commodity at the current price. He or she will profit if the price declines before the future date. Generally holders trade futures for keeping price rise in check, because the price for a future transaction can be set in the present.

The fluctuations in the interim can't be avoided if the price goes up, the holders will be buying at a discount. If the price oes down, he or she will miss the new lower price. Hedging at futures can even be used to protect against unfavorable interest rate adjustments. While hedgers attempt to avoid risk, speculators seek it out in the hope turning a profit when prices fluctuate. So, speculators trade purely for making a profit and never intend to take delivery

of goods. Future contracts can also be used to create spread “ the profit from price fluctuations”.

2. 5SETTLING FUTURES CONTRACTS Future Contracts are usually not settled with physical delivery. The purchase or sell of an offsetting position can be used to settle an existing position, allowing the speculator or hedger to realize profits or losses from the original contract. At this point, the margin balance is returned to the holder with interest along with any additional gains, although the margin balance and interest serves as a credit towards the holder loss. Cash Settlement is used for contracts like Stock Index Futures that obviously cannot result in delivery. The purpose of the delivery option is to ensure that the futures price and the cash price of goods converge at the expiration date.

If this was not true, the goods would be available at two different prices at the same place. Traders could then make a risk free profit by purchasing goods in the market with the lower price and selling in the market with the higher price. This strategy is called “ Arbitration”. It allows some traders to profit from very small differences at price at the time of expiration. 2.

6PRICING FUTURES Future Prices are presented in the same format as Cash market Prices.

Therefore, they are listed in dollars and cents per quantity. When these prices change, they must change by at least a certain minimum value called the TIC. The TIC is set by the exchange. Prices are also subjected to a maximum daily change. Then limits are also determined by the exchange.

When the limit is reached, the trading is shown in the other side of the limit for the duration of that session. But lower and upper limits are in effect. Limits are instituted to guard against particularly drastic fluctuations in the market. In addition to these limits, there are also maximum numbers of contracts for a given commodity per person. This limit serves to prevent any investor from gaining such a great influence over the price that he or she can begin to control it. .

7TRADING Trading is buying and selling of securities and commodities on a short term or long term basis hoping to make quick profits. There are different types of trading taking place in the market today, but the most common and popular of all is the online trading. To succeed in trading, you need your innate trades to kick in without which you should not even start. They include discipline, risk tolerance and being facilitative with numbers. In addition to discipline, risk tolerance and ease with numbers, successfully trading requires the most important ingredients: the 3 M's – (Mind, Money & Method).

Trading is a journey of self discovery. If you enjoy learning, if you are not scared of risk, if the rewards appeal to you, if you are prepared to put in the work, you have a great trading ahead of you. To be an excellent trader, you need to have good rules and master tools. Both aptitude and learning are important to be a good trader. Trader makes money by betting on short term price swing and thus putting the main idea into practice, which is buying when your reading of the market tells you prices are rising, and selling when the uptrend runs out of steam. A trade takes place when the greediest buyer, afraid that prices will run away from him, steps up and throws a

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penny more, or the most fearful seller, afraid of getting stuck with his merchandise agrees to accept a penny less.

When the market gives no clear signal to buy or sell short, many beginners start squinting at their screens, trying to recognize trading signals. A good signal jumps at you from the chart and grabs you by the face. It pays to wait for such signals instead of forcing trades when the market offers you more. Amateurs look for challenges and professional looks for easy trades. Losers get high from the action and the professional look for such odds.

2. 8ONLINE TRADING Online trading is the increasingly popular activity of buying and selling securities and commodities over the internet or to a lesser extent through a broker's proprietary software. The emergency of electronic direct access execution has brought about a revolution in online trading that can have professional implications in the way you place your trades especially if you are still trading with a conventional online broker. Direct access technology is designed to allow you with two major advantages: a) Reduced Cost b) Increased Speed Using Direct Access Technology, you can have your trades placed directly with other market participants – Market makers and exchanges without the intervention of a middle man. 2. 9FEW TRADING PROCEDURES STAGE 1: 1.

Constant Observation of the Market. 2. News Releases on important events or expected data or figure release. 3. Analyzing the impact of the fundamental on the market. 4.

Technical Analysis using different charts and studies. 5. Identification of different trends and confirming whether it is a trend continuation or reversal.

STAGE 2: 1. Determining trading plans and strategies. 2.

Use the correct time to enter the market. 3. Enter the market according to the trading plan and strategy. STAGE 3: 1. Observe the market to monitor unexpected changes and developments. 2.

If there is any change in the market, reconsider the trading plan and strategy. 3. Liquidate the open position to take profit or cut loss. 2. 9. 1

BENEFITS TO INVESTORS * Real time streaming quotes direct from the trading floor.

New risk management and hedging strategies customized according to investors needs. * Greater price transparency and wider spread rates. * Free entry and exit of the markets. * Free top notch tools integrated under a single system; news updates, historical updates, margin alerts etc. 2. 9.

2 RISK FACTORS All investments in financial instruments carry a degree of risk and all trading houses strongly believe that it is its professional and ethical duty to ensure that clients understand the nature and degree of risk into which they are entering when they are entering, while they make an investment. The income from investment can't always be relied upon. * The past performance of an investment is not necessarily a guide to future performance. * Investments may not be suitable to you and you should always seek advice from a professional. * An investment denominated in a currency different from the currency of the country in which the investor is a resident may be adversely affected by the fluctuation in the exchange rates.

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* The global foreign currency exchange markets can be volatile and are not subjected to uniform regulations or practices.

The global foreign exchange markets can fluctuate rapidly often based upon unpredictable events or market influences creating price instability. 2. 9. 3

OPPORTUNITIES * Enhancing access to local markets to facilitate broader base investment source towards improving liquidity and implementing modern technologies to improve the efficiency of online trading. * Mentally developing strategic relationship with leading service providers and banks to facilitate fair dealing practices. * To help and create awareness about risk attributes on trading and to limit or minimize the risk on the investments by designing RMP (Risk Management Plans).

To provide value added services and to constantly strive to frame customized investment solutions. * To provide right tools and knowledge to trade efficiently that would yield long term gains and minimum transaction costs. 2. 10 FEW INVESTMENT STRATEGIES In the past several years, the global market place has changed dramatically. New investment strategies are becoming more important in order to minimize risks as well as to maintain high portfolio returns.

Among the most rewarding of the markets opening up to investors is the Foreign Exchange Market. Changes in the Foreign Exchange rates are largely unrelated to changes in the global bond or stock prices thereby providing an opportunity for investment diversification. In contrast to the world's stock markets, Foreign Exchange is traded without the constraints of the Central Physical Exchange. Transactions are instead conducted by telephone or

online mode. With this transaction structure as its foundation, the Foreign Exchange Market has become far the largest market in the world.

The average volume in Foreign Exchange exceeds 1.5 trillion \$ per day vs. only 25 billion \$ per day traded on the NYSE (New York Stock Exchange). This high volume is advantageous from a trading standpoint because transactions can be executed quickly and with low transaction cost (i. e. a small bid/ask spread).

As a result, currency trading has long been recognized as a superior investment opportunity by major banks, MNC's and other institutions.

RECOMMENDATIONS These are some of the fundamentals that every trader should know: * Currency prices reflect the balance of supply and demand for currencies. Two primary factors affecting are: * Interest Rates * Overall Strength of the Economy Economic indicators such as GDP, foreign investment and the trade balance reflect the general health of the economy and are therefore responsible for the underlying shifts in supply and demand for that currency. There is a tremendous amount of data released by various international information providers, some of which are more important than others. Data related to interest rates and international trade is looked at the closest for the purpose of trading.

2. 11 PSYCHOLOGY OF TRADING 1. Trade with a disciplined Plan. * Be sure there is a plan in place before you start to trade. The plan must include- Stop loss and Limit levels for the trade. * The analysis should encompass the expected downside as well as the expected upside.

2. Cut the losses early and let the Profits run. * Traders who have had their stops hit few times only to see the market go back in their favor once they are out, are the ones who are quick to remove their stocks from the trade on the belief that this will always be the case. * Stops are there to be hit and to stop you from losing more than a predetermined amount. * If you can get 3 out of 6 trades, which are turning profitable, then you are doing well. .

Do not marry your trades. The reason why trading is done with a plan is that most objective analysis is done before the trade is executed. Once a trader is in a losing position, he or she tends to analyze the market differently in unfavorable direction rather than objectively looking at the changing factors that may have turned against your original analysis. This is especially true for losses. Traders with a losing position tend to marry their position which causes them to disregard the fact that all signs point towards conventional losses.

4. Do not bet the firm. * Do not overtrade. Only take 1 or 2 lots at a time by seeing your equity status. * Trading currencies is not so easy. If it was, everyone would have been a millionaire.

CHAPTER -3 EUR/GBP IN FOREX MARKET 1. 1 INTRODUCTION TO EURO The Euro (EUR) is the official currency of the European Union (EU), and is currently in use in 16 of the 27 Member States. The states, known collectively as the Eurozone, are Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, The Netherlands, Portugal, Slovakia, Slovenia and Spain. Estonia is expected to join in 2011,

subject to approval from the Council. The numeric code for Euro as per the ISO 4217 standard is 978.

The euro is the second largest reserve currency as well as the second most traded currency in the Forex Market after the U. S. dollar. It is often traded in pairs with almost all the major currencies of the world. The name “ Euro” was officially adopted on 16th December 1995.

The euro was introduced to world financial markets as an accounting currency on 1st January 1999, replacing the former European Currency Unit (ECU) at a ratio of 1: 1. Euro coins and bank notes entered circulation on 1st January 2002. The euro is managed and administered by the Frankfurt based European Central Bank (ECB) and the Eurosystem (composed of the central banks of the eurozone countries). As an independent central bank, the ECB has sole authority to set monetary policy. The Eurosystem participates in the printing, minting and distribution of notes and coins in all Member States, and the operation of the eurozone payment systems.

The currency sign for Euro is (€). Each euro is divided into 100 cents. The euro was established by the provisions in the 1992 Maastricht Treaty. In order to participate in the currency, Member States are meant to meet strict criteria such as a budget deficit of less than three percent of their GDP, a debt ratio of less than sixty per cent of GDP, low inflation, and interest rates close to the EU average. In the Maastricht Treaty, the United Kingdom and Denmark were granted exemptions per their request from moving to the stage of monetary union which would result in the introduction of the euro.

The currency was introduced in non-physical form (traveler's cheques, electronic transfers, banking, etc. at midnight on 1 January 1999, when the national currencies of participating countries (the euro zone) ceased to exist independently. Their exchange rates were locked at fixed rates against each other, effectively making them mere non-decimal subdivisions of the euro. The euro thus became the successor to the European Currency Unit (ECU). The notes and coins for the old currencies, however, continued to be used as legal tender until new euro notes and coins were introduced on 1 January 2002. Unlike other currencies the euro is a very unique currency because it is not the historical currency of any nation.

The European country leaders and European bureaucrats realized that it would boost their economic activities if they have a common currency. Today, as a result of that Euro is the second most traded currency (after the US dollar), in the forex market. Hence, Euro is a very significant power in financial markets. While focusing on Euro, we should also consider that many countries in the European Union have a small GDP (Gross Domestic Product) and are not large economic forces. Hence, the fundamental factors that affect the price of the euro depend primarily on the economic conditions in just four European countries.

Those four countries are Germany, France, Italy, and Spain respectively. Together, they produce 3/4th of the GDP of the Euro Zone. Thus, the most important fundamental factor that affects the price of euro is the economic situation in the 4 key European nations while the other European countries will have much less of an effect on euro trading. A forex trader who is engaged in euro trading has to closely follow the major economic

announcements in those four countries to get the best out of euro forex trading. 1.

2 INTRODUCTION TO THE BRITISH POUNDThe Great Britain Pound (GBP) is the official currency of the currencies of England, Scotland, Wales and Northern Ireland that come together to form the Great Britain. The British Pound is also sometimes referred to as the Pound Sterling. The numeric code for the British Pound as per the ISO 4217 standard is 826. The British Pound is a very widely traded currency in the Forex Market and is often traded in pairs with almost all the major currencies of the world. The British Pound also forms a part of the US Dollar Index (used to measure the strength of the Dollar in respect to the other major currencies). Trading in British Pound was widely predominant since the inception of modern day technical trading, but the recent depreciation has led to a lot of investors shying away from the British Pound.

The British Pound is denoted by “£ ” and the smallest unit is the pence (100 pence come together to make one British Pound). It is also ranked among the top most important currencies of the world along with United States dollar, Euro and Japanese Yen. Another important fact about the currency of United Kingdom is that it bears the highest value among the major units of the world. Scottish Pounds are often confused as a separate currency but British Pounds and the Scottish Pounds are interchangeable, possess equal value and are accepted throughout the Great Britain. This is the reason why it has been accepted worldwide that both these currencies are the same. The structure of the British Pound after decimalization was adopted in 1972.

The structure of the British Pound after decimalization was adopted in 1972 and the new structure is far less complex than the one that was used prior to the 1970's. In the current scenario, the British Pound is issued in 4 denominations; i. . – 5, 10, 20 and 50. Trading in Forex in GBP related pairs don't take place based on these denominations but on the Interest rates and Bid/ Ask spreads. In the Forex market, the past few days have seen the revival of the British Pound and even though the uptrend is slow, most critics are finally agreeing that maybe there is an outside chance of the full recovery of British Pound in the next few years.

Taking notice of this healthy news, most traders have already changed their stance from “ Going Short” to “ Going Long”. Finally, the Economists of Great Britain have managed to stop the shedding of Pound and managed not only to stop the shedding of Pound and managed not only to stabilize it but also slowly appreciate it. Throughout this Project report, various technical tools have been plotted over the famous pair of EUR/GBP to give traders a beforehand knowledge about market entry is that, most of the times; traders fail to latch onto an opportunity. But, with the use of many technical tools while taking into account fundamental factors as well, traders can not only catch these opportunities but also secure them for future use. .

3INTRODUCTION TO THE CURRENCY PAIR EURO/GBP It is the most silent and quiet currency pair.

If attentively to study the schedule it is visible that at times movement of currency pair does not exceed several items, and on week intervals there were cases that the pair was not beyond a corridor from 10-20 items. But it is necessary not to forget that the price of one item is very high, therefore

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even small movements give rather notable changes on the deposit. Last 10 days update of Euro/GBP: The economic recovery story from the UK is gathering momentum with industrial production in February growing twice as fast as expected at 1.3% and Halifax reporting house price increases of 11% in March. The recovery story also received official credence as the OECD said that the official figures for Q1 GDP will show acceleration in the pace of the recovery and these will be unveiled on the 23rd April. Last week, the Greek sovereign debt crisis continued to plague the financial markets as the Greek Government made it known that they are uncomfortable with the terms of the EU/IMF facility.

On top of this, Greek banks reported a sharp drop in deposits as Greek citizens seek alternative sources for their savings. Last 1 year's update of Euro/GBP: 2009 has been a tumultuous year in the financial markets and a year to forget for the pound. The British pound was one of the worst performing currencies in 2008. It fell to a 6 year low against the US dollar and record low against the Euro in addition to selling off against every other G10 currency. The overwhelming weakness in the currency is a direct reflection of the impact that the credit crisis had on the UK economy.

Thus, Sterling started the year at all time lows against the euro and although we had a few sterling rallies, there was never the appetite to resurrect the pound. Although the UK economy faced many risks in 2009, Consumer spending had been pretty resilient with November retail sales rising for the first time after the recession. As the global economy begins to recover, the UK economy started to outperform its peers, thanks to the Bank of England's proactiveness. The currency had sold off significantly, providing additional

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stimulus for the battered economy. Even if there is no full-blown recovery, the UK economy was much further long in their slowdown than the Eurozone. Therefore a sharply weaker growth in the Eurozone economy in 2009 was seen.

Aggressive ECB interest rate cuts helped the British pound to recover against the Euro. Last 11 years update of Euro/GBP: The pound and euro fluctuate in value against one another, although there may be correlation between movements in their respective exchange rates with other currencies such as the US dollar. Inflation concerns in the UK led the Bank of England to raise interest rates in late 2006 and 2007. This caused the pound to appreciate against other major currencies, and with the US dollar depreciating at the same time, the pound hit a 15-year high against the US dollar on 18 April 2007, having reached US\$2 for the first time since 1992 the day before. The pound and many other currencies continued to appreciate against the dollar, and sterling hit a 26-year high of \$2. 1161 on 7 November 2007 as the dollar fell worldwide.

From mid-2003 to mid 2007, the pound/euro rate remained range bound (within $\pm 5\%$) of €1. 45. However, following the global financial crisis in late 2008, the pound has since depreciated at one of the fastest rates in history, reaching a 24-year low of \$1. 35 per ? 1 on 23 January 2009 and falling below €1. 25 against the euro in April 2008. A further decline was seen during the remainder of 2008; most dramatically in December when its euro rate hit an all-time low at €1.

0219 (29th). The pound appreciated in early 2009 reaching a peak in mid-July of €1. 17. The following months saw a steady decline, with the pound's current (Feb '10) value at €1. 4 and USD\$1.

56. On 5 March 2009, the Bank of England announced that they would pump ? 75 billion of new capital into the British economy Also a strong rebound is expected in the UK Manufacturing sector as the British Pound has fallen against the Euro and Dollar meaning British goods are cheaper abroad, this will take business off EU neighbors where goods have become more expensive due to a rise in the euro; latest figures show that UK

Manufacturing grew at its fastest pace for 15 years in Q1 of 2010 CHAPTER - 4 THEORETICAL INSIGHTS AND CONCEPTS In the currency market, there exist two basic types of analysis: fundamental analysis and technical analysis.

They have been discussed below: 5. 1 TECHNICAL ANALYSIS Technical analysis is the study of market action, using charts, for the purpose of forecasting future price trends. 5.

2. 1 PRINCIPLES OF TECHNICAL ANALYSIS 1. Market Price Reflects All Known Information The primary cornerstone of technical analysis is based on the idea that the currency price is a comprehensive reflection of all market changes in the balance between supply and demand as caused by traders' reactions to economic, political or psychological changes. The market price of any given currency takes into account the effect of all possible forces acting on that commodity; therefore those that adhere to technical analysis believe it is redundant to study fundamental analysis. 2.

Chart Patterns Much of the body of technical analysis and the study of market action have to do with the study of human psychology. Chart patterns, identified over the past century, reflect bearish or bullish market patterns and are based on traders' psychological reactions to certain supply/demand fluctuations. Assuming that the innate nature of human psychology does not change, patterns that have worked in the past are assumed to be viable forecasting tools for the future.

3. Concept of Trend

The third and final principle of technical analysis is the concept of trend.

Market prices will continue in a trend until the trend reverses. The purpose of charting the price actions of a market is to identify trends in the early stages of their development with the intent of trading in the direction of those trends and continuing to ride these trends until they show signs of reversal.

2. 2 CHART TYPES

Charts represent the price data fluctuations caused by varying market forces.

The information found in these charts enables a chartist skilled in the science of technical analysis to draw trading signals for future price activity. The primary chart types used for the analysis of the Forex market are:

- * Line Chart
- * Bar Chart
- * Candlestick Chart

The most popular type of chart in use today is the candlestick chart. Originally developed in Japan, it did not come into popular use until the 1980s. The line chart is the original type of chart and is still in wide use today, primarily due to its convenience and effectiveness in plotting price data over extremely long and short periods of time. The bar chart is also used by many traders. Although any one of these chart types can be used equally well for most analytical techniques, most traders develop certain preferences for use in their analysis.

1. 1. Line Chart In order to plot a line chart, single prices for a selected time period are connected by a line. The most popular variation of the line chart is the daily line chart, which plots each day's closing price. The basic problem with the daily line chart is its lack of data on intraday market activity. This issue has been amended in recent years with the use of computer power to plot line charts with smaller increments.

Whereas other chart forms may fall behind in the accurate reporting of price data over very small intervals, the line chart can be used to plot data for intervals as short as 5 seconds or even a single tick. Line charts are also extremely useful for obtaining a “big picture” view of market trends over several years. The only remaining flaw with the line chart is its lack of ability in reporting price gaps, as these cannot be represented on a continuous chart. 2. Bar Chart Any given line in the bar chart consists of four important points.

- * High – The top point of the vertical bar
- * Low – The bottom point of the vertical bar
- Opening Price – A small horizontal line to the left of the vertical bar
- * Closing Price – A small horizontal line to the right of the vertical bar

The bar chart's advantages are its ability to display the price range over the selected period as well as its capacity to plot price gaps. One of the bar charts major disadvantages however is its inability to plot the whole price fluctuation, even when plotted for extremely small periods of time. 3.

Candlestick The candlestick chart is quite similar to the bar chart as it also consists of the same four primary price points: the high, the low, the open and the close. The candlestick is often considered easier to view and thus analyze than its bar and line chart contemporaries. The body of the

candlestick bar is comprised of the difference between the open and close price.

If the opening price was lower than the closing price or the given commodity gained value, then the body of the bar is colored blue. To contrast, if the opening price was higher than the closing price or the given commodity lost value, then the body of the bar is red. If the high and low prices are located outside of the open-close range they are marked off by two lines known as the upper and lower shadows. The upper shadow protrudes from the top of the candlestick's body and marks the high price for the given time period represented by the bar. Conversely, the lower shadow protrudes from the bottom and marks the low price. | | 5.

2. 3 TREND TYPES The trend is the fundamental cornerstone of technical analysis. The trend denotes the overall direction of the market at a given time over a given scope, showing the trader the tendency of change in market prices. More simply put, the trend shows the direction of the market. Thus it follows that all trends fall under one of the following three categories: upward, downward, and sideways. Trends may also be classified by their timeframes as long-term, medium-term and short-term trends.

However, any number of smaller trends can occur within larger trends. *

Upward Trend * Downward Trend * Sideways Trend Upward Trend An upward trend is denoted by the systematic and extended rise in the price of the given currency pair over some prolonged period of time. This does not mean that the price of the given currency pair never recedes, but merely that in the overall picture the price rises more than it falls in the given timeframe. A

theoretical sketch of an uptrend is presented on the right. Downward Trend A downward trend shares all the characteristics of the upward trend but in the reverse direction, thus denoting the fall in the price of a given currency pair. On the right we have shown a theoretical image of a downward trend.

Sideways Trend The sideways trend is also known as a trendless, ranging or flat market. Though similar to the other two types, the sideways trend shows no major difference in the price values between the beginning and the end of a specific time period. The sideways trend denotes market conditions in which prices may be moving back and forth between levels of support and resistance (covered next). 5. 2.

CONCEPT OF SUPPORT AND RESISTANCE Trends do not move in straight lines; they zigzag in a general direction forming progressively higher (or lower) peaks and lows. At a price peak, or high, buyers that are pushing up the price of a currency pair hit resistance. There are many sellers at that particular price, and they overpower the buyers (who may turn into sellers themselves). Price will dip as long as this selling pressure is present. If the uptrend is significant however, as price dips buyers that missed the opportunity to buy (or have sold at the peak), will now buy the pair and price will recover until there is a next peak.

These peaks within a trend are known as the trend's resistance levels. At a price trough, or low, the opposite is happening. A currency pair that is falling in value will meet some support. It is the price at which sellers are overpowered by an influx of buyers. These lows within a trend are known as support levels. An example of support and resistance levels in a sideways

moving trend has been shown in the right: 5. 2 CANDLESTICK STUDY For our study and analysis purpose, we have used candlestick study out of the 3 technical chart types mentioned earlier. A detailed description of the same has been given below. 4. 2. 1 INTRODUCTION Candlesticks are a method of charting prices for financial markets. They were the precursor to the modern-day bar chart and are used today as an analytical tool by technical traders. The Japanese were the first to use technical analysis to trade one of the world's first rice futures markets in the 1600s. A Japanese man by the name of Homma who traded the futures markets in the 1700s discovered that although there was link between supply and demand of the rice, the markets were also strongly influenced by the emotions of the traders. Homma realized that he could benefit from understanding the emotions to help predict the future prices. He understood that there could be a vast difference between value and price of rice. The principles established by Homma in measuring market emotions are the basis for the Candlestick Chart analysis.

4. 2. 2 ANALYSIS FOR CANDLESTICKS Candlesticks contain same data as normal bar charts but highlight the relation between opening and closing prices. This figure provides the basic layout and description of a candlestick.

- * Real Body: The thick part of the candlestick line is called the real body. It represents the range between the session's opening and closing prices. If the real body is red, it means that the close of the session was lower than the open. If the real body is green, it means that the close was higher than the open.
- * Shadow: The lines above and below the body are the shadows. The shadows represent the session's price extremes.
- * Upper Shadow: The shadow above the real body is called the upper shadow.
- * Lower Shadow: The shadow below the real body is called the lower shadow.
- * High: The top

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of the upper shadow is the high of the day. * Low: The bottom of the lower shadow is the low of the day. . 2. 3 MOST PROMINENT CANDLESTICKS 1. Long White Day/ Long White Line: The candlestick that has a long white day is one in which there has been a big difference in Opening and Closing Price compared with previous 5 or 10 trading days. It is a bullish signal and the closing price is more than the opening price which signals that the buyers are firmly in control. 2. Long Black Day/ Long Black Line: The candlestick that has a long black day is one in which there has been a big difference in Opening and Closing Price compared with previous 5 or 10 trading days. It is a bearish signal and the closing price is less than the opening price which signals that the sellers are firmly in control. 3. Marubozu: It is a type of candle stick that exhibits no or very small shadow / tail. Marubozu gives a trend reversal. It gives a bullish signal during bearish trend and bearish signal during a bullish trend. It shows that a buy out or sell out remains in control well within the real body limits (i. e. between open and close). For a green/ white candle stick the HIGH = close and LOW = open price (approximately). For a red/ black candle stick the HIGH = open and LOW = close price (approximately). 4. Spinning Top: A Spinning top is a candlestick with a small real body and long upper and lower shadow. It is called as an indecisive candle because it does not give any signal of entry or exit and thus makes it difficult for the trader to take decision. 5. Doji: A Doji is an extreme case of spinning top , where the open and close price are so close that from explicit visualization it seems that the open and close prices are same (it is almost same). Thus, the real body exists as only a thin horizontal line. The length of the upper and lower shadows can vary and the resulting candlestick looks like a cross, inverted cross or plus sign. A Doji can be green

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or red. There are mainly 4 types of Doji and they are as follows: a) Long Legged Doji: Long Legged doji has long upper and lower shadows with the price in the middle of the range. It indicates indecision of traders. Open and high are almost same and tails are atleast twice that of real body. At times it gives a trend reversal signal from bullish to bearish or vice-versa. b) Dragonfly Doji: Dragonfly Doji has a long lower shadow and no upper shadow. It has a very small body with a long lower wick. The lower wick is at least twice as long as the candlestick body and it has no upper wick. It is a significant bullish reversal candlestick pattern that mainly occurs at the bottom of downtrends. It is created when the open, high, and close are the same or about the same price. c) Gravestone Doji: A Gravestone Doji has a long upper shadow and no lower shadow. It is a good indication of bullish trend reversal. It has very small real body with a high wick; the upper wick is atleast twice of real body and there is no lower wick. d) Four Price Doji: A four price doji has no upper or lower shadows. It's all prices: open, high, low and close are the same for a trading day. It's a very unique line indicating the indecision of the traders, or very quiet market. It is very rare to find in foreign exchange market. It can be said as an indecision candle and also gives trend reversal. However, it gives better result if accompanied with next candle.

4. 2. 4 CANDLESTICKS PATTERNS 1. Morning Star: The Morning Star Pattern is a bearish reversal pattern, usually occurring at the bottom of a downtrend. Identification: The pattern consists of three candlesticks: * First day is a long black day. * Second day is a small day that gaps in the direction of the previous trend. The third day is a white day. It means that in a downtrend, the market bolsters the bearish trend with a long black day and gaps open on the second day. However, the second day trades within a small

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range and closes at or near its open. This scenario generally shows the potential for a rally, as many positions have been changed. Confirmation of the trend reversal is given by the white third day.

2. Evening Star: The Evening Star Pattern is a bearish reversal pattern, usually occurring at the top of an uptrend. Identification: The pattern consists of three candlesticks: * First day is a long white day. Second day is a small day that gaps in the direction of the previous trend. * The third day is a black day. It means that in an uptrend, the market builds strength on a long white day and gaps open on the second day. However, the second day trades within a small range and closes at or near its open. This scenario generally shows an erosion of confidence in the current trend. Confirmation of the trend reversal is the black third day.

3. Hammer: The Hammer candlestick formation is a significant bullish reversal candlestick pattern that mainly occurs at the bottom of downtrends. Identification: Small real body at the upper end of the trading range. * Lower shadow at least twice as long as the real body. * No (or almost no) upper shadow. It means that there is a sharp sell off after the market opens during a downtrend. However, by the end of the trading day, the market closes at or near its high for the day. This signifies a weakening of the previous bearish sentiment; especially if the real body is white (the close is higher than the open price). Since the certainty for a Hammer indicator is low, the trend reversal can be confirmed by a higher open and an even higher close on the next trading day. If the open and the close are identical, the indicator is considered a Dragonfly Doji. The Dragonfly Doji has a higher reliability associated with it than a Hammer.

4. Inverted Hammer: The Inverted Hammer candlestick formation occurs mainly at the bottom of downtrends and is a warning of a potential reversal upward. The Inverted

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pattern is a warning of potential price change, not a signal, in and of itself, to buy. Identification: * Small real body at the lower end of the trading range. * Upper shadow usually no more than twice as long as the real body. * No (or almost no) lower shadow. It means that as the market opens below the close of the previous day, the bulls rally briefly, but not enough to close above the previous day's close. As this leaves shorts in a losing position, the Inverted Hammer presents the potential for an upcoming rally. Confirmation of the trend reversal would be an opening above the body of the Inverted Hammer on the next trading day. If the open and the close are identical, the indicator is considered a Gravestone Doji. The Gravestone Doji has a higher reliability associated with it than an Inverted Hammer. 5. Harami: The Harami

(meaning “pregnant” in Japanese) Candlestick Pattern is a reversal pattern.

Identification: The pattern consists of two Candlesticks: * A long black day occurs. * The second day is a white day where the real body is completely engulfed by the real body of the first. It means that after a long black day at the low end of a downtrend, a white candlestick opens higher than the previous day's close. The price is driven up, as many shorts are covered, which encourages further buy-ins. The Harami indicator should be confirmed with the next trading day's candlestick following the reversal trend. The Harami pattern is also the first two days of the Three Inside patterns. 4. 3

TECHNICAL TOOLS A) Moving Averages: Moving averages are average prices of a security or index over a specific time interval that is continually updated. Because prices are averaged, the daily fluctuations are dampened into a smoother line that better represents the current trend. The strength of the trend is indicated by the slope of the moving average, especially longer-term moving averages. Moving averages are also used in other technical

indicators, such as Bollinger Bands, envelopes, and directional movement indicators. Because moving averages are based on data in a preceding period, they are lagging indicators. They can only indicate a trend that is already in place. Moving averages based on shorter time spans more closely reflect the underlying current trend, but they are also more sensitive to the volatility of the markets, which can generate many false signals. Generally, in the Forex market, Moving Averages are of two main types: a) Simple Moving Average: A simple moving average (SMA) is simply the average of prices of a security or index over a specific time span, such as 5, 10, 20, or 50 days. They are called moving averages because they are calculated for each trading day for the previous period, so at the end of a trading day, the last day is added, while the earliest day of the previous average is dropped. Most moving averages are based on closing prices, but they can be based on opening, high, low, or mean prices. Whichever price is chosen must be used consistently to give the best indication of trend. The SMA works on the principle of Simple Averages and is helpful to both short term and long term traders. For example, to calculate a 10-day simple moving average, which can be denoted as SMA (10), based on closing prices, the closing prices of the last 10 days are added, and then divided by 10. After the next trading day, the earliest day of the previous average is replaced by the latest day. Calculation of SMA: SMA is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the total number of time periods. Suppose, we have the closing prices for 4 days (p_1 , p_2 , p_3 , p_4). So, SMA can be calculated as: $SMA = \frac{p_1 + p_2 + p_3 + p_4}{4}$ Using SMA: To minimize false signals, especially in a whipsaw market that trades within a narrow range, multiple moving averages of different time spans are

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used together. Traders often use crossovers, where the graph of the shorter moving average crosses over a longer moving average, as a good indication of a new trend. Traders will often use the crossovers as a buy or sell signal and as a good price to set trailing stops. So if the shorter moving average crosses above the longer-term average, then this indicates a beginning of an uptrend, while a downward cross may indicate the beginning of a downtrend. However, even crossovers may give false signals, particularly in whipsaw markets, so simple moving averages are often used with other technical indicators as a confirmation of the trend change. In the report, the shorter period Simple Moving Average (5 periods) is plotted over the longer period Simple Moving Average (15 periods) to give market measure of prices. Its effectiveness improves when used with other indicators which can give traders a better opportunity to understand and play the markets. b) Exponential Moving Average (EMA): Exponential moving averages are recommended as the most reliable of the basic